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Audit Committee

Tuesday 30 November 2021

12.00 pm Luttrell Room - County Hall, Taunton

To: The Members of the Audit Committee

Cllr M Lewis (Chair), Cllr M Caswell (Vice-Chair), Cllr H Davies, Cllr B Filmer, Cllr P Ham, Cllr L Leyshon, Cllr G Noel and Cllr M Rigby

All Somerset County Council Members are invited to attend meetings of the Cabinet and Scrutiny Committees.

Issued By Scott Wooldridge, Strategic Manager - Governance and Risk and Monitoring Officer - 22 November 2021

For further information about the meeting, please contact Neil Milne at NDmilne@somerset.gov.uk or 01823 357628 or Terrie Brazier at tbrazier@somerset.gov.uk or 01823 357628

Guidance about procedures at the meeting follows the printed agenda.

This meeting will be open to the public and press, subject to the passing of any resolution under Regulation 4 of the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012.

This agenda and the attached reports and background papers are available on request prior to the meeting in large print, Braille, audio tape & disc and can be translated into different languages. They can also be accessed via the council's website on www.somerset.gov.uk/agendasandpapers

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AGENDA

Item Audit Committee - 12.00 pm Tuesday 30 November 2021

*** Public Guidance notes contained in agenda annexe ***

1 **Apologies for absence**

To receive any apologies from Committee members.

2 **Declarations of Interest**

Details of all Members' interests in District, Town and Parish Councils can be viewed on the Council Website at
County Councillors membership of Town, City, Parish or District Councils and this will be displayed in the meeting room (where relevant).

The Statutory Register of Member's Interests can be inspected via request to the Democratic Service Team.

3 **Minutes from the meeting held on 23 September 2021** (Pages 9 - 18)

The Committee is asked to confirm that the minutes are accurate.

4 **Public Question Time**

The Chairman will allow members of the public to present a petition on any matter within the Committee's remit. Questions or statements about any matter on the agenda for this meeting will be taken at the time when each matter is considered.

5 **Internal Audit Update** (Pages 19 - 32)

The regular progress report from SWAP on the completion of the current Internal Audit Plan, highlighting any risks.

6 **Approval of the Pension Fund Accounts 2020/2021** (Pages 33 - 68)

To consider the matters raised in Grant Thornton's Audit Findings Report, approve the Pension Fund Accounts, and approve the Letter of Representation.

7 **Approval of the Statement of Accounts 2020/2021** (Pages 69 - 364)

To consider the matters raised in Grant Thornton's Audit Findings Report, approve the updated Annual Governance Statement, approve the Council's audited Statement of Accounts, and approve the Letter of Representation.

8 **Appointment of External Auditors** (Pages 365 - 372)

To consider a report and proposal regarding the national auditor appointment arrangements.

9 **Independent Member for the Audit Committee** (Pages 373 - 384)

To receive an update report on the recruitment of an independent member for the Audit Committee.

10 **Committee Work Programme** (Pages 385 - 388)

To consider the current work programme for future meetings and receive any suggestions for additional items.

11 **Any other urgent items of business**

The Chair may raise any items of urgent business.

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Guidance notes for the meeting – Audit Committee

1. Council Public Meetings

The former regulations that enabled virtual committee meetings ended on 7 May 2021. Since then, all committee meetings need to return to face-to-face meetings. The requirement is for members of the committee and key supporting officers to attend in person, along with some provision for any public speakers. However due to the current COVID restrictions and social distancing measures only a small number of people can attend as meeting room capacities are limited. Provision will be made wherever possible for those who do not need to attend in person including the public and press who wish to view the meeting to be able to do so virtually.

Anybody attending the meeting in person will be asked to adhere to the current Government guidance and Council procedures in place to safely work during COVID 19. These include limiting numbers in a venue, maintaining social distancing, using hand sanitisers, wiping down areas that you have used, wearing face coverings when not sitting at a table (unless exempt from doing so) and following one-way signs in the venue/building. You will also be asked to sign in via the NHS Test and Trace app or to sign an attendance record and will be asked relevant questions before admittance to the meeting. Everyone attending the meeting will be asked to undertake a lateral flow test up to 72 hours prior to the meeting.

Please contact the Committee Administrator or Democratic Services on 01823 357628 or email democraticservices@somerset.gov.uk if you have any questions or concerns.

2. Inspection of Documents

Any person wishing to inspect Minutes, reports, or the background papers for any item on the Agenda should contact the Committee Administrator for the meeting via Telephone (01823) 359045 or 357628; or Email: democraticservices@somerset.gov.uk

They can also be found here: www.somerset.gov.uk/agendasandpapers

3. Members' Code of Conduct requirements

When considering the declaration of interests and their actions as a councillor, Members are reminded of the requirements of the Members' Code of Conduct and the underpinning Principles of Public Life: Honesty; Integrity; Selflessness; Objectivity; Accountability; Openness; Leadership. The Code of Conduct can be viewed at:

http://www.somerset.gov.uk/organisation/key-documents/the-councils-constitution/

4. Minutes of the Meeting

Details of the issues discussed and recommendations made at the meeting will be set out in the Minutes, which the Committee will be asked to approve as a correct record at its next meeting.

5. Public Question Time

If you wish to speak, please tell, the Committee's Administrator, by 5.00pm on the Friday before the meeting. This is the deadline to register to speak and requests to speak received after this time will be at the Chair of the Committee's discretion.

Please note: Members of the public can ask questions remotely and need not attend the meeting in person.

At the Chair of the Committee's invitation you may ask questions and/or make statements or comments about any matter on the Committee's agenda – providing you have given the required notice. You may also present a petition on any matter within the Committee's remit.

The length of public question time will be no more than 30 minutes in total.

A slot for Public Question Time is set aside near the beginning of the meeting, after the minutes of the previous meeting have been signed. However, questions or statements about any matter on the Agenda for this meeting may be taken at the time when each matter is considered.

You must direct your questions and comments through the Chair. You may not take direct part in the debate. The Chair will decide when public participation is to finish.

If there are many people present at the meeting for one item, the Chair may adjourn the meeting to allow views to be expressed more freely. If an item on the Agenda is contentious, with a large number of people attending the meeting, a representative should be nominated to present the views of a group.

An issue will not be deferred just because you cannot be present for the meeting. Remember that the amount of time you speak will be restricted, normally to two minutes only.

6. Exclusion of Press & Public

If when considering an item on the Agenda, the Committee may consider it appropriate to pass a resolution under Section 100A (4) Schedule 12A of the Local Government Act 1972 that the press and public be excluded from the meeting on the basis that if they were present during the business to be transacted there would be a likelihood of disclosure of exempt information, as defined under the terms of the Act.

7. Committee Rooms & Council Chamber and hearing aid users

To assist hearing aid users Committee meeting rooms have infra-red audio transmission systems. To use this facility, you we need a hearing aid set to the T position.

8. Recording of meetings

The Council supports the principles of openness and transparency. It allows filming, recording and taking photographs at its meetings that are open to the public - providing this is done in a non-disruptive manner. Members of the public may use Facebook and Twitter or other forms of social media to report on proceedings and a designated area will be provided for anyone wishing to film part or all of the proceedings.

No filming or recording may take place when the press and public are excluded for that part of the meeting. As a matter of courtesy to the public, anyone wishing to film or record proceedings is asked to provide reasonable notice to the Committee Administrator so that the relevant Chair can inform those present at the start of the meeting.

We would ask that, as far as possible, members of the public aren't filmed unless they are playing an active role such as speaking within a meeting and there may be occasions when speaking members of the public request not to be filmed.

The Council will be undertaking audio recording of some of its meetings in County Hall as part of its investigation into a business case for the recording and potential webcasting of meetings in the future.

A copy of the Council’s Recording of Meetings Protocol should be on display at the meeting for inspection, alternatively contact the Committee Administrator for the meeting in advance.

9. Operating Principles for Audit Committee

Reports

i. The reports should be clearly and concisely written. The report template available to officers on the intranet will be used.

ii. Reports should highlight issues for Member consideration, no matter how difficult or complex, for example:

- All reports should detail current performance levels.
- All reports should identify cost implications.

iii. No report should contain a recommendation “to note” the report.

iv. Any report, which outlines clear priorities for improvement, should contain recommendations and a detailed action plan with timescales and resources.

Members

i. Members should be clear about cost and resourcing issues highlighted in clearly and concisely written reports.

ii. Members should seek to understand the impact of reports on Council performance.

iii. Members can refer reports / issues back to the Cabinet where there are constructive concerns about services and/or performance.

10. The Role of the Audit Committee

(a) Approves (but not directs) internal audit’s strategy, plan and performance;

(b) Reviews summary internal audit reports and the main issues arising, and seeks assurance that action has been taken where necessary;

(c) Considers the reports of external audit and inspection agencies;

(d) Ensures that the Council’s assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it;

(e) Ensures that there are effective relationships between external and internal audit, inspection agencies and other relevant bodies, and that the value of the audit process and effective financial governance is actively promoted;

(f) Reviews the financial statements, external auditor’s opinion and reports to Members, and monitors management action in response to the issues raised by external audit;

(g) Approves the annual accounts of the Council and the Annual Governance Statement, together with considering the Matters Arising from the Accounts Audit.

AUDIT COMMITTEE

Minutes of a Meeting of the Audit Committee held in the Luttrell Room, County Hall, Taunton, on Thursday 23 September 2021 at 10:00 am

Present: Cllr Mike Caswell (Vice Chair, in the Chair), Cllr Bob Filmer, Cllr Graham Noel, Cllr Hugh Davies, Cllr Peter Burridge-Clayton, Cllr Liz Leyshon, Cllr Mike Rigby

Other Members present: Cllr Mandy Chilcott, Cllr Tessa Munt

Officers present: Director of Finance and Governance, Director for ECI (Operations), Service Manager for Investments, Strategic Manager for Finance Systems and Governance, Assistant Director of SWAP, Key Audit Partner (Grant Thornton), Committee Manager, Committee Clerk

Apologies for absence – Agenda Item 1

Cllr Mike Lewis, Chair (who attended virtually and was substituted by Cllr Burridge-Clayton in person); Cllr Phillip Ham did not attend

Declarations of Interest - Agenda Item 2

The Chair of the Committee noted the details of all Councillors' interests already declared in District, Town and Parish Councils.

Councillors Caswell, Leyshon and Burridge-Clayton declared personal interest as recipients of the Local Government Pension Scheme.

Minutes from the previous meeting - Agenda Item 3

The Audit Committee agreed that the minutes of the meeting held on 22 July 2021 were accurate, and the Vice Chair signed them.

Public Question Time - Agenda Item 4

The Vice Chair informed the meeting that no questions or statements were received by the PQT deadline of 5pm on Friday 17 September.

Advisory Opinion Audit Update - Agenda Item 5

The Director of Economic and Community Infrastructure (ECI) Operations was invited by the Chair to present the Advisory Audit Follow Up Report on the South West Audit Partnership (SWAP) Non-Opinion Audit of Highway Maintenance: Duplicate Payment Requests, as well as the Highway Maintenance – Application for Payment Follow Up Report; and he noted that the purpose of the report was to provide an update to the non-opinion audit that had been carried out earlier this year to the Committee regarding the actions that were identified by the auditor.

The Director for ECI explained that the Highways Maintenance Contract was previously operated by Skanska UK Limited but was now being managed by Milestone Infrastructure Services, which is part of the M Group; and he noted that this change had not impacted on the actions or progress made. He reminded Members that this audit was requested by the service in order to consider payment procedures and ensure that they were robust and fit for purpose.

He reflected that the audit had identified seven key/priority actions; of those, three had been completed and four were in progress. There had been good collaboration, and positive progress and improvements have been made. A further follow-up audit has been requested by the service for the first quarter of the 2022/23 financial year to ensure that all of the actions have been completed.

The Vice Chair invited questions from the Committee, and during the consideration of the reports, issues/concerns were raised, questions were asked/answered, and further information was provided as follows:

Cllr Rigby, referring to an email he had sent to the Director for ECI, asked if the summary of findings had been written by the Auditor or the Officers; the Assistant Director of AP confirmed that she had written the summary of findings.

Cllr Rigby asked about additional Officer resourcing and if certification was being completed by Officers with appropriate qualifications. It was explained that recruitment was ongoing and that all inspections were conducted by those with necessary experience. There was a question about the number of days before certification, and the Director of ECI stated he would clarify this in writing.

Cllr Rigby asked, with respect to the 15 months covered by the data, what percentage of requests for payment showed a high differential between what was asked for and what was paid. In response, the Head Auditor from SWAP explained that a “high” differential is one of £1000, and the number of those was contained in the appendix of the report; the Director for ECI added that the appendix provides details of the number of high differentials for every month, e.g., 29% in August 2020. Cllr Rigby clarified that he was referring to the overall percentage of discrepancies, in order to identify how often the contractor might be asking for more money when compared to the order. The Director for ECI confirmed that he would provide a detailed answer and that this would be circulated to the Committee.

Cllr Rigby asked about the total value of the additional costs applied for by the contractor over the time frame covered by the audit; the Director for ECI stated that £124,765,213 had been asked for, while £123,750,575 had been paid, and this pertained to the period from the start of the contract. Cllr Rigby asked if that represented the difference in value between work orders and payments over the 15 months of data, not before. The Director for ECI referred to Page 45 sets out task orders for new assets but said he would provide a detailed answer and would circulate this to the Committee. He added that no evidence of duplicate payments or overpayments had been discovered by the auditors. The Assistant Director of SWAP noted that during the follow-up audit they had repeated the process undertaken in the original audit; Pages 30-31 of the report set out what had been ordered and what was paid overall, and although it has not been completed, there had been no evidence suggesting duplicate payments.

Cllr Rigby asked whether the two outstanding priority issues in the audit report would be brought back to a future meeting; the Vice Chair confirmed that this would be considered by the Committee at a future meeting and reiterated that an additional audit had already been requested by the service for the first quarter of 2022/23.

Cllr Leyshon enquired, given the move from Skanska to Milestone and the fact that Skanska had had contracts with other Councils besides SCC, whether those other councils had experienced the same situation, if the Council had contributed to the novation of the contract, and how many entries there were for Skanska on accounts payable versus how many there were for Milestone. In response, the Director for ECI stated that the novation and changes to the contract had been completed late last year and confirmed earlier this year by M Group services; and all benefits and liabilities associated with the contract had been transferred to Milestone. On the question of whether other Councils had encountered similar issues with duplicate payments, it was noted that seven had moved from Skanska to Milestone, with regular dialogue occurring between the client group organisations focusing on collaboration, service delivery, and new technologies. Cllr Leyshon asked whether this dialogue included financial arrangements, or if that was confidential, and whether it would help to know if other Councils had experienced similar issues and how they had resolved them. In response it was noted that discussions included opportunities for service improvement, contract management and collaboration but not confidential financial information. Cllr Leyshon asked if the Committee could have the details about the number of entries in accounts payable for both

Skanska and Milestone; the Director of Finance and Governance confirmed that he would provide those details and that this information would be shared with the Committee.

Cllr Noel asked if the differentials arose because the original estimates were too low, or because more work needed to be done than originally thought, or because fraud had been attempted. The Director for ECI thought that differences could result from a change in the work delivered on the ground or the design of the process (for example, the inspector could see that the pothole had become bigger), in which case, more time or materials were required. He also highlighted Page 31 of the report, under the New Assets section, that the remedy for the problem may change through the process, and 'compensation events' would be the name for this re-measuring of time and/or materials. On the potential fraudulent activity, it was stated that checks were regularly carried out to ensure that the work was completed, including taking 'before and after' photos of defects needing to be fixed, with payment being withheld until the work was completed.

Cllr Filmer enquired about recruitment and whether the Audit post being recruited would be full or part-time. He also noted that the quarterly reconciliation process was a useful way to improve, depending upon how it was addressed in an ongoing process. The Director for ECI said that they had been unable thus far to fill the post and were currently using temporary resources, but they were committed to filling the position and would review the recruitment process, including the terms and remuneration. He noted that the post mentioned on Page 34 was currently for one part-time post holder, but they would like to increase this to full-time. Regarding the new quarterly reconciliation process, the new software and payment process should be in place by the end of October, and this would enable regular monitoring. He reiterated that the audit had been requested by the service, and the actions arising would allow the service to become more automated/digitised and would improve the full transparency of payments before certification.

Cllr Davies reflected that he was frustrated by the situation, as some questions remained unanswered, and he thought that the action plan was unclear. The Director of ECI responded that the action plan, agreed with the auditors, had been included in the audit report, and he undertook to provide answers to all the questions asked to all Members of the Committee.

The Committee accepted the report and update, and the Vice Chair noted that the Committee would receive a further update on progress made against the action plan after the follow-up audit in 2022/23 is completed.

Internal Audit Update - Agenda Item 6

The Vice Chair invited the Assistant Director of SWAP to present the regular internal audit report, which she noted was the first progress report of 2021/22, presented in an updated format to reflect the increasing complexity and volume of audit reporting. The key information for Members was highlighted, and it was explained that reports would now have standardised reporting on limited assurance audits, as well as follow-up audits, including summaries of the recommendations and their priority rating.

Attention was drawn to Page 54 that provided a key summary showing that there were three limited assurance reports and that there had been six additions to the plan, demonstrating that the internal audit had been responsive to the identified needs and changing risks of the Council. This year SWAP had taken over the implementation of the recommendations arising from audits, and those recommendations would now form part of the progress report to each Committee meeting. In relation to limited assurance reports, it was noted that there remained a significant number of overdue actions on which the pandemic and limited resources had slowed progress. A summary of the implementation of recommendations would form part of the regular report so that Members could track progress made across the year, and an overview was provided of the three limited assurance reports.

The Vice Chair invited questions from the Committee, and during the consideration of the reports issues/concerns were raised, questions were asked/answered, and further information was provided:

Cllr Leyshon asked if the exclusion data provided in the report represented data from all schools in Somerset, including Academy schools; the Assistant Director of SWAP confirmed that the data was from all schools in the County.

Cllr Filmer, reflecting on the high number of overdue actions resulting from a lack of resources and the effects of the pandemic, enquired if the necessary resources were available to remedy this; the Assistant Director of SWAP responded that all managers with outstanding recommendations had been asked for an update, and although progress was slower, she had been reassured that the work was being done. A schedule of follow-ups would gain evidence to ensure that the recommendations had been completed.

The Committee accepted the report.

External Audit Update - Agenda Item 7

The Vice Chair invited the Key Audit Partner of Grant Thornton to present the report. He noted that the report contained details of the progress at

September 2021 of the Financial Statements audit, the Council audit, and the Pension Fund audit. The Council audit was in progress, and the external auditors were working to complete the audit in October and report to the Committee in November. Members heard that following the significant challenges encountered regarding the valuation of land and buildings, this year the external auditors would benefit from being able to access more robust evidence following significant improvements and proactive action by Officers.

Attention was drawn to the Value For Money (VFM) extension letter; it was explained that normally this would accompany the publication of the financial statements, but this year there had been a change in the code and consequently the level of work, so the deadline had been extended to the end of January. It was explained that these changes in time scales affected the entire audit sector and not just the Council. The Key Audit Partner confirmed that the external auditors would not be able to certify the closure of the audit until the VFM work was concluded; however, the Financial Statements opinion would be issued in all other respects, and to date no significant weaknesses have been identified in the VFM arrangements.

The Vice Chair invited questions from the Committee, and during the consideration of the reports, issues/concerns were raised, questions asked/answered, and further information was provided:

Cllr Chilcott asked if extending the deadline for the VFM report could delay closure of accounts for all Councils and asked about the risks for Councils of this pushing into the following year. In response it was stated that the delay, due to capacity issues arising from the pandemic, had meant that it had taken longer to audit financial statements, while the new code increases work and detail. The new National Audit Office code significantly increases the level of work with a much more detailed review required; however, this requirement would bring more value to the final report and be more informative to Members. He noted that the Council took actions to correct factors that resulted in significant delays in last year's audit.

The Director for Finance and Governance stated that the VFM focus is a positive move and had been welcomed nationally; and with respect to the work in the Treasury team, most of the work had been completed on the Statement of Accounts.

The Committee accepted the report.

Pension Fund Audit Findings Report - Agenda Item 8

The Vice Chair invited the Key Audit Partner of Grant Thornton to present the report. He began by noting that it summarised the outcome of the audit work on the pension fund and said that assurance letters had been completed and would be issued. The rest of the audit was substantially complete, with just a few outstanding queries remaining, and he praised the diligence of the Officers in responding to queries from the external auditors, particularly the Service Manager-Investments.

He provided an overview of his report and highlighted that materiality for the financial statements had been set at £26.1 million; he also pointed out the effectiveness of management controls over journals, which are automatically tested if high-risk characteristics or events were evidenced. He noted that the last valuation reports available were dated 31 December 2020, while the audit takes place some months later in July/August; therefore, officers had to take into account later information from 31 March 2021. As a consequence, with regard to key judgements and estimates, the Council was exercising caution by using the 31 December 2020 data, and all other valuations of Level 1 and Level 2 investments were appropriate. A letter of representation had been included within the report, but this would be signed later when the opinion on the main financial accounts was provided. He noted that Grant Thornton, as the Council's external auditors, also audited the Brunel Pension Partnership, and he referred Members to Appendices A, B, C, and D attached to his report for information on audit adjustments, fees, audit opinion, and management letter of representation.

The Vice Chair invited questions from the Committee, and during consideration of the reports, issues/concerns were raised, questions were asked/answered, and further information was provided:

Cllr Leyshon asked if the audit of the pension fund covers all pooled funds or just those with Brunel; the Key Audit Partner responded that the proportion of investments moved to the pool with Brunel had increased over the year and had been covered by the audit, as were those investments not yet transferred. The Service Manager-Investments added that, as of 1 March 2021, 77 percent of assets had been transferred the pool, while currently the figure was approximately 93 percent.

Cllr Leyshon advised that she understood that all of the five Councils in Somerset had under-funded pension schemes, and she asked how all of the Councils' funds would be combined in the future. The Service Manager-Investment responded that each of the five Somerset councils had a deficit in their pension funds, which will be disclosed by two different methods/ calculations. One of those would be found in their respective accounts each year, and overall (including 160 employers) the deficit stood at £2.3 billion as of 31 March 2019, which worked out to about 60 percent funded on an accounting basis. Using the second type of calculation, which dictated the level of contributions (required under the LGPS once every three years), as of 31 March 2019, it was approximately 86 percent funded. The next assessment would be made by the Fund's Actuary at the end of March 2022, and the results should be available in October next year for each of the Councils. As far as the deficit numbers, they vary across the country, and Somerset's were not unusual; most local government schemes in England and Wales are in the 80 to low-90 percent range.

Cllr Leyshon enquired if there was a risk to the investments within the Pension Fund from outside; the Service Manager-Investments replied that the funds were secure under current regulations and could not, for example, be reappropriated by the Government, and all Somerset funds would be re-valued under the unitary.

Cllr Noel asked for confirmation that contributions were still exceeding payments; the Service Manager-Investments responded that during the current financial year there were £122.9 million in contributions and £115.0 million in payments, resulting in an excess of approximately £8.5 million.

Cllr Chilcott asked, with regard to Brunel and the £40,000 charged for their audit, whether the Council indirectly pays part of that via a service charge, if more funds were transferred to Brunel, would that decrease the amount of work done in the audit and the cost of the audit, since more funds would be held by Brunel. The Key Audit Partner replied that part of the audit of Brunel Partnership would be paid by service users, with the Council's contribution being approximately £4,000. As for the future, he advised that the audit work at the Council would not decrease and would remain the same for external auditors, even if all of the Council's pension funds were with Brunel.

The Committee accepted the report.

Risk Management Update- Agenda Item 9

The Strategic Manager for Finance Systems and Governance presented the report, which he noted was in a slightly different format and was a developing piece of work. He would welcome questions or comments either at the meeting or later in writing in order to improve the report. He noted that the management of most of the risk work was developing, e.g., the Zurich Municipal work with the Council's Senior Leadership Team (SLT) and the Strategic Risk Management Group. He provided an overview of the risks for the quarter, referring to the tables in the report, and noted that two risks had been closed and been superseded by new risks, including successfully delivering the unitary council by 1 April 2023 and the increasing supply disruption, which was largely due to the effects of the pandemic impacting external markets.

The Vice Chair invited questions from the Committee, and during consideration of the reports, issues/concerns were raised, questions were asked/answered, and further information was provided:

The Vice Chair enquired about progress on the transparency matrix; the Strategic Manager for Finance Systems and Governance replied that the Council was complying with the transparency code, and an updated version would be considered by the Governance Board. The Vice Chair requested that an update on the new matrix be provided at the next Committee meeting.

Cllr Leyshon enquired how dynamic the strategic assessments were, such as supplier disruption and the Council being able to obtain the information it needed from prospective suppliers in time, and was the risk percentage of 10 percent listed on ORG0056 accurate, or was this a default setting? The Service Manager for Finance Systems and Governance noted in response that the process was dynamic risk management reporting, and as the reports were quarterly updates, this meant the reports contained figures from a month ago. He noted that the potential for supply disruption was accurately represented in the report, although he agreed that it may be some sort of a default percentage, so he undertook to consider that when preparing the next report.

Cllr Filmer asked with respect to ORG0058 and the Local Government Reorganisation (LGR) why it had been closed when it had not yet gone through Parliament; he also enquired whether ORG0055 covered more than just cooperative working between the five authorities. In response, Members heard that the original risk which had been closed was the Business Case being put forward with the possibility that it would not have been accepted. There is a new risk that has been raised, but it is not the partnership working (ORG0055); it is another risk that relates specifically to delivering the unitary council by the deadline and what form the new Council will take. He noted that the new risk was not yet in the strategic risk report, so he undertook to consider that when preparing the next report.

The Committee accepted the report and requested that an update on the transparency matrix be brought to the next meeting.

Committee Future Work Programme – Agenda Item 10

The Committee noted the work programme that listed future agenda items and reports.

In response to a question from Cllr Leyshon, the Vice Chair advised the Committee that there were two training sessions coming up: One on 21 October regarding IT and cybersecurity, and one on 18 November regarding the Statement of Accounts and journal issues.

Cllr Munt suggested that any audit training be open so that all interested Members could attend, and the Vice Chair agreed that it could be, as appropriate.

Any Other Urgent Items of Business - Agenda Item 13

After ascertaining that there were no other items of business, the Vice Chair thanked everyone for their patience during his first time acting as Chair for the Committee, and he closed the meeting.

(The meeting ended at 11:39)

CHAIR

SOMERSET County Council

SWAP INTERNAL AUDIT SERVICES Helping Organisations to Succeed

Somerset County Council

Report of Internal Audit Activity

Progress Report- November 2021

Internal Audit Update – November 2021/22 ‘At a Glance’

The Headlines

Three limited opinions audits.
No high corporate risks reported.

13 reviews completed as part of the 2021/22 Internal Audit Plan

- Six assurance audits
- Two follow-ups
- One grant certification
- Four advisory reviews

Additions to the Plan

14 new reviews added to the plan.

Improvements from the implementation of agreed actions
Follow up activity is underway and a data dashboard has been produced to support management overview. Overdue actions reduced by 21% over the period.

Range of innovations and enhancements made to our internal audit process throughout the year
Data analytics continues to drive/support reviews; comparative benchmarking exercises offer useful insight and suggested practices.

Internal Audit Assurance Opinions 2021/22

	Nov	YTD
Substantial	0	0
Reasonable	2	3
Limited	0	3
No Assurance	0	0
Total	**2**	**6**

Internal Audit Agreed Actions 2021/22

	Nov	YTD
Priority 1	0	0
Priority 2	2	15
Priority 3	10	18
Total	**12**	**33**

Summary

As part of our rolling plan reports, we will detail progress against the approved plan and any updates in scope and coverage.

We will also provide details of any significant risks that we have identified in our work, along with the progress of mitigating significant risks previously identified through audit activity.

The contacts at SWAP in connection with this report are:

Lisa Fryer
Assistant Director
lisa.fryer@swapaudit.co.uk

David Hill
Chief Executive
david.hill@swapaudit.co.uk

Summary

Introduction

This is our November progress update for 2021/22 and reports against the plan agreed by this Committee in March 2021. The schedule provided at Appendix C details progress made to date and new work agreed. Since the last report meetings have been held with DMTs and Heads of Service to ensure work planned for the remainder of the year reflects key risk areas and as a result some updates have been made.

Each completed assignment includes its respective "assurance opinion" rating together with the number and relative ranking of recommendations that have been raised with management. In such cases, the Committee can take assurance that improvement actions have been agreed with management to address these. The assurance opinion ratings have been determined in accordance with the Internal Audit "Audit Framework Definitions" as detailed at Appendix B of this document.

To assist the Committee in its important monitoring and scrutiny role, in those cases where weaknesses have been identified in service/function reviews that are considered to represent significant service risks, a summary of the key audit findings that have resulted in them receiving a 'limited Assurance Opinion' is given as part of this report. There were none to report over the period.

A follow-up review is performed in respect of all limited assurance opinion audits. This is important to provide evidence that recommendations have been implemented to reduce areas of risk identified. The results of follow-up reviews performed in the period can be found in Appendix A.

In circumstances where findings have been identified which are considered to represent significant corporate risks to the Council, due to their importance, these issues are separately summarised.

Internal Audit Plan Update

Our audit plan coverage assessment is designed to provide an indication of whether we have provided sufficient, independent assurance to monitor the organisation's risk profile effectively.

For those areas where no audit coverage is planned, assurance should be sought from other sources to provide a holistic picture of assurance against key risks.

SWAP audit plan coverage, changes to the plan, and performance measures

The table below provides a summary of how our completed audits and work in progress for the year to date provides assurance over key strategic risks areas in the Internal Audit Plan. As the year builds and more work is completed, coverage across the key risk areas will increase. 'Adequate' coverage reflects delivery of planned assurance levels.

Risk Universe	Coverage
Climate Change	
Organisational resilience	• Business continuity • Hybrid working • Data centre & back-ups
Supplier Disruption	• Commissioning governance • Adults commissioning
Sustainable MTFP	• School deficit/surplus balances • SEND costed packages
Safeguarding Children	• Schools safeguarding follow-up. • Safeguarding complaints and concerns
External Influences and Uncertainties	• Commissioning governance • Adults commissioning
Local Government Reorganisation	• Audits associated with organisational resilience (above) • Audits associated with MTFP (above) • Business Recovery – post Covid • Commissioning governance
Market Management and development	Contract management advisory review

	Good coverage complete
	Adequate coverage complete
	Coverage in progress
	No coverage to date

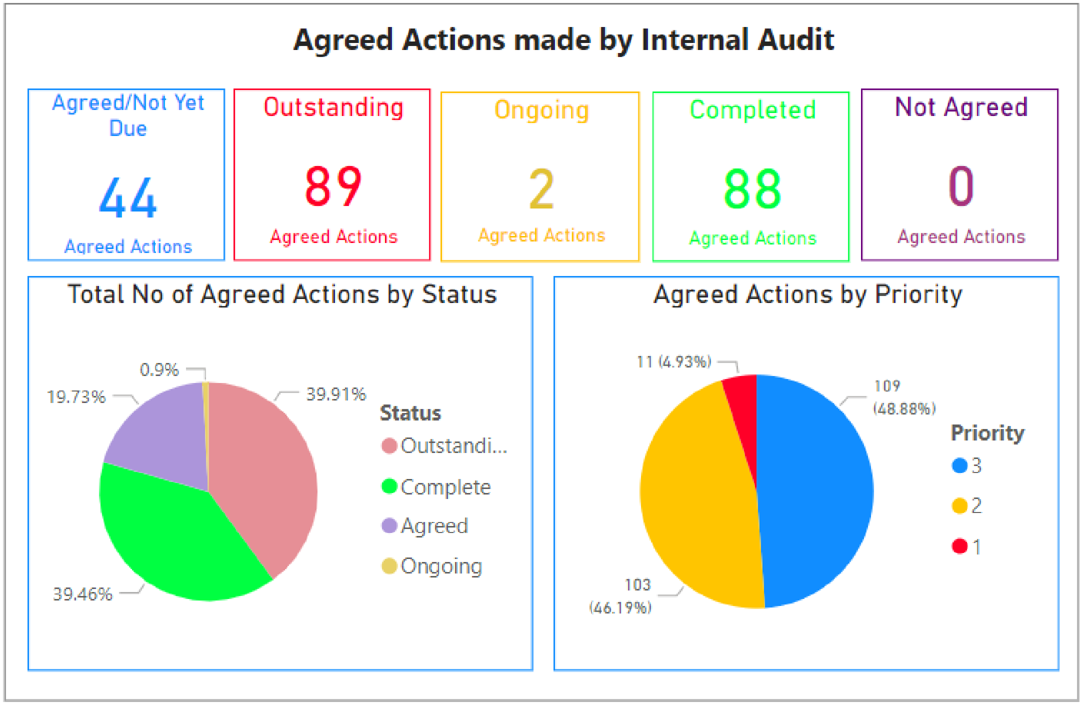
Internal Audit Plan Update

Follow up work confirms the responsive nature of management in implementing agreed actions to mitigate exposure to areas of risk.

Implementation of Agreed Management Actions

The shortage of resource created by Covid-19 slowed the implementation of management actions during 2020/21. As well as assurance provided by follow-up audits, this year the managers responsible for agreed actions relating to limited assurance audits have provided progress updates to internal audit. The results from both have been used to produce the summary below.

The table below shows a total 89 overdue actions remain. This compares to 113 overdue actions in the September update, representing a reduction of 21%.



SWAP work is completed to comply with the International Professional Practices Framework of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS) and the CIPFA Local Government Application Note.

Internal Audit Definitions

Assurance Definitions	
No Assurance	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.
Limited	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited
Reasonable	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Substantial	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.

Definition of Corporate Risks

Risks	Reporting Implications
High	Issues that we consider need to be brought to the attention of both senior management and the Audit Committee.
Medium	Issues which should be addressed by management in their areas of responsibility.
Low	Issues of a minor nature or best practice where some improvement can be made.

Categorisation of Recommendations

In addition to the corporate risk assessment it is important that management know how important the recommendation is to their service. Each recommendation has been given a priority rating at service level with the following definitions:

Priority 1	Findings that are fundamental to the integrity of the service's business processes and require the immediate attention of management.
Priority 2	Important findings that need to be resolved by management.
Priority 3	Finding that requires attention.

Follow up Audit	Scope and Objective	Progress assessment				
			Completed	In progress	Not Started	Total
Safeguarding in Schools	To provide assurance that the agreed actions within the 2020-21 report have been implemented.	Priority 1	1	0	0	**1**
		Priority 2	1	1	0	**2**
		Priority 3	1	1	0	**2**
		Total	**3**	**2**	**0**	**5**

Summary of Findings

The risk assessed in the original audit performed in 2020/21 was that the Authority fail to obtain and act on information received about inadequate safeguarding arrangements in education settings, resulting in increased risks to the safety of children.

The service has made good progress in addressing the audit recommendations, as part of reshaping the wider framework for safeguarding in education establishments. Due to the impacts and interdependencies with other parts of the process, we acknowledge that a longer timeframe is needed to finalise the remaining audit actions. However, we are satisfied that sufficient progress has been achieved to mitigate the audit risk, and no further follow-up work will be required.

The service now has a robust methodology for capturing and tracking the thematic issues of safeguarding compliance identified through the S175 audit in a single action plan, which is being used to prioritise remedial actions. The same approach is also being used to monitor completed audits and to identify and follow up non-returns.

Documented procedural guidance for the S175 annual safeguarding audit process for both education establishments and the Safeguarding Team is still being developed, while the wider framework continues to be improved.

The service also agreed to develop online feedback opportunities for all schools to complete following the submission of their audits, to include feedback on the audit itself. This is currently in progress.

Audit Type	Audit Area	Status	Opinion	No of Rec	1 = Major	⟷	3 = Medium
					Recommendation		
					1	2	3
Complete							
Operational	Accounts Payable - Vendor Management	Final	Limited	5		3	2
Operational	School Exclusion Data	Final	Limited	6		5	1
ICT	Data Centre and Back-up Review	Final	Limited	5		3	2
Operational	Adults – Commissioning Community Support	Final	Reasonable	5		2	3
Follow-up	Highways Application for Payment – Follow-up	Final	N/A				
Grant	BDUK Grant certification	Final	Certified				
Advisory	**New** – Updated Contract Management Framework	Final	N/A				
Advisory	**New** – Anti-Fraud and Corruption Policy Review	Final	N/A				
Governance	Hybrid Working	Final	Reasonable	3			3
Governance	Business Continuity	Final	Reasonable	9		2	7
Advisory	**New** – Fraud Risk Assessment	Final	N/A				
Follow-up	Safeguarding in Schools	Final	N/A				
ICT	Secondary Data Centre Review – Advisory	Final	N/A				
Reporting							
Operational	SEND Costed Packages	Draft					

Audit Type	Audit Area	Status	Opinion	No of Rec	1 = Major	↔	3 = Medium
					Recommendation		
					1	2	3
Governance	Strategic Commissioning	Draft					
Operational	Adults – Quality Assurance Framework	Draft					
In Progress							
Operational	School Surplus and Deficit Balances	In Progress	Scope expanded to include surplus balances				
Operational	Property Condition – Schools	In Progress					
Operational	**New** – Berkley School Financial Audit	In Progress					
Operational	Children's Safeguarding – Complaints and Concerns	In Progress					
Operational	Business Recovery – Post Covid	In Progress					
Advisory	**New** – Whistleblowing Policy Review	In Progress					
Investigation	**New** – Project Management Investigation	In Progress					
Advisory	**New** – Adopt South-West	In Progress	Audit lead by Devon Audit Partnership				
Follow-up	Compliance with Corporate Purchasing Policy	In progress					
Follow-up	Supplier Resilience	In Progress					
Follow-up	Transfer of Public Health Nursing Services	In Progress					
Follow up	Lone Working	In Progress					
Follow-up	Health and Safety – Premises Management	In Progress					
Grant	Local Transport Capital Block Funding Grant	In Progress					

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Audit Type	Audit Area	Status	Opinion	No of Rec	1 = Major	↔	3 = Medium
					Recommendation		
					1	2	3
Grant	**New** - Additional Dedicated Home to School and College Transport Grant	In Progress					
Advisory	Recommendation Tracking	Ongoing					
Grant	Supporting Families Claims	Ongoing					
Advisory	CiFAS – Blue Badges	Ongoing					
Operational	Somerset Unitary preparations	Ongoing					
Waiting to go Live							
ICT	Incident Management	Waiting to go live					
Governance	Climate Change	Waiting to go live					
Governance	Contracts Register	Waiting to go live					
Governance	Project Management – Benefits Realisation	Waiting to go live					
Governance	Emergency Planning	Waiting to go live					
Operational	Adults – Workforce Planning	Waiting to go live					
Operational	Adults – Eclipse System	Waiting to go live					
Operational	**New** - Transport – Governance/Budgets/Financial Control	Waiting to go live					

Audit Type	Audit Area	Status	Opinion	No of Rec	1 = Major	↔	3 = Medium
					Recommendation		
					1	2	3
Operational	**New** – Children's Social Care Safe Recruitment and Training	Waiting to go live					
Operational	**New** – Street Works Permitting	Waiting to go live					
ICT	Follow-up – ICT Governance	Waiting to go live					
ICT	Follow-up Cyber Security Framework Review	Waiting to go live					
Follow up	Children's Education, Health and Care Plans	Waiting to go live					
Follow up	Corporate Management of Health and Safety	Waiting to go live					
Follow-up	Community Learning Partnerships	Waiting to go live					
Follow-up	Creditors	Waiting to go live					
Follow-up	Apprenticeship Scheme	Waiting to go live					
Follow-up	Risk Management	Waiting to go live					
Follow-up	Career Development & Pathways	Waiting to go live					
Follow-up	Adults – FAB Assessments	Waiting to go live					
Follow-up	Adults Mental Health – Financial Decision Making	Waiting to go live					
Follow-up	Role of the Somerset Manager	Waiting to go live					

Audit Type	Audit Area	Status	Opinion	No of Rec	1 = Major	↔	3 = Medium
					Recommendation		
					1	2	3
Follow-up	Healthy Organisation	Waiting to go live					
Grant	Covid Related Bus Services Support Grant Restart Tranche 3/4/5	Waiting to go live					
Grant	Test and Trace Support Grant	Waiting to go live					
Grant	**New** - Bus Subsidy Ring fenced (revenue) Grant	Waiting to go live					
Grant	**New** - Covid Community Testing Funding Grant	Waiting to go live					
Grant	**New** - Emergency Active Travel Fund Grant	Waiting to go live					
Deferred/Removed							
Grant	Contain Outbreak Management Fund Grant Audit	Deferred	Sign-off requirement moved to 30/06/2022				
Governance	Election Delivery	Deferred	Elections deferred, audit moved to Q1 22/23				
Governance	Capital Accounting	Deferred	Audit deferred to release days for Fraud/Policies review.				
Operational	Property – Compliance with Regulations	Deferred	Audit deferred and replaced with Project Management Investigation.				
Operational	Property – Corporate Landlord Model	Deferred	Audit deferred and replaced with Project Management Investigation.				
Governance	ECI – Budget Management	Deferred	Reviewed Children's & Adults in recent plans both reasonable. Deferred to release days for release days for Fraud/Policies review.				
Operational	CDM Regulations (Construction Design Management) Maintenance and Infrastructure Highways	Deferred	Replaced with Street Works Permitting. Audit moved to 22/23.				

Audit Type	Audit Area	Status	Opinion	No of Rec	1 = Major		3 = Medium
					Recommendation		
					1	2	3
Operational	Schools - SFVS	Deferred	Replaced with higher risk work.				
Operational	Schools – Procurement Cards	Deferred	Replaced with higher risk work.				
Follow-up	Cash Handling	Deferred	Request to defer to early 22/23.				
Operational	Delivering Democratic Arrangements using virtual and/or hybrid meetings	Removed	Arrangements in place – removed to release days for higher risk audit work.				
Operational	Project Management – Implementation of the Children's Early Help Module	Removed	Removed to release days for Safeguarding review ahead of OFSTED inspection.				

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Somerset County Council
Audit Committee – 25 November 2021

APPROVAL OF PENSION FUND ACCOUNTS 2020/21

Lead Officer: Jason Vaughan Section 151 Officer
Author: Anton Sweet, Service Manager - Investments
Contact Details: asweet@somerset.gov.uk or (01823) 359584
Cabinet Member: N/A
Division and Local Member: N/A

1. Summary/link to the Annual Plan

1.1 As part of the formal process of closing the County Council's 2020/21 accounts, the Chief Financial Officer is required to approve the draft Statement of Accounts by 31 July and the Audit Committee is required to approve the audited accounts by 30 September.

1.2 Grant Thornton have completed their audit work and have issued The Audit Findings Report for the pension fund and this is included in the papers. The report, which will be presented by our external auditors, summarises the findings from the 2020/21 audit of the Pension Fund financial statements.

1.3 The report is a very positive report for the Pension Fund. The report indicates that the accounts have received an unqualified opinion.

2. Issues for consideration

2.1 Members are asked to:

- Consider the matters raised in Grant Thornton's report;
- Approve the audited accounts of the Pension Fund for 2020/21; and
- Approve the letter of representation on behalf of the Council.

3. Background

3.1 None

4. The Next Steps

4.1 After approval of the Accounts, Letter of Representation and on receipt of Grant Thornton's report and certificate, the Statement of Accounts will be published and copies made available on the internet.

5. Background Papers

5.1 None

Note: For sight of individual background papers please contact the report author.

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The Audit Findings for Somerset Pension Fund

Year ended 31 March 2021

10 November 2021

Contents

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Pension Fund or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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1. Headlines

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This table summarises the key findings and other matters arising from the statutory audit of Somerset Pension Fund ('the Pension Fund') and the preparation of the Pension Fund's financial statements for the year ended 31 March 2021 for those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the Pension Fund's financial statements give a true and fair view of the financial position of the Pension Fund and its income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

Our audit work was completed remotely during June-September. Our findings are summarised on pages 2 to 13. We have not identified any adjustments to the financial statements that would have resulted in an adjustment to the Pension Fund's reported financial position. Audit adjustments are detailed in Appendix A.

Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion [Appendix C] or material changes to the financial statements, subject to the following outstanding matters:

- receipt and review of the final version of the financial statements,
- receipt of management representation letter (Appendix D); and
- review of post balance sheet events and management's consideration of post balance sheet events.

As set out above we have not yet reviewed the Annual Report and as such have not yet concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

Our anticipated audit report opinion will be unmodified.

2. Financial Statements

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As your auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the Pension Fund's business and is risk based, and in particular included:

- An evaluation of the Pension Fund's internal controls environment, including its IT systems and controls, and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 23 September 2021, as detailed in [Appendix C]. This is also subject to the completion of the Council audit. These outstanding items include are set out on page 3 of this report.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff. As highlighted on page 3 of our audit plan presented to the Audit Committee in June 2021, the impact of the pandemic has meant that both your finance team and our audit team faced challenges again this year, in delivering work remotely.

The Financial Statements were delivered on time and these were supported by good working papers. All queries were responded to in a timely manner.

2. Financial Statements

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Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality levels remain the same as reported in our audit plan on 22 July 2021, albeit materiality has increased to reflect the increase in the net asset value.

We detail in the table our determination of materiality for Somerset Pension Fund.

	Pension Fund Amount (£)
Materiality for the financial statements	26,100,000
Performance materiality	19,600,000
Trivial matters	1,300,000
Materiality for Senior Officer remuneration	20,000

2. Financial Statements - Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our work in this area remains in progress. At the time of writing this report we have : ▪ evaluated the design effectiveness of management controls over journals, ▪ analysed the journals listing and determined the criteria for selecting high risk unusual journals, ▪ gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness with regard to corroborative evidence, and ▪ evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. We are in the process of: ▪ testing those journals that we have identified as having characteristics which may make them unusual recorded during the year and after the draft accounts stage for appropriateness and supporting evidence. Our work completed to date has not identified any issues with regards to management override of controls.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Improper revenue recognition Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Within our Audit Plan we rebutted this presumed risk for Somerset Pension Fund because: • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including Somerset Pension Fund mean that all forms of fraud are seen as unacceptable. We have reassessed this rebuttal during the audit and confirm that this remains appropriate for Somerset Pension Fund.
The expenditure cycle includes fraudulent transactions (rebutted) Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom (PN10) states: "As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure may be greater than the risk of material misstatements due to fraud related to revenue recognition". Public sector auditors therefore need to consider whether they have any significant concerns about fraudulent financial reporting of expenditure which would need to be treated as a significant risk for the audit.	Within our Audit Plan we rebutted this presumed risk for Somerset Pension Fund because: • expenditure is well controlled and the Fund has a strong control environment; and • the Fund has clear and transparent reporting of its financial plans and financial position to those charged with governance. We have reassessed this rebuttal during the audit and confirm that this remains appropriate for Somerset Pension Fund.

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2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of Level 3 Investments The Fund revalues its investments on an annual basis at the year end to ensure that the carrying value is not materially different from the fair value at the financial statements date. By their nature Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end. Management utilise the services of investment managers and custodians as valuation experts to estimate the fair value as at 31 March 2021. We therefore identified valuation of Level 3 investments as a significant risk, which was one of the most significant assessed risks of material misstatement.	We have: ▪ evaluated management's processes for assessing the valuation of Level 3 investments; ▪ reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments, to ensure that the requirements of the Code are met; ▪ independently requested year-end confirmations from investment managers and the custodian and considered the role played by the custodian in asset valuations; ▪ for a sample of investments, we have tested the valuation by obtaining and reviewing the audited accounts (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. We have then reconciled those values to the values at 31 March 2021 with reference to known movements in the intervening period; and ▪ where available, we have reviewed investment manager service auditor reports on design effectiveness of internal controls. We challenged the assumptions made by management on asset valuations, particularly in light of the previous year's estimation uncertainty as a result of COVID-19. The values for 2020/21 and management's assumptions and consideration of these valuations, give due consideration to market impact and the movements have been substantiated through our detailed testing. For 2020/21 there is no material uncertainties disclosed in relation to COVID-19 as markets have continued to stabilise across the last 12 months following the previous year's uncertain climate at the end of March 2020. Our work to date has identified that due to the timing of fund manager reports the Council have used the valuation reports dated 31 December 2020. As part of our audit procedures we have reviewed the 31 March 2021 reports that were provided to the Council in July 2021; after the draft financial statements were submitted. This work highlighted that the value of these investments had increased by £7.6m and therefore that the estimate as at the 31 March 2021 was understated by this amount. We have reported this as and unadjusted misstatement but recognise that the draft financial statements were produced using the most up to date information.

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Level 3 Investments – £72.459m	The Pension Fund has level 3 investments that in total are valued on the balance sheet as at 31 March 2020 at £72.459 million. The total of this balance is made up of private equity funds. The level 3 investments are not traded on an open exchange/market and the valuation of the investment is highly subjective due to a lack of observable inputs. The basis of valuation for each category of level 3 investments is set out in note 31 to the financial statements. Due to the timing of fund manager reports the Council have used the valuation reports dated 31 December 2020. As part of our audit procedures we have reviewed the 31 March 2021 reports that were provided to the Council in July 2021; after the draft financial statements were submitted. This work highlighted that the value of these investments had increased by £7.6m and therefore that the estimate as at the 31 March 2021 was understated by this amount. We have reported this as and unadjusted misstatement but recognise that the draft financial statements were produced using the most up to date information. The overall value of level 3 investments has increased by £12.5 million in 2020/21.	We have: • reviewed management's assessment and estimation process for level 3 investments and consider it to be robust.; • assessed the estimates provided for level 3 investments and tested the validity of assumptions; • assessed the adequacy of management's experts; • tested the appropriateness of the underlying information used to determine the estimate; • reviewed the consistency of the estimate against industry practice and previous audit work; • tested the reasonableness of the increase in the estimate; and • reviewed the reasonableness of the sensitivities disclosed in the estimates section of the accounting policy. Due to the timing of valuation reports used in producing the estimate we consider managements assumptions to be cautious.	Grey

Assessment

- [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Level 2 Investments – £1,975.226m	The Pension Fund have investments in pooled investments and property funds that in total are valued on the balance sheet as at 31 March 2021 at £1,975.226 million. Management rely upon the custodian to provide the financial investment values. This is provided in a monthly report, detailing each Fund's performance and value. Management review this report for accuracy and completeness. As well, as obtaining the custodian report, the Pension Fund also obtain details direct from the Fund Manager and completes a comparison - a triangulation - between their estimate, the custodian's estimate and the Fund Manager's estimate. All significant variances are reviewed and addressed. As the level 2 valuations are based upon observable inputs the degree of estimation is minimal and both the fund managers and custodians are able to provide robust assumptions for values at year end. Nevertheless, there is a degree of estimation adopted in the valuation process and therefore these can be interpreted as subjective in nature. The basis of valuation for each category of level 2 investments is set out in note 31 to the financial statements. The value of the investment has increased by £628.741m in 2020/21.	We have : • reviewed management's assessment and the estimation process for level 2 investments and consider it to be robust; • assessed the estimates provided for level 2 investments and tested the validity of assumptions; • assessed the adequacy of management's experts; • tested the appropriateness of the underlying information used to determine the estimate; • reviewed the consistency of the estimate against industry practice and previous audit work; • tested the reasonableness of the increase in the estimate; and • reviewed the reasonableness of the sensitivities disclosed in the estimates section of the accounting policy. Based on our work completed we consider key assumptions to be reasonable.	Light purple

Assessment

- [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - other communication requirements

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We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Pension Fund, which is appended to this report.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to custodians and fund managers and the Pension Fund bank. This permission was granted and the requests were sent and received.
Accounting practices	We have evaluated the appropriateness of the Pension Fund's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management was provided.

2. Financial Statements - other communication requirements

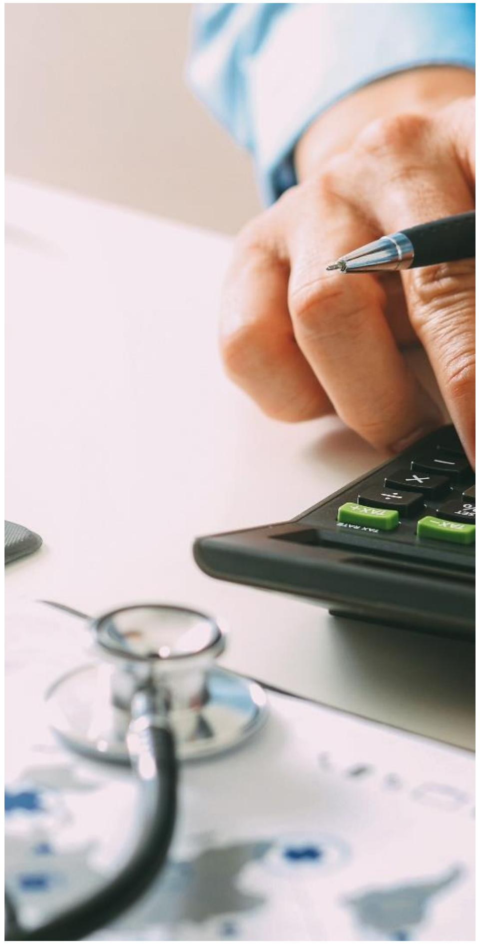
Our responsibility

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570).

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Pension Fund meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the Pension Fund and the environment in which it operates • the Pension Fund's financial reporting framework • the Pension Fund's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Disclosures	No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to appendix C.
Matters on which we report by exception	We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. Due to statutory deadlines the Pension Fund Annual Report is not required to be published until 1 December 2021 and therefore this report has not yet been produced. We have therefore not given this separate opinion at this time and are unable to certify completion of the audit of the administering authority until this work has been completed.



3. Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix B.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Transparency report 2020 (grantthornton.co.uk)

3. Independence and ethics

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Pension Fund. The following non-audit services were identified.

Service	Fees £	Threats identified	Safeguards
Audit related			
Audit of Brunel Pension Partnership Limited (BPP)	40,000	None	We do not consider the audit of BPP as a threat to our independence; as Somerset Pension Fund cannot exercise control over BPP. The audit of BPP is carried out by a specialist team, authorised by the Financial Standards Authority. The fee of £40,000 is not significant compared to the audit fees of the ten participating pension funds. Please note this fee is not included in the financial statements of Somerset Pension Fund as is payable by BPP.
IAS19 Assurance letters for Admitted Bodies	7,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £7,000 in comparison to the total fee for the audit of £30,121 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

These services are consistent with the Pension Fund's policy on the allotment of non-audit work to your auditors. None of the services provided are subject to contingent fees.

Appendices

A. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

There were no adjusted misstatements noted as part of the 2020/21 and 2019/20 audits.

Impact of unadjusted misstatements

Detail	Statement of Comprehensive Net Expenditure £'000	Statement of Financial Position £' 000	Impact on adjusted net expenditure £'000
Due to the timing of fund manager reports the Pension Fund have used the valuation reports dated 31 December 2020. As part of our audit procedures we have reviewed the 31 March 2021 reports that were provided to the Fund in July 2021; after the draft financial statements were submitted. This work highlighted that the value of these investments had increased by £7.6m (in the period December 20 to March 2021) and therefore that the estimate as at the 31 March 2021 was understated by this amount. We recognise that the draft financial statements were produced using the most up to date information.	-	Increase in the level of Level 3 investments of £7,600	-
Overall impact	-	7,600	-

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Adjusted?
The audit fee disclosed in the draft financial statements for 2019/20 and 2020/21, did not agree to the final amounts set out in our 2020/21 Audit Plan. This was due to the timing of the invoices being raised and communication of the 2020/21 audit fee. Additional disclosures have been added to note 9 to clearly show the final amounts. This is explained further on page 18 of this report.	✓
Our high level review of the draft financial statements identified that no disclosure was made regarding capital commitments. The Fund have added a note disclosing commitments relating to investments of £71.287m. At the time of writing this report we have still to agree this additional note to supporting working papers.	✓
During the course of the audit a number of small disclosure amendments were made to the financial statements. These have not been reported separately due to their insignificant nature.	✓
As part of testing and agreement of investments it was noted that the UK Equities totalling £12.994m were incorrectly classified as level 1, within the fair value hierarchy, rather than level 2. Note 30 has been updated to reflect this immaterial reclassification in the current and prior period.	✓

B. Fees

We confirm below our final fees charged for the audit and provision of non-audit services.

Audit fees	Proposed fee	Final fee
Pension Fund Audit	£30,121	£30,121
Total audit fees (excluding VAT)	£30,121	£30,121

Details of variations in final fees from the proposed fee per the audit plan

- Fees per financial statements - £0.022m
- Fees for additional costs as set out in our audit plan - £0.008m
- Total - £0.030m

Fees for IAS19 Assurance letters for Admitted Bodies of £0.007m is disclosed in a narrative disclosure under note 9 of the financial statements as this was not billed until after the draft statements were prepared.

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services		
Audit of Brunel Pension Partnership Limited (BPP)	40,000	40,000
IAS19 Assurance letters for Admitted Bodies	7,000	7,000
Total non-audit fees (excluding VAT)	**£47,000**	**£47,000**

C. Audit opinion

Our audit opinion is included below. We anticipate we will provide the Pension Fund with an unmodified audit report.

Independent auditor's report to the members of Somerset County Council on the pension fund financial statements of Somerset Pension Fund

Opinion

We have audited the financial statements of Somerset Pension Fund (the 'Pension Fund') administered by Somerset County Council (the 'Authority') for the year ended 31 March 2021 which comprise the Fund Account, the Net Assets Statement and notes to the pension fund financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21.

In our opinion, the financial statements:

- give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2021 and of the amount and disposition at that date of the fund's assets and liabilities;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the Pension Fund's financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Director of Finance's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Pension Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Pension Fund to cease to continue as a going concern.

In our evaluation of the Director of Finance's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21 that the Pension Fund's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Pension Fund. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority in the Pension Fund financial statements and the disclosures in the Pension Fund financial statements over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Pension Fund's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Director of Finance's use of the going concern basis of accounting in the preparation of the Pension Fund financial statements is appropriate.

The responsibilities of the Director of Finance with respect to going concern are described in the 'Responsibilities of the Authority, the Director of Finance and Those Charged with Governance for the financial statements' section of this report.

C. Audit opinion

Other information

The Director of Finance is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the Pension Fund's financial statements, our auditor's report thereon, and our auditor's report on the Authority's financial statements. Our opinion on the Pension Fund's financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the Pension Fund's financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Pension Fund's financial statements, or our knowledge of the Pension Fund obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the Pension Fund financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice (2020) published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)

In our opinion, based on the work undertaken in the course of the audit of the Pension Fund's financial statements and our knowledge of the Pension Fund, the other information published together with the Pension Fund's financial statements in the Statement of Accounts, for the financial year for which the financial statements are prepared is consistent with the Pension Fund financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters in relation to the Pension Fund.

Responsibilities of the Authority, the Director of Finance and Those Charged with Governance for the financial statements

As explained more fully in the Statement of 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 Director of Finance. The Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the Pension Fund's financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, for being satisfied that they give a true and fair view, and for such internal control as the Director of Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the Pension Fund's financial statements, the Director of Finance is responsible for assessing the Pension Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Pension Fund will no longer be provided.

The Audit Committee is Those Charged with Governance for the Pension Fund. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

C. Audit opinion

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the Pension Fund's financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Pension Fund and determined that the most significant ,which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, the Public Service Pensions Act 2013, The Local government Pension Scheme Regulations 2013 and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.
- We enquired of senior officers and the Audit Committee, concerning the Authority's policies and procedures relating to:
  - the identification, evaluation and compliance with laws and regulations;
  - the detection and response to the risks of fraud; and
  - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of senior officers, internal audit and the Audit Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Pension Fund's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls.. We determined that the principal risks were in relation to journals, accounting estimates and critical judgements made by management.
- Our audit procedures involved:
  - evaluation of the design effectiveness of controls that the Director of Finance has in place to prevent and detect fraud;
  - journal entry testing, with a focus on management override of control;
  - challenging assumptions and judgements made by management in its significant accounting estimates in respect of the valuation of level 3 investments and IAS 26 pensions liability valuations;
  - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.

C. Audit opinion

These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.

- Assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's.
  - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
  - knowledge of the local government pensions sector
  - understanding of the legal and regulatory requirements specific to the Pension Fund including:
    - the provisions of the applicable legislation
    - guidance issued by CIPFA, LASAAC and SOLACE
    - the applicable statutory provisions.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
  - the Pension Fund's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
  - the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Barrie Morris, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

Bristol

Date:

D. Management Letter of Representation

Barrie Morris
Grant Thornton UK LLP
2 Glass Wharf
Bristol
BS20EL

Dear Sirs

Somerset Pension Fund

Financial Statements for the year ended 31 March 2021

This representation letter is provided in connection with the audit of the financial statements of Somerset Pension Fund for the year ended 31 March 2021 for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

i. We have fulfilled our responsibilities for the preparation of the Fund's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

ii. We have complied with the requirements of all statutory directions affecting the Fund and these matters have been appropriately reflected and disclosed in the financial statements.

iii. The Fund has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. We understand our responsibilities includes identifying and considering alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the estimate used. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.

vi. Except as disclosed in the financial statements:

a. there are no unrecorded liabilities, actual or contingent

b. none of the assets of the Fund has been assigned, pledged or mortgaged

c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

vii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

viii. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

ix. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

x. The financial statements are free of material misstatements, including omissions.

xi. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

xii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

D. Management Letter of Representation

xiii. We have updated our going concern assessment. We continue to believe that the Fund's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that:

a. the nature of the Fund means that, notwithstanding any intention to liquidate the Fund or cease its operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements

b. the financial reporting framework permits the entry to prepare its financial statements on the basis of the presumption set out under a) above; and

c. the Fund's system of internal control has not identified any events or conditions relevant to going concern.

We believe that no further disclosures relating to the Fund's ability to continue as a going concern need to be made in the financial statements.

Information Provided

xiv. We have provided you with:

a. access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;

b. additional information that you have requested from us for the purpose of your audit; and

c. access to persons within the Fund via remote arrangements, in compliance with the nationally specified social distancing requirements established by the government in response to the Covid-19 pandemic. from whom you determined it necessary to obtain audit evidence.

xv. We have communicated to you all deficiencies in internal control of which management is aware.

xvi. All transactions have been recorded in the accounting records and are reflected in the financial statements.

xvii. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

xviii. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Fund, and involves:

a. management;

b. employees who have significant roles in internal control; or

c. others where the fraud could have a material effect on the financial statements.

xix. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

xx. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xxi. There have been no communications with The Pensions Regulator or other regulatory bodies during the year or subsequently concerning matters of non-compliance with any legal duty.

xxii. We are not aware of any reports having been made to The Pensions Regulator by any of our advisors.

xxiii. We have disclosed to you the identity of the Fund's related parties and all the related party relationships and transactions of which we are aware.

xxiv. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Approval

The approval of this letter of representation was minuted by the Fund's Audit Committee at its meeting on 25 November 2021.

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Somerset County Council
County Hall, Taunton
Somerset, TA1 4DY

Grant Thornton UK LLP
2 Glass Wharf
Temple Quay
BRISTOL
BS2 0EL

Please ask for: Anton Sweet

Email: asweet@somerset.gov.uk

Direct Dial: (01823) 359584

Date: 25 November 2021

Dear Sirs

Somerset Pension Fund
Financial Statements for the year ended 31 March 2021

This representation letter is provided in connection with the audit of the financial statements of Somerset Pension Fund (‘the Fund) for the year ended 31 March 2021 for the purpose of expressing an opinion as to whether the Fund financial statements are presented fairly in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

i. We have fulfilled our responsibilities for the preparation of the Fund’s financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

ii. We have complied with the requirements of all statutory directions affecting the Fund and these matters have been appropriately reflected and disclosed in the financial statements.

Somerset County Council
County Hall, Taunton
Somerset, TA1 4DY

iii. The Fund has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. We understand our responsibilities includes identifying and considering alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the estimate used. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.

vi. Except as disclosed in the financial statements:
   a. there are no unrecorded liabilities, actual or contingent
   b. none of the assets of the Fund has been assigned, pledged or mortgaged
   c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

vii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

viii. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

Somerset County Council
County Hall, Taunton
Somerset, TA1 4DY

SOMERSET
County Council

ix. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

x. We have considered the unadjusted misstatements schedule included in your Audit Findings Report and attached. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Fund and its financial position at the year-end. The financial statements are free of material misstatements, including omissions.

xi. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

xii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Somerset County Council
County Hall, Taunton
Somerset, TA1 4DY

xiii. We have updated our going concern assessment. We continue to believe that the Fund's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that:

a. the nature of the Fund means that, notwithstanding any intention to liquidate the Fund or cease its operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements
b. the financial reporting framework permits the entry to prepare its financial statements on the basis of the presumption set out under a) above; and
c. the Fund's system of internal control has not identified any events or conditions relevant to going concern.

We believe that no further disclosures relating to the Fund's ability to continue as a going concern need to be made in the financial statements.

Information Provided

xiv. We have provided you with:

a. access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
b. additional information that you have requested from us for the purpose of your audit; and
c. access to persons within the Fund via remote arrangements, in compliance with the nationally specified social distancing requirements established by the government in response to the Covid-19 pandemic. from whom you determined it necessary to obtain audit evidence.

Somerset County Council
County Hall, Taunton
Somerset, TA1 4DY

xv. We have communicated to you all deficiencies in internal control of which management is aware.

xvi. All transactions have been recorded in the accounting records and are reflected in the financial statements.

xvii. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

xviii. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Fund, and involves:
 a. management;
 b. employees who have significant roles in internal control; or
 c. others where the fraud could have a material effect on the financial statements.

xix. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

xx. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xxi. There have been no communications with The Pensions Regulator or other regulatory bodies during the year or subsequently concerning matters of non-compliance with any legal duty.

xxii. We are not aware of any reports having been made to The Pensions Regulator by any of our advisors.

xxiii. We have disclosed to you the identity of the Fund's related parties and all the related party relationships and transactions of which we are aware.

Somerset County Council
County Hall, Taunton
Somerset, TA1 4DY

xxiv. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Approval
The approval of this letter of representation was minuted by the Fund's Audit Committee at its meeting on 25 November 2021.

Yours faithfully

………………………… …………………………

Name: Cllr Mike Lewis	Name: Jason Vaughan
Position: Chair of Audit Committee	Position: Director of Finance
Date: 25th November 2021	Date: 25th November 2021

Signed on behalf of the Council

Somerset County Council
County Hall, Taunton
Somerset, TA1 4DY

Impact of unadjusted misstatements Detail	Statement of Comprehensive Net Expenditure £'000	Statement of Financial Position £' 000	Impact on adjusted net expenditure £'000
Due to the timing of fund manager reports the Pension Fund have used the valuation reports dated 31 December 2020. As part of our audit procedures we have reviewed the 31 March 2021 reports that were provided to the Fund in July 2021; after the draft financial statements were submitted. This work highlighted that the value of these investments had increased by £7.6m (in the period December 20 to March 2021) and therefore that the estimate as at the 31 March 2021 was understated by this amount. We recognise that the draft financial statements were produced using the most up to date information.	-	Increase in the level of Level 3 investments of £7,600	-
Overall impact	-	7,600	-

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Somerset County Council
Audit Committee
– 25 November 2021

Paper
Item No. [Item No.]

APPROVAL OF ACCOUNTS 2020/21

Lead Officer: Jason Vaughan, Director of Finance & Governance
Author: Paul Griffin, Service Manager – Chief Accountant
Contact Details: jzvaughan@somerset.gov.uk or (01823) 359629 or
pxgriffin@somerset.gov.uk or (01823) 359574
Cabinet Member: Mandy Chilcott
Division and Local Member: All

1. Summary/link to the Annual Plan

1.1 As part of the formal process of closing the County Council's 2020/21 accounts the Chief Financial Officer is required to approve the draft Statement of Accounts by 31 July and the Audit Committee is required to approve the audited accounts by 30 September.

2. Issues for consideration

2.1 Members are asked to:

- Consider the matters raised in Grant Thornton's Audit Findings Report.
- Approve the updated Annual Governance Statement as included within the Statement of Accounts (section 7).
- Approve the audited Statement of Accounts for 2020/21 (Appendix A); and
- Approve the Letter of Representation on behalf of the Council. (section 6.1 and Appendix B).

Members are also asked to note the position of the External Auditors assessment of the Authority's Value for Money (VFM) judgment which remains outstanding (section 8).

3. Delayed Audit Opinion

3.1 The impact of COVID-19 on both the complexity of the audit and pace at which it could be completed, and the increased assurance work the auditors are required to carry out nationally with respect to pensions and asset valuations, has meant it has not been possible to approve the audited accounts by the statutory deadline.

3.2 Under Regulation 10, paragraph (2a) of the Accounts and Audit Regulations 2015, an authority must publish (on its website) as soon as reasonably practicable on or after that date a notice stating that it has not been able to publish the statement of accounts and its reasons for this.

3.3 The Council published a delay notification on its website on 30 September informing local residents of the delay, confirming the audit and issue of the audit opinion was expected to conclude in November.

4. Background – Statement of Accounts

4.1 The Accounts and Audit Regulations issued by the Secretary of State set out the requirements for the preparation and publication of final accounts. These regulations include the requirement for the formal approval, by a full Committee, of the Authority's Statement of Accounts.

4.2 The attached Statement of Accounts (Appendix A) has been prepared in accordance with the current Code of Practice on Local Authority Accounting in Great Britain. The Statement is required to present a true and fair view of the County Council's financial position at 31 March 2021 and also the income and expenditure for the financial year 2020/21. A separate Statement of Accounts has been produced for the Pension Fund.

4.3 The Statement of Accounts was available for public inspection during the 30-working day period running from 26 July to 3 September 2021.

4.4 The Authority's external auditors, Grant Thornton, started their detailed examination of the Statement of Accounts on 1 August 2021. There are some small elements of the audit that remain outstanding at the point this report has been published and these will be presented in their draft Audit Findings Report published within the same suite of agenda papers.

Grant Thornton are only able to formally conclude the audit and issue their final Audit Report and Audit Certificate if they have received a copy of the Statement of Accounts as approved by this Committee and all elements of their work are concluded.

The issuing of the Audit Certificate will be delayed until the completion of the audit of the Whole of Government Accounts (WGA) submission due to the timing of the issuing of the WGA toolkit by HM Treasury and WGA submission timetable. This is usual and the work is planned for January 2022.

This Committee will be notified on final receipt of the Audit Certificate and the expectation is that the committee will receive the Auditor's Annual Report (containing their Value for Money conclusion) at the January meeting, on 27 January 2022.

5. Statement of Accounts – Content

5.1 The content and format of the Accounts is as prescribed in the Accounting Code of Practice issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), based on International Financial Reporting Standards (IFRS), and has been developed by the CIPFA/LASAAC Code Board under the oversight of the Financial Reporting Advisory Board.

The Authority's Statements includes the Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, Balance Sheet and a Cash Flow Statement. In addition, there is an extract from the Somerset Pension Fund Accounts.

5.2 There are no significant presentational changes this year.

5.3 This year the authority has seen a change in the audit approach taken by Grant Thornton, with increased scrutiny of the authority's accounting estimates and related disclosures. There has also been an increased scrutiny of journal postings and the evidence supporting these entries. As in previous years, there has been a significant focus on two of the largest accounting estimates (pensions liability and property valuations). This additional scrutiny has been seen nationally as a result of requests made on auditors by the Financial Reporting Council and auditing standards. This applies to audits at all authorities. In addition, this year this authority has been subject to a "technical" review (which occurs every three years) which raised queries on some disclosures and notes that have not been queried in past audits. The remainder of this section details the significant findings during the audit process and the subsequent changes to the accounts since they were made available to the Audit Committee in August 2021.

5.4 <u>Recognition of Local Enterprise Partnership (LEP) – Growing Places funding</u>
This funding was transferred to the Council from Devon County Council, in August 2021, as part of strengthening the LEPs assurance framework and following directive from the Department for Business, Energy and Industrial Strategy (BEIS). This grant funding was awarded to Devon County Council in 2011 and was designed to create a sustainable revolving infrastructure fund for investment to unlock further economic development and leverage private investment.

All decision making on the use of this fund is made by the LEP with the Council acting in an agency role. Prior to the audit, this funding had been treated as 'non-county' and not reported in the authority's accounts, but during the audit technical review, the authority was advised that as agent for this fund, the Council was required to recognise the cash collected (£6.713m as at 31 March 2021) and a matching creditor (to the LEP) in its Balance Sheet. No other transactions are reported in the authority's accounts, and only the Balance Sheet and Cashflow Statement (along with their associated notes) where impacted by this finding.

5.5 Cash and cash equivalents – Recognition of bank overdraft
The authorities bank overdraft as at 31 March 2021 was reported as part of the Cash & Cash Equivalent value in the unaudited accounts Balance Sheet, as the CIPFA Code guidance confirms that overdrafts are cash where they are integral to cash management (which was the case for the authority's overdraft). However, during the audit technical review the authority was advised this part of the Code was only relevant to the Cash Flow Statement.

To ensure compliance with the Code, the authority has restated its Balance Sheet (and associated notes) to recognise the overdraft (£13.318m) separately from Cash & Cash Equivalents.

5.6 Grant Income - Re-classification of Government grantor
During a review of the authority's grant income note (Note 22), it became apparent the unaudited accounts had classified a number of capital and revenue grants in error. The error (£4.758m) had arisen from a misstatement in the working paper used to classify certain Government capital grants. The total of the grant income reported was correct, but the name of the grantor had been reported incorrectly.

As the total grant income was correct, no change was required to the Comprehensive Income & Expenditure Statement but Note 22 has been reclassified to ensure the grantor classification was in line with the allocations awarded.

5.7 Capital Grant Receipt In Advance – reclassification of Government grantor
During a review of the authority's Capital Grant Receipt In Advance note (Note 41), it became apparent the working paper misstatement (in 5.6) had also impacted on the grantor classification in Note 41. As with 5.6, the value of the capital grant receipts in advance reported in the authority's balance sheet was correct, but the grantor classifications were misstated.

As the value of the receipts in advance were correct, the only adjustment required was to Note 41. No other note, or primary statement was affected by this misstatement.

5.8 The review of in-year property valuations identified several floor area discrepancies in the asset samples. The errors identified represents a potential understatement of £1.702m (£5.906m when extrapolated). The review also identified the known issue from last year surrounding the 'Abnormal' element of DRC valuations (totalling £3.143m), where the valuers were unable to evidence the valuation. This issue will be addressed over the next three years as the affected assets are formally revalued. Current workloads and resource restrictions are preventing the valuers from evidencing these assets any sooner.

This finding has not been adjusted in the final accounts, as the error is not material, and the value has been extrapolated.

5.9 The authority's depreciation charge on its Infrastructure (Highways) asset during 2020/21 was calculated based on the weighted average of the asset components (such as carriage ways and street furniture) useful lives. During a review, audit confirmed the Code of Practice required the calculation to be based at a component level rather than grouped as a weighted average. As depreciation was potentially understated by £8.449m, the value of Infrastructure assets will have been overstated by the same amount.

This finding has not been adjusted in the final accounts, as the error is not material, but the depreciation process will be amended in 2021/22 to ensure compliance with the Code moving forward.

5.10 A few minor errors/omissions were also identified during the audit review. The technical review also requested more clear narrative around the accounting treatment for the Council's relationships with external bodies, and the critical judgements made when applying its accounting policies. These amendments, along with the audit findings reported above, have been included in Annex 1 (below).

6. Letter of Representation

6.1 The International Standard on Auditing 580 requires auditors to obtain written representations from management and, where appropriate those charged with governance in an audit of the financial statements. This statement can be found in Appendix B as a formal Management Representation letter to Grant Thornton

The Committee are requested to formally approve this representation. Once approved the letter will be passed to our auditors.

7. Annual Governance Statement

7.1 The draft Annual Governance Statement (AGS) was approved by the Audit Committee at its meeting in July. Best practice requires local authorities to review their Annual Governance Statement immediately before the Statement of Accounts is approved to ensure that the governance framework and risks have not significantly changed since the review was carried out.

7.2 The Governance Board actively reviewed the AGS 2020/21, tracking actions against a Healthy Organisation Governance Scorecard. A summary of significant issues that the Board has overseen is set out on page 23 of the Annual Governance Statement and these relate to:

- The Council's financial position
- Local Government Reorganisation
- Healthy Organisation audit actions
- Covid 19 response

7.2 In accordance with the CIPFA disclosure requirements, following formal approval of the Annual Governance Statement, the Governance Board will develop an Action Plan for 2021/22 aimed at further strengthening the Council's governance. Many of these will already be known and on-going actions, such as the continual review of the Constitution and key financial and organisational policies, especially in the light of Local Government Reorganisation proposals.

7.3 The main purpose of the Annual Governance Statement is to provide the necessary assurance that a reliable framework was in place for the financial year that aligns to the Statement of Accounts.

However, best practice suggests that the Annual Governance Statement should also reflect the unique features and challenges of the County Council, and that it should therefore anticipate known and potential governance challenges ahead. This year's Statement includes the following significant challenges ahead for 2021/22:

- Sustainable financial position
- Local Governance Reorganisation
- Covid 19 emergency response
- Integrated Care System
- SEND Improvement Plan

By doing so, it highlights these areas which could present significant corporate risks during 2021/22 and future financial years. The Committee can be reassured that mitigations and management actions are already underway on these matters.

8. Value for Money (VFM)

8.1 On 1 April 2020, the National Audit Office (NAO) introduced a new Code of Practice which came into effect for the 2020/21 audit year. The Code introduced a revised approach to the VFM audit.

There were three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improving economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the previous 'reporting by exception' approach
- The replacement of the binary (qualified / unqualified) approach to VFM conclusions, with far more sophisticated judgements on performance, as well as key recommendations on significant weaknesses in arrangements identified during the audit.

8.2 The Code requires auditors to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under three specified reporting criteria (i.e. financial sustainability, governance and improving efficiency and effectiveness).

8.3 In their audit plan, Grant Thornton's risk assessment focused on three key areas:

- Financial Sustainability;
- Children's Services (SEND); and
- Local Government Reorganisation.

8.5 The VFM review has still to be concluded, so Grant Thornton is not in a position to issue the Auditor's Annual Report. The report is expected to be issued by 31st January 2022. The risk assessment element of the VFM audit work has been completed (details of the full assessment can be found in Section 3 of the Audit Findings Report (available in the suite of agenda papers)). A summary of their conclusions on the three key risk areas are detailed below:

8.6 <u>Financial Sustainability</u>
The report acknowledged that despite the uncertainty regarding funding, the Council has robust arrangements in place for delivering financial sustainability. This is based on an improved track record in recent years that has led to achievement of budgets and delivery of planned savings.

8.7 Children's Services (SEND)

The report acknowledges that the Council had taken positive action to address the concerns raised by Ofsted. Following the inspection report a working group was established with the CCG and a written statement of action was produced which set out the 9 priority areas of focus. This written statement had been approved by Ofsted in November 2020.

The review also highlighted that positive action had been taken in each of the priority areas that had been openly and transparently set out on the Council's website. Based on the review, the report had not identified any risks of significant weakness in arrangements.

8.8 Local Government Reorganisation

Based on the review and the work undertaken, to date, the report had not noted any risks of material weakness in arrangements. However, due to the significance of this reorganisation and the potential impact on both financial sustainability and service delivery and performance, this would remain an area of focus as arrangements evolve.

The report recommended that the savings generated from re-organisation are clearly monitored and reported alongside the costs. This is to ensure that both the costs and benefits are delivered in line with the business plan. Furthermore, it was recommended that as part of the 2022/23 budget setting process that the joint medium term financial challenge be explored and fully understood.

9. The next steps

9.1 After approval of the Statement of Accounts and Letter of Representation by this committee the audited Statement of Accounts will be published and made available on the internet.

9.2 Once reached, the Value for Money conclusion will be reported back to this committee, expected to be 27 January 2022. When received the audit certificate will be added to the audited Statement of Accounts which will be published and made available on the internet.

10. Background papers

10.1 Cabinet (21 June 2021) - 2020/21 Revenue Budget Outturn Report; and 2020/21 Capital Budget Outturn Report

Note: For sight of individual background papers please contact the report author.

Annex 1

Disclosure amendments since draft accounts were issued:

Page	Statement/Note	Description
Adjusted Misstatements		
73, 133 and 156	Balance Sheet, Note 34 and 44.	To ensure compliance with the Code, the authority has restated its Balance Sheet (and associated notes) to recognise the overdraft (£13.318m) separately from Cash & Cash Equivalents
73, 75, 133, 145 and 156.	Balance Sheet, Cashflow Statement, Note 34, 38, 44 and 45.	The authority was advised that as agent for the LEP Growing Places Fund, the Council was required to recognise the cash collected (£6.713m) and a matching creditor (to the LEP) in its Balance Sheet, Cashflow Statement (and associated notes).
Misclassification and disclosure changes		
110	Note 22	The unaudited accounts had classified a number of capital and revenue grants in error. The error (£4.758m) had arisen from a misstatement in the working paper used to classify certain Government capital grants. The total of the grant income reported was correct, but the name of the grantor had been reported incorrectly. The grantor classification has now been corrected.
146	Note 41	During a review of the authority's Capital Grant Receipt In Advance note, it became apparent the working paper misstatement (above) had also impacted on the grantor classification for the receipts in advance. The value of the capital grant receipts in advance reported in the authority's balance sheet was correct, but the grantor classifications were misstated. The grantor classification has now been corrected.
109	Note 20	Grant claim audit costs of £0.005m added to the disclosure that had been omitted in error.
116	Note 24 (Revaluations).	The Asset Held for Sale column has been removed to ensure the note agrees back to Note 24: Property, Plant & Equipment.
116	Note 24 (Revaluations).	Three property assets not formally valued were reporting in the incorrect valuation year line. The impact in the table total was net nil, but the valuation year line has been restated to reclassify the £9.511m to the years where each asset was last revalued.
167	Note 52	As no group accounts were compiled, the group account section has been reclassified as a note to the accounts.
126	Note 30	Indexed payments under the PFI contract were

		estimated as £179.358m in error due to a formula issue in the working paper, The indexed payments have been amended to £179.375 (an increase of £0.018m).
113	Note 24	The revaluation line in the depreciation/impairment section of the note has been expanded to identify the amounts written out to the Revaluation Reserve and the amounts written out to the Surplus/Deficit on the Provision of Service in the CIES.
131	Note 33	Minimum revenue payments have been split out to identify the minimum revenue provision (£3.182m) and other revenue payments (£3.616m) separately.
138	Note 16 – Integrated Community Equipment Service	Income and expenditure were both overstated by £0.085m. The impact was net nil, but the amounts have been restated to ensure the correct amounts were disclosed.
144	Note 37	The loss allowance has been expanded to identify the amount of allowance relating to local taxpayers separately from the other allowances.
136	Note 34: Short/Long Term Investments	The disclosure has been amended to disclose the material investments held.
72	Movement in Reserves	A column has been added to identify the total General Fund reserve.
79	Note 3	Critical judgements deemed non-critical have been removed from the disclosure.
Various	Various	Other amendments including spelling, grammar and syntax and other minor disclosures.

Grant Thornton

The Audit Findings for Somerset County Council

Year ended 31 March 2021

9 November 2021

Contents

Your key Grant Thornton team members are:

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260. Its contents have been discussed with management.

Barrie Morris
For Grant Thornton UK LLP
Date: 8 November 2021

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Somerset County Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2021 for those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the Council's financial statements give a true and fair view of the financial position of the Council and Council's income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report and Pension Fund Financial Statements, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work was completed remotely during August-November 2021. Our findings are summarised on pages 5 to 20. We have identified no adjustments to the financial statements that have resulted in an adjustment to the Council's Comprehensive Income and Expenditure Statement. Other audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.

Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion [Appendix E] or material changes to the financial statements, subject to the following outstanding matters;

- receipt of responses to our final queries from the Council's valuer;
- completion of our work testing journals (journal enquires);
- completion of our subsequent events review;
- final reviews by the Manager and Engagement;
- receipt of management representation letter; and
- review of the final set of financial statements.

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

Our anticipated audit report opinion will be unmodified.

1. Headlines

Value for Money (VFM) arrangements	
Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit. Auditors are required to report their commentary on the Council's arrangements under the following specified criteria: - Improving economy, efficiency and effectiveness; - Financial sustainability; and - Governance	We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in Appendix G to this report. We expect to issue our Auditor's Annual Report by 31 January 2022. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements. As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We identified risks in respect of Financial Sustainability, Local Government re-organisation and the implementation of SEND reforms. We have performed further procedures in respect of these risks and have completed these elements of our VFM work. Our findings are set out in the value for money arrangements section of this report.
Statutory duties	
The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • to certify the closure of the audit.	We have not exercised any of our additional statutory powers or duties. We have completed the majority of work under the Code and expect to be able to certify the completion of the audit once we have issued our Whole of Government Accounts Return and completed our work on the Council's VFM arrangements, which will be reported in our Annual Audi tor's report in January 2022.
Significant Matters	We did not encounter any significant difficulties or identify any significant matters arising during our audit.
Acknowledgements	We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the finance team and other staff during these unprecedented times.

2. Financial Statements

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the Council's business and is risk based, and in particular included:

- an evaluation of the Council's internal controls environment, including its IT systems and controls; and
- substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have not had to alter our audit plan, as communicated to you on 22 July 2021.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 25 November 2021, as detailed in [Appendix E]. These outstanding items are set out on page 3 of this report.

2. Financial Statements

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

We have revised materiality, performance materiality and our level of triviality due to the actual gross expenditure being higher than the level that we expected and used at the planning stage and above our tolerance levels.

We detail in the table our determination of materiality for Somerset County Council.

	Planning	Final
Materiality for the financial statements	12,300,000	13,500,000
Performance materiality	8,000,000	8,750,000
Trivial matters	615,000	675,000
Materiality for Senior Officer Remunerations	20,000	20,000

2. Financial Statements - Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	As part of our work we: • evaluated the design effectiveness of management controls over journals; • analysed the journals listing and determine the criteria for selecting high risk unusual journals; • gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions; and • tested high value and unusual journals processed during the year and at the accounts production stage for appropriateness and corroboration. Our audit work to date, including our review of journal entries and the related control environment, has not identified any significant issues with regards to management override of controls. We are currently awaiting responses from a number of people who have posted journals during the period to our standard confirmation requests. Our work also noted that there is no formal approval process for posting journals, therefore the finance team members who have access to post journals are effectively approving their own entry. However, in order to gain access to posting journals in the first instance, a rigorous procedure is followed, with Paul Griffin required to approve access and ensuring the individual has the appropriate training. We have also identified a number of other considerations that whilst are not deficiencies within the Council arrangements, are areas we believe that the Council should consider and take action. These are: • there are a large number (125) of people that have access to and are able to process journals; • the number of journals processed is high (7,500 journals including nearly 480,000 individual journal lines) • the value of journals processed is large at £9.2bn The use of journals should be reviewed so that only a limited number of people are authorised to process journals. The regular use of journals should also be reviewed to identify whether there are alternative ways to ensure that transactions are allocated to the correct general ledger codes in the first instance without the need for a subsequent journal transaction. This will reduce the risk of management over-ride through the inappropriate use of journals or an error in the journal transaction.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
The revenue cycle includes fraudulent transactions (rebutted) Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	In our Audit Plan we set out that having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Somerset County Council mean that all forms of fraud are seen as unacceptable. We re-considered this assessment on receipt of the draft financial statement and have not identified any reasons to change this assessment. No issues have been identified in our subsequent testing of revenue as part of our audit procedures.
The expenditure cycle includes fraudulent transactions (rebutted) Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom (PN10) states: "As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure may be greater than the risk of material misstatements due to fraud related to revenue recognition". Public sector auditors therefore need to consider whether they have any significant concerns about fraudulent financial reporting of expenditure which would need to be treated as a significant risk for the audit.	In our Audit Plan we set out that we had rebutted this presumed risk for Somerset County Council because: • expenditure is well controlled and the Council has a strong control environment; and • the Council has clear and transparent reporting of its financial plans and financial position to the Council. We re-considered this assessment on receipt of the draft financial statement and have not identified any reasons to change this assessment. No issues have been identified in our subsequent testing of expenditure as part of our audit procedures.

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2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of land and buildings The Council revalues its land and buildings on a rolling basis, with assets physically inspected at least every five years. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£436 million) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Council's financial statements is not materially different from the current value at the financial statements date, where a rolling programme is used. We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.	As part of our work we have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • evaluated the competence, capabilities and objectivity of the valuation expert; • written to the valuer to confirm the basis on which the valuation was carried out; • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding, the Council's valuer's report and the assumptions that underpin the valuation; and • tested revaluations made during the year to see if they had been input correctly into the Council's asset register; and • evaluated the assumptions made by the valuer for those assets revalued at 31 March 2021. For the assets not formally revalued in year we have assessed how management has satisfied themselves that these assets are not materially different to current value at year end. • engaged an auditor expert to further challenge underlying assumptions and terms of engagement with the valuer. Our work on Property, Plant and Equipment (including Land and Buildings), is substantially complete and has not identified any material errors to date. Our work has however identified an number of issues for your consideration: • Our testing identified 3 assets that were included on the revaluation schedule, but had not been revalued. Whilst the revenue implications of this are trivial, the total asset values are £9.5m. The revaluation table supporting note 24 has therefore been updated to reclassify the £9.5m to the years where each asset was last revalued. • As part of our auditors expert's work they identified that the valuer has not included the overall total valuation figure in an applicable currency within the main body of the valuation certificate. Although the values are included for each element in each individual appendix, the legislation outlines that the figure should be included within the report. • Our testing of Land and Buildings identified several floor area discrepancies in the assets sampled. In total the errors identified represents a potential understatement of the asset values of £1.7m. This value extrapolated comes to a £5.9m understatement. • Our testing of Land and Buildings has revealed that for asset components classed as abnormal, the Council are unable to evidence these assets. The total value of these is £3.143m. This therefore has the potential to overstate the land and buildings. The current valuations are based on the valuers judgement, as they do not fall within a specific BCIS category. We would expect these to be revalued in a similar way to other assets using floor areas and building costs. • Our review identified that the depreciation for infrastructure assets is not calculated on a componentised basis, rather the assets are depreciated as a whole. The Code requires that this is calculated at a component level (para 4.1.2.43). In order to satisfy ourselves that the depreciation charge is not materially misstated, we have performed a recalculation. The last time that infrastructure was depreciated on a component level was in 2015-16. We have therefore applied the same apportionment basis to the current year infrastructure assets (as the data is not available) and using the useful lives for each component we have recalculated the depreciation charge. This work has identified a potential understatement of depreciation totalling £8.449m. As depreciation is potentially understated this consequently means that the value of infrastructure assets is overstated by the same amount.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of land and buildings (Continued)	• We also noted that the valuer has used building indices as at December 2020. We have compared these to the indices as at 31 March 2021, for our sample of 40 assets, and have noted a potential difference of £2.054m (£5.747m extrapolated over the DRC assets that were revalued in 2020/21) in the overall depreciated replacement cost (DRC) assets as at the balance sheet date. We are therefore satisfied that using the December 2020 indices does not lead to a material misstatement. We did note that the areas that have the largest impact are schools and swimming pools due to the number held and the large floor area. We would therefore recommend that particular attention be placed on reviewing these asset types at the year end, as this is where the largest impact is likely to be. The total net impact of the above findings on the Council's Property, Plant and Equipment value in the balance sheet is a potential understatement of £0.061m. This issues have not been adjusted in the revised financial statements. The Council have provided further assurances over the valuation of their DRC assets by commissioning a review as at the end of October 2021. The Council's valuer has applied the RICS building costs indices as at October 2021 to the Council's DRC assets. This exercise highlighted a potential uplift in the valuation of those assets as at October 2021 £13.75m, on the total assets valued on this basis of £436m. This applies to the gross book value and does not take account of the impact of depreciation. We have also considered this against the general increase in prices as indicated by the RPI index, which shows a movement from 1.6% in January 2021 to 5.4% in September 2021, i.e. a 3.8% change. On this basis, we have gained further assurance that the balances as at 31 March 2021 are not materially misstated. Members will recall that this was an area that resulted in significant delays to the completion of the 2019-20 audit. We are therefore pleased to report that progress has been made in by both the Council's finance team and the valuation team to responding to our audit enquiries more thoroughly and promptly in the current audit year. Whilst we have reported similar findings to the previous year this is due in part to the delayed completion of the 2019/20 work. Whilst there remains scope for further improvement, we believe that credit should be given for the actions to date and we will continue to work with officers to ensure that this progress is maintained.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of pension fund net liability The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£994m in the Authority's balance sheet) and the sensitivity of the estimate to changes in key assumptions. The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation. The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable. The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. In particular the discount rate, where our consulting actuary has indicated that a 0.1% change in this assumption would have approximately 2% effect on the liability. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. With regard to these assumptions we have therefore identified valuation of the Authority's pension fund net liability as a significant risk.	We have: • updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluated the design of the associated controls; • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • obtained assurances from the auditor of Somerset Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. Our audit work has not identified any issues in respect of the Pension Fund net liability.

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – £436m	Other land and buildings comprises £436m of specialised assets such as schools and libraries which are required to be valued at depreciated replacement cost (DRC), reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council engages it's in-house valuer to undertake the annual valuations who utilises the support of external valuers where required. The Council's land and buildings are revalued on a five year cycle. In 2020/21 the Council valued a significant proportion of all land and building assets (73%) – as detailed in note 24 of the financial statements.	We have carried out the following work in relation to this estimate: • assessed management's expert to ensure suitably qualified and independent, • assessed the completeness and accuracy of the underlying information used to determine the estimate, • confirmed there were no changes to valuation method, • assessed the consistency of the estimate against near neighbours and using the Gerald Eve report, and • assessed the adequacy of disclosure of the estimate in the financial statements. • engaged an auditor expert to further challenge underlying assumptions and terms of engagement with the valuer. We have identified a number of issues whilst completing our work on PPE, see page 9. These differences in estimation do not have a material impact on the financial statement, however, we consider them to be cautious. We have made recommendations in line with the previous year to review a number of areas. These are detailed at appendix A.	Grey

Assessment

- [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

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Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Net pension liability – £994m	The Council's total net pension liability at 31 March 2021 is £994m (PY £755m) Somerset Pension Fund Local Government and unfunded defined benefit pension scheme obligations. The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities derived from these schemes. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods which utilises key assumptions such as life expectancy, discount rates, salary growth and investment return .Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £196.8m net actuarial loss during 2020/21.	We have carried out the following work in relation to this estimate: • Assessed management's expert to ensure suitably qualified and independent, • Assessed the actuary's roll forward approach taken, • We have used PwC as auditors expert to assess actuary and assumptions made by actuary. The table below summarises where Somerset County Council fall in the acceptable ranges set by PwC:	Light purple

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2%	1.95% - 2.05%	✓
Pension increase rate	2.8%	2.8% - 2.85%	✓
Salary growth	3.8%	1% above CPI which is 2.8%	✓
Life expectancy – Males currently aged 45 / 65	Current 23.1 Future 24.4	Current 20.5 – 23.1 Future 21.9 – 24.4	✓
Life expectancy – Females currently aged 45 / 65	Female Current 24.6 Female Future 26	Current 23.3 – 25 Future 24.8 – 26.4	✓

- We have gained assurance over the completeness and accuracy of the underlying information used to determine the estimate,
- We have gained assurance over the reasonableness of the Council's share of LGPS pension assets, and
- We have reviewed the adequacy of disclosure of the estimate in the financial statements.

Assessment

- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

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Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Minimum Revenue Provision - £3.182m	The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance. The year end MRP charge was £3.1m, a net increase of £1m from 2019/20.	We have carried out the following work in relation to this estimate: • ensured the Council's policy on MRP complies with statutory guidance; • ensured that MRP has been calculated in line with the approved policy and statutory guidance; • assessed the reasonableness of the annual MRP charge; and • reviewed the annual MRP charge as a proportion of the Capital Financing Requirement (CFR) to ensure that it was prudent. Based on the work completed we concluded that the MRP charge was reasonable. Our work did identify that the Councils MRP appeared low as a proportion of the CFR (1.48%). This is due to the Council extending asset lives (within guidance) to match the benefits to the people of Somerset. To remain prudent the Council charge and additional £0.400m each year to ensure that debt can be repaid as it falls due. The annual MRP charge as a proportion of the CFR will increase in future years due to the cumulative impact of the additional contributions.	Light purple

Assessment

- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - Internal Control

Assessment	Issue and risk	Recommendations
●	Our IT review identified two control deficiencies. These are: • Inappropriate segregation of duties as developers have access to the production environment, and • Segregation of duty conflicts within SAP. Users with excessive privileged access rights within SAP , increases the risk of these elevated privileges being used to make unauthorised changes to the application, business processes or user accounts by over-riding internal system controls, which could lead to fraud and/or financial misstatement.	We recommend that the Council review access rights and segregation of duties. **Management response** The Council will review access rights and segregation of duties.

Assessment

- Significant deficiency – risk of significant misstatement
- Deficiency – risk of inconsequential misstatement

2. Financial Statements - other communication requirements

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We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any incidents in the period and no issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Council, which is included in the Audit Committee papers.

2. Financial Statements - other communication requirements

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Issue	Commentary
Confirmation requests from third parties	We requested from management permission to send confirmation requests for bank and investment balances. This permission was granted and the requests were sent. All confirmations were received with no issues noted. We requested from management permission to send confirmation requests to the pension fund auditor. This permission was granted and the requests were sent. We have received the pension fund auditors letter of assurance and no issues were noted that impacted on our pension liability work.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements, however, a number of minor amendments were made to ensure compliance with the code and aide transparency. These are set out in Appendix C.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management were provided. We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

2. Financial Statements - other communication requirements

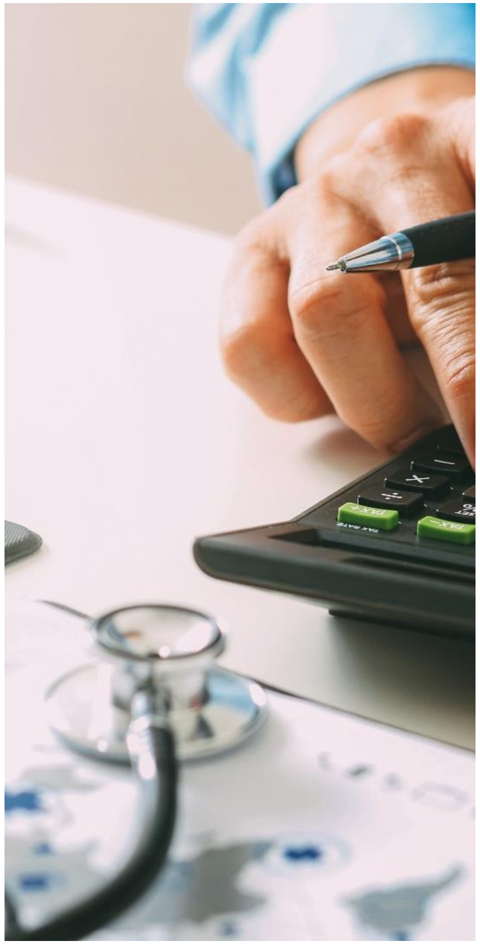
Our responsibility

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570).

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the Council and the environment in which it operates • the Council's financial reporting framework • the Council's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements, including the Annual Governance Statement, Narrative Report and Pension Fund Financial Statements, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to appendix E.
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported a significant weakness. We have nothing to report on these matters.



2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. As the Council exceeds the specified group reporting threshold of £500m we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. This work is not yet complete and will be completed when the NAO have issued updated guidance.
Certification of the closure of the audit	We intend to delay the certification of the closure of the 2020/21 audit of Somerset County Council in the audit report, as detailed in Appendix E, due to incomplete WGA and VFM work.

3. Value for Money arrangements

Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria.
- Auditors undertaking sufficient analysis on the Council's VFM arrangements to arrive at far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.

Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)

Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:

Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.

Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.

Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

3. VFM - our procedures and conclusions

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in the Appendix G to this report. We expect to issue our Auditor's Annual Report by 31 January 2022. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We identified the risks set out in the table below. We have performed further procedures in respect of these risks and have completed this element of our VFM work. Our conclusions are detailed below.

Risk of significant weakness	Procedures undertaken	Conclusion and outcome
Financial Sustainability The Council delivered an underspend of £9m for 2020/21. Whilst the Council has built up a healthier level of reserves and has strengthened its delivery of financial targets and savings in recent years, financial challenge and uncertainty continues to increase. In setting the 2021/22 budget and Medium Financial Strategy for the next three years, the Council has identified the need to make a further £18m in savings/additional income. Due to the inherent uncertainty, we have concluded that there is a significant risk of weakness in arrangements for delivering financial sustainability. In response to this risk we will further review progress towards delivering savings and additional income and assess the reasonableness of the assumptions that underpin the Council's Medium Term Financial Strategy.	In response to this risk (and at the time of producing our AFR), and as part of our Financial Sustainability work, we have reviewed progress towards closing the budget gap. Further to this we have: • discussed financial sustainability with senior management within the Council; • reviewed the key assumptions that underpin the 2021/22 medium term financial plan; • reviewed in year financial reporting and the outturn position; and • reviewed the general arrangements underpinning financial management.	Our work to date has not identified a significant weakness in arrangements, or any implications for our opinion on the financial statements. The MTFP and budget that were approved by Full Council in February 2021 reported a revenue budget gap of £18m over the medium term. Our work has identified that the Council has robust budget setting, monitoring and reporting arrangements in place, whereby budget holders are challenged on their budgetary requirement each year. Member are involved in the process as part of the challenge meetings held. This is to ensure that the budget setting reflects the Council's strategic objectives. The process in place also ensures that base budgets are not just rolled forward, and that any unrequired budgets, based on prior year outturns and future demands are removed. Work is currently underway on setting the 2022/23 budget that will finally be agreed by Full Council in February 2022. The Medium Term Financial plan was refreshed and taken to Cabinet in October 2021. This reported that the Council has a gap of £7.8m to be closed when setting the 2022/23 budget. The report further sets out that in addition to this a further £21.8m of efficiencies will need to be made by 2024/25. This will need to be considered as part of LG reorganisation. Our work has identified that despite the uncertainty regarding funding, the Council has robust arrangements in place for delivering financial sustainability. This is based on an improved track record in recent years that has led to achievement of budgets and delivery of planned savings. The Council has delivered an underspend of £9m in year. This has been largely achieved due to the receipt of additional COVID-19 funding, strong budgetary control and the delivery of £7.5m of savings against an original target of £8.9m. The surplus generated has been transferred to various reserves to enhance financial sustainability. The largest element (£3.3m) has been transferred to the General Fund Reserve. The Council's draft financial statements report that the revenue reserves have increased from £112m to £146m.

3. VFM - our procedures and conclusions

Risk of significant weakness	Procedures undertaken	Conclusion and outcome
Financial Sustainability (continued)		As part of the financial planning process the Council reviewed and updated the key assumptions that underpin the medium term financial plan. The key assumptions that drive the budget gap over the medium term are: • Pay increases (1% for 2021/22, 1.5% for 2022/23, and 2.0% for 2023/24; • Pension Costs – have been revised in line with the most recent revaluation; • Interest Rates – Estimated average interest of 0.1% per annum for treasury management; • Capital Spending – an allowance has been made to fund borrowing costs for new schemes; • MTFP assumes that the Business Rates reset occurs in 2022/23; • Funding Review – Future years assume a neutral impact of the review of business rates (other than the reset) and Fairer Funding; • Social Care Grant – assumes that this grant continues at 2021/22 levels of £17.96m; • Council Tax - increases in tax base of 0.5% in 2022/23 and 1% 2023/24 with a 2.99% increase in the Band D charge; and • Adult Social Care Precept – no further increases have been factored in beyond 2021/22 Band D charge. There remains uncertainty over core funding due to the fair funding review being pushed back by a further year. We have reviewed the assumptions used by the Council in setting the medium-term financial plan and, based on the evidence available, and in comparison to other Council's and these appear to be reasonable. The Council continues to review and adjust assumption in real time and has recently reviewed and updated these assumptions as part of the October 2021 budget report. The 2021/22 quarter 2 budget report is currently reporting an underspend of £3.0m. However, this is the position after the use of contingencies. Overspends on services are currently being reported as £2m. The Council are currently forecasting the use of £5m contingency. The 2021/22 budget included a further £7m of savings. At month six £3.2m have been delivered and a further £2.1m are assessed as being achievable – the remaining £1.7m are at risk of not being delivered either in full or in part. Like all public sector bodies, the Council continues to face financial challenge and uncertainty over the medium term, albeit they are well placed to respond to the uncertainty that the delay of the fair funding deal presents. Despite this challenge, we have not identified any risks of significant weaknesses in arrangements as part of our work on financial sustainability. The Council have delivered an in-year surplus and have built up their useable reserves. The Council have clearly identified the budget gap over the medium term and have made progress in addressing this.

3. VFM - our procedures and conclusions

Risk of significant weakness	Procedures undertaken	Conclusion and outcome
Local Government (LG) re-organisation and the 'One Somerset' The Council have just come out of a period of consultation regarding the future structure of local government in Somerset with a decision on the future of any reorganisation due in the summer of 2021. Whilst we do not feel there is a significant risk of weakness in arrangements at this stage, this does represent a potentially significant change that going forward will impact on all aspects of our VFM work. We will therefore actively monitor progress and review links to the Council's financial planning and governance	In response and at the time of producing our AFR we have: • Discussed progress with senior officers, and • Reviewed reporting and arrangements in place.	We set out in our audit plan that we would actively monitor progress with Local Government Reorganisation and furthermore review the links to financial planning and governance. It is clear that considerable work has been undertaken by the Council prior to, and during the eight week consultation process which began on 22 February 2021. There were two original proposals: • 'One Somerset' – which proposed moving the current five Councils into one unitary, and • 'Stronger Somerset' – which proposed moving the current five Councils to two unitaries, with shared services and alternative delivery model for children's services and a combined authority. Throughout the process there is evidence of: • regular reporting to ensure members and stakeholder were kept informed, • wider consultation and engagement with various stakeholders regarding the business case (this continues following approval), • commissioning experts to inform and challenge the process, • commissioning LG futures to estimate a medium-term budget for 'One Somerset', and • engaging with Councils that have experienced LG reorganisation to glean lessons learned. The 'One Somerset' proposal was approved on 21 July 2021 with a target implementation date of April 2023. Since this date work has continued, as has the regular reporting to members. The change order is expected imminently and final sign off is due to take place in Parliament in February 2022. A Joint Committee (JC) has been established to oversee the implementation process. This will meet monthly, with its first meeting having taken place on 5 November 2021. The JC is chaired by the Leader of Somerset County Council and there are representatives from each of the districts and includes five County Councillors. The Leader and the Cabinet will, however, maintain overall responsibility for implementation. At the first meeting the JC approved the allocation of the £16.5m implementation costs and to agree the governance structures.

3. VFM - our procedures and conclusions

Risk of significant weakness	Procedures undertaken	Conclusion and outcome
Local Government (LG) re-organisation and the 'One Somerset'		The key elements of the proposed governance structure and processes that have been put in place are: • named budget holders for each of the areas of cost, • monthly reporting to board, • approval of all budget virements by the board, • an overall programme board is in place which includes each of the Chief Executives, • a project steering group, and • a scrutiny function is currently being established. We have reviewed the business plan at a high level and have challenged officers around the data included within it. In particular the proposed costs for the implementation of £16.5m and the forecast savings over five years of £52m. The costs are clearly set out within the business plan. Whilst these costs are supported by detailed work and contain an element of contingency it is essential that these are accurately monitored and reported to ensure they do not escalate and stay in line with the business plan. The business plan also sets out expected savings of £52m. These are based on the work of LG Futures (a specialist public sector consultancy company) , supported by detailed analysis and benchmarking against savings generated as part of other similar reorganisations. Again, it is crucial that these savings are monitored and reported so that they can be clearly measured against the original business plan. Work is currently underway to profile these savings. Whilst there are areas of uncertainty, financially it is clear that there are significant reserves across all authorities, with in excess of £140m. This provides some base line financial resilience. The Council has however, undertaken further analysis to ensure that the new unitary at the outset is financially sustainable. This has included analysis of each the merging organisations balance sheets, reserves and capital health. There is a general level of uncertainty around local government funding and bringing together five organisations increases this uncertainty. It is therefore critical that as 2022/23 budgets are pulled together that the joint medium-term position is fully understood. Based on our review and the work undertaken to date, we have not noted any risks of material weakness in arrangements. However, due to the significance of this reorganisation and the potential impact on both financial sustainability and service delivery and performance, this will remain an area of focus as arrangements evolve. We have made the following recommendation: • We recommend that the savings generated from re-organisation are clearly monitored and reported alongside the costs. This is to ensure that both the costs and benefits are delivered in line with the business plan. Furthermore, we recommend that as part of the 2022/23 budget setting process that the joint medium term financial challenge be explored and fully understood.

3. VFM - our procedures and conclusions

Risk of significant weakness	Procedures undertaken	Conclusion and outcome
Children's Services (SEND) In April 2020 Ofsted wrote to the Council raising concerns around the implementation of SEND reforms. The key concerns were around the speed of implementation, capacity and joint commissioning. At the planning stage we have concluded that there is a significant risk of weakness in arrangements. In response to this risk we will follow up progress against the concerns raised.	In response and at the time of producing our AFR we have: • Reviewed the approved written statement of action, and • Reviewed progress to addressing each of the agreed priority areas.	Our work has identified that the Council has taken positive action to address the concerns raised by Ofsted. Following the inspection report a working group was established with the CCG. A written statement of action was produced which set out the nine priority areas of focus. This written statement was approved by Ofsted in November 2020. Our work has highlighted that positive action has been taken in each of the priority areas and this is openly and transparently set out on the Council's website. Progress is also monitored externally by DfE and the NHS on a quarterly basis. Based on our review we have not identified any risks of significant weakness in arrangements.

4. Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Transparency report 2020 (grantthornton.co.uk)

4. Independence and ethics

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	Fees £	Threats identified	Safeguards
Certification of Teachers Pension Return	5,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £5,000 in comparison to the total fee for the audit of £126,752 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self review (because GT provides audit services)	To mitigate against the self review threat, the timing of certification work is done after or towards the completion of the audit. Total contributions are £19.9m compared to our materiality level of £13.5m so the likelihood of material errors arising is low. The Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
Contract Assurance Review	29,750	Self-Interest (because this is a recurring fee)	This is not considered a significant threat as the fee for this work is not significant in comparison to the total Somerset audit fee income (£29,750 vs £126,752). The work has now been completed and is not a recurring fee nor was it contingent. The output report captured factual events and was not judgemental. The work was performed by a team totally separate to the engagement team.

These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. None of the services provided are subject to contingent fees.

Appendices

A. Action plan – Audit of Financial Statements

We have identified 8 recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2021/22 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Issue and risk	Recommendations
The Council are currently working towards Local Government Re-organisation under 'One Somerset'. As part of the business planning process costs and benefits have been identified. It is crucial that progress against these are monitored to fully understand progress against the original business plan and understand where differences might arise.	We recommend that the savings generated from re-organisation are clearly monitored and reported alongside the costs. This is to ensure that both the costs and benefits are delivered in line with the business plan. Furthermore, we recommend that as part of the 2022/23 budget setting process that the joint medium term financial challenge be explored and fully understood. **Management response** The Council will ensure the savings generated from re-organisation are clearly monitored and reported alongside the costs.
Our IT review identified two control deficiencies. These are: 1 - Inappropriate segregation of duties as developers have access to the production environment, and 2 - Segregation of duty conflicts within SAP. Users with excessive privileged access rights within SAP , increases the risk of these elevated privileges being used to make unauthorised changes to the application, business processes or user accounts by over-riding internal system controls, which could lead to fraud and/or financial misstatement.	We recommend that the Council review access rights and segregation of duties. **Management response** The Council will review access rights and segregation of duties.
Our work on journals identified a number of other considerations that whilst are not deficiencies within the Council arrangements, are areas we believe that the Council should consider and take action. These are: • there are a large number (125) of people that have access to and are able to process journals; • the number of journals processed is high (7,500 journals including nearly 480,000 individual journal lines) • the value of journals processed is large at £9.2bn.	The use of journals should be reviewed so that only a limited number of people are authorised to process journals. The regular use of journals should also be reviewed to identify whether there are alternative ways to ensure that transactions are allocated to the correct general ledger codes in the first instance without the need for a subsequent journal transaction. This will reduce the risk of management over-ride through the inappropriate use of journals or an error in the journal transaction. **Management response** The Council will carry out a review of journals, to identify whether the number of journals can be reduced. We will also review the number of people with access to journals, to determine whether the number of people granted access.

A. Action plan – Audit of Financial Statements

Issue and risk	Recommendations
Our testing identified 3 assets that had been included on the revaluation schedule that had not been revalued. The revenue implications of this for these 3 items was trivial, however, without controls in place to detect this, there is a risk of material misstatement. As part of our auditors expert's work they identified that the valuer has not included the overall total valuation figure in an applicable currency within the main body of the valuation certificate. Although the values are included for each element in each individual appendix, the legislation outlines that the figure should be included within the report	We recommend that the Council review the information provided by their valuer to ensure that assets included reconcile to the assets scheduled for revaluation under the rolling programme. We further recommend that the valuer ensures that the overall valuation figure is included at the front of their report. Management response We have reviewed procedures and the format in which the valuation information is produced, and changes have been agreed between the finance and valuation teams which will address this issue. Going forward, the overall valuation figure will be included at the front of the valuer's report.
As part of our testing on PPE valuations, we have identified discrepancies in the floor area for many of the sampled assets when comparing the floor area used by the valuer to the floor area as per CAD drawings and authority records. The valuer has indicated that these differences are likely due to extensions being built post valuation. As a result we have included these differences within our unadjusted misstatements. The valuer has also stated there is a de-minimus in which they are not informed about certain extensions where they are not sufficiently large. This increases the risk of material misstatement.	We recommend that a more robust review be undertaken of the floor areas for assets held by the Council at the balance sheet to ensure that all additions to the floor areas are included with the valuation schedules. Management response Discrepancies between the floor areas of assets at the valuation date and the live data held in the authority's property records system are explained by post-valuation adaptions or extensions. To improve the evidence provided to substantiate floor area calculations at the valuation date, we will take a snapshot record of the live data at the point of valuation.
Within the PPE section of our report we set out that valuations were undertaken using building indices as at December 2020. We have compared these to the indices as at 31 March 2021 and have noted a potential difference of £2.054m (£5.747m extrapolated) in the overall depreciated replacement cost (DRC) assets as at the balance sheet date. We did note that the areas that have the largest impact are schools and swimming pools due to the number held and the large floor area.	We recommend that particular attention be placed on reviewing these asset types at the year end, as this is where the largest impact is likely to be. Management response The review process is in place and a greater emphasis will be placed on reviewing larger assets / asset classes, for example schools and swimming pools.
As part of our work on the PPE valuations, we found that the client were not able to provide the source data for the BCIS indices used as at the date of the valuation. The valuers were only able to provide the data as at the time of the audit due to it being a 'Live System'.	We recommend that the valuers maintain appropriate records of this data so that it can be easily evidenced during the time of the audit. Management response Screenshots or equivalent records will be maintained going forward to provide evidence of the BCIS indices used at the time of valuation.
We have reported that depreciation on infrastructure assets is not calculated in line with the Code requirements. This increases the risk of misstatement. Currently the Council calculate this on a weighted average life for each asset class.	We recommend that the Council reviews its depreciation policy for calculating depreciation on infrastructure assets. Management response The depreciation policy and calculation will be amended to ensure compliance with Code requirements.

B. Follow up of prior year recommendations

We identified the following issues in the audit of Somerset County Council's 2019/20 financial statements, which resulted in 3 recommendations being reported in our 2019/20 Audit Findings report. We have followed up on the implementation of our recommendations and note that work is still required against one.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	When undertaking the valuation of land and buildings, it was identified that the Council were unable to support the valuation of external structures with a value of £32m within the accounts. There is a risk that these have been materially misstated and therefore a material adjustment may be required to the balance sheet. We recommended that management should ensure that valuations are based on appropriate indices that can be supported through robust appropriate audit evidence and that these are calculated accurately to reflect the appropriate values within the statement of accounts	Whilst we have identified no issues as part of our 2020/21 procedures in relation to the use of indices, we have identified two issues in relation to asset valuations, in particular: - Evidencing of floor areas, and - Inclusion on assets not subject to revaluation on the asset valuation schedule. Please see our detailed work against the Property, Plant and Equipment significant risk.
✓	The Council had mistakenly classified some proceeds as a deposit and hence did not dispose of the corresponding asset. The Council undertook an exercise to identify any other affected assets which resulted in £910k of assets being identified where the asset was overstated with a corresponding loss on disposals. We recommended that the council should ensure that all disposals are appropriately categorised and reflected accurately within the statement of accounts.	Our procedures in 2020/21 have identified no issues in relation to the disposal of assets. Furthermore, the Council have undertaken a data cleansing exercise to ensure the property data base reconciles to the fixed asset register. This exercise identified £5.081m of assets that had been disposed of in previous years. The Council have adjusted this in the 2020/21 financial statements.
✓	A review of accruals for major capital projects identified that mid month project accruals had been incorrectly calculated and did not take account of the accrual spanning two financial years. This has led to an understatement of accruals in 2019/20 of £1.7m. We recommended that management should ensure that there is a consistent approach to accruals methodology that is used by all service lines that are required to carry out the year end exercise. This should be reflected in the disclosures within the statement of accounts.	Our procedures in 2020/21 have identified no issues in relation to capital accruals.

Assessment

✓ Action completed

X Not yet addressed

C. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

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Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2021.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Our testing identified 3 assets that were included on the revaluation schedule, but had not been revalued. Whilst the revenue implications of this are trivial, the total asset values are £9.511m. The revaluation table supporting note 24 has therefore been updated to reclassify the £9.511m to the years where each asset was last revalued.	N/A	N/A	N/A
The Council have netted off an overdraft of £13.318m from the cash balances disclosed in the balance sheet. The Code requires that the overdraft is reported separately as an amount owing. There is no overall impact on the balance sheet for this adjustment.	N/A	Dr – Cash £13.318m Cr – Creditors £13.318m	N/A
As part of clarifying the relationships with the LEP, it was noted that for the growing places fund that this was an agency relationship. Where this is the case the Council are required to account for balance sheet transactions and cashflows. The Council incorrectly excluded £7m cash balances from its balance sheet. The Council have adjusted this by increase cash and offsetting this through and increased creditor.	N/A	Dr – overdraft liability £6.713m Cr Creditors – £6.713m	N/A
As part of our testing of grants, and in particular note 22, we identified £4.758 of grants that we misclassified. These have been adjusted by the Council. There is no impact on the overall value of grants.	N/A	N/A	N/A
Overall impact	**N/A**	**£0**	**N/A**

C. Audit Adjustments

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Adjusted?
Note 5 (events after the balance sheet) of the financial statements was updated to include reference to the approved LG reorganisation.	✓
The revaluation table supporting note 24 has been updated to remove assets held for sale of £1.1m. This is to ensure that the table agrees back to the detailed Property Plant and Equipment note.	✓
In discussion with management it was agreed that a number of amendments would be made to note 3 (critical judgements). These are: • adding values to the disclosure to better illustrate their critical nature, • clarifying the nature of the relationship within the better care fund, • Clarifying the relationships within each of the streams within the LEP disclosure, e.g agent or principal (see also adjusted misstatements) • Removal of critical judgements points 6-8, as it was agreed these were not critical judgements.	✓
Note 33 has been amended to split out the £6.798m between MRP of £3.182m and other £3.616m. This is so that it is clear how much MRP has been charged.	✓
Within the investments note (note 34) there were £147m of investments disclosed as 'own short term investments'. The code requires that where there are material items within 'other' balances, that they be separately disclosed. The three material transactions within this balance are now separately disclosed.	✓
The Movement in Reserves statement has been updated to show total general fund reserves.	✓
During the course of the audit a number of small disclosure amendments were made to the financial statements. These have not been reported separately due to their insignificant nature.	✓

C. Audit Adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2020/21 audit which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Our testing of Land and Buildings identified several floor area discrepancies in the assets sampled. In total the errors identified represents a potential understatement of the asset values of 1,701,794. This value extrapolated comes to a 5,905,742 understatement.	(5,906)	5,906	(5,906)	Not material and value extrapolated
Our testing of Land and Buildings has revealed that for asset components classed as abnormal, the Council are unable to evidence these assets. The total value of these is 3.143m. This therefore has the potential to overstate the land and buildings. The current valuations are based on the valuers judgement. We would expect these to be revalued in a similar way to other assets using floor areas and building costs.	3,143	(3,143)	3,143	Not material
Our review identified that the depreciation for infrastructure assets is not calculated on a componentised basis, rather the assets are depreciated as a whole. The Code requires that this is calculated at a component level (para 4.1.2.43). In order to satisfy ourselves that the depreciation charge is not materially misstated, we have performed a recalculation. The last time that infrastructure was depreciated on a component level was in 2015-16. We have therefore applied the same apportionment basis to the current year infrastructure assets (as the data is not available) and using the useful lives for each component we have recalculated the depreciation charge. This work has identified a potential understatement of depreciation totalling £8.449m. As depreciation is potentially understated this consequently means that the value of infrastructure assets is overstated by the same amount.	8,449	(8,449)	8,449	Not material
We also noted that the valuer has used building indices as at December 2020. We have compared these to the indices as at 31 March 2021, for our sample of 40 assets, and have noted a potential difference of £2.054m (extrapolated £5.747m) in the overall depreciated replacement cost (DRC) assets as at the balance sheet date. We are therefore satisfied that using the December 2020 indices does not lead to a material misstatement. This potentially understates the asset values.	(5,747)	5,747	(5,747)	Not material and value extrapolated
Overall impact	(61)	61	(61)	

C. Audit Adjustments

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2019/20 financial statements

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Testing of disposed assets identified proceeds in relation to an asset had been incorrectly classified as a deposit rather than a disposal. This should have been recognised as a loss on disposal	910	(910)	910	Not material
Within the valuation of buildings it was identified that indexation of external factors could not be supported and that a revaluation exercise for all externals was required. This has led to an overstatement in the value of assets.	3,958	(3,958)	3,958	Not material
A review of accruals for major capital projects identified that mid month project accruals had been incorrectly calculated and did not take account of the accrual spanning two financial years. This has led to an understatement of accruals in 2019/20	(1,671)	1,671	(1,671)	Not material
Testing identified extensions built onto school assets that had not been included within the valuation assumptions leading to an understatement	(4,799)	4,799	(4,799)	Not material and this figure is an extrapolation
BCIS Testing of externals identified one error in relation to prelims and OH&P valued on hard informal areas, which resulted in an understatement of externals.	(1,292)	1,292	(1,292)	Not material
Overall impact	(£2,894)	£2,894	£2,894	

D. Fees

We confirm below our final fees charged for the audit and provision of non-audit services.

Audit fees	Proposed fee	Final fee
Council Audit	£126,752	£126,752
Total audit fees (excluding VAT)	£126,752	£126,752

The fees reconcile to the financial statements:

- Audit fee as set out in our Audit Plan £126,752.
- Audit fee as disclosed in note 20 to the financial statements - £127,000.

The difference is due to rounding.

Non-audit fees for other services	Proposed fee	Final fee
Certification of Teachers Pension Return (1)	5,000	5,000
Contract Assurance Review	29,750	29,750
Total non-audit fees (excluding VAT)	**£34,750**	**£34,750**

(1) The amount disclosed within note 20 of the draft financial statements for audit related services is £1,000. This has been amended in the final set of financial statements to show the correct value of £5,000.

(2) The contract assurance work was commenced in the 2019/20, with the final bill for the work being raised in April 2020. As this service related to work undertaken in the 2019/20 financial year the Council correctly accrued the full value of the work in that year. This can be seen in the 2019/20 prior year comparators in note 20. We have reported the fee in the 2020/21 Audit Findings report as this was the financial year in which the final bill was raised.

E. Audit opinion

Our audit opinion is included below. We anticipate we will provide the Council with an unmodified audit report.

Independent auditor's report to the members of Somerset County Council

Report on the Audit of the Financial Statements

Opinion on financial statements

We have audited the financial statements of Somerset County Council (the 'Authority') for the year ended 31 March 2021, which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, and the notes to the financial statements, including a summary of significant accounting policies. The notes to the financial statements include the EFA, Notes to the Core Statements and Policies and Judgements. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2021 and of its expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Director of Finance and Governance's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Authority to cease to continue as a going concern.

In our evaluation of the Director of Finance and Governance's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21 that the Authority's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority and the Authority's disclosures over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Director of Finance and Governance's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

The responsibilities of the Director of Finance and Governance with respect to going concern are described in the 'Responsibilities of the Authority, the Director of Finance and Governance and Those Charged with Governance for the financial statements' section of this report.

E. Audit opinion

Other information

The Director of Finance and Governance is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the financial statements, and our auditor's report thereon and our auditor's report on the pension fund financial statements. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office in April 2020 on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with 'delivering good governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matters required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority, the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Director of Finance and Governance and Those Charged with Governance for the financial statements

As explained in the Statement of 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 Director of Finance and Governance. The Director of Finance and Governance is responsible for the preparation of the Director of Finance and Governance, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, for being satisfied that they give a true and fair view, and for such internal control as the Director of Finance and Governance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Director of Finance and Governance is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Audit Committee is Those Charged with Governance. Those Charged with Governance are responsible for overseeing the Authority's financial reporting process.

E. Audit opinion

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Authority and determined that the most significant, which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015 and the Local Government Act 2003).
- We enquired of senior officers and the Audit Committee, concerning the Authority's policies and procedures relating to:

- the identification, evaluation and compliance with laws and regulations;

- the detection and response to the risks of fraud; and

- the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.

- We enquired of senior officers, internal audit and the Audit Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Authority's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to journals, accounting estimates and critical judgements made by management.
- Our audit procedures involved:

- evaluation of the design effectiveness of controls that the Director of Finance and Governance has in place to prevent and detect fraud;

- journal entry testing, with a focus on management override of controls;

- challenging assumptions and judgements made by management in its significant accounting estimates in respect of land and buildings, investment property and defined benefit pensions liability valuations;

- assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.

- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to land and buildings, and defined benefit pensions liability valuations.
- Assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's.

- understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation

- knowledge of the local government sector

- understanding of the legal and regulatory requirements specific to the Authority including:

E. Audit opinion

- the provisions of the applicable legislation

- guidance issued by CIPFA/LASAAC and SOLACE

- the applicable statutory provisions.

- In assessing the potential risks of material misstatement, we obtained an understanding of:

- the Authority's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.

- the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

Report on other legal and regulatory requirements – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Matter on which we are required to report by exception – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

Our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources is not yet complete. The outcome of our work will be reported in our commentary on the Authority's arrangements in our Auditor's Annual Report. If we identify any significant weaknesses in these arrangements, these will be reported by exception in a further auditor's report. We are satisfied that this work does not have a material effect on our opinion on the financial statements for the year ended 31 March 2021.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We undertake our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in April 2021. This guidance sets out the arrangements that fall within the scope of 'proper arrangements'. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

- Financial sustainability: how the Authority plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

We document our understanding of the arrangements the Authority has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and commentary in our Auditor's Annual Report. In undertaking our work, we consider whether there is evidence to suggest that there are significant weaknesses in arrangements.

Report on other legal and regulatory requirements – Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate for Somerset County Council for the year ended 31 March 2021 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed:

- our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources and issued our Auditor's Annual Report'
- the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2021.

We are satisfied that this work does not have a material effect on the financial statements.

E. Audit opinion

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Barrie Morris, Key Audit Partner

for and on behalf of Grant Thornton UK LLP, Local Auditor

Bristol

Date:

F. Management Letter of Representation

Grant Thornton UK LLP

2 Glass Wharf

Temple Quay

Bristol

BS2 0EL

25 November 2021

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Dear Sirs

Somerset County Council

Financial Statements for the year ended 31 March 2021

This representation letter is provided in connection with the audit of the financial statements of Somerset County Council for the year ended 31 March 2021 for the purpose of expressing an opinion as to whether the Council financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards, and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

i. We have fulfilled our responsibilities for the preparation of the Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

ii. We have complied with the requirements of all statutory directions affecting the Council and these matters have been appropriately reflected and disclosed in the financial statements.

iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. We understand our responsibilities includes identifying and considering alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the estimate used. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.

vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.

vii. Except as disclosed in the financial statements:

a. there are no unrecorded liabilities, actual or contingent

b. none of the assets of the Council has been assigned, pledged or mortgaged

c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The Council's financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

xi. The financial statements are free of material misstatements, including omissions.

F. Management Letter of Representation

xii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

xiii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

xiv. We have updated our going concern assessment and cashflow forecasts in light of the Covid-19 pandemic. We continue to believe that the Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that :

a. the nature of the Council means that, notwithstanding any intention to liquidate the Council or cease its operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements

b. the financial reporting framework permits the entry to prepare its financial statements on the basis of the presumption set out under a) above; and

c. the Council's system of internal control has not identified any events or conditions relevant to going concern.

xv. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements

Information Provided

xvi. We have provided you with:

a. access to all information of which we are aware that is relevant to the preparation of the Council's financial statements such as records, documentation and other matters;

b. additional information that you have requested from us for the purpose of your audit; and

c. access to persons within the Council via remote arrangements, in compliance with the nationally specified social distancing requirements established by the government in response to the Covid-19 pandemic. from whom you determined it necessary to obtain audit evidence.

xvii. We have communicated to you all deficiencies in internal control of which management is aware.

xviii. All transactions have been recorded in the accounting records and are reflected in the financial statements.

xix. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

xx. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council and involves:

a. management;

b. employees who have significant roles in internal control; or

c. others where the fraud could have a material effect on the financial statements.

xxi. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

xxii. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xxiii. We have disclosed to you the identity of the Council's related parties and all the related party relationships and transactions of which we are aware.

xxiv. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement

xxv. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Report

xxvi. The disclosures within the Narrative Report fairly reflect our understanding of the Council's financial and operating performance over the period covered by the Council's financial statements.

Approval

The approval of this letter of representation was minuted by the Council's Audit Committee at its meeting on 25 November 2021.

G. Audit letter in respect of delayed VFM work

Chair of Audit Committee
Somerset County Council
County Hall
The Crescent
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TA1 4DY

Grant Thornton UK LLP
2 Glass Wharf
Temple Quay
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5 November 2021

Dear Audit Committee Chair

Under the 2020 Code of Audit Practice, for relevant authorities other than local NHS bodies we are required to issue our Auditor's Annual Report no later than 30 September or, where this is not possible, issue an audit letter setting out the reasons for delay.

As a result of the ongoing pandemic, and the impact it has had on both preparers and auditors of accounts to complete their work as quickly as would normally be expected, the National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation.

As a result, we have therefore not yet issued our Auditor's Annual Report, including our commentary on arrangements to secure value for money. We now expect to publish our report no later than 31 January 2022.

For the purposes of compliance with the 2020 Code, this letter constitutes the required audit letter explaining the reasons for delay.

Yours faithfully

Barrie Morris

Director

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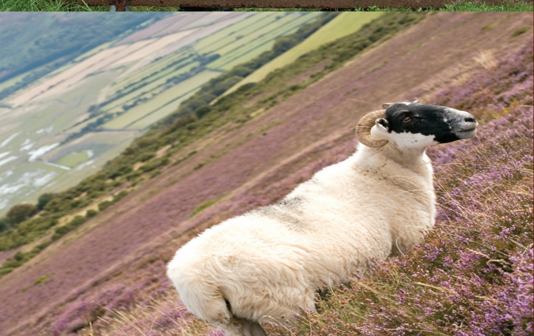
Somerset County Council

Statement of Accounts 2020/21

Accounts for Approval



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

County Hall, Taunton, Somerset TA1 4DY

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SOMERSET
County Council

Contents

Director of Finance’s Narrative Report

1. Introduction

This narrative report highlights some of the most important matters reported in the accounts and comments on the Council’s financial performance and its economy, efficiency, and effectiveness in its use of resources over the financial year.

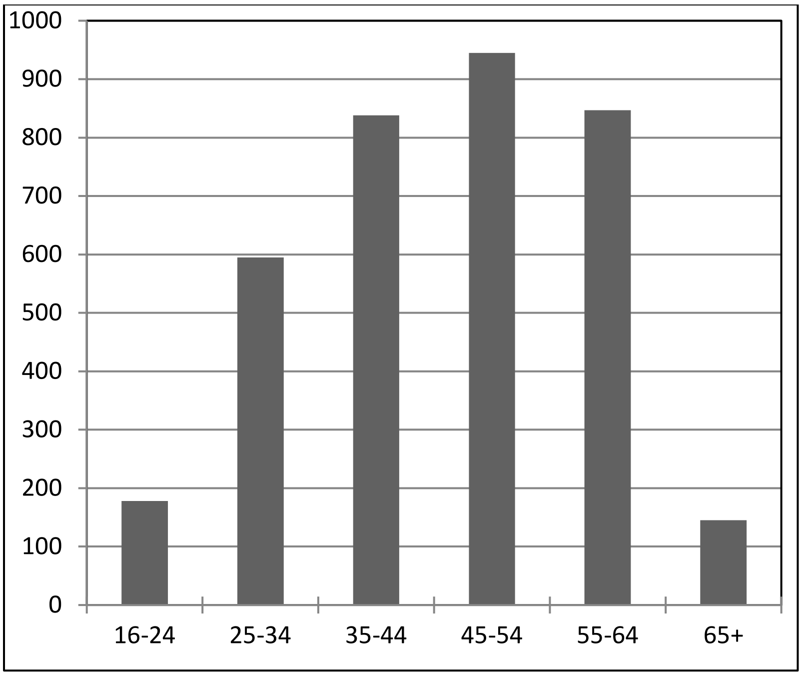
2. Somerset Context

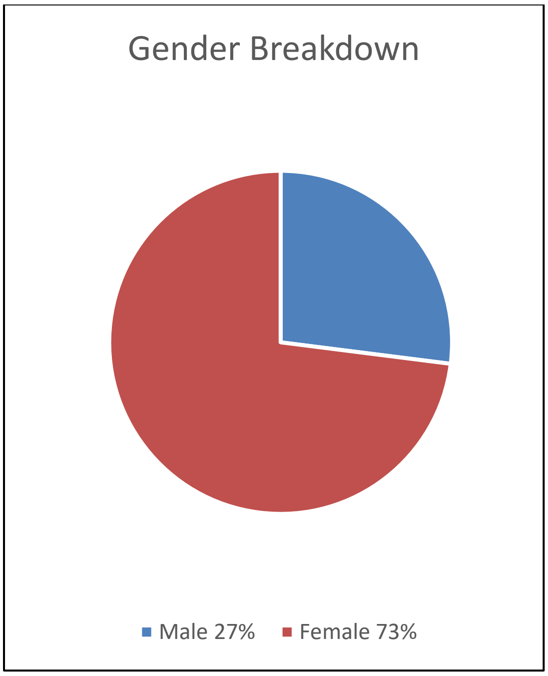
Somerset is a beautiful county with many assets including a strong and significant heritage and vast areas of countryside and moors. Somerset’s population is classified as around 50% urban/town, and 50% rural, making it one of the ten most rural counties in England. One third of people live in one of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

The population of Somerset is approximately 562,000 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. Nearly 90% of the population growth since 2011 has been in the 65 and over age group. Somerset’s employment rate remains higher than the national level (77.1% compared to 75.4%) with 79.7% of Somerset’s residents aged 16-64 being classified as economically active. This is marginally higher than the national average of 79.1% although average annual earnings in Somerset consistently lag behind the UK level.

3. People Context

Somerset County Council employed 3,548 people in full and part time contracts on 31st March 2021. Employees are a valued significant resource within the Council and employee’s costs account for 30% of the total gross expenditure. The Council’s workforce profile can be seen in the charts below.





4. 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 2020/21

The Council is made up of 55 elected councillors. The political make-up of the Council during 2020/21 was:

- Conservative Party – 33 councillors
- Liberal Democrat – 14 councillors
- Labour – 3 councillors
- Independent Group – 2 councillors
- Green Party – 2 councillors
- Independent – 1 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.

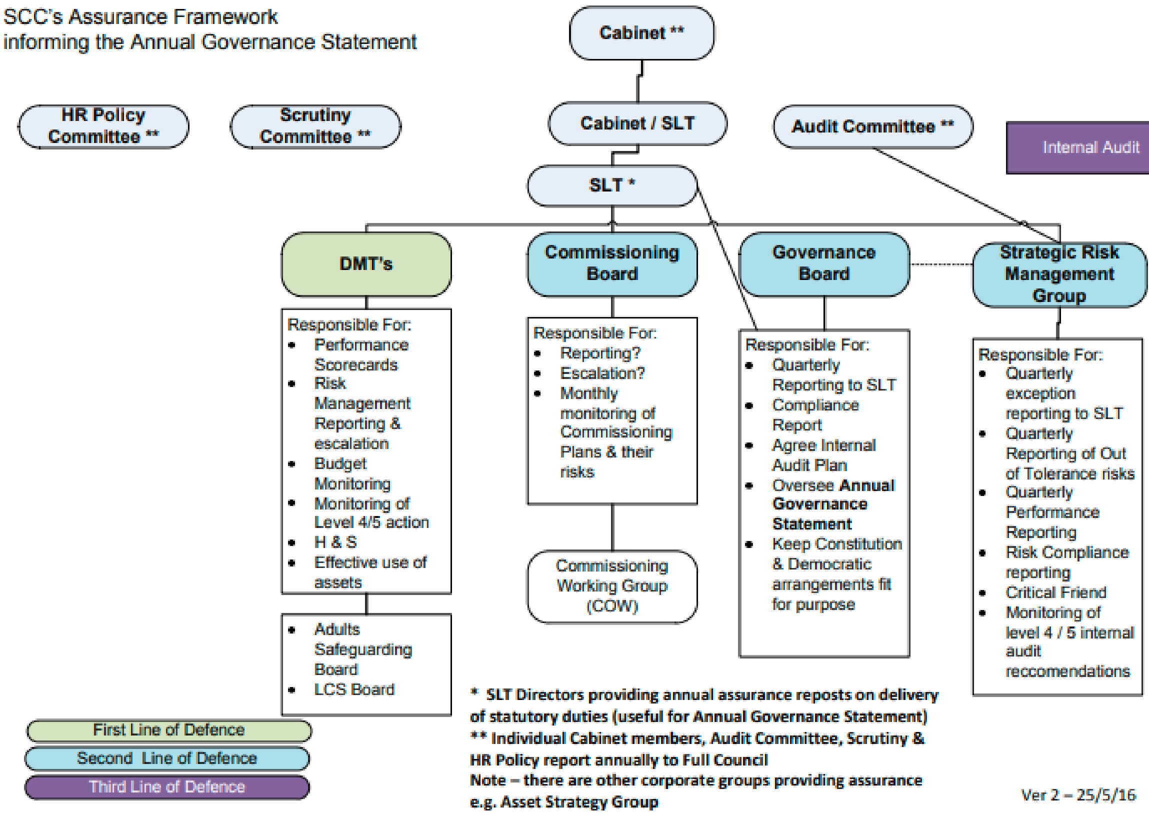
Chief Officer Structure

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
- Asset Strategy Group
- Strategic Risk Management Group
- Infrastructure Board

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. The following diagram shows the relationship of these Boards and a summary of their functions:



Further details of the governance arrangements in place during 2020/21 can be found in the Annual Governance Statement.

5. The County Council Vision

The Council's Vision is all about improving lives by creating:

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

Business Plan

The Council's Business Plan explained how it would work towards this Vision over a three-year period. The Business Plan contained four strategic outcomes that showed what the Council would focus on to deliver its Vision and improve lives. Beneath each strategic outcome sat four key priorities and a range of activities. By lining up these activities, priorities and strategic outcomes with the Vision the Council was able to plan-ahead, monitor progress and above all ensure that it was working within its financial means. An updated Business Plan will be presented to Cabinet in July 2021.

Our Vision *'Improving Lives'*			
Outcome 1	Outcome 2	Outcome 3	Outcome 4
A county infrastructure that drives productivity, supports economic prosperity and sustainable public services	**Safe, vibrant and well-balanced communities able to enjoy and benefit from the natural environment**	**Fairer life chances and opportunity for all**	**Improved health and wellbeing and more people living healthy and independent lives for longer**
Key Priorities • Ensure that the Council is financially sustainable • Enable economic and housing growth • Create the climate for enterprise and innovation that businesses need to grow and collaborate. • Deliver the Heart of the South West Productivity Strategy and influence the local Industrial Strategy for the benefit of Somerset.	**Key Priorities** • Support development of stronger communities including working with them to increase their resilience and create the right conditions for them to thrive and help each other. • Work with partners and communities to protect and enhance the environment, manage our water better and produce less waste. • Make sure that Somerset remains a safe place to live, work and visit. • Support and promote enjoyment of Somerset's heritage, culture and natural environment	**Key Priorities** • Tackle inequalities and poor social mobility across Somerset so everyone can realise their potential and give more to our economy and society. • Maintain the Council's focus and commitment to make Somerset a place where all children are healthy, safe, and have good physical and emotional wellbeing. • Ensure all children in Somerset have access to high quality schools, high quality educational, professional and support services, teachers and leadership teams. • Equip Somerset's workforce of the future with the skills they need, and enable them to aspire and achieve in Somerset's economy.	**Key Priorities** • Explore, define and implement robust health and social care integration • Focus efforts on prevention and improving health and wellbeing outcomes, especially for those in greatest need. • Foster an environment which promotes healthier choices and support people to take responsibility for their own health and wellbeing. • Support people to remain independent and within their homes and communities, without formal social care support wherever possible and for as long as possible.
Meeting the Council's challenges: sustainability, quality and focus			

6. Performance for the year

The Corporate Performance report reflects the Council's ongoing progress towards the priorities laid out in the Business Plan. The measures used to support this report come from across the Council and are a subset of the measures monitored quarterly by Cabinet and the Senior Leadership Team. The report sets out the key activities and measures used to check the Council's performance for the year against the priorities it was working towards.

The report includes Key Performance Indicators (KPIs), where progress is assessed against targets and project updates. Performance is shown using Performance Ratings, progress is shown in terms of Direction of Performance (DOP) using arrows.

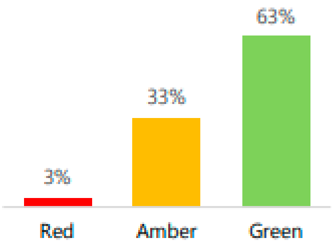
Performance Ratings	
G	Performance is on or exceeding target. Project is on target.
A	Performance is off target but within tolerance. Project requires attention.
R	Performance is off target and outside tolerance. Project is off target.
B	Metric discontinued. Project is closed.
Direction of Performance	
↑	Performance is improving. Project has achieved a milestone.
→	Performance is steady. Project is progressing.
↓	Performance is declining. Project has missed or at risk of missing milestones.

The following table shows the Council's progress, as at the 31st March 2021:

High level Summary

	RAG Rating			Direction of Performance*		
	G	A	R	↑	→	↓
A county infrastructure that drives productivity, supports economic prosperity and sustainable public services	6	2	1	1	1	0
Safe, vibrant and well-balanced communities able to enjoy and benefit from the natural environment	3	4	0	2	3	0
Fairer life chances and opportunity for all	1	3	0	1	2	0
Improved health and wellbeing and more people living healthy and independent lives for longer	9	0	0	5	2	1
Meeting the Council's challenges: sustainability, quality and focus	0	1	0	1	0	0
TOTAL	**19**	**10**	**1**	**10**	**8**	**1**

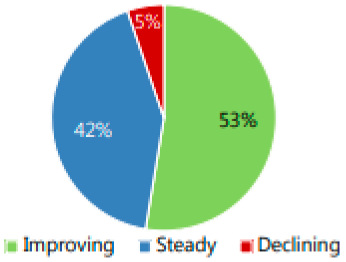
RAG Ratings



63%
of measures rated as on or exceeding target

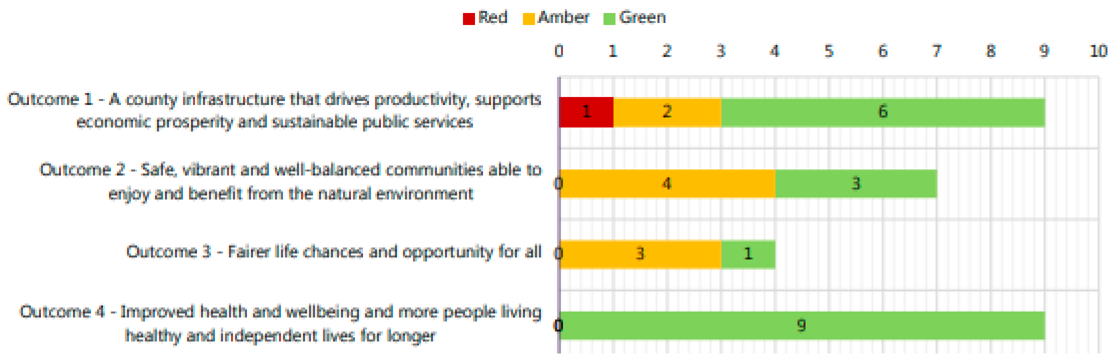
53%
of measures rated as improving

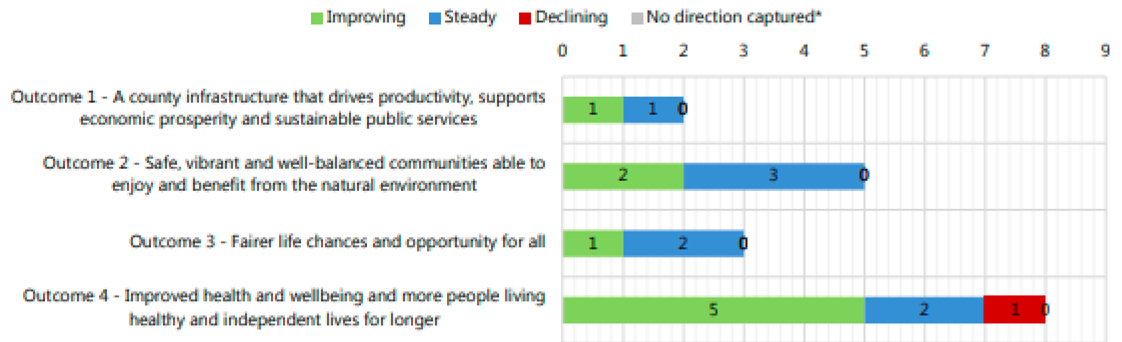
Direction of Performance



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

Summary by Vision Outcomes





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

7. Financial Context

There were no significant changes in funding mechanisms or responsibilities during 2020/21.

The Council's financial statements continue to be prepared on a going concern basis, on the assumption that the functions of the Council would continue in operational existence for the foreseeable future. Transfers of services under combinations of public sector bodies (such as local government reorganisation) does not negate the presumption of going concern.

The Council recognises the continuing need for improved public accountability and transparency through significantly strengthened financial reporting, in terms of frequency, quality and timeliness of reports to Cabinet, Audit Committee and Scrutiny meetings. This improved approach continued throughout 2020/21 and has helped the Council to improve its Value for Money rating. The 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.

8. Revenue spending in 2020/21

In February 2020, the Council agreed its budget for 2020/21 at £340.716 million and approved a band-D council tax of £1,289.20 which included an increase in Council Tax of 1.99%, an additional precept increase specifically for Adult Social Care of 2% and a precept to cover the responsibilities for the Somerset Rivers Authority of £12.84.

The following table shows the 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 net spend against revised budget

Service	2020/21 Total Revised Budget £millions	2020/21 Total Net Spend £millions	Difference £millions	Difference %
Adult Services	138.550	142.250	3.700	2.7
Childrens Services	92.273	89.620	-2.653	-2.9
Public Health	1.781	1.781	0.000	0.0
Economic & Community Infrastructure Services	73.643	68.625	-5.018	-6.8
Support Services & Trading Units	25.812	23.722	-2.090	-8.1
Accountable Bodies (LEP, SRA & CDS)	2.802	2.802	0.000	0.0
Schools	18.192	18.192	0.000	0.0
	353.053	**346.992**	**-6.061**	**-1.7**
Non-service items (costs such as bank charges that cannot be linked to a particular service) and Corporate Contingencies	-12.337	-14.403	-2.066	16.7
	340.716	**332.589**	**-8.127**	**-2.4**
Funded by:				
Revenue Support Grant	-6.100	-6.174	-0.074	1.2
Business Rates	-76.345	-77.160	-0.815	1.1
Council Tax	-258.271	-258.271	0.000	0.0
	-340.716	**-341.605**	**-0.889**	**0.3**
Total Outturn Surplus (-) / Deficit	**0.000**	**-9.016**	**-9.016**	**-2.6**

The Outturn surplus of £9.016m is also reported in Note 6, but as the classification of some Corporate Support Services are included in both Continuing Operations and the Provision of Services the total reported for resource management will be different from the figures in the table above. There is a similar difference with the Individual Schools Budget (ISB) figures reported in the table above as the Outturn position for ISB is not reported at Outturn (so excluded from Note 6).

The Covid-19 pandemic had a significant impact on the Council and its operations with some projects being delayed and completed in the new financial year. The underspend for the year was £9.016m (2.6%) with £1.961m of service budgets and £0.990m of Covid-19 funding carried forward to 2021/22 to complete projects started in 2020/21. General Reserves were boosted by £3.311m to increase overall financial resilience.

9. Capital spending in 2020/21

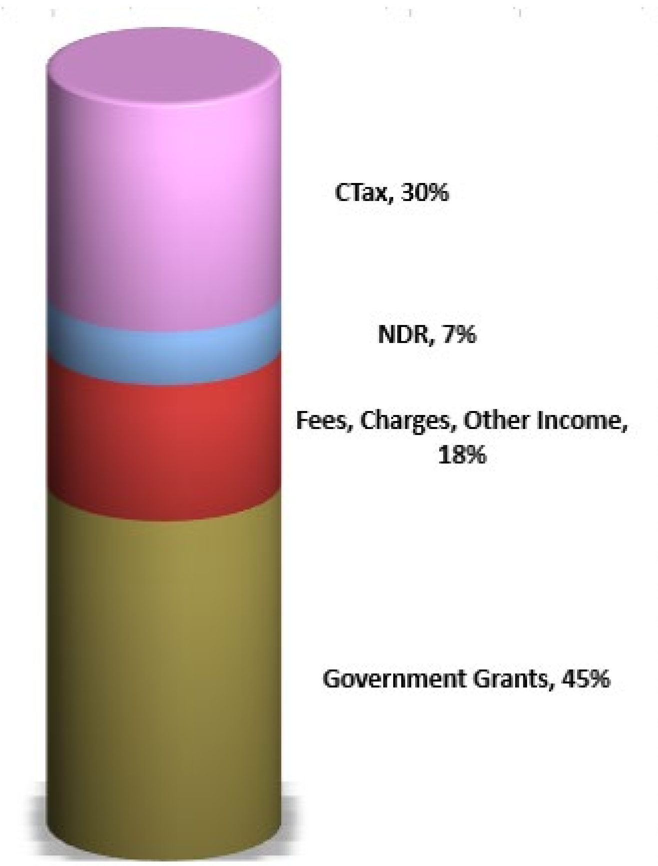
Alongside our day-to-day costs, the Council spends money on assets such as buildings, roads, vehicles and information and communications technology. This is capital spending. During 2020/21 our capital spending was £122.901m (£164.799m in 2019/20). The following table gives more detail on how we spent this money.

Table 2: Major Capital Schemes

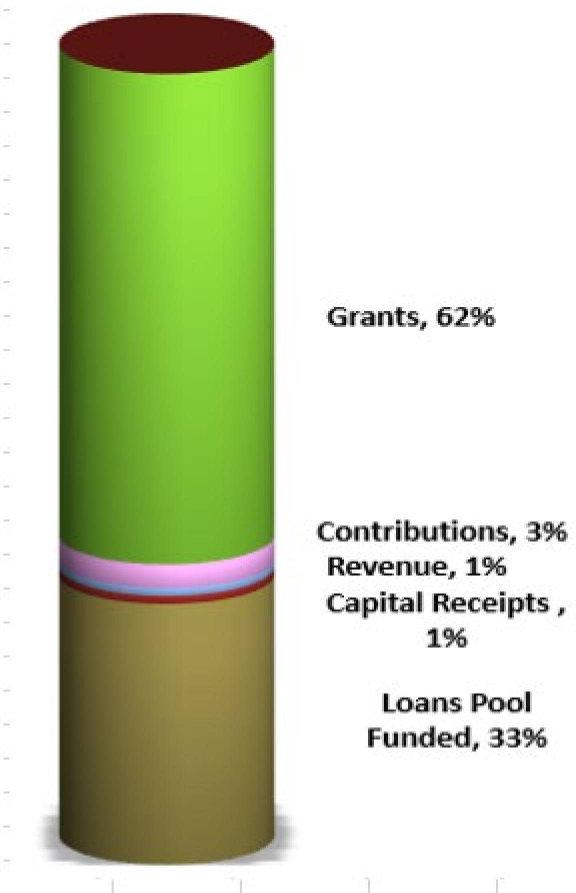
Scheme		2020/21 £millions	£millions
Economic Community and Infrastructure	Local Enterprise Partnership	24.551	
	Road Structures	21.375	
	M5 J25 Improvements	7.714	
	iAero Centre	4.031	
	Integrated Transport & Improvement Schemes	3.098	
	Somerset Energy Innovation Centres	2.588	
	Somerset Rivers Authority	2.572	
	Major Transport Projects	2.376	
	Bruton Enterprise Centre	1.473	
	Bridge Structures	1.175	
	Traffic Control & Management	1.104	
	Toneway Corridor Improvements	0.801	
	Taunton Digitial Innovation Centre	0.797	
	Fleet	0.746	
	Street Lighting	0.549	
	Rights of Way	0.447	
	Superfast Broadband	0.194	
	Other Projects	0.350	
			75.941
Children and Learning	Schools' Basic Need	31.516	
	Schools' Capital Repairs	3.262	
	General Education Provision	1.327	
	Early Years	0.902	
	Other School Projects	0.850	
	Other Children's Services	0.061	
			37.918
Somerset Waste Partnership	Depot Improvements	3.877	
	New Recycling Fleet	1.827	
			5.704
Support Services	ICT Investment & Development	0.913	
	A Block Priority Improvements	0.747	
	Other Projects	1.638	
			3.298
Learning Disabilities	Housing/ Assistive Technology	0.038	
	Other Projects	0.002	
			0.040
	Total Capital Spending		122.901

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 30% of our revenue funding needs.

Revenue



Capital



10. Borrowing facilities

Under the Prudential Code, the Council has set an authorised limit against which our external borrowing is monitored and managed. For 2020/21, the Operational Boundary was set at £595m (£457m for 2019/20). On 31 March 2021, the amount we owed was £351.5m (£353.5 m in 2019/20).

On 31 March 2020 £millions	Borrowing	On 31 March 2021 £millions
162.9	Public Works Loan Board (PWLB)	162.9
183.2	Other long-term loans	181.4
7.4	Other organisations investing in the Comfund	7.2
353.5		351.5

In line with accounting practice, the Council must show the 'fair value' of its loans. The fair value of the PWLB loan is £225.080m at 31 March 2021 (£211.525m at 31 March 2020). The fair value of the other long-term loans is £295.027m at 31 March 2021 (£295.865m at 31 March 2020).

During the year, the Council adopted a strategy to limit external borrowing and reduce the cost of borrowing through its Treasury Management activities, by utilising cash funds available rather than taking external debt. This is known as internal borrowing. The council has utilised this strategy over the past three years with the level of internal borrowing as at the 31 March 2021 being £48.2m.

11. Significant Assets & Liabilities

The Council has a strong Balance Sheet as at 31 March 2021 with the most significant Assets and Liabilities shown in the table below:

On 31 March 2020 £millions	Balance Sheet Extract	On 31 March 2021 £millions
945.1	Property, Plant & Equipment	985.0
127.3	Short Term Investments	155.2
44.9	Cash & Cash Equivalents	77.1
-346.1	Long term Borrowing	-344.3
-41.0	Long Term Liability - PFI/Lease	-39.9
-754.8	Long Term Liability - Pensions	-993.6
110.7	Usable Reserves	170.2
-203.1	Unusable Reserves	-468.8

Pension Liabilities

The Council has net future pension liabilities of £993.6m (£754.8m as at 31 March 2020) on an IAS19 basis. The Somerset County Pension Fund is formally valued every three years by an independent actuary to set future contribution rates. The most recent actuarial revaluation, as at 31 March 2019, assessed the funding level at 86% with a target funding level of 100%. Additional contributions were agreed at this valuation to restore the Fund to a funding position of 100% by no later than 31 March 2039.

When the Pension Fund is in deficit, it generates an interest cost which would not occur if it were fully funded. The Council's decision to make increased deficit recovery payments in recent years has significantly reduced both the overall pension fund deficit and the total interest payable by the Council to the Pension Fund.

Despite the Pension Fund's assets recovering well past their pre-pandemic highs, increasing by £249m in year from £946m to £1,195m, the overall deficit on an IAS19 basis grew. This is due to an increase in liabilities from £1,701m to £2,188m. The future value of pension liabilities is determined by the discount rate, which is based on the yield on investment grade corporate bonds. As the spread on corporate bonds has dramatically reduced, it has led to a decrease in the discount rate, which in turn increases the future value of liabilities.

Usable Reserves

On 31 March 2021, the Council had the following reserves available:

On 31 March 2020 £millions	Reserves	On 31 March 2021 £millions
	Revenue - SCC	
	General Fund	
19.7	General Reserves	19.7
6.4	Service Unearmarked Reserves	10.2
	Earmarked Reserves	
-	S31 Local Tax Income Guarantee Grant Reserve	10.1
69.5	Other revenue reserves which we have set aside	92.1
	Capital - SCC	
5.1	Capital reserves	9.9
4.0	Capital Grants/Contributions Unapplied Reserves	3.7
	Revenue - Schools	
17.1	Schools' carry-forward fund	24.5
-11.1	Dedicated Schools Grant	-
110.7		170.2

The Spending Review on 25 November 2020 announced that the Government would compensate local authorities for 75% of irrecoverable losses in Council Tax and Business Rates income expected in 2020-21 (the 'local tax income guarantee') due to the Covid-19 pandemic. This balance represents an estimation of the Authorities lost income payable under this guarantee, that was accrued at year-end. This grant is un-ringfenced and will be paid to the Council through Section 31 (S31) grant in 2021/22.

Under current collection fund accounting rules, the S31 grant receivable during 2020/21 will not be discharged against the Collection Fund deficit until 2021/22, This reserve is therefore not actually available but earmarked against the following year's collection fund deficit that will be charged to the Council when its transferred from the Collection Fund Adjustment Account in 2021/22.

This reserve has been disclosed separately from the other Earmarked Reserves to avoid overstating the Council's General Fund position. The General Fund Reserve has increased by £3.8m since last year and represents 8.8% of the 2020/21 budget. Although this has increased the Council needs to continue to operate within very strict financial limits as the County recovers from the Covid-19 pandemic and awaits the outcome of Local Government Reorganisation in Somerset. The budget report presented to Council in February 2021 outlined that as Director of Finance my conclusion was that the levels of earmarked and non-earmarked reserves were adequate and reasonable in meeting the Council's risks.

The Dedicated Schools Grant reserve (deficit) has been reclassified from 1st April 2020 (in line with new regulations), as an Unusable reserve. See Note 43 – Dedicated Schools Grant Adjustment Account for further details.

12. COVID-19 Pandemic Response

The overarching aim for the Council when responding to the Covid-19 pandemic has been 'to save life, mitigate the impact of the incident, prevent further harm and return to the new normality as quickly as possible'.

The infection rates in Somerset have been kept among the lowest in the country (with 19,958 cased detected as at 31 March 2021). Somerset has led the development of local contact tracing in the South West and has provided significant support to the local NHS vaccination programme. The Council has managed, through tireless support to workplaces, care homes, schools, households, and communities to minimise spread (dealing with 200 active incidents in total with a further 1,500 closed).

The Council's pandemic response was led by its Public Health Team, and some of the key achievements during 2020/21 were:

- Over 200,000 vaccinations offered in Somerset.
- Hundreds of Council staff being redeployed to work alongside the NHS and local communities.
- Playing a leading role in the Local Outbreak Management Plan, which included the provision of preventative and reactive infection control advice to workplaces, care settings, schools and local events, and a very successful outbreak testing programme; and
- Working with vulnerable groups to tackle inequality and support the vaccination programme.

The Council also developed a number of initiatives and support packages to help reduce the impact of the pandemic on vulnerable groups (such as vulnerable children and young people, and those in need of health and social care support). These initiatives included but was not limited to:

- Sourcing over 11 million pieces of Personal Protective Equipment (PPE) during a period of national shortage for allocation to the local community and care sector.
- Successfully recruiting additional care providers through the Proud to Care campaign.
- Providing £3m support to local care providers at the start of the pandemic to ensure their financial stability.
- Providing £2.1m support to Early Years settings to facilitate continued opening and sustainability.
- Adult Social Care investment in community networks to improve food distribution and community support.
- The provision of Social Workers in NHS Emergency Departments to help reduce admissions.
- Securing access to lateral flow testing for key internal and external staff carrying out face to face work including social care, nurseries, and residential homes providers.
- Engaging over 80 young people at risk of criminality or exploitation in summer holiday activities.
- Providing food vouchers to local schools to ensure vulnerable children had access to a decent meal during the school holidays.

- Maintaining a close relationship with partners to ensure contact with vulnerable children was retained, and
- Being the first South West Council to sign up to Unison's 'Stop the Spread' pledge.

To control the spread of the Covid-19 virus, protect the NHS and save lives the Government announced a series of national lockdowns in England during 2020/21 that involved the closure of all non-essential high street businesses. People were ordered to stay home and were only permitted to leave for essential purposes only. These lockdowns have had a significant on the local economy and employment market, so the Council has been actively working with local business to mitigate the impact and support the local economy. This response included but was not limited to:

- Providing redundancy support for businesses and individuals.
- Launching the 'Step Up Somerset' programme, an online employment and skills resource to support employment seekers.
- Targeted support for the local tourism sector especially hard hit by the pandemic.
- Introducing a 'Kick Start' scheme that successfully placed over 100 young people in local public sector organisations, and
- Working with the Libraries Service to provide access to digital devices, by sponsoring an expansion of the device loan scheme to support individuals with access to employment opportunities and training.

Financial Impact on the Council's 2020/21 Budgets

The financial impact of the pandemic has been felt across all local government. The impact on The Council has been three-fold:

- The Council has incurred additional expenditure in its response to the pandemic.
- The impact on the local economy has led to significant falls in income from sales, fees and charges; and
- Saving proposals have been delayed or are considered no longer deliverable.

The impact of the pandemic has been mitigated by the support provided to local authorities by Central Government. The most considerable of these was the general Covid-19 support grant funding and the Infection control grant. During 2020/21, the Council received grant funding and NHS/Other Local Authority contributions of £72m to support the pandemic response, with an additional £15.6m of funding available from the unspent Covid-19 support allocation received in 2019/20.

The use of this funding was closely monitored to ensure the funding was only used to support the pandemic response and details of how the Council has used the additional funding has been regularly reported to Government through a series of returns.

During 2020/21, £65m was spent by the Council in its Covid-19 response. The Council also reported a reduction in its budgeted Sales, Fees and Charges income of £5m as a direct result of the national lockdown restrictions (further details of the funding received and expenditure incurred during 2020/21 can be found in Note 1: Covid-19 Pandemic Response).

As at 31st March 2021, the Council reported unspent Covid-19 funding of £17.6m. These unspent allocations have been carried forward to future years as earmarked reserves (£6.8m) and receipts in advance (£10.8m) to fund the on-going impact of the pandemic. This has meant that the Council has been able to maintain a healthy level of reserves as at the end of this financial year. There were no material grants received by the Council during 2020/21 where the Council was acting as agent for the funding.

All the grant allocations payable to the Council during 2020/21 have been recognised in the accounts.

13. Other Developments & Priorities

Heart of the South West Local Enterprise Partnership

The Heart of the South West Local Enterprise Partnership (HoTSW LEP) is a business-led partnership between the private sector, local authorities, universities, and colleges, covering Devon, Plymouth, Somerset and Torbay. The HoTSW LEP plays a central role in deciding local economic priorities and undertaking activities to drive economic growth and create local jobs

As a result of the national Local Enterprise Partnership Review in 2018, all Local Enterprise Partnerships were required to have a single accountable body to manage funding, awarded by Government, in accordance with the Local Assurance Framework. Prior to 2020/21, the main funding streams for the HoTSW LEP had been awarded to the Council (Growth Deal) and Devon County Council (Growing Places Fund).

During 2020/21, the Council were appointed as the single accountable body for the HoTSW LEP, and the Growing Places Fund previously awarded to Devon County Council was transferred to the Council. Details of how the Council accounts for the HoTSW LEP funding allocations can be found in the Accounting Policies section of the accounts.

More information on the Heart of the South West LEP can be found on their website.

Future Funding

The UK Government has announced that the Fair Funding Review (FFR) and Business Rates Retention reset (BRR) will be implemented in April 2022, although consultations and further details around this are yet to emerge. Council officers will continue to work with the Government on informing the approach to funding for the next financial year and beyond.

Local Government Reorganisation

One Somerset is Somerset County Council's ambition to replace the County's five existing councils with a single unitary model. The Council has submitted its business case for the unitary proposal, having been invited to submit its proposal by the Secretary of State for Housing, Communities and Local Government.

Mendip District Council, Sedgemoor District Council, Somerset West & Taunton Council and South Somerset District Council have also submitted a joint proposal (referred to as Stronger Somerset) for two unitary councils covering the whole of the area of the administrative county of Somerset County; one unitary council in the west comprising the current districts of Sedgemoor and Somerset West & Taunton and the other in the east comprising the current districts of Mendip and South Somerset in the east.

Both proposals were reviewed by the Secretary of State, and his decision was to approve the One Somerset bid. It is planned that the shadow authority will be implemented by May 2022 and the new Council in place by April 2023. SCC has approved a budget of £3.2m for implementation costs in 2021/22. A total of £16.5m is outlined in the business case for one off transitional costs resulting in £18.5m annual savings from the one unitary proposal.

The Statement of Accounts

The annual Statement of Accounts sets out a summary of our financial affairs for 2020/21 and shows our financial position as at 31 March 2021. It includes the following statements and accounts:

- Comprehensive Income and Expenditure Statement.
- Movement in Reserves Statement.
- Balance Sheet.
- Cash Flow statement.
- 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 Government have reviewed and updated the timetable for the production and audit of accounts. The Council is required to produce and publish its accounts by 31 July for the 2020/21 and 2021/22 financial years, and made available for public inspection. The external auditor should complete their work by 30th September 2021, however, Grant Thornton have already indicated that this is very unlikely to be met, and it is planned that these accounts will be approved by the Audit Committee at their meeting on 18th November 2021. The delay has arisen due to the impact of Covid-19 on both the complexity of the audit and pace at which it can be completed, and the increased assurance work that auditors are required to carry out nationally with respect to pensions and asset valuations.

The Council will make these accounts available for public inspection (from 26 July to 3 September 2021) so that people who pay Council Tax and rates, and other members of the public, can ask the auditor any questions. This is a legal requirement, but my department will answer questions from anyone with an interest at any time. These accounts will be approved by our Audit Committee on 18th November 2021.

J. C. Vaughan

Jason Vaughan FCCA, CPFA, IRRV (Hons)
Director of Finance
(Chief Financial Officer)
25th November 2021

Statement of Responsibilities

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

Somerset County Council's Responsibilities

The Council 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 Council, that officer is the Chief Financial Officer.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- Approve the Statement of Accounts.

The Chief Financial Officer's Responsibilities

The Chief Financial Officer is responsible for the preparation of the Council'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; and
- Complied with the Local Authority Code.

The Chief Financial Officer has also:

- Kept proper accounting records which were up to date; and
- 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 2021 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)

25th November 2021

Independent Auditor's Report

to the Members of Somerset County Council

The audit report will appear here.

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 2021

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 exceptional last year globally, nationally and locally together with the significant opportunities for Somerset through Local Government Reorganisation, we will ensure our arrangements remain effective in 2021-22 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 2021, complied with its Governance Code and the requirements of the Accounts and Audit (England) Regulations 2015. 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 2021-22 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'.

The Council's Governance Responsibilities

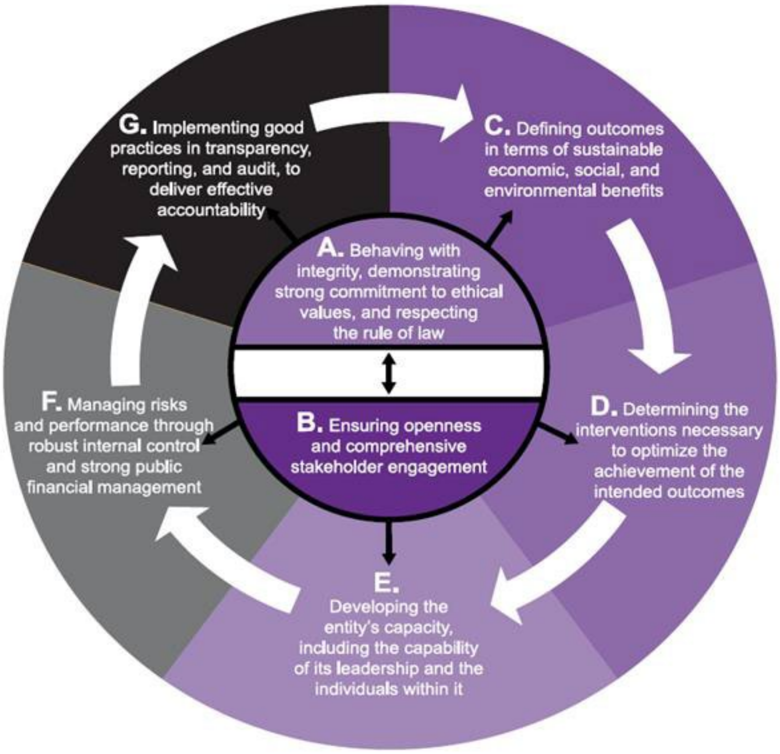
The Council is responsible for ensuring it conducts its business in accordance with the law and to proper standards and that public money is properly accounted for and is used economically, efficiently and effectively. It also has a duty to continuously improve the way that it functions, having regard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



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. Despite the exceptional year with many challenges for public services, our internal auditors have confirmed continued improvement and assurance with our governance framework and systems. 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.

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.

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'

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
- CIPFA FM Code
- 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 and procedures
- Audit, Scrutiny 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 and Strategic Manager's internal control assurance
- Anti-fraud and corruption annual report
- Scrutiny Reviews
- Reviews commissioned by management
- Annual review of Constitution, Schemes of Delegation & Contract Procedures
- Peer Reviews
- Ongoing review by Governance Board of Corporate Governance and areas for improvement
- Governance Code and Framework review

Opportunities for Improvement
- Health & Safety
- Sustaining robust ICT infrastructure

Annual Governance Statement

GOVERNANCE FRAMEWORK

Governance Review & Assurance

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 (updated at Full Council in May 2019) and is scheduled for refresh in summer 2021. 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 the strategic outcomes that show what the Council will focus on to deliver its Vision and improve lives. Beneath each strategic outcome sits the key priorities to deliver those outcomes and a range of associated 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.

Covid 19 - governance

The impact of the coronavirus pandemic has been felt by all organisations in the UK and the Council is no exception, being a significant employer, service provider and community leader in the county. This section summarises the impacts on key areas of the Council's functions. It should be noted that while the Council has experienced significant disruption to its day-to-day operations, the review has highlighted the effectiveness of its governance arrangements in providing a robust foundation for its response to the pandemic and this continues. The Council maintains a strong focus on business continuity and emergency planning, including learning from experience of managing major incidents and participating in national and local planning exercises. The Council reviewed its business continuity arrangements as part of the ongoing uncertainty up to and following the UK's exit from the European Union.

There has been significant impact on pre-coronavirus ways of working and service delivery. This has included a move from office-based working to home working where possible, closure of public buildings and facilities such as libraries and recycling centres, temporary closure of services such as day care and re-enablement services. The Council moved rapidly to staff working at home where possible and refocused people management activity to address the challenges of new ways of working. ICT security requirements were strengthened as staff working at home moved to VPN infrastructure. Policies and procedures have been adapted to respond to changing needs. Some planned work has not progressed, including some planned internal audit work.

In terms of democratic arrangements, our meetings began to be cancelled from late March 2020. On 28 March 2020 the Leader of the Council and the Chief Executive made a decision to put in place emergency decision making arrangements and to postpone and call no further member meetings up to mid May 2020 to protect the health of members, officers and the public. The Local Authorities and Police and Crime Panels (Coronavirus) (Flexibility of Local Authority and Police and Crime Panel Meetings) (England and Wales) Regulations were laid before Parliament in early April, following which the Council held its first virtual committee meetings from 13 May 2020. 'Virtual' internet-based meetings were established for all committees and school admission appeals and these continued throughout 2020/21.

The Council is a Category 1 responder under the Civil Contingencies Act 2004 and has been an active and standing participant in the county's multi-agency response partnership (chaired by Avon & Somerset Police). A Multi-Agency tactical group chaired by the Council and with members drawn from all district councils, CCG and NHS, Fire, Police, Waste Board and specific services including representatives from Children's services was held throughout the pandemic to coordinate the response across Somerset. Various "cells" were set up to ensure appropriate response was in place with the Council chairing a number of these including the Vulnerable People and Communities Cell that coordinated food, medical support and other help was on hand for those who needed it. The Council's contact centre took a role in pulling together a single point of contact for Somerset residents with the Coronavirus helpline that has taken a total of 13,000 calls. The Council was also represented on the Somerset Foundation Trust operated Somerset Vaccination Board. More than 1000 council staff volunteered to be part of the redeployment effort to support our communities and strategic partners. Around 500 staff were used in the end, running contact track and tracing operations, setting up vaccination hubs, running test sites, and working alongside community volunteers to ensure those shielding were fully supported.

Throughout the majority of 2020/21, the Senior Leadership Team met twice weekly to manage the council's emergency response, maintain delivery of core services and prioritise resources accordingly. Regular position statements and updates were provided to elected members and reported to Cabinet meetings and other committees, including the formation of a new Member Engagement Board with partner representatives.

The Council reviewed and improved arrangements for officer decision making in 2019 and these have stood the Council in good stead in the response and early recovery periods of the coronavirus major incident. There is provision in the Constitution for the Chief Executive to take urgent decisions and for the Leader of the Council to take decisions that would otherwise have been taken by Cabinet or Cabinet Members.

Assessment of financial impacts of coronavirus Coronavirus related costs have been regularly undertaken by the Section 151 Officer and reported to SLT and Cabinet meetings. Arrangements have been put in place to identify increased costs and lost income as a result of the coronavirus. The Council has received over £75 million through 15 different funding streams from various Government Departments to help fund the Council's coronavirus response and new responsibilities. There is robust monitoring arrangements in place with monthly reporting to MHCLG on the financial impact of the coronavirus. The Finance team has been working closely with Senior Managers in preparing the forecasts for MHCLG. The Director of Finance continues to closely monitor the impact of the pandemic on the Council's budget both in the current year and upon the Medium-Term Financial Plan. There is recognition that the impact of the coronavirus can mean an ever-changing situation and the monthly financial reporting to Scrutiny and Cabinet have been effective in supporting the council through an exceptional year.

Assessment of the longer-term disruption and consequences arising from the coronavirus pandemic have been assessed as part of the Council's response and this will inform planning during the recovery phase. The Council established a Recovery Board during 2020 to drive its recovery response. This has included consideration of impacts relating to:

- Service delivery
- Finances
- Staff resourcing and capacity
- Staff well being
- Relationships with other bodies and partnerships

A Somerset Economic Recovery plan was developed with partners and agreed by all five local councils. Multi agency arrangements to manage the recovery phase are in progress. A new coronavirus Corporate Risk has been added to the Corporate Risk Register and it is anticipated that this risk will remain on the corporate register for some time, in the context of the prolonged nature of this incident and anticipated longer term disruption. Directors are updating service risk assessments as part of recovery work whilst also recognising that some services are still in the response phase. There were additional health and safety and ICT requirements which required ongoing reflection and review to ensure appropriate controls and measures were in place. Our focus as part of the recovery work is to ensure commissioned services remain fit for purpose; that markets are developed and procurement is refocused in alignment with the Council's future needs. This includes the likelihood of a long-term need for significant procurement activity in relation to PPE in order the safeguard the Council's social care services and workforce.

Supporting Somerset's economy

Covid 19 and the associated public health restrictions placed upon social and economic activities have had a significant impact on the Somerset economy in the last year. Overall, Somerset's economy is likely to have shrunk by more than 10% during 2020 and is unlikely to return to pre-Covid levels until at least 2022. The number of individuals claiming out of work benefits has risen by over 100% in the last year, and more than 100,000 people in Somerset have had to rely on support from either the coronavirus job retention scheme (commonly known as the furlough programme) or the self-employment income support scheme. Correspondingly, businesses have been hit hard, especially those in the most vulnerable sectors such as retail, hospitality, wholesale and manufacturing. Covid 19 has accelerated economic changes, including precipitating company closures with impacts on particular localities and widened existing inequalities. In April of 2021, early results from 2021 Somerset Business Survey revealed that 72.4% of businesses achieved 50% or less of their normal turnover in the last 12 months, whilst 80.2% achieved 50% or less of their normal profitability.

Somerset County Council has played a leadership role in addressing these unprecedented challenges, while also working closely with a wide range of partners to support businesses, individuals and communities. As an anchor institution in the local economy, SCC has recognised the importance of acting responsively with our many contractors and suppliers. During the past year we have adopted a flexible approach to their contractual requirements, supporting their resilience in the face of operating restrictions and financial difficulties. Working with the Somerset Chamber and the Federation of Small Businesses (FSB) SCC has also taken steps to maximise opportunities for local contractors to compete for minor work schemes in our capital programme and thereby mitigate the impacts of the construction downturn resulting from Covid 19. As we emerge from the pandemic we are building on these relationships, including through a recent webinar hosted by the Chamber and FSB about doing business with SCC which attracted 100+ attendees. Similarly, as an anchor employer, to support young people whose employment prospects have been hard hit in the past year we are providing a significant range of work placements under the Government's Youth Kickstart programme and extending our own graduate recruitment programme.

From the first Covid 19 lockdown in March 2020 we convened, as part of our multi agency response mechanisms, a business response cell comprising senior representatives from all five Somerset local authorities, the Heart of the South West Local Enterprise Partnership and Growth Hub and business representative organisations. The cell's work has included ensuring joined up communications to businesses about support available, including during the roll-out of the Government's financial support packages, building and sharing intelligence about local economic impacts, including conducting a business survey in Autumn 2020 and refreshed in Spring 2021 (1,000+ businesses in both stages), ensuring that Covid responsible operating messages are widely accessible to local businesses and collaborative planning for high streets reopening and receiving visitors as restrictions have been lifted. In addition, the cell has overseen decisions about repurposing of funds from the Somerset local authorities business rates retention pilots to resource support for response measures in the Somerset visitor economy and labour market.

In the past year there has been a sequence of significant redundancy announcements by Somerset businesses, with the economic consequences of Covid 19 a factor in a number of cases. Somerset County Council co-ordinated the development of a multi-agency response protocol ensuring that an effective response to major redundancies, with clearly defined roles across organisations so that we can best work with and support the business undergoing change and the consequent impacts for its workforce and the wider community. Examples have included the response to the closure of Oscar Meyer (with the loss of circa 800 jobs and of the two main employers in the Somerset market town of Chard) and the response to the impacts for Taunton of the demise of Debenhams (where in addition to the store this includes the closure of its national financial administration centre).

In addition to responding to the immediate economic impacts of Covid 19 we have recognised the imperative of developing a plan for ultimate recovery in the county post Covid 19. The Somerset recovery and growth plan was adopted by Somerset County Council (and Somerset's District Councils) in January 2021 and has been highlighted by the Local Government Association as a case study of good practice. Details of the study can be found on the LGA website. The County Council has successfully secured resources in the past year to progress actions identified in the plan from a range of sources including the Government's Getting Building Fund, European Structural Funds, DWP and from private sector sources including EDF Energy.

Alongside recovery from the impacts of Covid 19 on Somerset's economy Somerset County Council has continued to focus in the past year on the longer-term issues and opportunities for the Somerset economy that pre-dated the pandemic. These include raising the productivity of the local economy, transition to a zero-carbon economy and changing workforce and skills requirements. We have completed the construction of the Somerset Energy Innovation Centre campus in Bridgwater and the iAero Centre in Yeovil – developments funded by the County Council and Growth Deal funds. We have also secured Getting Building Fund investment in a Digital Innovation Centre in Taunton and for light industrial units at Bruton Enterprise Centre. Working with the LEP, Bristol University, Nuclear South West and Somerset District Councils we jointly prepared and submitted an expression of interest in March 2021 to the UKAEA for the UK's fusion demonstrator plant to be located at the Hinkley Point site in Somerset. If we succeed in securing the site for this national demonstrator this will further strengthen our long-term positioning as a leading area in the UK's clean energy sector.

Safeguarding vulnerable adults and children

Safeguarding Adults

Safeguarding means protecting an adult's right to live in safety, free from abuse and neglect. It is about people and organisations working together to prevent and stop both the risks and experience of abuse or neglect, whilst at the same time making sure that the adult's wellbeing is promoted.

The aims of adult safeguarding are to:

- Prevent harm and reduce the risk of abuse or neglect to adults with care and support needs
- Stop abuse or neglect wherever possible
- Safeguard adults in a way that supports them in making choices and having control about how
- they want to live

The Somerset Safeguarding Adults Board (SSAB) is a multi-agency partnership, independently chaired, which became statutory under the Care Act 2014 from 1st April 2015. The role of the Board is to assure itself that local safeguarding arrangements and partner organisations act to help and protect adults in its area.

The Boards' main objective is to assure itself that local safeguarding arrangements and partner organisations act to help and protect people aged 18 and over in the area who:

- have needs for care and support; and
- are experiencing, or at risk of, abuse or neglect; and
- as a result of their care and support needs) are unable to protect themselves from either the risk of, or experience of, abuse or neglect.

The Board has a strategic role that is greater than the sum of the operational duties of the core partners, overseeing and leading adult safeguarding across the county and interested in a range of matters contributing to the prevention of abuse and neglect. The Board does not work in isolation, nor is it solely responsible for all safeguarding arrangements. The Board's website promotes local adult safeguarding policy, practice and resources: https://ssab.safeguardingsomerset.org.uk/

Somerset County Council has the lead role for adult safeguarding in Somerset, which it primarily discharges through its dedicated Adult Safeguarding Service. The number of safeguarding concerns raised with SCC in 2020/21 was 2,776. Of these concerns, 878 progressed to a Statutory Section 42 Safeguarding Enquiry whilst the remaining contacts would have received a different outcome - this could have been a quality assurance response, an assessment of needs or a review, for example. In 2020/21, where a risk was identified, in 97% of cases the risk was reduced or removed. When an individual was asked and expressed a desired outcome from the safeguarding intervention, 99.6% of outcomes were either fully or partially achieved and 0.4% were not achieved, this being an improvement in practice and recording compared to 2019/20. Each year, the Local Authority submits an statutory return as part of the Safeguarding Adults Collection (SAC) which records details about safeguarding activity for adults aged 18 and over in England, reported to, or identified by, Councils with Adult Social Services Responsibilities, the collection includes demographic information about the adults at risk and details of the incidents that have been alleged

To provide governance and oversight of the standard of practice in the Service, quality assurance audits are undertaken both internally and as part of the SSAB's Quality Assurance subgroup. The Adult Social Care service introduced system wide quality audits from September 2019, with Safeguarding Triage and Enquires being discrete areas for audit. The feedback from these audits has been positive, as has the learning, to develop and further enhance the service delivered. The Somerset Safeguarding Adults Board has 'Listening and Learning' as a key overarching Strategic Plan priority, and places specific emphasis on the need to encourage and actively seek feedback from people who experience adult safeguarding and their carers. Consequently, the Council's Adult Safeguarding Service have been working with Healthwatch to devise a way to capture service user feedback and launched 3 x feedback forms (directed at anyone who has recently received support from the Adult Safeguarding Service) in May 2021.

Safeguarding Children

Somerset Safeguarding Children's Partnership (SSCP)

The new safeguarding arrangements for children set out in 'Working Together to Safeguard Children (2018)' took effect in September 2019. The safeguarding lead responsibility is now shared between the three statutory partners: Somerset County Council, Avon and Somerset Constabulary, and Somerset Clinical Commissioning Group with a strong commitment to shared and equitable leadership of the new arrangements. A Youth Forum has also been established to enable young people to hold the three statutory partners to account during an annual conversation.
This year there has been a continued focus on the four priorities of early help, multi-agency safeguarding, neglect as well as child exploitation. The SSCP is consolidating what is working well, and addressing areas needing further improvement to ensure that the partnership is effective as possible in safeguarding children. There has been a national and local focus on the identification of vulnerabilities in the pre-birth and post-natal period, as well as a focus on adolescents with complex circumstances and needs. [Out of routine: A review of sudden unexpected death in infancy (SUDI)']. Details of which can be found on the Governments asset publishing service website

The Somerset Safeguarding Children Partnership has also been pleased to confirm the appointment of an Independent Scrutineer, effective as of January 2020, who has supported the partnership's activities over the last year, particularly during the challenging lockdown periods.

There is regional activity across the Avon and Somerset Constabulary area to support provision of wider independent scrutiny. It is planned to develop a pool of scrutineers across the region and develop regional approaches to common concerns such as County Lines activity.

Multi agency audits have continued across the partnership where areas that need to be tested arise. In addition, the partnership has invested in a post to support data collection and analysis to support the scrutiny and assurance function of the partnership. The statutory Section 11 audit of the efficacy of safeguarding arrangements within partner agencies was completed at the end of 2020 with no significant concerns. The findings will be tested during 2021-2022.

The Somerset Safeguarding Children Partnership has commissioned two local Child Safeguarding Practice Reviews in response to serous incident notifications. The changes required following the learning from these reviews have already been implemented, and the reviews will be published in 2021.

Details of the SSCP Structure are available on request.

Corporate Parenting Board

In order to thrive, children and young people have certain key needs that good parents generally meet. The corporate parenting principles set out Seven Principles (identified in section 1 of the Children and Social Work Act 2017) that local authorities must have regard to when exercising their functions in relation to looked after children and young people.

The role of the Somerset Corporate Parenting Board is to ensure that Somerset County Council, together with the four District Councils, fulfil their duties towards children looked after (CLA), corporately and in partnership with other statutory agencies, including the NHS and Police. The existing Corporate Parenting Strategy and Terms of Reference (TOR), including membership, of the Corporate Parenting Board were agreed by Council in 2017.

The focus of the Corporate Parenting Board is on the delivery of five priorities covering placement sufficiency and stability, education, health, voice of the child and leaving care through well-established sub-groups with good cross agency working, led by a senior officer, and supported by a Councillor from the Board. Additionally, the key area of foster carer development is led by the council's fostering service. Action owners on the groups take responsibility for issues to deliver solutions within deadlines.

These priorities are monitored through the Corporate Parenting Board annual action plan and reported on quarterly. The Annual Report is received at Full Council. Highlights of improvements and progress for 2020/21 as follows:

- Improved performance through the new Health dashboard
- Improved communications around quality and timeliness of Initial Health Assessments (IHAs)
- Increased area provision for IHAs and Adoption Medical Reviews

Special Educational Needs and Disabilities (SEND)

The Written Statement of Action (WSoA) for SEND was approved for publication by Inspectors on 30th November 2020 and was published on 1st December. The full WSoA is available on the Local Offer website. It is highly ambitious but must be in order to address the shortcomings in the system and to improve the offer for children and young people with SEND, and their families. Somerset County Council shares responsibility for delivering the Written Statement of Action with NHS Somerset CCG.

The WSoA is monitored monthly through the SEND Improvement Board (SIB) comprising members from across the local area. The SIB was refreshed in July 2020, both in terms of its membership and work, to be certain we focused on improvement against the priority areas. We did this to gather regular feedback from young people and families and to ensure effective challenge and collective responsibilities by all members. In addition, the local area has implemented a Children's Executive Group (CEG) to allow speedy joint resource allocation, decision-making and issue resolution to facilitate delivery of WSoA. Terms of reference and monitoring reports presented to the SIB are published on the Local Offer website.

The WSoA contains nine Improvement Priority (IP) areas linked to the nine areas of weakness identified. Each IP area has a responsible lead from different parts of the system who reports on the progress of their area and any linked work cutting across the WSoA.

Both CEG and SIB receive a monthly report on progress against the Written Statement of Action. An annual report on SEND is provided to the Health and Wellbeing Board. There are also regular updates to the Early Help Board.

There have been eleven SIB meetings since the inspection. The Board continues to reflect on the lived experience of young people and families and provide challenge to the Programme in ensuring this is used to inform planning for improvement. The Board also receives regular reports from member providers who share their perspective on improvement progress and current challenges – latest reports reflect better communications across the partners and early signs that services are beginning to work together better as a system.

The Children's Executive Group continues to meet regularly to provide direction, support and challenge to priority leads, acting as the point of escalation for resolving partnership delivery challenges, and is supporting better joint commissioning for the local area.

The local area has recently commissioned an independent audit to assess the progress made by the CCG and partners to develop its governance structures for partnership working and joint commissioning. It will also assess the progress made to address the actions required to improve the provision to support children with Special Education Needs and Disability (SEND), following the Statement of Action and funding in place.

This will identify areas of good practice in partnership working, so that learning is incorporated into other joint working arrangements.

Details of the SEND Governance structure are available on request.

Local Government Reorganisation

Over the last twelve months the Council has developed the One Somerset business case for a single unitary council to replace the current county council and four district councils. This case sets out how the proposal will meet the three tests set by the Secretary of State:

1. To improve local government in the county
2. To have a credible geography of between 300,000 and 600,000 population
3. To command a good deal of local support ‘in the round’

The proposal includes detailed financial modelling demonstrating implementation costs and revenue savings to be delivered as well as engagement, research and consultation with residents and businesses throughout the county. It sets out innovative proposals to place communities at the heart of the new arrangements, including devolution to town and parish councils who have been engaged closely throughout the last year.

Both proposals were reviewed by the Secretary of State, and his decision was to approve the One Somerset business case. It is planned that Parliament will approve a Structural Changes Order by March 2022 head of elections in May 2022 and the vesting date of the unitary council on 1 April 2023. SCC has approved a budget of £3.2m for implementation costs in 2021/22. A total of £16.5m is outlined in the business case for one off transitional cost resulting in £18.5m annual savings from the one unitary council proposal.

Managing Risk

The management of risk is vital for the Council to achieve the objectives set out in the Council Plan. Risk management is an integral part of good governance which the Council is committed to. The management of a risk pathway policy document provides a systematic approach that enables the Council to manage uncertainties within in a framework that is uniformed, guided and supportive.

It involves an ongoing process to identify risks, assign ownership and the identification of controls to manage risks to an acceptable level.

The Council's strategic risks are identified by senior management with the support of the risk manager. These, together with the significant risks to planning and delivering services, are recorded in the Council's risk management system.

The strategic risks are regularly reviewed by the risk manager, senior management and by Audit Committee who seek assurance that, as far as reasonably practical, the controls mitigate the risks efficiently, effectively, and economically. Strategic Risk Management Group also review the Strategic risks at least once a year to support the risk owner and escalate if required.

Risk implications in decision making are the responsibility of those requesting change and those approving the decisions. Considerations and mitigations of the risks are required to be acknowledged in the relevant documents to ensure that the Council's financial, legal and moral commitments are met.

The Covid-19 pandemic of 2020, which is on-going, saw additional risks identified across the whole of the Council. The recovery phase of the emergency was activated in autumn 2020, this phase highlighted additional risks to the recovery of the Council and Somerset as a County.

Strategic Risks 2020-21

- Safe-guarding Children - The Council fails to deliver its statutory service delivery duties and legal obligations in relation to vulnerable children.
- Organisational Resilience - Without the minimum level of capacity and resource, the resilience of the organisation is compromised.
- External influences - Impact on commissioning and results in the Council not achieving the outcomes it seeks.
- Partnership working - Strategic programmes which provide both opportunities and challenges for current and future partnership working.
- Managing and monitoring of supply chains - Markets do not provide optimum value for money and income generation.
- Covid-19 Pandemic effect on supplier - Supplier disruption across all services in demand and sustainability of supplier financial standing.
- Sustainable Medium Term Financial Plan- The ability to set future balanced budgets and build resilience through reserves to be able to deliver the Councils priorities.
- Maintain a balanced budget in 2020/21- The Council is unable to manage within the financial resources available during the year.
- Climate change - The Council fails to take action to mitigate and adapt to Climate Change.
- Uncertainty around Local Government Reorganisation.

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

Whilst regulations perimitted, all Council meetings could be viewed live as part of the Council's virtual meetings. Work is being undertaken during summer 2021 to provide a hybrid meeting solution and webcasting.

Meetings of the Council 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.

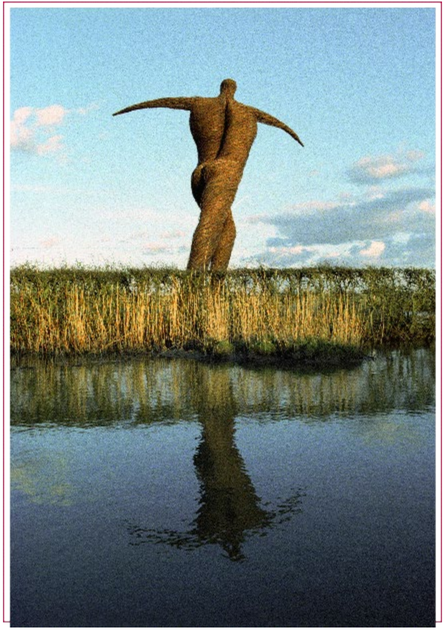
The Council's Forward Work Programmes contain information about all matters that are likely to be the subject of a decision taken by the full Council or the Cabinet during the forthcoming four-month period. Proposed key decisions for Cabinet Members and Officers are also publicised in advance and when they are taken. We publish information about matters to be considered by 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 have reviewed and assessed against the new CIPFA Financial Management Code with improvements forming part of an action plan. The continued improvements in our Financial Management arrangements have been recognised by SWAP Ltd as part of their review of the Healthy Organisation with an improved rating from Amber to Green.

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 Audit Committee, Cabinet and the Council.

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.

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.

Despite our established success in balancing budgets and maintaining tight financial control to avoid overspending, like many councils, the Council faces the challenge of designing a sustainable budget for the future. This in the main caused by increasing demand for services combined with reductions to local government funding. In February 2021, we set a balanced budget for 2021/22 and forecasted a funding shortfall of £12.4m for 2022/23 and £5.6m for the following year. We are focusing a large part of our Transformation Programme on Local Government Reorganisation given its impact on services and finances. We are continuing our Transformation work to improve efficiency and reshape our people services whilst maintaining our commitment to the most vulnerable.

There is robust monthly budget monitoring process, which is reported to SLT, Scrutiny Place and Cabinet. With the outturn forming part of the Statement of Accounts which is report to the Audit Committee. The monthly budget monitoring reports have included updates on the various Covid funding steams from Government and allocations of the Covid 19 Emergency Fund during the year.

Commissioning and Procurement of Goods and Services

The Council is a commissioning organisation, and its senior officer structure clearly reflects that approach with Lead Commissioners. 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 business partner 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 values collaboration with service users, communities, businesses and key public sector partners in order to understand the needs and outcomes required through the commissioning process.

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 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.

We have systems and assurance in place to ensure we meet our requirements in terms of Freedom of Information and the General Data Protection Regulations.

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 & 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. Our external auditors provide regular updates to the Audit Committee. In 2021 the External Auditor gave an unqualified audit opinion on the Council's Statement of Accounts.

The Internal Audit Service is a key means of assurance. It provides an independent and objective opinion on the Council's governance, risk management and internal control environment by evaluating its effectiveness. Work is managed and delivered in accordance with the Public Sector Internal Audit Standards (PSIAS).

Each year a risk-assessed work plan is produced and updated as the year progresses to ensure appropriate coverage of the Authority's key corporate objectives and risks. The Audit Committee approve the Internal Audit Plan and accompanying Charter which outlines the role and scope of internal audit. Our internal auditors provide regular updates to the Audit Committee.

The Head of Internal Audit's annual opinion as to the effectiveness of the Council's internal control environment for 2020-21 was:

"On the balance of our 2020/21 audit work for Somerset County Council I am able to offer a Reasonable Assurance opinion in respect of the areas reviewed during the year."

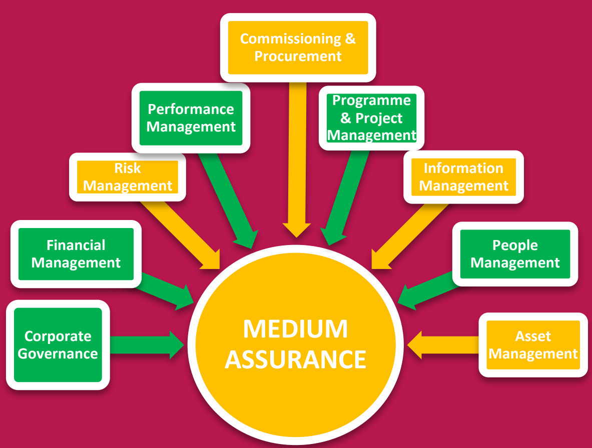
The Healthy Organisation review was a key source of assurance with an overall Medium rating given. This report states that there was no evidence of any significant adverse impact of the pandemic on the overarching control framework, with an improvement seen in Financial Management which moved from 'amber' to 'green'.

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. Both Codes are published on the Council's website for transparency and accountability. Our website tells you how you can report a conduct complaint.

These include the need for Members and Officers to register personal interests and the requirement 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.

Improving Governance

The progress made during 2020- 21 on the significant issues identified in our 2019-20 Annual Governance Statement is shown below:

1.	**The Council's Financial Position** – the Council has continued to make strides in improving its financial position. There is 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 2021/22 and agreed a Medium-Term Financial Plan that included a budget gap over a three year period. There is a strategy to further build resilience in reserves. VfM tracker regular reviewed and actions progressed to deliver recommendations. Progress monitored by Audit Committee.
2.	**Local Government Reorganisation** Development and potential submission of Business Case for unitary local government for Somerset.	The Council put in place programme management arrangements along with completing it development and submission of a final business case by Government deadline in December 2020. The Council developed and responded to the Government's formal consultation on Local Government Reorganisation that commenced in February 2021.
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. Healthy Organisation Audit recognised improvements made even with the exceptional year of the pandemic emergency response.
4.	**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 reviewed and managed emergency response and service delivery by agencies. Emergency arrangements and management actions regularly reviewed by the Senior Leadership Team, Cabinet and Scrutiny Place throughout the pandemic response. Economic Recovery Plan developed and agreed by all five councils.

Based on our review of the governance framework, the following significant issues will be addressed in 2021-22:

1. **Financial Position** (See previous page)	Development of a sustainable Medium Term Financial Plan for consideration by Council in February 2022. Recognise and plan for the financial implications of local government reform in Somerset.
2. **Local Government Reorganisation** Support the transition to unitary form of local government for unitary local government for Somerset.	Subject to Secretary of State's decision during 2021, put in place the necessary resources, programme management, partnership and democratic arrangements to support the transition to unitary form of local government in partnership with district councils and other public sector partners including the 278 town and parish councils. Plan and prepare for the first unitary council elections currently scheduled for May 2022.
3. **Covid 19** Working with national and local agencies such as the Government, Police, NHS, district councils, voluntary organistions 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. Support the delivery of the Economic Recovery Plans.	As Coronavirus progresses more towards an endemic disease we will continue to work as part of the regional and national public health system, aiming to minimise infection rates and manage outbreaks and clusters. The needs of the Somerset population has changed following the pandemic and these will need to continue to be assessed and be central to the focus of the organisation. The recovery will be long and needs to focus on minimising the indirect impacts of COVID, in particular addressing the health and social inequalities that the pandemic has highlighted.
4. **Integrated Care System**	The work to develop the ICS system in line with the emerging changing legislation will require implementation by April 2022. As such we will actively engage with NHSE in the work to develop appropriate local governance of the partnership, joint working and joint funding elements of the ICS development and to ensure adequate transparency and scrutiny. All work currently captured within established programme of activity.

5. SEND Improvement Plan Complete delivery of the Written Statement of Action for SEND (Special Educational Needs and Disability). This action plan was prepared in response to the findings of inspectors from an Ofsted/CQC inspection of the Somerset local area in March 2020, in order to improve outcomes for children and young people with SEND.	Review current partnership arrangements to ensure these are effective in supporting joint decision making and joint commissioning. Review local area governance to ensure alignment with emerging arrangements for Integrated Care Systems and Local Government Reform.

These issues will be supported by an action plan, progress on which will be monitored during 2021-22 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 2021-22, 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.

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: 22nd July 2021

(Patrick Flaherty, Chief Executive)

Signed:____________________ Date: 22nd July 2021

(Cllr David Fothergill, Leader of the Council)

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 Council has used in preparing these accounts.

1 General

The Statement of Accounts summarises the Council's transactions for the 2020/21 financial year and its position at the year-end of 31 March 2021. The Council 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 2020/21, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under Section 12 of the 2003 Act.

The Accounts and Audit (Amendment) Regulations 2021 came into force on 31 March 21, extending the statutory audit deadline for the publication of accounts relating to the 2020/21 and 2021/22 financial years from 31 July to 30 September.

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 and other day-to-day running expenses whereas the Council 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 Council provides the goods or services.

- Supplies are recorded as expenditure when they are used. Where there is a gap between the date supplies are received and their use and the 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.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- 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; and
- To ensure a timely closure of accounts, the Council 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. Cash Equivalents are highly liquid investments that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the council's cash management.

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 Council'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 Council 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 Council 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 Council. An accrual is made for the cost of holiday entitlements (or any form of paid leave) 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 Council 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 Council 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 Council 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 Council 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; and
3) The NHS Pension Scheme administered by the NHS Business Service Authority.

These schemes provide defined benefits to members (retirement lump sums and pensions), earned through employment in the Council. However, the arrangements for the Teachers' scheme mean that liabilities for these benefits cannot ordinarily be identified specifically to the Council. 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.

Employees of the Council are also eligible to be a member of The National Employment Savings Trust (NEST), administered by the NEST Corporation. This scheme is accounted for as a defined contribution scheme with no liability for future payments of benefits recognised in the Balance Sheet. The members service area line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to NEST 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 Council 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 2.00% (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 Council 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;

On 7 February 2018, the International Accounting Standards Board (IASB) issued amendments to the IAS19 standard which now requires that when determining any past service cost or gain or loss on settlement that the net defined benefit liability is remeasured using current assumptions and the fair value of plan assets at the time of the event. This applies for all accounting periods starting on or after 1 January 2019 but only where the application of the remeasurement is material.

Having discussed this additional requirement with the pension fund Actuary, we have assumed that all events are material so have adopted the approach set out in the IAS19 amendment.

  - Net interest on the net defined benefit liability (asset), i.e. net interest expense for the Council – 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 Council 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 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 Council 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 Council 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 Council'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 Council 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 Council, 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 Council 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 Council 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 Council 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 Council'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 Covid-19 and subsequent lockdown has been considered.

The matrix confirmed that historically, a very small element of Council debt (in relation to trade receivables) has been written-off (0.2% of total debts raised). In recent years, the Council has implemented a robust impairment policy that has identified an average impairment in line with the amounts eventually written-off.

Given the historically low level of debt write-off within the Council, 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 Council 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:

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

Further details of the Council's debt management process and Covid-19 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 Council 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 Council'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 Council 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 Council does not carry any Financial Assets at Fair Value through Other Comprehensive Income.

10 Fair Value Measurement

The Council 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 Council 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 Council 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 Council 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 Council'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 Council 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 Council 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 Council when there is reasonable assurance that:

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

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

Monies advanced as grants and contributions for which conditions have not yet been met are carried in the Balance Sheet as receipts in advance. When conditions are satisfied, the grant or contribution is credited to the relevant service line (where grants can be identified to services) or Taxation and Non-specific Grant Income (where grants cannot be identified to particular service expenditure) 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 Council 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 Council 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 Council at the end of the lease period).

The Council 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 Council as Lessor

Finance Leases

Where the Council 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 Council'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 Council 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 Council 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 Council 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 Council 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 Council 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	Historic cost	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 Council 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 Council 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 Council considers whether an adjustment is required in the accounts to ensure the assets are carried at current value (except for surplus assets which are carried at 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 Council depreciates all property, plant and equipment assets that are available for use, on a straight-line basis over the period that the Council 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 Council 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 (SAP HCL)	6 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 Council 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 2020/21, the Council 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 chosen 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 Council recognises an impairment loss where the carrying amount of an asset exceeds its recoverable amount. At the end of each financial year, the Council 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. An 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 Council 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 Council 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 Council.

Intangible Assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council 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 Council 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 Council'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 Council 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 Council's Museums Service through the Income and Expenditure account.

The Council 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 Council (referred to as local Authority maintained):

- Community, including PRUs (of which there are 63 within our boundary);
- Voluntary controlled (49 within our boundary);
- Voluntary aided (30 within our boundary); and
- Foundation (4 within our boundary).

The remaining type of state school, an Academy, (of which there are 122 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 Council as if they were the transactions, cash flows and balances of the Council.

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

Schools Non-Current Assets

With regards to the recognition of Schools Non-Current Assets (such as land and buildings), The Code requires the Council 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 Council 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 Council 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 Council 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 Council 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 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.

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 Council settles the obligation.

19 Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council 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 Council. 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 Council 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, dedicated schools grant deficits, and retirement and employee benefits and do not represent usable resources for the Council – 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 Council 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 Council 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 Council at the end of the contract, during the contract period the Council 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 REFCUS and written out to the Individual Schools Budget line in the Continuing Operations section of the Comprehensive Income & Expenditure Statement, when the relevant works are eventually carried out.

23 Value Added Tax

Income and expenditure exclude 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 Council 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 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.

28 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 Council 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 Council 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.

29 Local Enterprise Partnership (LEP)

The Council is the single accountable body for the Heart of the South West Local Enterprise Partnership (HotSW LEP). During the Council’s group accounts review, it was concluded that the HotSW LEP entity did not fall under the Council’s control, so the Council has considered its relationship with the LEP to determine the accounting treatment for the different funding streams.

Comprehensive Income and Expenditure Statement

This statement shows the cost of providing services in the year (based on the Councils 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 2020 Gross Expenditure £millions	31 March 2020 Gross Income (-) £millions	31 March 2020 Net Expenditure £millions	Comprehensive Income (-) and Expenditure Statement for the year ended 31 March	31 March 2021 Gross Expenditure £millions	31 March 2021 Gross Income (-) £millions	31 March 2021 Net Expenditure £millions	Notes
			Continuing Operations				
225.922	-94.674	131.248	Adult Services	274.018	-128.751	145.267	6
155.091	-61.388	93.703	Children's Services	166.069	-65.557	100.512	6
127.263	-46.080	81.183	Economic and Community Infrastructure Services	155.905	-52.535	103.370	6
22.437	-22.201	0.236	Public Health	30.127	-29.001	1.126	6
30.775	-7.975	22.800	Corporate & Support Services (inc Corporate Contingency/Non-Service)	36.606	-9.208	27.398	6
45.702	-45.748	-0.046	Accountable Bodies (LEP/SRA/CDS)	30.599	-29.402	1.197	6
213.177	-190.185	22.992	Individual Schools Budget	206.244	-184.107	22.137	6
820.367	**-468.251**	**352.116**	**Surplus (-) / Deficit on Continuing Operations**	**899.568**	**-498.561**	**401.007**	
45.273	-	45.273	Other operating expenditure	29.408	-	29.408	12
45.006	-8.582	36.424	Financing and investment income (-) and expenditure	44.366	-8.237	36.129	13
-	-425.477	-425.477	Taxation and non-specific grant income (-)	0.000	-425.611	-425.611	14
910.646	**-902.310**	**8.336**	**Surplus (-) or Deficit on Provision of Services**	**973.342**	**-932.409**	**40.933**	
			Items that will not be reclassified to the Surplus (-) or Deficit on the Provision of Services				
		-7.248	Surplus (-) or Deficit on revaluation of non-current assets			-31.674	15
		-73.786	Remeasurement gains (-) / losses on pension assets/liabilities			196.860	51
		-81.034	**Other Comprehensive Income (-) and Expenditure**			**165.186**	
		-72.698	**Total Comprehensive Income (-) and Expenditure**			**206.119**	

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 Council, 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 Council'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 2020 & 2021	Note	Revenue Reserve			Capital Reserves				
		General Fund (inc. Earmarked Reserves) Balance £m	S31 Local Tax Income Guarantee Grant Reserve £m	General Fund - Total £m	Capital Receipts Reserve £m	Capital Grants & Contributions Unapplied £m	Total Usable Reserves £m	Unusable Reserves £m	Total Authority Reserves £m
Balance as at 1 April 2019	42/43	**61.651**	**-**	**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	-	-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	-	48.333	-1.002	-2.982	44.349	-44.349	-
Increase/Decrease (-) in Year		**39.997**	**-**	**39.997**	**-1.002**	**-2.982**	**36.013**	**36.685**	**72.698**
Balance as at 31 March 2020	42/43	**101.648**	**-**	**101.648**	**5.064**	**4.008**	**110.720**	**-203.141**	**-92.421**
Transfer of Schools Budget Deficit to new Adjustment Account at 1 April 2020	43	11.079	-	11.079	-	-	11.079	-11.079	-
Restated Balance as at 1 April 2020		**112.727**	**-**	**112.727**	**5.064**	**4.008**	**121.799**	**-214.220**	**-92.421**
Movement in Reserves during 2020/21									
Surplus or deficit (-) on provision of services		-40.933	-	-40.933	-	-	-40.933	-	-40.933
Other Comprehensive Income and Expenditure (-)	15/51	-	-	-	-	-	-	-165.186	-165.186
Total Comprehensive Income and Expenditure (-)		**-40.933**	**-**	**-40.933**	**-**	**-**	**-40.933**	**-165.186**	**-206.119**
Adjustments between accounting basis & funding basis under regulations	10	84.812	-	84.812	4.875	-0.334	89.353	-89.353	-
Net Increase/Decrease (-) before Transfers to Reserves		**43.879**	**-**	**43.879**	**4.875**	**-0.334**	**48.420**	**-254.539**	**-206.119**
Transfers to (-) / from Reserves	11	-10.138	10.138	-	-	-	-	-	-
Increase/Decrease (-) in Year		**33.741**	**10.138**	**43.879**	**4.875**	**-0.334**	**48.420**	**-254.539**	**-206.119**
Balance as at 31 March 2021	42/43	**146.468**	**10.138**	**156.606**	**9.939**	**3.674**	**170.219**	**-468.759**	**-298.540**

Further details on the new s31 Local Tax Income Guarantee Grant Reserve, and individual balances for the General Fund and Earmarked Reserves can be found in Note 42 Useable Reserves.

Balance Sheet

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

31 March 2020 £millions	Balance Sheet	31 March 2021 £millions	Notes
945.134	Property, Plant & Equipment	984.996	24
1.934	Heritage assets	1.934	31
1.940	Intangible Non-Current assets	1.481	25
14.077	Long term investments	38.843	34
20.779	Long term debtors	20.344	34
983.864	**Long term assets**	**1,047.598**	
127.346	Short term Investments	155.237	34
1.262	Assets held for sale	1.131	27
7.510	Inventories	7.667	36
48.046	Short term debtors	59.965	37
46.657	Cash and cash equivalents	83.743	44
230.821	**Current Assets**	**307.743**	
-75.525	Short term creditors	-100.321	38
-8.546	Revenue Grants/Contributions Receipts in Advance	-41.552	41
-38.925	Capital Grants/Contributions Receipts in Advance	-72.402	41
-5.825	Long term borrowing repayable < I year	-5.862	34
-7.895	Provisions	-7.425	40
-7.395	Short term borrowing	-7.220	34
-1.716	Overdraft	-6.605	44
-145.827	**Current Liabilities**	**-241.387**	
-0.300	Provisions	-0.259	40
-340.336	Long term borrowing repayable > I year	-338.441	34
-795.767	Other long term liabilities	-1,033.427	39
-11.211	Revenue Grants/Contributions Receipts in Advance	-13.206	41
-13.665	Capital Grants/Contributions Receipts in Advance	-27.161	41
-1,161.279	**Long term liabilities**	**-1,412.494**	
-92.421	**Net Assets**	**-298.540**	
110.720	Usable reserves	170.219	42
-203.141	Unusable Reserves	-468.759	43
-92.421	**Total Reserves**	**-298.540**	

J. C. Vaughan

Jason Vaughan FCCA, CPFA, IRRV (Hons)
Director of Finance
(Chief Financial Officer)
25th November 2021

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 Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Council 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 Council 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 Council during the reporting period.

The statement shows how the Council 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 Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council'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 Council.

2019/20 £millions		2020/21 £millions	Notes
8.336	Net surplus (-) or deficit on the provision of services	40.933	
-124.535	Adjustments to net surplus or deficit on the provision of services for non cash movements	-169.649	45
112.567	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	84.286	45
-3.632	Net cash flows from Operating Activities	**-44.430**	45
8.895	Investing Activities	9.170	46
-14.637	Financing Activities	3.063	47
-9.374	**Net increase (-) or decrease in cash and cash equivalents**	**-32.197**	
35.567	**Cash and cash equivalents at the beginning of the reporting period**	**44.941**	
44.941	**Cash and cash equivalents at the end of the reporting period**	**77.138**	44

Notes to the core financial statements

Note 1: COVID-19 Pandemic Response

The Council's response to Covid-19 has resulted in significantly increased expenditure during 2020/21. The pandemic has also had an adverse impact upon the Councils income during the year. The UK Government have recognised this and provided additional funding to support the Council in its pandemic response.

The following tables show the expenditure incurred by the Council in response to the Covid-19 pandemic, and the income received from Government and other partners (such as Somerset CCG and District Councils) to help fund the response. To ensure greater transparency, the expenditure and income has been analysed by service, expenditure type and source of funding.

Table 1: Total Covid-19 response expenditure/income by service

Impact of COVID-19 Reponse by Service For the year-ended 31st March 2021	Gross Expenditure £millions	Gross Income (-) £millions	Net Expenditure £millions
Continuing Operations			
Adult Services	37.343	-28.247	9.096
Children's Services	7.567	-2.342	5.225
Economic and Community Infrastructure Services	4.445	-3.377	1.068
Public Health	3.672	-5.985	-2.313
Corporate & Support Services (inc Corporate Contingencies)	12.014	-0.663	11.351
Surplus (-) / Deficit on Continuing Operations	**65.041**	**-40.614**	**24.427**
Financing and investment income and expenditure	-	-1.215	-1.215
Taxation and non-specific grant income	-	-14.769	-14.769
Surplus (-) or Deficit on Provision of Services	**65.041**	**-56.598**	**8.443**

Table 2: Total Covid-19 response expenditure by MHCLG category

COVID-19 Impact as per MHCLG Costs Analysis Statement for the year ended 31 March 2021	Gross Expenditure £millions
Adult Services	
Adult Social Care – additional demand	6.434
Adult Social Care – supporting the market	23.655
Adult Social Care – workforce pressures	0.190
Adult Social Care - Personal protective equipment (PPE)	6.586
Adult Social Care - other	0.478
Children Services	
Children's Social Care - residential care	1.599
Children's Social Care - care leavers	0.086
Children's Services - other	2.344
Education - Home to school transport	1.202
Education - other	2.336
Public Health	
Public Health - Testing, contact tracing and outbreak planning	3.672
Corporate and Support Services	
Cultural & related - Sports, leisure and community facilities	0.180
Finance & corporate - ICT & remote working	0.195
Finance & corporate - other	0.038
Housing - rough sleeping	0.675
Other - PPE (non-Adult Social Care)	0.015
Other - excluding service areas listed above	9.678
Other - unachieved savings/delayed projects	1.233
Economic and Community Infrastructure Services	
Environment and regulatory - waste management	2.515
Environment and regulatory - other	0.015
Planning & development	0.020
Highways and Transport	1.595
Other - Shielding	0.300
Total Expenditure	**65.041**

Table 3: Total Covid-19 income by funding type

COVID-19 Source of Funding Analysis Statement for the year ended 31 March 2021	Gross Income (-) £millions
Grants Received	
COVID-19 Support Grant	-16.235
Bus Service Support Grant	-0.442
Test and Trace Support Grant	-0.508
Additional School & College Transport Capacity Funding	-0.805
Emergency Active Travel Fund	-0.138
Infection Control Fund	-15.446
Income Compensation Scheme	-3.620
Emergency Assistant Grant for Food & Essential Supplies	-0.573
Winter Grant Scheme	-1.902
Contain Outbreak Management Fund	-5.093
Funding for Clinically Extremely Vulnerable	-0.693
Adult Social Care Rapid Testing Fund	-1.831
Workforce Capacity Fund	-0.957
Opportunity Area Grant	-0.392
Community Testing	-0.384
Contributions Received	
CCG	-10.236
District Partners	-2.305
Less: Lost Income from Sales, Fee's and Charges (SFC)	
Commercial Imcome	0.002
Cultural & Related SFC	0.195
Highways & Transport SFC	0.867
Planning & Development SFC	0.028
Other Income and SFC	3.870
Total Funding	**-56.598**

During 2020/21, the Council also received £2.146m of Covid-19 support funding for its local authority-maintained schools. This funding from the Education and Skills Funding Agency (which included £0.828m of Covid-19 catch-up premium and £0.747m of Schools Emergency Support) was passported directly to the schools delegated budget to help fund their pandemic response.

Further details of the Council's response to the Covid-19 pandemic can be found in the Narrative Report.

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

The Council has yet to adopt the following accounting standards:

- Definition of a Business: Amendments to IFRS 3 Business Combinations

The International Accounting Standards Board (IASB) issued Definition of a business (Amendments to IFRS 3) to make it easier for companies to decide whether activities and assets they acquire are a business or merely a group of assets.

The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1 2020 and to asset acquisitions that occur on or after the beginning of that period. We do not expect these amendments to have a material impact on our accounts when they are applied from 1st April 2021.

- Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7

The IASB published Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7), in response to the ongoing reform of interest rate benchmarks around the world. The amendments aim to provide relief for hedging relationships.

The amendments are effective for annual periods beginning on or after 1 January 2020. We do not expect these amendments to have a material impact on our accounts when they are applied retrospectively from 1st April 2021.

- Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16.

The IASB published Interest Rate Benchmark Reform Amendments to IFRS 9, IAS 39 and IFRS 7 representing the finalisation of Phase II of the project on 27 August 2020 to address issues that might affect financial reporting when an existing interest rate benchmark is replaced with an alternative benchmark interest rate.

The amendments are effective for annual periods beginning on or after 1 January 2021. We do not expect these amendments to have a material impact on our accounts when they are applied retrospectively from 1st April 2022.

Note 3: Critical Judgements in Applying Accounting Policies & Changes in Accounting Estimates

Critical Judgements in Applying Accounting Policies

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

The critical judgements made in this Statement of Accounts are:

1. Where the Council 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 Council's balance sheet. As at 31 March 2021, the value of schools related land and buildings (including Pupil Referral Units - PRU) where freehold interest existed was £236.327m.
   The Council has also recognised a non-current asset for any leasehold arrangements that meet the definition of a finance lease under IAS17. As at 31 March 2021, the value of schools related land and buildings where leasehold interest existed was £8.828m.
   For those properties (including PRU's), where neither a freehold nor leasehold interest exists (76 schools as at 31st March 2021), the Council 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 Council 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 Council 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 Council meets the definition of an asset, and as the mere license passes over no rights to the Council it is not possible to record a non-current asset on the Council'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).

2. The Council 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 Council has also provided (for a charge) a number of pension bonds (totalling £1.304m) 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 Council has determined that no liability has arisen during the financial year, as there has been no default and the assessed risk of future default is very low.

3. 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 administered 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 Council has determined that Funds 2 and 3 are administered by the Council and is therefore acting as principle for these funds. Details of the transactions the Council reports in its accounts can be found in Note 16.

4. The Council is the single accountable body for the Heart of the Southwest Local Enterprise Partnership (HotSW LEP). During the Council's group accounts review, it was concluded that the HotSW LEP entity did not fall under the Council's control, so the Council has considered its relationship with the LEP to determine the accounting treatment for the following funding streams.

   Growing Places Fund
   This funding (£6.691m) was transferred to the Council from Devon County Council, in August 2021, as part of strengthening the LEPs assurance framework and following directive from the Department for Business, Energy and Industrial Strategy (BEIS). This grant funding was awarded to Devon County Council in 2011 and was designed to create a sustainable revolving infrastructure fund for investment to unlock further economic development and leverage private investment.

   All decision making on the use of this fund is made by the LEP with the Council acting in an agency role. As agent for this fund, the Council does not report any of the fund transactions in its accounts, with the exception of cash collected or expenditure incurred by the Council on behalf of the principal (the LEP), in which case there is a creditor position, and the net cash position is included in financing activities in the Cash Flow Statement.

   Growth Deal and Getting Building Fund
   Both grants have been awarded to the HotSW LEP and are payable to the Council as the accountable body. The Council received £197m of Growth Deal funding from the UK Government's Local Growth Fund during 2015 to 2021. This fund was fully spent by March 2021.

   During 2020/21 the Council received £17.7m from the UK Government's Getting Building Fund, with a further £17.7m due in 2021/22. This fund will be fully spent by March 2022. The Council has a more active part in the decision making of these funds, having a veto vote on the use of the funds. As well as having to report spend and outputs to Treasury on a quarterly basis.

   The Council retains the liability of grant claw-back and is acting as principle for both the Growth Deal and Getting Building Funds. All the transactions for these funds are therefore included in the Council's accounts.

5. Based on an assessment in accordance with IFRS 10 Consolidated Financial Statements and IFRS 11 Joint Arrangements, and considering materiality, the Council has concluded that it does not have control, joint-control or significant influence over any other entities. Therefore, the Council has no material subsidiaries, joint ventures or associates and there is no requirement to prepare group accounts for 2020/21. Further details of the Council's non-material interest in Futures for Somerset, can be found in Note 52.

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

The items in the Balance Sheet at 31 March 2021 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	As at 31 March 2021, the value of operational property carried in the Council's balance sheet was £435.979m. 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 internal valuers provided valuations as at 31 March 2021 for approximately 20% of its operational portfolio. The remaining balance of operational properties were also reviewed to ensure values reflect current values. The impact of COVID-19 on property valuations was considered by The Material Valuation Uncertainty Leaders Forum (UK), setup by the Royal institute of Chartered Surveyors (RICS) to consider the unique events relating to the global COVID-19 pandemic and its impact on valuation assignments, with a focus on financial reporting and measures for the accurate and consistent reporting of material uncertainty. It comprised a group of expert valuers covering a wide range of asset classes and specialisms. At their meeting of 11 May 2021, 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 £44m. 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.

	forum confirmed that material valuation uncertainty declarations were no longer required for all assets, and that discretion remained with the valuer. The Council's valuers have considered the property market and building industry specific indices as part of their assessment (as these are subject to a level of uncertainty) and confirmed there were no properties within the Council's portfolio during 2020/21 that required a material valuation uncertainty declaration.	
Depreciation	During 2020/21, the total amount of depreciation (including intangible asset amortisation) charged to the Comprehensive Income & Expenditure Statement was £27.650m. 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 £3.008 million for every year that useful lives had to be reduced (based on asset values as at 31st March 2021)
Pensions Liability	As at 31 March 2021, the value of Local Government Pension Scheme IAS19 liability carried in the Council's balance sheet was £993.554m. 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 Council instructs Barnett Waddingham, a firm of actuaries, to make these sensitive	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 £44.375 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

	judgements on our behalf.	of pension fund assets (see note 51 for further details of the Council's asset share) was over-stated by 1%, this will result in an increase to the net pension liability of £11.946m.
Doubtful Debt Impairment and Expected Credit Losses	As at 31 March 2021, the Council had an outstanding balance of short-term debtors totalling £59.965m. Against this debtor balance there is an impairment allowance of £14.074m. 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. As at 31 March 2021, the Council also had an outstanding balance of long-term debtors and payment in advance totalling £20.344m. Included within this total was £14.282m relating to a long-term finance lease arrangement where the Council is acting as landlord. Having assessed the arrangement and considered past default rates; credit rating reports and customer payments received since 1 April 2021, the potential for credit loss has been estimated as immaterial, so no additional impairment allowance has been recognised.	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 Council 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.

Fair Value Measurement	As at 31 March 2021, the fair value of assets carried in the Council's balance sheet was £1,364.036m, whilst the fair value of liabilities was £1,854.633m. 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 Council's assets and liabilities. Where Level 1 inputs are not available, the Council 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 Council's financial assets and liabilities is disclosed in note 34. Further information about the valuation techniques used in determining the fair value of the Council's surplus assets is disclosed in note 28.	The Council 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.

Note 5: Events after the Balance Sheet Date

The Director of Finance authorised the Statement of Accounts on 23 July 2021. 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 as at 31 March 2021, 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 adjusting or non-adjusting events after the Balance Sheet date.

On 21 July 2021, the Secretary of State for the Ministry of Housing, Communities and Local Government approved the Council's One Somerset bid. It is planned that the shadow authority will be implemented by May 2022 and the new Council in place by April 2023. Further details on the approved Local Government Reorganisation can be found in Section 13 of the Narrative Report.

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.

The classification of some Corporate Support Services (reported at Outturn) are included in both Continuing Operations and the Provision of Services in the table below, so the total reported for resource management will be different from the figures reported in the Outturn report. There is a similar difference with the Individual Schools Budget (ISB) figures reported in the table below as the Outturn position for ISB is not reported at Outturn. This classification issue does not impact on the surplus reported at year-end (£9.016m).

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2020/21

Expenditure & Funding Analysis for the year ended 31 March 2021	Directorate Total as reported for resource management £millions	Adjustment to arrive at the net amount chargeable to the General Fund balance £millions	Net Expenditure Chargable to the General Fund £millions	Adjustments between Funding and Accounting basis £millions	Net Expenditure in the Comprehensive Income and Expenditure Statement £millions
Adult Services	142.250	-0.277	141.973	3.294	145.267
Children's Services	89.620	3.753	93.373	7.139	100.512
Economic and Community Infrastructure Services	68.625	-2.692	65.933	37.437	103.370
Public Health	1.781	-2.167	-0.386	1.512	1.126
Corporate & Support Services (inc Corporate Contingencies)	40.806	-9.920	30.886	-3.488	27.398
Accountable Bodies (LEP/SRA/CDS)	2.802	0.048	2.850	-1.653	1.197
Individual Schools Budget	0.000	-8.784	-8.784	30.921	22.137
Surplus (-) / Deficit on Continuing Operations	**345.884**	**-20.039**	**325.845**	**75.162**	**401.007**
Other Income & Expenditure	-354.900	-14.824	-369.724	9.650	-360.074
Surplus (-) or Deficit on Provision of Services	**-9.016**	**-34.863**	**-43.879**	**84.812**	**40.933**
Opening General Fund Balance at 31 March 2020			101.648		
Reclassification of Schools Budget Deficit to new Adjustment Account at 1 April 2020			11.079		
Restated General Fund Balance at 1 April 2020			112.727		
Add Surplus (-) on General Fund in Year			-43.879		
Closing General Fund Balance at 31 March 2021			**156.606**		

2019/20

Expenditure & Funding Analysis for the year ended 31 March 2020	Directorate Total as reported for resource management £millions	Adjustment to arrive at the net amount chargeable to the General Fund balance £millions	Net Expenditure Chargable to the General Fund £millions	Adjustments between Funding and Accounting basis £millions	Net Expenditure in the Comprehensive Income and Expenditure Statement £millions
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 Services	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**		

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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.

2020/21

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes	Net change for the Pensions Adjustments	Other Differences	Total Adjustments
	£millions	£millions	£millions	£millions
Adult Services	0.016	3.265	0.013	3.294
Children's Services	0.833	5.840	0.466	7.139
Economic and Community Infrastructure Services	33.024	4.190	0.223	37.437
Public Health	0.001	0.914	0.597	1.512
Corporate & Support Services (inc Corporate Contingencies)	3.226	-6.959	0.245	-3.488
Accountable Bodies (LEP/SRA/CDS)	-1.708	0.055	0.000	-1.653
Individual Schools Budget	14.178	16.181	0.562	30.921
Net Cost of Services	**49.570**	**23.486**	**2.106**	**75.162**
Other Income & Expenditure				
Other operating expenditure	27.981	0.000	0.000	27.981
Financial and investment income and expenditure	-3.205	18.411	0.096	15.302
Taxation and non-specific grant income and expenditure	-47.559	0.000	13.926	-33.633
General Fund (Surplus)/Deficit	**26.787**	**41.897**	**16.128**	**84.812**

2019/20

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes	Net change for the Pensions Adjustments	Other Differences	Total Adjustments
	£millions	£millions	£millions	£millions
Adult Services	0.656	1.890	-	2.546
Children's Services	2.093	3.179	0.203	5.475
Economic and Community Infrastructure Services	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**

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.

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 Council 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
- An adjustment for the in-year deficit of Dedicated Schools Grant (DSG), to ensure the deficit is not chargeable to the General Fund or reported as a negative usable reserve.

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, and a late accrual for Business Rates Pooling Gain (£1.167m); s31 Business Rates Relief grant (£8.448m) and Tax Income Guarantee grant (£1.690m) that have been included in the 2020/21 accounts but who's details were received too late to include in the Outturn report. These amounts have not been spent, so only impact on the Council's reserves, and are being reported for resource management in the first quarter of 2021/22.

Note 8a: Expenditure and Income Analysed by Nature
The Code requires us to provide a disclosure on the nature of expenses and income. The Council's expenditure and income (as reported in the Comprehensive Income and Expenditure Statement) is analysed as follows:

2019/20 £ millions	Expenditure and Income	2020/21 £ millions
272.267	Employee expenses	293.814
464.271	Other service expenses	530.320
91.033	Capital Charges (Depreciation/Amortisation/Impairment etc)	81.306
38.843	Interest payments (including pension interest cost)	39.089
0.812	Precepts & levies	0.833
43.420	Loss on disposal of fixed assets	27.980
910.646	**Total Expenditure**	**973.342**
-66.423	External fees & charges	-51.041
-75.084	Other service income	-99.370
-2.869	Interest and investment income	-2.450
-329.273	Income from Council Tax/ NNDR/ SRA	-317.581
-428.661	Government grants and contributions	-461.967
-902.310	**Total Income**	**-932.409**
8.336	**Surplus or deficit on the provision of services**	**40.933**

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 2020/21 with performance obligations, so the income has been recognised when the goods/services have been provided by the Council.

2019/20 £millions		2020/21 £millions
	Continuing Operations	
-33.249	Adult Services	-25.461
-2.221	Children's Services	-2.562
-11.518	Economic & Community Infrastructure Services	-11.018
-0.005	Public Health	-0.107
-3.064	Corporate & Support Services (inc Corporate Contingencies)	-2.769
-	Accountable Bodies (LEP/SRA/CDS)	-0.101
-5.961	Individual Schools Budget	-2.303
	Provision of Services	
-5.731	Financial and Investment Income and Expenditure - Trading Activities	-2.866
-61.748	**Total Income**	**-47.187**

Amounts included in the balance sheet for contracts with service recipients are as follows:

2019/20 £millions		2020/21 £millions
	Receivables which are included in debtors	
6.663	Adult Services	6.312
0.147	Children's Services	0.522
3.574	Economic & Community Infrastructure Services	2.245
0.533	Corporate & Support Services (inc Corporate Contingencies)	0.217
-	Public Health	0.019
0.062	Individual Schools Budget	0.023
0.410	Financial and Investment Income and Expenditure - Trading Activities	0.200
11.389	**Total Receivables from Service Users**	**9.538**

There were £0.036m of credit impairment losses recognised on receivables arising from the Council's contracts with service recipients during the year. There were no material Contract Assets or Liabilities included in the balance sheet for 2020/21 or 2019/20.

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.

2019/20 £million	Segmental Analysis - Outstanding Debt	2020/21 £million
5.641	Adult Services	6.178
0.906	Children's Services	1.217
6.045	Economic and Community Infrastructure Services	3.574
0.340	Public Health	0.110
0.720	Corporate & Support Services (inc Corporate Contingencies)	0.553
0.049	Individual Schools Budget	0.064
0.359	Financial and Investment Income and Expenditure - Trading Activities	0.146
14.060	**Total - as reported at Outturn**	**11.842**

2019/20 £million	Reconciliation of segmental debt to the total short term debtor reported in the Balance Sheet	2020/21 £million
14.060	Segmental Debt - as reported at Outturn	11.842
	Debt - not reportable at Outturn:	
15.400	Collection Fund Debtor	14.845
-	Capital Debtors	-
4.002	Payments in Advance	4.188
5.517	VAT Debtor	5.473
9.067	Other year-end accrued debt	23.617
48.046	**Short-term debtor - as reported in Balance Sheet**	**59.965**

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).

2020/21

For the year ended 31 March 2021	Income Govt Grants & Contributions £millions	Expenditure IAS19 Employee Benefit costs £millions	Capital Charges (Depreciation etc) £millions
Adult Services	-42.450	3.265	0.054
Children's Services	-60.265	5.840	0.832
Economic and Community Infrastructure Services	-9.151	4.190	36.324
Public Health	-27.092	0.914	0.001
Corporate & Support Services (inc Corporate Contingencies)	-5.023	-6.959	3.671
Accountable Bodies (LEP/SRA/CDS)	-28.034	0.055	25.253
Individual Schools Budget	-179.265	16.181	14.376
Total Continuing Operations	**-351.280**	**23.486**	**80.511**
Financing and Investment Income & Expenditure (including Trading)	-2.657	18.411	0.199
Other Operating Expenditure	-	-	0.595
Taxation & Non-Specific Grant	-108.030	-	-
Total - Provision of Services	**-461.967**	**41.897**	**81.305**

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 Services	-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**

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

2020/21

Adjustments between accounting basis and funding basis under regulations for the year ended 31 March 2021	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	42.471	-	-	42.471	-42.471	-
Impairment of current held for sale assets	0.595	-	-	0.595	-0.595	-
Amortisation of intangible assets	0.458	-	-	0.458	-0.458	-
Capital grants and contributions	-47.559	-	47.559	-	-	-
Revenue expenditure funded from capital under statute	7.070	-	30.711	37.781	-37.781	-
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	33.997	-	-	33.997	-33.997	-
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement						
Statutory provision for the financing of capital investment	-6.798	-	-	-6.798	6.798	-
Capital expenditure charged against the General Fund	-1.308	-	-	-1.308	1.308	-
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	-6.146	6.146	-	-	-	-
Use of the capital receipts reserve to finance new capital expenditure	-	-1.172	-	-1.172	1.172	-
Contribution from the capital receipts reserve towards administration costs of non current asset disposals	0.130	-0.130	-	-	-	-
Principal repayments transferred to the capital receipts reserve	-	0.031	-	0.031	-0.031	-
Adjustments involving the Capital Grants Unapplied Reserve:						
Use of the capital grants unapplied reserve to finance new capital expenditure	-	-	-78.604	-78.604	78.604	-
Adjustments involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	77.756	-	-	77.756	-77.756	-
Employer's pension contributions and direct payments to pensioners payable in the year	-35.859	-	-	-35.859	35.859	-

2020/21 (Continued)

Adjustments between accounting basis and funding basis under regulations for the year ended 31 March 2021	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 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	0.802	-	-	0.802	-0.802	-
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	13.124	-	-	13.124	-13.124	-
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	-0.046	-	-	-0.046	0.046	-
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	0.267	-	-	0.267	-0.267	-
Adjustments involving the Dedicated Schools Grant Adjustment Account:						
Amount by which the Dedicated Schools Grant deficit charged to the Comprehensive Income and Expenditure Statement is different from the amount calculated as part of the statutory requirements	3.656	-	-	3.656	-3.656	-
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	2.202	-	-	2.202	-2.202	-
Total adjustments between accounting basis & funding basis under regulations	**84.812**	**4.875**	**-0.334**	**89.353**	**-89.353**	**-**

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	-	-	62.340	-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 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 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**	**-**

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 2020/21.

	Balance at 31 March 2019 £millions	Transfers Out 2019/20 £millions	Transfers In 2019/20 £millions	Net Movement 2019/20 £millions	Balance at 31 March 2020 £millions	Transfers Out 2020/21 £millions	Transfers In 2020/21 £millions	Net Movement 2020/21 £millions	Balance at 31 March 2021
General Fund:									
Operating Accounts	-0.529	-0.447	2.216	1.769	1.240	-0.342	-	-0.342	0.898
Economic Development Fund	0.479	-0.390	0.023	-0.367	0.112	-0.446	0.481	0.035	0.147
Reserves for capital purposes	2.548	-0.027	0.117	0.090	2.638	-	1.112	1.112	3.750
Invest to Save Fund	0.349	-0.084	0.151	0.067	0.416	-	0.063	0.063	0.479
Somerset Drug & Alcohol	0.176	-	-	-	0.176	-	-	-	0.176
Public Health Earmarked	1.556	-	1.188	1.188	2.744	-0.332	0.649	0.317	3.061
Public Health - Prevention Fund	-	-0.206	1.000	0.794	0.794	-0.418	0.127	-0.291	0.503
Repairs and Maintenance Fund (inc BMIS)	-2.936	0.000	2.982	2.982	0.046	-	0.085	0.085	0.131
Business Rates Retention - County Wide Pot	-	-0.032	4.015	3.983	3.983	-2.000	0.692	-1.308	2.675
Supply Mutual Fund Reserve	0.515	-0.515	-	-0.515	-	-	0.218	0.218	0.218
Somerset and South West Mutual Scheme	-	-	0.179	0.179	0.179	-		-	0.179
BSF Bridgwater Equaliation Reserve	5.630	-	0.934	0.934	6.564	-	1.016	1.016	7.580
Futures for Somerset	0.114	-	0.030	0.030	0.144	-0.002	0.030	0.028	0.172
Elections	0.295	-	0.253	0.253	0.548	-0.002	0.253	0.251	0.799
Somerset Rivers Authority	0.339	-0.014	0.003	-0.011	0.328	-0.059	0.051	-0.008	0.320
Flood Recovery & 20 year plan	0.166	-0.031	0.016	-0.015	0.151	-0.049	0.030	-0.019	0.132
Superfast Broadband	0.055	-0.055	0.955	0.900	0.955	-0.141	-	-0.141	0.814
Environment Commuted Sums Reserve	1.292	-0.027	0.600	0.573	1.865	-0.027	0.028	0.001	1.866
Local Enterprise Partnership (LEP)	2.020	-1.115	1.526	0.411	2.431	-0.750	0.476	-0.274	2.157
SRA Precept 2016/17	3.727	-0.323	1.783	1.460	5.187	-	1.878	1.878	7.065
Children & Learning Commissioning	-	-	0.102	0.102	0.102	-	-	-	0.102
S106 funds	0.471	-	0.182	0.182	0.653	-	0.026	0.026	0.679
Insurance Fund Reserve	4.086	-	1.190	1.190	5.276	-	3.094	3.094	8.370
Parking Services	0.333	-	0.102	0.102	0.435	-	0.509	0.509	0.944
West Somerset Opportunities Fund reserve	1.267	-0.204	-	-0.204	1.063	-0.317	0.105	-0.212	0.851
Permiting - Traffic	-	-	-	-	-	-	0.403	0.403	0.403
Supported Bus Service	-	-	-	-	-	-	0.443	0.443	0.443
Social Care Volatilty	2.309	-0.840	2.511	1.671	3.980	-	2.588	2.588	6.568
Short Life Asset Fin	-	-	-	-	-	-	2.040	2.040	2.040
Budget Equalisation	-	-	-	-	-	-10.323	18.543	8.220	8.220
Budget Equalisation - COVID-19 Impact s31	-	-	-	-	-		9.500	9.500	9.500
Collection Fund Compensation Climate							10.138	10.138	10.138
Emergency	-	-	-	-	-	-0.026	1.000	0.974	0.974
COVID-19 Support	-	-	15.563	15.563	15.563	-15.563	5.051	-10.512	5.051
Workforce Resilience	-	-	1.168	1.168	1.168	-	0.086	0.086	1.254
Improving Lives Programme (ILP)	-	-0.605	2.853	2.248	2.248	-0.360	0.042	-0.318	1.930
Social Care Transformation	-	-	-	-	-	-0.759	4.472	3.713	3.713
VPCR Reserve	-	-	-	-	-	-	0.659	0.659	0.659
Corporate Priorities	-	-	5.946	5.946	5.946	-4.831	1.950	-2.881	3.065
Funding Volatility	-	-0.140	2.530	2.390	2.390	-	1.345	1.345	3.735
Other Service Reserves	8.934	-8.730	-	-8.730	0.204	-0.119	0.381	0.262	0.466
Total excluding School Balances	**33.196**	**-13.785**	**50.118**	**36.333**	**69.529**	**-36.866**	**69.564**	**32.698**	**102.227**
Balances held by schools under a scheme of delegation	17.468	-16.075	15.692	-0.383	17.085	-16.106	23.527	7.421	24.506
Total	**50.664**	**-29.860**	**65.810**	**35.950**	**86.614**	**-52.972**	**93.091**	**40.119**	**126.733**

The S31 Collection Fund Compensation (£10.138m) was new for 2020/21 and has been accrued by the Council in 20/21 to fund the Collection Fund deficit chargeable in 21/22.

Note 12: Other Operating Expenditure

2019/20 £millions		2020/21 £millions
43.420	(Gain)/losses on the disposal of non-current assets	27.980
1.041	Loss on the revaluation of current assets held for sale	0.595
	Levies:	
0.697	- Environment Agencies	0.716
0.115	- Devon and Severn IFCA	0.117
45.273		**29.408**

The loss on disposal of non-current assets during 2020/21 was predominantly due to schools converting to academy status (£24.821m loss), where the full value of the asset is disposed for nil consideration. This loss was partially offset by the sale of various land and buildings.

Note 13: Financing & Investment Income and Expenditure

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

2019/20 £millions		2020/21 £millions
19.366	Interest payable and similar charges	19.665
19.477	Net pensions interest cost (on the defined liability)	18.411
-2.869	Interest receivable and similar income	-2.450
0.450	Deficit from trading activities	0.503
36.424		**36.129**

Note 14: Taxation and Non-Specific Grant Income

2019/20 £millions		2020/21 £millions
-244.023	Council Tax income	-254.906
-82.703	National Non-Domestic Rates	-60.112
-2.547	Somerset Rivers Authority Precept	-2.563
-36.590	Non-ringfenced government grants	-60.471
-59.614	Capital grants and contributions	-47.559
-425.477		**-425.611**

Note 15: Surplus or deficit on revaluation of fixed assets

2019/20 £millions		2020/21 £millions
-13.454	Gains credited to the Revaluation Reserve	-41.499
6.206	Losses charged to the Revaluation Reserve	9.825
-7.248		-31.674

Note 16: Pooled Budgets

The Council 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. As lead authority we are acting as principal (and therefore recognising the full income and expenditure in our accounts) in line with the requirements of IFRS15 for these arrangements.

The **Integrated Community Equipment Service’s** pooled budget is used to provide community equipment to Council and Somerset CCG clients. Under the terms of this arrangement, the Council 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:

2019/20 £millions	Integrated Community Equipment Service (previously known as the Joint Equipment Service)	2020/21 £millions
	Income from:	
-1.409	Adults and Health Service	-1.728
-1.240	Somerset Clinical Commissioning Group (Including Continuing Healthcare Income)	-1.469
-1.735	Other Grant Income	-1.563
-4.384	Total income	-4.760
	Less the following spending:	
4.353	Equipment, delivery costs, minor work	4.882
0.096	Management and administration	0.099
4.449	Total spending	4.981
0.065	**Overspending or underspending (-)**	**0.221**

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 Council, 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 Council based on the eligibility criteria which is set nationally.

Income and expenditure for the year are as follows:

2019/20 £millions	Learning Disabilities Service	2020/21 £millions
	Income from:	
-60.626	Adults and Health Service	-63.813
-23.261	Somerset Clinical Commissioning Group	-22.179
	Somerset Partnership	
-5.426	Income from charges and grant income	-5.801
-89.313	Total income	-91.793
	Less the following spending:	
29.204	Residential services	30.072
34.146	Supported housing	35.906
7.449	Day services	6.380
16.878	Domiciliary Care	17.727
1.924	Community teams	2.034
89.601	Total spending	92.119
0.288	**Overspending or underspending (-)**	**0.326**

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

Income and expenditure for the year are as follows:

2019/20 £millions	Carers	2020/21 £millions
	Income from:	
-0.225	Adults and Health Service	-0.224
-0.231	Somerset Clinical Commissioning Group	-0.231
-0.456	Total income	-0.455
	Less the following spending:	
0.377	Universal Carers Support Service	0.377
0.021	Carers Support Worker Salary/Running Costs	0.019
0.047	CAMHS Carers Assessment Workers	0.048
0.445	Total spending	0.444
-0.011	**Overspending or underspending (-)**	**-0.011**

Another area where the Council 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 2020/21 through a signed agreement under Section 75 of the National Health Service Act 2006. Somerset County Council received additional funding in 2020/21 through the improved Better Care Fund, which has been pooled as part of the Section 75 agreement.

The Council 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:

2019/20			2020/21	
Gross Expenditure £millions	Gross Income £millions	Better Care Fund	Gross Expenditure £millions	Gross Income £millions
27.051	-27.051	Somerset County Council	27.638	-27.638
38.424	-38.424	NHS Somerset Clinical Commissioning Group (CCG)	40.619	-40.619
65.475	**-65.475**	**Total**	**68.257**	**-68.257**

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 Council's Members during the year are shown below.

2019/20 £millions		2020/21 £millions
0.617	Basic Allowance	0.634
0.251	Special Responsibility Allowance	0.277
0.048	Travel and Subsistence Expenses	0.004
0.010	Payments to Co-optees	0.003
0.926		**0.918**

Note 18: Senior Officers' Remuneration

Under regulations, the Council must show the number of the Council'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 2021

2019/20			2020/21	
Number of employees			Number of employees	
Schools	Non-schools	Employee pay bands	Schools	Non-schools
54	43	£50,000 to £54,999	46	42
59	11	£55,000 to £59,999	50	33
24	8	£60,000 to £64,999	33	11
11	16	£65,000 to £69,999	16	2
8	8	£70,000 to £74,999	5	20
6	5	£75,000 to £79,999	10	6
2	2	£80,000 to £84,999	5	-
1	2	£85,000 to £89,999	3	4
-	5	£90,000 to £94,999	1	6
1	1	£95,000 to £99,999	1	1
1	1	£100,000 to £104,999	1	-
-	2	£105,000 to £109,999	1	2
-	2	£110,000 to £114,999	-	1
-	-	£115,000 to £119,999	-	1
-	2	£125,000 to £129,999	-	2
-	-	£130,000 to £134,999	-	3
-	1	£135,000 to £139,999	-	-
-	1	£160,000 to £164,999	-	-
-	-	£165,000 to £169,999	-	1
-	-	£175,000 to £179,999	-	1

Having met the criteria of the CIPFA guidance notes, the following tables set out the salaries and wages of the Council's senior officers earned during 2020/21 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 2021

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 2020/21 £	Employer's pension contributions £	Total wages and benefits including pension contributions 2020/21 £
Head of paid service:						
Patrick Flaherty	166,900	-	-	166,900	30,200	197,100
Statutory chief officers or those who report directly to the head of paid service:						
- Programme Director - Carlton Brand	178,300			178,300	4,300	182,600
- Director of Children's Services	130,100	-	-	130,100	23,600	153,700
- Lead Commissioner Adults & Health	129,600			129,600	23,500	153,100
- Director of Finance	119,000			119,000	21,500	140,500
- Director of Public Health	126,000	-	-	126,000	18,100	144,100
- Director and Lead Commissioner ECI	130,500	-	-	130,500	23,600	154,100
- Director of Corporate Affairs	105,800	-	-	105,800	19,200	125,000
- Director of HR & Organisational Development	94,600	-	-	94,600	17,100	111,700
Non-statutory chief officers who are directly accountable to the local authority themselves						
Group Manager Community Governance / Monitoring Officer	79,500	-	-	79,500	14,400	93,900
County Solicitor	79,500	-	-	79,500	14,400	93,900

Table 3 – 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 Council 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 4 – Total number and value of exit packages for the financial year ended 31 March 2021

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	
	2019/20	2020/21	2019/20	2020/21	2019/20	2020/21	2019/20 £millions	2020/21 £millions
£0 - £20,000	24	1	60	2	84	3	0.490	0.024
£20,001 - £40,000	1	-	13	3	14	3	0.397	0.081
£40,001 - £60,000	-	-	4	-	4	-	0.209	-
£60,001 - £80,000	-	-	-	1	-	1	-	0.063
£80,001 - £100,000	-	-	2	-	2	-	0.179	-
£100,001 - £150,000	-	-	-	1	-	1	-	0.111
£150,001 - £200,000	-	-	1	-	1	-	0.181	-

Note 19: Termination Benefits

The Council terminated the contracts of 8 posts in 2020/21, incurring liabilities of £0.279 million. The redundancy total includes £0.278 million payable for 7 posts which were terminated by voluntary redundancy or early retirement. A further £0.001 million was paid for 1 post that was given compulsory redundancy. The £0.279 million can be split between teaching and non-teaching staff as follows:

Non-teaching

Terminations of £0.249 million, were due to organisation wide reduction within the Council (7).

Teaching

The Council terminated the contract of 1 teacher in 2020/21, incurring liabilities of £0.030 million. This termination was for other termination reasons rather than compulsory.

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:

2019/20 Restated £millions		2020/21 £millions
	Fees payable to Grant Thronton, appointed under the Local Audit & Accountability Act 2014	
0.098	– Main audit	0.127
0.005	– Grant claims	0.006
0.033	– Additional audit fees in relation to previous year	-
-0.009	– Public Sector Audit Appointments Refund	-
	Other non-audit services provided by Grant Thornton	
0.030	– Contract Reviews	-
0.157		**0.133**

The 19/20 comparative has been restated to include the audit costs (£0.005m) for the Teachers grant claim, that was omitted from the disclosure in error last year.

Note 21: Dedicated Schools Grant

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

Details of the deployment of DSG receivable for 2020/21 are shown in the following table:

	Central spending £millions	Individual Schools Budget £millions	Total £millions
Final Dedicated Schools Grant for 2020/21 - before Academy Recoupment	-64.219	-342.156	-406.375
Academy figure recouped for 2020/21	-	200.989	200.989
Total Dedicated Schools Grant after Academy recoupment for 2020/21	-64.219	-141.167	-205.386
Plus: Brought Forward from 2019/20	11.079	-	11.079
Less: Carry Forward to 2021/22 agreed in advance	-	-	-
Agreed initial budgeted distribution in 2020/21	-53.140	-141.167	-194.307
In year adjustments	-	-	-
Final budgeted distribution for 2020/21	**-53.140**	**-141.167**	**-194.307**
Less actual central expenditure	67.875	-	67.875
Less Actual ISB deployed to schools	-	141.167	141.167
Plus Local Authority contribution for 2020/21	-	-	-
Carry-forward to 2021/22	**14.735**	**-**	**14.735**

Under the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2020, which came into effect on 29th November 2020, any local authority with a deficit on its school budget during the period of the regulation (1st April 2020 to 31st March 2023) must charge the amount of the deficit to an account established solely for the purpose of recognising deficits in its schools budget.

Further details of the Dedicated Schools Grant Adjustment Account can be found in Note 43: Unusable Reserves.

Note 22: Grant Income

The Council credited the following grants, capital contributions and capital donations to the Comprehensive Income and Expenditure Statement in 2020/21:

2019/20 £millions		2020/21 £millions
	Credited to Taxation and Non-Specific Grant Income	
	Revenue Grants	
-	- Revenue Support Grant	-6.174
-0.076	- Lead Local Flood Authority Grant	-
-0.134	- Inshore Fisheries Grant	-0.134
-2.390	- New Homes Bonus	-2.039
-15.563	- COVID 19 Support Grant	-14.769
-8.978	- Business Rates Cap	-13.540
-0.611	- Rights to Free Travel	-0.687
-4.039	- Building Schools for the Future	-3.972
-0.175	- Transitional (Brexit) Grant	-
-4.268	- Adult Social Care Support Grant	-14.705
-0.356	- Local Reform and Community Voices Grant	-0.358
-	- Rural Services Delivery Grant	-2.403
-	- Council Tax Income Guarantee Scheme	-1.690
-36.590		**-60.471**
	Capital Grants	
-8.318	- Standards Fund Capital Grant	-3.172
-30.452	- Department for Transport Capital Grant	-27.169
-8.824	- LEP	-12.080
-3.366	- Dept. Housing, Communities and Local Govt.	-1.751
-0.400	- Dept. Digital, Culture, Media & Sport (Broadband)	-
-1.725	- Highways England (Junction 25)	-
-6.529	- Other capital grants / Contributions (including developer S106 income)	-3.387
-59.614		**-47.559**
-96.204	**Total**	**-108.030**

2019/20 £millions		2020/21 £millions
	Credited to Services	
	Revenue Grants	
-202.314	- Dedicated Schools Grant	-205.386
-6.844	- Standards Fund	-3.556
-8.782	- Pupil Premium Grant	-8.608
-0.675	- Music Education Grant	-0.675
-0.700	- LEP - Start Up Fund	-0.500
-40.997	- LEP - Growth Hub	-27.534
-0.093	- Adoption Support Grant	-0.095
-2.176	- Sixth Form Funding (S6F)	-1.893
-2.546	- Primary PE and Sports Grant	-2.401
-0.461	- Youth Justice	-0.473
-1.226	- Troubled Families	-1.102
-0.515	- Family Safeguarding	-
-0.390	- Step Up Social Work	-1.274
-0.588	- School Improvement Grant	-0.570
-0.093	- Year 7 Catch Up premium grant	-
-3.591	- Universal Infants Free School Meals	-3.283
-4.433	- Teachers Pay Grant	-6.728
-1.334	- Children and Young People services – other grants	-1.185
-1.193	- Independent Living Fund	-1.193
-20.176	- Public Health grant	-21.048
-20.187	- Care Act	-22.685
-2.769	- Winter Pressures Grant	-
-0.049	- Adult services – other grants	-0.302
-0.278	- DEFRA - AONB & LARC	-0.291
-0.773	- Triple C Project	-0.145
-0.911	- Grant from Broadband Delivery UK	-
-0.454	- Bus Service Operators Grant	-0.855
-2.800	- Building Schools for the Future contributions	-2.867
-1.730	- West Somerset Opportunities Area Fund (WSOA)	-0.588
-2.176	- Economic, Communities & Infrastructure services - other grants	-0.767
-1.098	- Other services grants	-1.538
	COVID-19 Grants	
-0.105	- COVID 19 Support Grant	-1.466
-	- Winter Grant Scheme	-1.902
-	- Funding for Clinically Extremely Vulnerable	-0.693
-	- Infection Control Grant	-15.446
-	- Outbreak Management Grant	-5.093
-	- Loss of Income Grant	-3.620
-	- Various Schools Grants	-2.146
-	- Rapid Testing Grant	-1.831
-	- Workforce Capacity Fund	-0.957
-	- Test, Track & Trace Grant	-0.508
-	- School and College Transport	-0.804
-	- Emergency Assistant Grant for Food & Essential Supplies	-0.573
-	- Other COVID-19 related grants	-1.356
-332.457	**Total**	**-353.937**

Note 23: Partnerships and Related Party Transactions

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

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

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

Members
Elected Members of the Council have direct control over the Council's financial and operating policies. The total of Members' allowances paid in 2020/21 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 Council. No material transactions between the Council and businesses in which members have a controlling interest have been identified.

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

Other Related Parties
The Council has significant influence over other parties due to the considerable proportion of business provided to them by the Council. 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 2020/21 the Council paid £30.376 million to Discovery.
- Various local companies (14 in total) that provide transport on behalf of the Council. The total paid to these companies during 2020/21 was £8.742 million.
- Futures for Somerset, a long-term strategic partnership, is an associate of the Council, in which the Council has a 10% share by shareholding and influence over its long-term plans. In 2020/21 the Council paid £0.698 million to Futures for Somerset.

Note 24: Property, Plant & Equipment

Movements in 2020/21	Other Land & Buildings £millions	Vehicles, Plant & Equipment £millions	Infrastructure Assets £millions	Surplus Assets £millions	Assets Under Construction £millions	Total £millions
Cost or valuation						
At 1 April 2020	435.672	61.283	764.154	3.117	29.972	1,294.198
Additions	19.469	5.590	38.981	0.000	21.082	85.121
Disposals	-34.593	-9.831	-0.024	-0.250	-	-44.698
Reclassifications	19.136	1.964	-0.002	-0.482	-20.512	0.105
Revaluation Increase/decrease (-):						
- to Revaluation Reserve	20.219	-	-	0.828	-	21.047
- to Surplus/Deficit on the provision of service	-15.292	-	-	0.012	-	-15.280
At 31 March 2021	444.611	59.005	803.109	3.225	30.542	1,340.493
Depreciation and impairments						
At 1 April 2020	-12.196	-34.167	-302.646	-0.054	-0.001	-349.064
Charge for 2020/21	-7.833	-8.263	-10.938	-0.122	-0.036	-27.192
Disposals	1.630	9.518	0.000	0.004	-	11.152
Reclassifications	-0.362	-0.286	0.002	0.077	-	-0.569
Revaluation Increase/decrease (-):						
- to Revaluation Reserve	10.129	-	-	0.048	-	10.177
- to Surplus/Deficit on the provision of service	-	-	-	-	-	-
At 31 March 2021	-8.633	-33.198	-313.581	-0.047	-0.037	-355.497
Balance sheet amount at 1 April 2020	**423.476**	**27.116**	**461.508**	**3.063**	**29.971**	**945.134**
Balance sheet amount at 31 March 2021	**435.978**	**25.807**	**489.528**	**3.178**	**30.505**	**984.996**
Nature of asset holding at 31 March 2021						
Owned	402.257	25.807	489.528	3.177	30.505	951.274
Finance lease	33.722	-	-	-	-	33.722
	435.979	**25.807**	**489.528**	**3.177**	**30.505**	**984.996**

None of the Council's assets were recognised under a PFI type arrangement, during 2020/21.

Movements in 2019/20	Other Land & Buildings £millions	Vehicles, Plant & Equipment £millions	Infrastructure Assets £millions	Surplus Assets £millions	Assets Under Construction £millions	Total £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	-	-
Revaluation Increase/decrease (-):						
- to Revaluation Reserve	7.887	-	-	0.089	-	7.976
- to Surplus/Deficit on the provision of service	0.073	-	-	0.129	-	0.202
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**

Capital Commitments

As at 31 March 2021, the Council anticipated investing £335.590m (£357.881m at 31 March 2020) in the construction or enhancement of Property, Plant, Equipment and Infrastructure during 2021/22 and future years. Some of this will be for schemes that have not yet started.

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

- £30.515m for the Connecting Devon & Somerset Broadband Programme
- £3.813m for the Sky College expansion project
- £3.189m for the M5 Junction 25 Improvements project
- £2.891m for the Yeovil Fairmead School expansion project
- £2.484m for the Yeovil Fiveways School expansion project
- £2.458m for the new Polden Bower School in Bridgwater
- £2.107m for the Traffic Signals Recovery Programme
- £0.973m for the Holway Centre PRU expansion project

Similar commitments listed at 31 March 2020 were £46.423m.

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

1. An on-going contract for the procurement of the highways major resurfacing that will result in an estimated capital expenditure of between £25 million and £30 million in 2021/22 (£25-£30 million in 2020/21). These payments will relate to new projects in 2021/22 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.

Further details of the Council's Capital Programme for 2021/22 to 2023/24 can be found in the Medium-Term Financial Plan papers (Appendix 8) taken to Full Council in February 2021.

Revaluations

The Council 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 UK VPGA 6 and UK VPGA 4 of the RICS Valuation – Global Standards 2017: UK national supplement.
- Surplus assets are revalued in accordance with the IFRS13 and UK VPGA 4.1 of the RICS Valuation – Global Standards 2017: UK national supplement; and

	Other Land & Buildings	Vehicles, Plant & Equipment	Infrastructure Assets	Surplus Assets	PPE Under Construction	Total
	£millions	£millions	£millions	£millions	£millions	£millions
Carried at historical cost	13.515	25.807	489.528	-	30.505	**559.356**
Valued at current value as at:						
31 March 2021	297.371	0.000	0.000	3.177	0.000	**310.058**
31 March 2020	31.922	0.000	0.000	0.000	0.000	**31.922**
31 March 2019	58.728	0.000	0.000	0.000	0.000	**55.831**
31 March 2018	10.800	0.000	0.000	0.000	0.000	**7.150**
31 March 2017	23.643	0.000	0.000	0.000	0.000	**20.679**
Total cost or valuation	**435.979**	**25.807**	**489.528**	**3.177**	**30.505**	**984.996**

During 2020/21, there were 3 properties that became operational where a formal valuation was not possible due to pandemic related workload. As a result, these assets have been carried at their historic cost as at 31 March 2021 (£13.515m). These properties will be included in the 2021/22 valuation cycle to ensure they are carried at current value in accordance with the Council's accounting policy in future years.

Note 25: Intangible Non-Current Assets

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

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

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation charge of £0.458 million for 2020/21 was charged to the following service areas:

- £0.322 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 £0.136 million was charged to various services for use of specific IT systems.

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

2019/20 £millions		2020/21 £millions
	Balance at start of year:	
7.808	– Gross carrying amount	7.830
-4.685	– Accumulated amortisation	-5.890
3.123	**Net carrying amount at start of year**	**1.940**
	Movement in year:	
0.022	Purchases	-
-1.205	Amortisation for the period	-0.459
1.940	**Net carrying amount at end of year**	**1.481**

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

	Carrying amount at 31 March 2020 £millions	Carrying amount at 31 March 2021 £millions	Remaining Amortisation Period at 31 March 2021
HCL SAP system (Integrated finance and payroll system)	0.939	0.617	2 years
SAP system licences	0.926	0.854	12 years

Note 26: Impairment Losses

During the valuation process for 2020/21, consideration was given to the Authorities entire asset portfolio. There were no material impairments identified during this review.

Note 27: Assets Held For Sale

The carrying value of the Council's Assets Held for Sale at 31 March 2021, and the movement in the year, are reflected in the table below:

Current 2019/20 £millions		Current 2020/21 £millions
0.877	**Balance outstanding at start of year**	**1.262**
	Assets newly classified as held for sale:	
2.505	Property, plant and equipment	1.276
-	Revaluation gain to Revaluation Reserve	0.450
-1.243	Revaluation loss charged to Surplus/Deficit on the provision of service	-0.595
	Assets declassified as held for sale:	
-0.720	Property, plant and equipment	-0.812
-0.157	Assets sold	-0.450
1.262	**Balance outstanding at year end**	**1.131**

Note 28: Surplus Assets – Fair Value Measurement

Valuation Process for Surplus Properties

The fair value of the Council's surplus properties are 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 Council intends a different use. The Council has a responsibility to use its assets for the provision of public services not for its perceived highest and best use value. The Council is also sometimes bound by various regulations that restricts use of those surplus assets.

Fair Value Hierarchy

Details of the Council'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 2021:

	Other significant observable inputs (level 2) £millions	Significant unobservable inputs (level 3) £millions	Fair value as at 31 March 2021 £millions
Office/specific use properties	-	0.070	0.070
Commercial units	0.054	-	0.054
Land	0.712	2.341	3.053
	0.766	**2.411**	**3.177**

None of the Council'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 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**

Transfers between Levels of the Surplus Asset Fair Value Hierarchy

There were no transfers between levels of the surplus asset fair value hierarchy during 2020/21.

Reconciliation of Surplus Asset Fair Value Measurements within Level 3

2020/21	01 April 2020 £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 2021 £millions
Surplus assets	2.458	-	-	-0.292	-	-0.250	0.495	-	2.411

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 Council'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 31/03/2021 £millions	Valuation technique used to measure fair value	Significant unobservable inputs	Range with (average used)	Sensitivity
Office/specific use properties	0.070	Investment income approach using market-derived yields	Yield	5% - 7% (6%)	Fluctuations in current market conditions, and nature of tenant
			Conversion costs	Variable (dscounted at 6% per annum)	Current Market value and discount rate applied.
Land	2.341	Value of developed land with significant hope values applied	Hope values	10% - 80% (59%)	Purchasers perceived risk of planning consent (20% based on peer review for specific properties).
			Yield	6% - 8.5% (7%)	Fluctuations in current market conditions.
			Conversion costs	Variable (dscounted at 6% per annum)	Current Market value and discount rate applied.
			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 2020/21 is as follows:

- Depreciation of £0.122m has been charged to non-distributed costs within the surplus or deficit on continuing operations.
- Reversal of previous revaluation losses (charged to surplus or deficit on continuing operations) of £0.012m. This went to the relevant service within the surplus or deficit on continuing operations.
- £0.876m as a gain to the Surplus or deficit on revaluation of fixed assets within other comprehensive income.

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

Note 29: Leases

Council as Lessee

Finance Leases

The Council has a small number of libraries, the Museum of Somerset and Dillington House (the Council'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 2020 £millions	31 March 2021 £millions
Other Land and Buildings	24.954	33.722
	24.954	**33.722**

The Council 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 2020/21 (below) are the finance lease liability and finance costs for the BSF Bridgwater PFI scheme. Although the schools have been de-recognised from the Council'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:

2019/20 £millions		2020/21 £millions
	Finance lease liabilities (net present value of minimum lease payments):	
1.001	- Current	1.097
40.970	- Non Current	39.873
45.559	Finance costs payable in future years	41.916
87.530	Minimum lease payments	**82.886**

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

	Minimum Lease Payments		Finance Lease Liabilities	
	31 March 2020 £millions	31 March 2021 £millions	31 March 2020 £millions	31 March 2021 £millions
Not later than one year	4.971	4.990	1.001	1.097
Later than one year and not later than five years	19.882	19.961	5.060	5.545
Later than five years	62.677	57.935	35.910	34.328
	87.530	**82.886**	**41.971**	**40.970**

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 2020/21, £0.021m contingent rents were received by the Council (£0.040m received in 2019/20). There were no material sub-lease arrangements in place during 2020/21, for assets acquired under finance leases.

Operating Leases

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

Operating Leases	31 March 2020 Land & Buildings £millions	31 March 2020 Vehicles & Equipment £millions	31 March 2021 Land & Buildings £millions	31 March 2021 Vehicles & Equipment £millions
Not later than one year	0.513	0.280	0.718	0.200
Later than one year and not later than five years	1.571	0.913	2.309	0.156
Later than five years	2.608	0.000	5.519	0.000
	4.692	**1.193**	**8.546**	**0.356**

There were no material sub-lease arrangements in place during 2020/21 for assets acquired under operating leases.

Council as Lessor

Finance Leases

The Council has leased out a number of its elderly care home properties to Somerset Care Ltd on a finance lease with a remaining term of 80 years. The Council 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 95 years and the Rural Life Barn museum to the Somerset Preservation Trust with a remaining term of 72 years. We did not acquire any of these assets specifically for the purpose of letting under finance leases.

The Council 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 2020 £millions	31 March 2021 £millions
Finance lease debtor (net present value of minimum lease payments):		
- Current	0.030	0.032
- Non Current	14.314	14.282
Unearned Finance Income	47.916	47.157
Gross investment in the lease	**62.260**	**61.471**

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 2020 £millions	31 March 2021 £millions	31 March 2020 £millions	31 March 2021 £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	3.160	3.159	3.160
Later than five years	58.311	57.521	58.311	57.521
	62.260	**61.471**	**62.260**	**61.471**

During 2020/21, the Council 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 2020/21. 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 2020/21, £0.087m contingent rents were receivable by the Council (£0.087m for 2019/20).

Operating Leases

The Council 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 2020 £millions	31 March 2021 £millions
Not later than one year	0.691	0.747
Later than one year and not later than five years	2.680	2.813
Later than five years	2.466	1.900
	5.837	**5.460**

Note 30: Private Finance Initiatives (PFI) & 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 Council, through its schools and partners, has the contractual right to occupy and use the PFI sites for the purpose of delivering education and related functions during ‘core school hours’ each 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.

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 Council 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 authority owed assets used to provide services under the PFI contract are recognised on the Council’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	1.092	3.876	1.917	0.560	**7.445**
Within 2 - 5 years	5.520	14.350	7.669	2.241	**29.780**
Within 6 - 10 years	10.457	14.380	9.586	2.802	**37.225**
Within 11 - 15 years	16.539	8.298	9.586	2.802	**37.225**
Within 16 - 20 years	6.980	0.660	3.028	1.121	**11.789**
	40.588	**41.564**	**31.786**	**9.526**	**123.464**

Although the Council is committed to making these payments, the leisure centre and new schools will be under the control of the BET and therefore do not appear on the Council'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:

	2019/20 £millions	2020/21 £millions
Balance outstanding at start of year	42.493	41.584
Payments made during the year	-0.909	-0.996
Balance outstanding at year-end	**41.584**	**40.588**

The total estimated indexed payments under the contract amount to £179.375 million. These payments are scheduled to be funded from the following revenue streams:

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

Note 31: Heritage Assets - Summary of Transactions

	2019/20 £millions	2020/21 £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 2020/21 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 Council'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 Council 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 Council 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.

All South West Heritage Trust sites are now open following the easing of Covid-19 restrictions.

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 Council 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 Council 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 Council 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.

Ceramics

The collection of Somerset-made ceramics includes earthenware from Donyatt, Wrangway, Nether Stowey and other centres, Brislington and Wincanton tin-glazed earthenware, Nailsea glass, Elton ware and examples of work of 20th- and 21st-century craft potters.
There is an extensive collection of non-British pottery from China, the Near East, Africa, America and North West and Mediterranean Europe. The Barton collection of vernacular ceramics is of particular significance in this context.

The Council 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 Council'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 Council 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 Council 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 Council'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 Council owns many other significant collections, including those of the Luttrell, Dickinson, Wyndham and Walker-Heneage families.

Preservation and Management

Details of the Council'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 & 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 Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed in the second part of this note.

2019/20 £millions		2020/21 £millions
379.430	Opening Capital Financing Requirement	423.076
	Capital Investment:	
107.910	- Property, Plant and Equipment	85.121
0.022	- Intangible Assets	-
56.867	- Revenue Expenditure Funded from Capital Under Statute	37.780
-0.032	Reduction of capital debtors	-0.033
0.027	Capitalised Icelandic Investment Impairment/(Reversal)	-
2.163	Expenditure funded under the Capital Receipts Flexibility Directive	-
-0.045	Loan Premium (under the Capital Financing Regs (SI 2003 no.3146 as amended)	-0.046
	Sources of Finance	
-2.046	- Capital receipts	-1.172
-2.163	- Capital Receipts under the Flexibility Directive	-
-112.372	- Government grants and contributions	-78.604
	- Sums set aside from revenue:	
-2.138	- Direct revenue contributions	-1.308
-2.600	- Minimum Revenue Payments	-3.182
-1.947	- Other (including lease principal payments)	-3.616
423.076	**Closing Capital Financing Requirement**	**458.016**

2019/20 £millions		2020/21 £millions
	Explanation of movements in year	
-2.635	Increase/Decrease (-) in underlying need to borrow (supported by government financial assistance)	-3.643
46.281	Increase/Decrease (-) in underlying need to borrow (unsupported by government financial assistance)	38.583
43.646	**Increase/Decrease (-) in Capital Financing Requirement**	**34.940**

Note 34: Financial Instruments

Categories of Financial Instrument

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

31 March 2020 Non Current £millions	31 March 2020 Current £millions		31 March 2021 Non Current £millions	31 March 2021 Current £millions
		Investments		
-	127.346	Financial assets at amortised cost	-	155.237
14.077	-	Pooled Funds at fair value through profit or loss	38.843	-
14.077	**127.346**	**Total Investments**	**38.843**	**155.237**
		Receivables		
18.875	23.123	Financial assets at amortised cost	18.557	35.465
1.904	24.923	Receivables that are not financial instruments	1.787	24.500
20.779	**48.046**	**Total Receivables**	**20.344**	**59.965**
		Cash and cash equivalents		
-	19.567	Cash and cash equivalents at amortised cost	-	58.113
-	27.090	Cash equivalents at fair value through profit or loss	-	25.630
-	-1.716	Overdraft	-	-6.605
-	**44.941**	**Total Cash and cash equivalents**	**-**	**77.138**
		Other Assets		
949.008	8.772	Other Assets that are not financial instruments	988.411	8.798
949.008	**8.772**	**Total Other Assets**	**988.411**	**8.798**
		Borrowings		
-340.336	-13.220	Financial liabilities at amortised cost	-338.441	-13.082
-340.336	**-13.220**	**Total Borrowings**	**-338.441**	**-13.082**
		Payables		
-0.300	-60.152	Financial liabilities at amortised cost	-0.259	-67.939
-	-22.267	Payables that are not financial instruments	-	-38.710
-0.300	**-82.419**	**Total Payables**	**-0.259**	**-106.649**
		Other Liabilities		
-40.970	-1.001	PFI and finance leases carried at amortised cost	-39.873	-1.097
-779.673	-47.471	Other Liabilities that are not financial instruments	-1,033.921	-113.954
-820.643	**-48.472**	**Total Other Liabilities**	**-1,073.794**	**-115.051**

Categories of Financial Assets and Financial Liabilities

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

31 March 2020 Non Current £millions	31 March 2020 Current £millions		31 March 2021 Non Current £millions	31 March 2021 Current £millions
		Financial Assets:		
18.875	168.320	Measured at amortised cost	18.557	242.210
14.077	27.090	Measured at fair value through profit or loss	38.843	25.630
32.952	**195.410**		**57.400**	**267.840**
		Financial Liabilities		
-381.606	-74.373	Measured at amortised cost	-378.573	-82.118
-381.606	**-74.373**		**-378.573**	**-82.118**

The Council 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 2020				31 March 2021		
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
19.366	-	-	Interest expense	19.665	-	-
19.366	**-**	**-**	**Total Expense in Surplus/Deficit on the Provision of Service**	**19.665**	**-**	**-**
-	0.822	-	Decrease in Fair Value	-	0.267	-
-	**0.822**	**-**	**Total Expense in Other Comprehensive Income & Expenditure**	**-**	**0.267**	**-**
-	-	-2.869	Interest Income	-	-	-2.450
-	**-**	**-2.869**	**Total Income in Surplus/Deficit on the Provision of Service**	**-**	**-**	**-2.450**
19.366	**0.822**	**-2.869**	**Net (Gain)/Loss for the Year**	**19.665**	**0.267**	**-2.450**

Fair Values of Assets and Liabilities

Financial liabilities and financial assets 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 market rate i.e. the rate that the Council would get should they take a loan of the same value for Public Work Loans Board (PWLB) at 31 March 2021;
- The fair value of the Council'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 2020 Carrying Amount £millions	Fair value (Restated) £millions		Fair Value Level	31 March 2021 Carrying Amount £millions	Fair Value £millions
		Finance asset measured at amortised cost			
17.851	17.851	- Cash and Cash Equivalents		51.508	51.508
27.654	27.654	- Receivables (non-Lease)		39.709	39.709
14.344	24.951	- Receivables (Lease)	3	14.313	29.613
127.346	127.346	- Investments (exc Pooled Fund)		155.237	155.237
		Finance asset measured at fair value through profit and loss			
14.077	14.077	- Pooled Fund Investment	2	38.843	38.843
27.090	27.090	- Cash Equivalents	1	25.630	25.630
228.362	238.969	Total Financial Assets		325.240	340.540
984.607	984.607	Other assets that are not financial instruments		1,023.496	1,023.496
1,212.969	**1,223.576**	**Total Assets**		**1,348.736**	**1,364.036**
		Financial liabilities at amortised cost			
-60.452	-60.452	Payables		-68.198	-68.198
-7.395	-7.395	Short Term Borrowing		-7.220	-7.220
-162.925	-211.525	PWLB	2	-160.273	-225.080
-183.236	-295.865	Other long term loan	2	-184.030	-295.027
-41.971	-69.975	PFI/Finance Lease liability	3	-40.970	-72.523
-455.979	-645.212	Total Financial Liabilities		-460.691	-668.048
-849.411	-849.411	Other liabilities that are not financial instruments		-1,186.585	-1,186.585
-1,305.390	**-1,494.623**	**Total Liabilities**		**-1,647.276**	**-1,854.633**
-92.421	**-271.047**	**Net Assets**		**-298.540**	**-490.597**

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 Council'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 2021) arising from a commitment to pay interest to lenders above current market rates.

As the Council's long-term investments in Pooled Investment Funds have been adjusted in the accounts to reflect their market value, the fair value of the asset is the same as the carrying value. Short term receivables and payables 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 Council also shows the money we receive to invest for other organisations as temporary loans.

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

2019/20 Restated £millions		2020/21 Restated £millions
	Fixed Interest Rate Deposits:	
15.000	Santander UK 95-Day Notice A/c	15.000
10.000	Lloyds Bank Plc 175-Day Notice A/c	-
10.000	HSBC Evergreen Notice Account	10.000
10.000	Goldman Sachs International Bank 95-Day A/c	-
-	Police & Crime Commissioner for Lancashire	10.000
10.000	DZ Bank	-
71.962	Other Fixed Interest Rate Deposits	119.930
126.962		154.930
0.384	Interest due on temporary investments	0.307
127.346	**Total short-term investments**	**155.237**
14.077	CCLA Pooled Property Fund	14.010
-	RLAM Investment Grade Credit Fund	14.941
-	M&G Strategic Corporate Bond Fund	9.892
14.077	**Total long-term investments**	**38.843**

Although the total investments in the table above remain unchanged, the short term investments section has been reclassified to identify the material investments held at year-end.

Long-term debtors

2019/20 £millions		2020/21 £millions
	Loans to:	
0.120	Central Government (Academy loans)	0.090
0.065	Other authorities (mostly for housing)	0.047
4.376	Other organisations/individuals	4.138
14.314	Leasing arrangements with Somerset Care Ltd	14.282
	Payment in advance:	
1.904	BSF Lifecycle costs	1.787
20.779		**20.344**

Short-term borrowing

2019/20 £millions		2020/21 £millions
-7.395	Other organisations investing in the Comfund	-7.220
-7.395		**-7.220**

Long-Term Borrowing

2019/20 £millions		2020/21 £millions
	Loans due to be repaid:	
-1.950	within one year	-1.959
-1.949	between one and two years	-2.016
-15.396	between two and five years	-25.086
-37.491	between five and 10 years	-25.839
-285.500	after more than 10 years	-285.500
-3.875	Interest due on long-term borrowing	-3.903
-346.161		**-344.303**

Long-term borrowing (including interest) that has become repayable within a year are reported as a current liability on the Balance Sheet.

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

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

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

The Council'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 Council. The annual Treasury Management Strategy Statement outlines the proposed Treasury Management strategy, policies, and activities for the coming year. It includes an Annual Investment Strategy that is required by the Local Authority Act 2003, as prescribed by guidance from the 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 Council 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 Council 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 2020/21, can be found under the reports for the County Council meeting 19 February 2020, agenda item 6, Paper B. The Treasury Management Strategy Statement is also available on the Council's website.

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

- Credit Default Swaps and Government Bond Spreads.
- GDP, and Net Debt as a percentage of GDP for sovereign countries.
- Likelihood and strength of parental support.
- 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 Council's funds as a nominal or percentage of the overall fund, and
- an overall limit on MMFs.

The Council'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 Council 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 Council’s potential maximum exposure to credit risk on investments (excluding the CCLA, RLAM and M&G pooled investment funds), 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	25.630	0.031
	Local Authorities		
	AA-	130.000	0.104
	UK banks		
	AA	20.000	-
	AA-	10.000	0.008
	A+	30.000	-
	Overseas Banks		
	AA-	20.000	0.016
		235.630	**0.159**
S&P	**Money-market funds**		
	AAA	25.630	-
	Local Authorities		
	AA	130.000	0.026
	UK banks		
	AA-	20.000	0.006
	A+	10.000	0.005
	A	30.000	0.018
	Overseas Banks		
	AA-	20.000	0.006
		235.630	**0.061**
Moody's	**Money-market funds**		
	AAA	25.630	-
	Local Authorities		
	Aa3	130.000	-
	UK banks		
	Aa3	20.000	0.008
	A1	40.000	0.024
	Overseas Banks		
	Aa1	20.000	-
		235.630	**0.032**
Investment and highest risk for 2020/21		**235.630**	**0.159**
Investment and highest risk for 2019/20		**169.090**	**0.070**

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

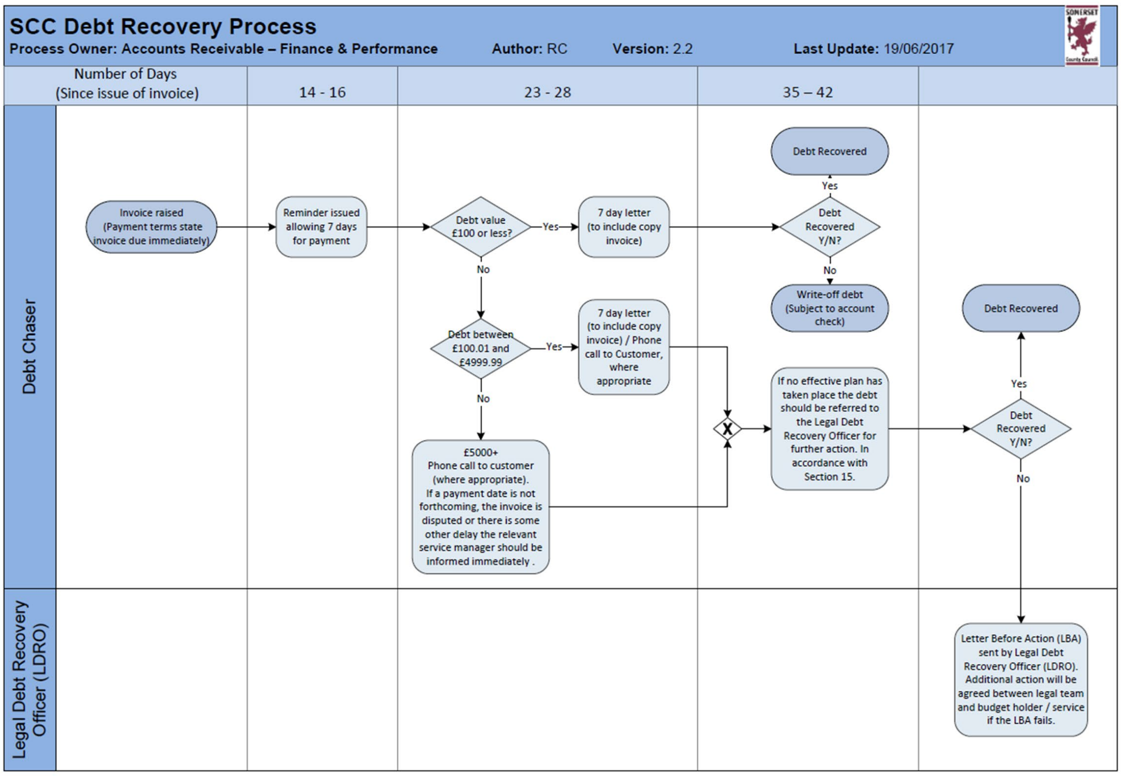
As the crisis relating to Covid-19 evolves, the Credit Rating Agencies continue to update the Ratings of the Banks we lend to and these revised ratings are considered as we make deposits. As a general response to the crisis we have reduced the length of time to maturity on deposits we make to Banks to 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 Council 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 Council 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 Council 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 Council 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 for 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 Council agrees to the debtor’s proposal for repayment of the debt, the Council 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 Council’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.

Impact of COVID-19 on debt collection and impairment

To support individual residents and business during the Covid-19 pandemic, the Council suspended active debt recover for the first three months of 2020/21. The revised process approved for debt recovery was to continue sending out invoices, but the reminder notifications were temporarily suppressed.

The Council’s Debt Recovery Team continued to liaise with residents/businesses who contacted the Council to agree a longer payment plan or a three-month payment holiday if severe difficulties were identified. This provided breathing space while ensuring the Council could continue to collect debts where possible.

Amounts Arising from Expected Credit Losses

During the year, the Council wrote off financial assets with a contractual amount outstanding of £0.434m (£0.324m in 2019/20), with a further £0.309m 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 Council has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. The Council’s cash flow investments are made with reference to the outlook for the UK Bank Rate and Money Market rates. Short-term deposits are made with suitable counterparties, and it has become more frequent under current market conditions that Call Accounts and CNAV/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 Council 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 Council 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 Council will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates (Refinancing risk). The Council will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented. Also ensuring the maturity profile of the monies so raised are managed with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the organisation as can reasonably be achieved in the light of market conditions prevailing at the time.

The Council will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective and will avoid over reliance on any one source of funding if this might jeopardise achievement of the above. This can be managed through a combination of careful planning of new loans taken out and (where it is economic to do so) restructuring debt or making early repayments. The market loan portfolio can limit the control of early repayments, and a strategy is in place to minimise the impact should counterparties exercise their right to increase the interest rate charged. The 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 Council is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates can have a complex impact on the Council. 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 carried at historic cost 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 2020/21 with all other variables held constant, there would have been a reduction in interest receivable on investments of approximately £0.152m.

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 Council will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests and will accordingly seek to protect itself from the effects of such fluctuations. The Council 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 property 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 Council to carry any fair value movements in an unusable reserve until the asset is sold.

The Council is also exposed to the risk of a fall in listed bond prices on its RLAM and M&G Pooled Investment Funds. A 5% fall in the listed price of Sterling Corporate Bonds would result in a £1.250m 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 Council to carry any fair value movements in an unusable reserve until the asset is sold.

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

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

Foreign Exchange Risk

The Council 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 Council maintains an interest-bearing Euro account.

Note 36: Inventories

	Consumable Stores 2019/20 £millions	Consumable Stores 2020/21 £millions	Musical Instruments 2019/20 £millions	Musical Instruments 2020/21 £millions	Book Stocks 2019/20 £millions	Book Stocks 2020/21 £millions	Total 2019/20 £millions	Total 2020/21 £millions
Balance outstanding at start of year	**0.294**	**0.250**	**0.862**	**0.855**	**6.728**	**6.405**	**7.884**	**7.510**
Purchases	0.270	0.908	0.006	0.049	0.580	0.591	**0.856**	**1.548**
Recognised as an expense in the year	-0.314	-0.432	-0.013	-0.019	-0.903	-0.940	**-1.230**	**-1.391**
Balance outstanding at year-end	**0.250**	**0.726**	**0.855**	**0.885**	**6.405**	**6.056**	**7.510**	**7.667**

Note 37: Short term debtors and payments in advance

2019/20 £millions		2020/21 £millions
	Money owed to us by:	
7.540	Central Government	18.241
	Local Government:	
22.377	- Council Tax/NDR owed by local residents/businesses	28.810
7.830	- Other	4.818
8.516	NHS	10.592
0.010	Public Corporations	0.007
10.096	Other organisations/individuals	7.383
	Loss Allowance:	
-11.980	- Council Tax/NDR related	-13.966
-0.345	- Other trade debtors	-0.108
44.044		55.777
4.002	Payments made in advance	4.188
48.046		**59.965**

The Council Tax and NDR loss allowance has been provided by the district billing authorities and is not an allowance calculated by the Council. See the Council Tax and Business rate accounting policy no.27 for further details.

Note 38: Short term creditors

2019/20 £millions		2020/21 £millions
	Money we owe to:	
	Government Departments:	
-0.924	- Central Government	-0.376
-14.688	- Local Government	-29.086
-1.790	- NHS	-1.654
-	- Public Corporations	-0.026
-47.669	Other organisations	-55.729
-6.990	Employees (under IAS19)	-9.193
-72.061		-96.064
-3.464	Receipts in advance	-4.257
-75.525		**-100.321**

The COVID-19 pandemic has had a significant impact on the collection of Council Tax and Non-Domestic Rates, as the income received from council tax/ratepayers was less than originally estimated. This has resulted in a significant deficit position (£10.193m) owed to the district billing authorities as at 31 March 2021, that the Council will need to fund over the next three years. This deficit is the main reason for the increased creditor with Local Government during 2020/21 in the table above.

Note 39: Other long-term liabilities

2019/20 £millions		2020/21 £millions
-40.970	Finance Lease Liability - due in more than 1 year	-39.873
-754.797	Pensions liability	-993.554
-795.767		**-1,033.427**

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 2020/21.

2019/20 £millions		2020/21 £millions
-5.325	Total insurance provision (excl. MMI) set aside on 1 April	-3.257
	Add:	
-2.048	- premiums received from services	-2.135
	Less:	
0.960	- insurance premiums paid	0.921
2.548	- net claims paid	0.470
0.608	- professional and administrative costs	0.491
-3.257	**Total insurance provision set aside on 31 March**	**-3.510**
	Non-Service	
-2.539	NDR Collection Fund - Provision for appeals	-0.843
	Children's Services	
-0.514	Care Leavers Grant	-0.525
	Other Services	
-1.575	Highways Network	-1.072
-	ECI Service	-1.356
-0.010	Bishop Lydeard School House Delapidation	-
-	County Hall NNDR	-0.119
-7.895	**Total Provisions due in less than 1 year**	**-7.425**
	Municipal Mutual Insurance (MMI) Provision	
-0.300	Relating to asbestos claims paid by MMI	-0.259
-0.300	**Total Provisions due in more than 1 year**	**-0.259**

Insurance provision

The Council'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 Council charges any loss which arises directly to the service concerned. At the end of the year we have £3.769m of claims not yet finally agreed (£3.557m in 2019/20) which we have not yet charged to the Fund but have set aside this amount as a provision. The Council also has an earmarked reserve for the Insurance Fund, which currently contains £8.370m. As the Council self-insures, we must put aside funds for any future claims as well as the current claims we must still pay.

Note 41: Revenue & Capital Grants/Contributions Receipt In Advance

The Council 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

2019/20 £millions		2020/21 £millions
	Capital Grant Receipts in Advance	
	Where the conditions are likely to be met within 1 year:	
-13.186	- Standards Fund (Schools Department for Education)	-14.698
-4.531	- Department for Transport	-26.203
-16.409	- Local Enterprise Partnership - Local Growth Fund (MHCLG)	-21.810
-0.749	- Other	-4.959
-34.875		**-67.670**
	Where the conditions are likely to be met in more than 1 year:	
-1.946	- Standards Fund (Schools Department for Education)	-0.589
-0.265	- Department for Transport	-0.128
0.000	- Local Enterprise Partnership - Getting Building (MHCLG)	-13.725
-0.168	- Other	-0.121
-2.379		**-14.563**
	Capital Contribution Receipts in Advance (RIA)	
	Where the conditions are likely to be met within 1 year:	
-3.424	- Section 106 Contributions	-3.686
-0.626	- Other Contributions to our Capital Schemes	-1.046
-4.050		**-4.732**
	Where the conditions are likely to be met in more than 1 year:	
-10.789	- Section 106 Contributions	-12.128
-0.497	- Other Contributions to our Capital Schemes	-0.470
-11.286		**-12.598**
-38.925	Total Capital Grant/Contributions RIA's, where conditions are likely to be met within 1 year	-72.402
-13.665	Total Capital Grant/Contributions RIA's, where conditions are likely to be met in more than 1 year	-27.161
-52.590	**Total**	**-99.563**

Revenue grants/contributions

2019/20 £millions		2020/21 £millions
	Revenue Grant/Contributions Receipts in Advance	
	Where the conditions are likely to be met within 1 year:	
-4.973	- Central Government	-10.600
-0.617	- NHS	-28.830
-	- Other Local Authorities	-0.086
-2.956	- Other organisations	-2.036
-8.546		**-41.552**
	Where the conditions are likely to be met in more than 1 year:	
-	- Central Government	-7.584
-1.335	- NHS	-2.787
-9.876	- Other organisations	-2.835
-11.211		**-13.206**
-19.757		**-54.758**

Note 42: Usable Reserves

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

2019/20 £millions		2020/21 £millions
	General Fund - Revenue	
	Schools	
17.085	General Fund - Schools	24.506
-11.079	Dedicated Schools Grant Reserve	-
	Local Authority	
26.113	General Fund - Other	29.873
69.529	Earmarked Reserves - set aside for revenue purposes	92.089
-	S31 Local Tax Income Guarantee Grant Reserve	10.138
101.648		156.606
	Other Usable Capital Reserves	
5.064	Capital Receipts Reserve	9.939
0.971	Capital Grants Unapplied Reserve	0.867
3.037	Capital Contributions Unapplied Reserve	2.807
9.072		13.613
110.720	**Total Usable Reserves**	**170.219**

These reserves can be used by the Council 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 Council has no control over what the reserve can be spent on.

The Dedicated Schools Grant reserve (deficit) has been reclassified from 1st April 2020 (in line with new regulations), as an Unusable reserve. See Note 43 – Dedicated Schools Grant Adjustment Account for further details.

General Fund – Other
This balance represents the cumulative surplus available to the Council 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 Council has earmarked for specific purposes.

S31 Local Tax Income Guarantee Grant Reserve
The Spending Review on 25 November 2020 announced that the Government would compensate local authorities for 75% of irrecoverable losses in Council Tax and Business Rates income expected in 2020-21 (the 'local tax income guarantee') due to the Covid-19 pandemic. This balance represents an estimation of the Authority's lost income payable under this guarantee, that was accrued at year-end. This grant is un-ringfenced and will be paid to the Council through Section 31 (S31) grant in 2021/22.

Under current collection fund accounting rules, the S31 grant receivable during 2020/21 will not be discharged against the Collection Fund deficit until 2021/22, This reserve is therefore not actually available but earmarked against the following year's collection fund deficit that will be charged to the Council when it's transferred from the Collection Fund Adjustment Account in 2021/22.

This reserve has been disclosed separately from the other Earmarked reserves to avoid overstating the Council's available General Fund position.

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 Council'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.

2019/20 £millions		2020/21 £millions
174.443	Revaluation Reserve	192.344
368.215	Capital Adjustment Account	354.568
14.344	Deferred Capital Receipts Reserve	14.314
-754.797	Pensions Reserve	-993.554
3.733	Collection Fund Adjustment Account	-10.193
-6.990	Accumulated Compensated Absences Adjustment Account	-9.193
0.000	Dedicated Schools Grant Adjustment Account	-14.735
-1.051	Financial Instruments Adjustment Account	-1.005
-1.038	Pooled Investment Funds Adjustment Account	-1.305
-203.141	**Total Unusable Reserves**	**-468.759**

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 Council 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.

2019/20 £millions		2020/21 £millions	2020/21 £millions
179.774	**Balance at 1 April**		**174.443**
13.454	Upward revaluation of assets	41.499	
-6.206	Revaluation/Impairment (losses) not charged to the Surplus/Deficit on the Provision of Services	-9.825	
7.248	Surplus/(Deficit) on revaluation of non-current assets not posted to the Surplus/Deficit on the Provision of Services		**31.674**
-3.642	Difference between fair value depreciation and historical cost dep'n	-3.562	
-8.937	Accumulated gains on asset disposals	-10.211	
-12.579	Amount written off to the Capital Adjustment Account		**-13.773**
174.443	**Balance at 31 March**		**192.344**

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.

2019/20 £millions			2020/21 £millions
372.191	**Balance at 1 April**		**368.215**
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
-29.294	- Charges for depreciation and impairment of non current assets/assets held for sale	-27.787	
-3.665	- Revaluation losses on Property, Plant and Equipment	-15.280	
-1.206	- Amortisation of intangible assets	-0.458	
-0.027	- Reversal/(Increase) of Icelandic impairment	-	
-56.867	- Revenue expenditure funded from capital under statute	-37.780	
-2.163	- Flexible use of capital receipts	-	
-46.599	- 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	-33.997	
-139.821			-115.302
12.579	Adjusting amounts written out of the Revaluation Reserve		13.773
-127.242	Net written out amount of the cost of non current assets consumed in the year		-101.529
	Capital Financing applied in the year:		
2.046	- use of the Capital Receipts Reserve to finance new capital expenditure	1.172	
112.372	- Capital grants and contributions that have been applied to capital financing	78.604	
4.547	- Statutory provision for the financing of capital investment charged against the General Fund balance	6.798	
2.138	- Capital expenditure charged against the General Fund balance	1.308	
2.163	- Flexible use of capital receipts	-	
123.266			87.882
368.215	**Balance at 31 March**		**354.568**

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 Council 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.

2019/20 £millions		2020/21 £millions
14.373	**Balance at 1 April**	**14.344**
-0.029	Amounts transferred to the Capital Receipts Reserve during the year	-0.030
14.344	**Balance at 31 March**	**14.314**

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 Council 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 Council 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 Council 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.

2019/20 £millions		2020/21 £millions
-801.670	**Balance at 1 April**	**-754.797**
73.786	Remeasurement gains / losses (-) on pension assets/liabilities	-196.860
-62.340	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	-77.756
35.427	Employer's pensions contributions and direct payments to pensioners payable in the year	35.859
-754.797	**Balance at 31 March**	**-993.554**

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.

2019/20 £millions		2020/21 £millions
2.720	**Balance at 1 April**	**3.733**
-2.186	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	-0.802
3.199	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	-13.124
3.733	**Balance at 31 March**	**-10.193**

The Covid-19 pandemic has had a significant impact on the collection of Council Tax and Non-Domestic Rates, as the income received from council tax/ratepayers was less than originally estimated. This has resulted in a significant deficit position (£10.193m) as at 31 March 2021, that the Council will need to fund over the next three years.

These exceptional costs will be partially offset by the UK Governments 'Local Tax Income Guarantee scheme' scheme. Details of the accrued balance due to the Council under this scheme can be found in Note 42 Useable Reserves.

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.

2019/20 £millions		2020/21 £millions
-5.902	**Balance at 1 April**	**-6.990**
5.902	Settlement or cancellation of accrual made at the end of the preceding year	6.990
-6.990	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	-9.193
-6.990	**Balance at 31 March**	**-9.193**

Dedicated Schools Grant Adjustment Account (New for 2020/21)

Under the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2020, which came into force on 29th November 2020, any local authority with a deficit on its school budget during the period of the regulation (1st April 2020 to 31st March 2023) must charge the amount of the deficit to an account established solely for the purpose of recognising deficits in its schools budget.

The new regulations confirms the existence of a deficit on the school's budget when the amount of expenditure incurred on the schools budget for the financial year beginning on 1st April 2020 (adjusted for any accumulated deficit from the previous financial year) exceeds the amount of the authority's Dedicated Schools Grant (and Sixth Form grant) in that financial year. Any subsequent in-year deficits, during the period of the regulation are transferred to this adjustment account to neutralise the impact on the General Fund.

Any in-year surplus (where Dedicated Schools Grant and Sixth Form grant income recognised in the year exceeds expenditure incurred on the schools budget) is recognised as an earmarked reserve (see Note 11 for further details) and not netted off the deficit balance in this adjustment account whilst the regulations are in effect. At the end of the effective period of the regulation, the deficit position will be offset by whatever surplus has accumulated. Government will review the position as at the end of the current regulation period to determine the need for any further extension of the regulations.

As of 31 March 2021, there was no accumulated Dedicated Schools grant accumulated surplus.

2019/20 £millions		2020/21 £millions
-	**Balance as at 1 April**	-
-	Transfer of Schools Budget Deficit to new Adjustment Account at 1 April 2020	-11.079
-	**Restated Balance as at 1 April**	**-11.079**
-	In year Schools budget deficit debited to the Comprehensive Income and Expenditure Statement and transferred to the DSG Adjustment Accounts in accordance with statutory requirements	-3.656
-	**Balance at 31 March**	**-14.735**

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 Council 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 Council'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 as at 31 March 2021 will be charged to the General Fund over the next 22 years.

2019/20 £millions		2020/21 £millions
-1.096	**Balance at 1 April**	**-1.051**
-	Premiums incurred in year and charged to the Comprehensive Income and Expenditure Statement	-
0.045	Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirments	0.046
-1.051	**Balance at 31 March**	**-1.005**

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 Council currently has three pooled fund investments, with the CCLA (Property); RLAM (Bonds) and M&G (Bonds). 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.

2019/20 £millions		2020/21 £millions
-0.216	**Balance at 1 April**	**-1.038**
-0.822	Revaluation gains/(losses) on Pooled Investment Funds	-0.267
-1.038	**Balance at 31 March**	**-1.305**

Note 44: Cash and Cash Equivalents

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

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

2019/20 £millions		2020/21 £millions
4.567	Net Cash in hand	3.113
42.090	Short term Investment (initial maturity term less than 3 months)	80.630
46.657	**Cash and cash equivalents sub total**	**83.743**
-1.716	Bank overdraft	-6.605
44.941	**Cash and cash equivalents at the end of the reporting period**	**77.138**

Note 45: Cash Flow Statement – Operating Activities

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

2019/20 £millions		2020/21 £millions
8.336	Net surplus(-)/deficit on the provision of services	**40.933**
-30.500	Depreciation and amortisation	-28.245
-5.248	Impairment and other non-cash adjustments	-15.083
-26.913	IAS 19 - Pension Liability	-41.897
-46.599	Carrying amount of non-current assets sold	-33.997
-15.275	Movement in working capital	-50.427
-124.535		**-169.649**
112.567	Adjustment for items that are investing or financing activities	84.286
-3.632		**-44.430**

The cash flows for operating activities include the following items:

2019/20 £millions		2020/21 £millions
-2.936	Interest received	-2.489
19.385	Interest paid	19.636

Note 46: Cash Flow Statement – Investing Activities

2019/20 Restated £millions		2020/21 £millions
105.329	Purchase of property, plant and equipment and intangible assets	87.865
127.000	Purchase of short term and long term investments	180.000
7.569	Other payments for investing activities	2.818
-3.207	Proceeds from the sale of property, plant and equipment and intangible assets	-6.047
-145.000	Proceeds from short term and long term investments	-127.000
-82.667	Capital grants received	-128.061
-0.129	Other receipts from investing activities	-0.405
8.895	**Net cash flows from investing activities**	**9.170**

The 'Other receipts from investing activities' 19/20 comparative has been restated to disclose the capital grant receipts separately.

Note 47: Cash Flow Statement – Financing Activities

2019/20 £millions		2020/21 £millions
-16.501	Receipts from new long-term borrowing	-0.066
0.949	Repayments of short term and long term borrowing	2.128
0.915	Other payments for financing activities	1.001
-14.637	**Net cash flows from financing activities**	**3.063**

Note 48: Reconciliation of Liabilities Arising from Financing Activities

2020/21

	Liabilities			
	Long Term Borrowing	Short Term Borrowing	Finance Leases	PFI
Balance at 1st April 2020	-346.161	-7.395	-0.387	-41.584
Changes from financing cash flows				
New borrowings taken out	-0.066	-	-	-
Repayment of borrowings	5.828	0.175	-	-
Payment of finance lease liabilities	-	-	0.005	0.996
Total changes from financing cash flows	5.762	0.175	0.005	0.996
Non-cash changes				
Interest accrued at year-end	-3.904	-	-	-
Balance at 31st March 2021	**-344.303**	**-7.220**	**-0.382**	**-40.588**

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**

Note 49: Contingent Liabilities

There are a number on-going legal cases against the Council with no certainty regarding the percentage of success or the value of the claim:

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

- The Council 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.

Note 50: Trust Funds

The Council 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 2021, the only trust managed by the Council was the Fieldhouse Trust. The Council 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:

2019/20 £millions		2020/21 £millions
-0.054	Total income	-0.054
0.055	Total spending	0.055
0.001	**(Surplus)/ Deficit**	**0.001**
0.523	Value of fund - brought forward	0.522
-0.001	Movement in year	-0.001
0.522	**Total value of the fund**	**0.521**

Note 51: Pension Schemes

Participation in Pension Schemes

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

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

- The Local Government Pension Scheme (LGPS), administered locally by the Council, is a defined benefit statutory scheme where benefits accrued up to 31 March 2021 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 Council pays contributions as if it was a funded scheme, when, in fact, it is not.

- 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 Council 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 Council 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
This scheme is technically a defined benefit scheme but is accounted for as a defined contribution scheme as its not possible to identify the authorities share of the liabilities.

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

2019/20 £millions	%		2020/21 £millions	%
		Pension costs charged to the accounts		
4.390	16.48	- 1st April19 to 31st August19	-	-
8.669	23.68	- 1st September19 to 31st March20	-	-
-	-	- 1st April20 to 31st March21	14.426	23.68
13.059		**Total for the Year**	**14.426**	

There were no discretionary payments made during 2020/21.

National Employment Savings Trust

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

2019/20 £millions	%		2020/21 £millions	%
0.026	3.00	Pension costs charged to the accounts	0.033	3.00

Defined Benefit Schemes:

Unfunded Teachers Pensions

The Council 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 Council, 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 Council 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 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 Council 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, 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	
	2019/20 £millions	**2020/21 £millions**
Comprehensive Income and Expenditure Statement		
Net Cost of Services:		
- current service cost	47.255	63.053
- past service cost and gains/losses arising from settlements	-4.392	-3.708
Financing and Investment Income and Expenditure:		
- net interest expense	19.477	18.411
Total Post-employment Benefit Charged to the Surplus or Deficit on the Provision of Services	**62.340**	**77.756**
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)	85.010	-238.972
- actuarial (gains) and losses arising on changes in demograpic assumptions	4.738	-18.387
- actuarial (gains) and losses arising on changes in financial assumptions	-174.060	478.012
- other actuarial (gains)/losses on plan assets	10.098	-
- experience (gain)/loss on defined benefit obligation	0.428	-23.793
	-73.786	**196.860**
Total Post-employment Benefit Charged to the Comprehensive Income and Expenditure Statement	**-11.446**	**274.616**
Movement in Reserves Statement		
Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post-employment benefits in accordance with the Code	**-62.340**	**-77.756**
Actual amount charged against the General Fund Balance for pensions in the year:		
- employers' contributions payable to the scheme	**35.427**	**35.859**

Pensions Assets and Liabilities Recognised in the Balance Sheet

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

	Local Government Pension Scheme & Unfunded Benefit Arrangements - Liabilities		
	2018/19 £millions	**2019/20 £millions**	**2020/21 £millions**
Present value of the defined benefit obligation:			
- Funded obligation	-1,789.792	-1,661.739	-2,148.658
- Unfunded obligation	-43.281	-39.316	-39.449
	-1,833.073	-1,701.055	-2,188.107
Fair value of plan assets	1,031.403	946.258	1,194.553
Net liability arising from defined benefit obligation	**-801.670**	**-754.797**	**-993.554**

The net liability shows the underlying commitments that the Council has in the long run to pay retirement benefits. The total liability of £993.554 million has a substantial impact on the net worth of the Council as recorded in the Balance Sheet.

The total liability includes an allowance to reflect the Court of Appeal judgement in respect of the McCloud and Sargeant cases which relate to age discrimination within the Judicial and Fire Pension schemes, respectively. Although the cases are not directly related to the Local Government Pension Scheme (LGPS), similar protections were given when the LGPS moved to a new scheme in 2014.

On 16 July 2020, the Government published a consultation on the proposed remedy to be applied to LGPS benefits in response to the McCloud and Sargeant cases. The consultation closed on 8 October 2020 and the final remedy will only be known after the consultation responses have been reviewed and a final set of remedial Regulations are published. The Pension Fund Actuary does not believe there are any material differences between the approach underlying their estimated allowance and the proposed remedy. A more detailed analysis at this stage would require a significant volume of member data which is not yet available. Therefore, no further adjustment has been made considering the ongoing consultation.

The pension fund deficit at 31 March 2021 has increased by £238.757 million from 31 March 2020. It is important to note that the deficit figure reported above is prepared only for the accounting requirements of IAS19, and as LGPS Funds are usually invested in a range of asset classes, the performance of the assets may be quite different from that of the accounting liabilities (which are linked to corporate bonds) so the results can be very volatile from year to year. 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 Council 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:	2019/20 £millions	2020/21 £millions
Opening balance at 1 April	**1,031.403**	**946.258**
Interest income	23.831	15.972
Remeasurement gain/(loss):		
- return on plan assets (excluding the amount included in the net interest expense	-85.010	238.972
Other actuarial gains/(losses)	-10.098	-
Employer contributions - funded	32.242	32.599
Employer contributions - unfunded	3.185	3.260
Contributions by scheme participants	9.731	9.171
Benefits paid (including unfunded)	-56.021	-50.573
Other	-3.005	-1.106
Closing balance at 31 March	**946.258**	**1,194.553**

The return on the Fund (on a bid value to bid value basis) for the year to 31 March 2021 is estimated to be 27.10%. 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	2020/21		
	Quoted in an active market £millions	Unquoted £millions	Total £millions
Cash and cash equivalents	-	71.673	71.673
Equities:			
- Brunel UK equity fund	-	206.658	206.658
- Standard Life Smaller Companies Fund	-	5.973	5.973
Private Equity:			
- Private Equity	-	33.447	33.447
Overseas Equities:			
- Brunel passive global equity fund	-	311.778	311.778
- Brunel global high alpha equity fund	-	164.848	164.848
- Brunel emerging market equity fund	-	56.144	56.144
- Brunel global smaller market equity fund	-	84.813	84.813
	-	**863.662**	**863.662**
Bonds:			
- UK Fixed Interest - Public Sector	31.058	-	31.058
- UK Fixed Interest - Corporate Sector Investment Grade	50.171	-	50.171
- UK Fixed Interest - Corporate Sector High Yield	4.778	-	4.778
- Overseas - Corporate Sector Investment Grade	39.420	-	39.420
- Overseas - Corporate Sector High Yield	17.918	-	17.918
- Overseas - index linked - public sector	1.195	-	1.195
	144.541	**-**	**144.541**
Gilts:			
- UK Index-Linked - Corporate Sector	-	-	-
- UK Index-Linked - Public Sector	34.642	-	34.642
	34.642	**-**	**34.642**
Property:			
- Overseas Property Funds	-	-	-
- UK Property Funds	-	80.035	80.035
	-	**80.035**	**80.035**
Total assets	**179.183**	**1,015.370**	**1,194.553**

Reconciliation of Present Value of the Scheme Liabilities

Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation):	2019/20 £millions	2020/21 £millions
Opening balance at 1 April	**-1,833.073**	**-1,701.055**
Current service cost	-47.255	-63.053
Interest cost	-43.308	-34.383
Contributions by scheme participants	-9.731	-9.171
Past service costs, including curtailments	-1.897	-0.312
Settlements	9.294	5.126
Benefits paid (including unfunded)	56.021	50.573
Remeasurement gains and (losses):		
- actuarial gains/(losses) arising from changes in demographic assumptions	-4.738	18.387
- actuarial gains/(losses) arising from changes in financial assumptions	174.060	-478.012
- experience gain/(loss) on defined benefit obligation	-0.428	23.793
Closing balance at 31 March	**-1,701.055**	**-2,188.107**

There was a total of £0.312m of capitalised redundancy costs included within the Past service costs in the table above during 2020/21.
As a result of some members transferring into / out of the Council over the year liabilities have been settled at a cost different to the accounting reserve. During 2020/21, there were 10 transfers mostly in relation to Academy schools, where £5.220m of liabilities and £1.146m of assets where transferred to the new employer, resulting in a capitalised gain to the Council on settlements of £4.074m.

The value of the transferred defined benefit obligation for each settlement was calculated using assumptions derived based on market conditions the date of transfer.

Impact on the Council's Cashflows

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The Council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 25 years. Funding levels are monitored on an annual basis. The next triennial valuation is due to be completed on 31 March 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 Council will pay £31.260m contributions to the scheme in 2021/22.

The weighted average duration of the defined benefit obligation for scheme members is 21 years for 2020/21 (21 years in 2019/20).

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 actuary) assessed the value of the County Council Fund liabilities as at 31 March 2021, 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 2020.

The principal assumptions used by the actuary have been:

2019/20		2020/21
	Mortality Assumptions:	
	Longevity (in years) at 65 for current pensioners:	
23.3	- Men	23.1
24.7	- Women	24.6
	Longevity (in years) at 65 for future pensioners:	
24.7	- Men	24.4
26.2	- Women	26.0
1.9%	Rate of Inflation (CPI)	2.85%
2.9%	Rate of increase in salaries	3.85%
1.9%	Rate of increase in pensions	2.85%
2.35%	Rate of discounting scheme liabilities	2.0%

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	2,143,732	2,188,107	2,233,445
Projected service cost	67,998	70,386	72,853
Adjustment to long term salary increase	**+0.1%**	**0.0%**	**-0.1%**
Present value of total obligation	2,191,146	2,188,107	2,185,094
Projected service cost	70,425	70,386	70,349
Adjustment to pension increases and deferred revaluation	**+0.1%**	**0.0%**	**-0.1%**
Present value of total obligation	2,229,983	2,188,107	2,147,065
Projected service cost	72,827	70,386	68,020
Adjustment to mortality age rating assumption	**+1 Year**	**None**	**-1 Year**
Present value of total obligation	2,288,503	2,188,107	2,092,313
Projected service cost	73,353	70,386	67,529

NHS Pension Scheme
In line with the NHS Manual, the Council 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:

2019/20 £millions	%		2020/21 £millions	%
0.829	14.38	Pension costs charged to the accounts	0.773	14.38

There were no discretionary payments made during 2020/21.

Note 52: Group Accounts

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

Futures for Somerset
The Council 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 Council 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)

The Council has a statutory obligation to operate a Pension Fund for Local Government staff in Somerset. A more detailed analysis of the Fund's financial year is available as a supplementary booklet from the Chief Financial Officer.

The following disclosures are an extract from the Somerset County Pension Fund Statement of Accounts, for the year-ending 31st March 2021.

Fund Account

2019/2020 £ millions	2019/2020 £ millions		2020/2021 £ millions	2020/2021 £ millions	Notes
		Contributions and other income			
21.186		Contributions from employees	22.585		4
82.132		Contributions from employers	88.932		4
3.301		Recoveries from member organisations	3.043		4
16.017		Transfer values received	8.408		5
122.636			**122.968**		
		Less benefits and other payments			
-81.657		Recurring pensions	-84.305		4
-15.654		Lump sum on retirement	-10.871		4
-2.515		Lump sum on death	-1.912		4
-11.386		Transfer values paid	-17.031		5
-0.304		Refund of contributions to leavers	-0.377		6
-111.516			**-114.496**		
	11.120	**Net additions from dealings with members**		**8.472**	
		Management Expenses			
-1.285		Administrative expenses	-1.270		7
-6.228		Investment management expenses	-7.183		8
-0.662		Oversight and governance expenses	-0.681		9
-8.175			**-9.134**		
	2.945	**Net additions including management expenses**		**-0.662**	
		Investment income			
29.629		Investment income received	15.109		10
4.173		Investment income accrued	4.037		10
-0.599		Less irrecoverable tax	-0.115		
33.203			**19.031**		
		Change in market value of investments			
161.409		Realised profit or loss	105.819		13
-321.123		Unrealised profit or loss	439.074		13
-159.714			**544.893**		
	-126.511	**Net return on investments**		**563.924**	
	-123.566	**Net increase/ (decrease) in the net assets available for benefits during the year**		**563.262**	

Table continued on next page

Fund Account (continued)

2019/2020 £ millions	2019/2020 £ millions		2020/2021 £ millions	2020/2021 £ millions	Notes
		Change in actuarial present value of promised retirement benefits			
197.881		Vested benefits	-1,265.728		14
41.584		Non-vested benefits	4.219		14
	239.465	**Net change in present value of promised benefits**		**-1,261.509**	
	115.899	**Net increase/(decrease) in the fund during the year**		**-698.247**	
	-1,731.216	Add net liabilities at beginning of year		-1,615.317	
	-1,615.317	**Net liabilities at end of year**		**-2,313.564**	

Net Asset Statement

On 31 March 2020 £ millions		On 31 March 2021 £ millions	Notes
	Investment assets and liabilities		
2,046.977	Investment assets	2,608.459	11
-0.271	Investment liabilities	-0.011	11
3.760	Other investment balances	3.937	15
	Current assets		
5.865	Contributions due from employers	4.432	
0.254	Cash at bank	0.501	
1.152	Other debtors	3.755	
	Current liabilities		
0.000	Unpaid benefits	0.000	
0.000	Bank overdraft	0.000	
-1.927	Other creditors	-2.001	
2,055.810	**Net assets of the scheme available to fund benefits at end of year**	**2,619.072**	
	Actuarial present value of promised retirement benefits		
-3,583.169	Vested benefits	-4,848.897	14
-87.958	Non-vested benefits	-83.739	14
-1,615.317	**Net liabilities at end of year**	**-2,313.564**	

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 2020-2021 financial year were the first year covered by the valuation of the fund as at 31 March 2019. For Somerset County Council, for example, the employer's contribution rate for the three years covered by this valuation is 18.1% for each of the years from 2020 to 2023 plus a fixed sum of £9.33m for 2020/2021, £9.67m for 2021/2022 and £10.03m for 2022/2023. This compares with a rate of 15.5% and a lump sum of £12.81m for the 2019/2020 year set under the 2016 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 24.3% at the 2019 valuation (22.9% at the 2016 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 24.3% is made up of a rate of 17.8% for new service and 6.5% for deficit funding. As part of the 2019 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 86% 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 2020/21 financial year and its financial position at 31 March 2021. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (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

2020/2021	Somerset County Council £ millions	Other scheduled employers £ millions	Admitted employers £ millions	Total £ millions
Employees' contributions				
- Normal	7.625	13.329	1.421	**22.375**
- Additional	0.092	0.109	0.009	**0.210**
Total	7.717	13.438	1.430	**22.585**
Employers' contributions				
- Normal	22.004	36.250	3.968	**62.222**
- Augmentation	0.143	0.529	0.030	**0.702**
- Deficit funding	9.330	13.218	3.460	**26.008**
Total	31.477	49.997	7.458	**88.932**
Recurring pension and lump sum payments	-45.845	-41.203	-10.040	**-97.088**
Money recovered from member organisations	1.523	1.505	0.015	**3.043**
	-5.128	**23.737**	**-1.137**	**17.472**

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**

Note 4: Contributions and benefits (continued)

	Employees' contributions £ millions	Employers' contributions £ millions	Total £ millions
County council			
Somerset	7.717	31.477	39.194
Police & Crime Commissioner			
Avon & Somerset	5.541	16.185	21.726
District councils			
Mendip	0.352	1.682	2.034
Sedgemoor	0.683	3.364	4.047
South Somerset	0.734	3.518	4.252
Somerset West & Taunton	1.165	5.309	6.474
Other bodies			
Avon and Somerset Magistrates Courts	0.000	1.123	1.123
Exmoor National Park	0.131	0.502	0.633

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	0.006	0.007
Berrow Parish Council	0.001	0.003	0.004
Bishop Hull Parish Council	0.001	0.003	0.004
Bridgwater Town Council	0.009	0.034	0.043
Burnham & Highbridge Town Council	0.018	0.063	0.081
Castle Cary Town Council	0.002	0.009	0.011
Chard Town Council	0.017	0.060	0.077
Cheddar Parish Council	0.002	0.007	0.009
Coleford Parish Council	0.001	0.003	0.004
Comeytrowe Parish Council	0.001	0.003	0.004
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	0.043	0.151	0.194
Glastonbury Town Council	0.013	0.048	0.061
Ilminster Town Council	0.007	0.022	0.029
Langport Town Council	0.004	0.007	0.011
Lower Brue Drainage Board	0.042	0.145	0.187
Minehead Town Council	0.008	0.031	0.039
Nether Stowey Parish Council	0.001	0.005	0.006
North Petherton Town Council	0.000	0.000	0.000
Parret Drainage Board	0.004	0.016	0.020
Shepton Mallet Town Council	0.009	0.029	0.038
Somerton Town Council	0.004	0.014	0.018
Street Parish Council	0.005	0.018	0.023
Watchet Town Council	0.004	0.006	0.010
Wellington Town Council	0.005	0.016	0.021
Wells Burial Board & Parish Council	0.022	0.075	0.097
West Coker Parish Council	0.001	0.002	0.003
Williton Parish Council	0.001	0.006	0.007
Wincanton Town Council	0.006	0.023	0.029
Yeovil Town Council	0.013	0.044	0.057

Table continued on next page

Note 4: Contributions and benefits (continued)

	Employees' contributions £ millions	Employers' contributions £ millions	Total £ millions
Further-education colleges			
Bridgwater College	0.793	2.601	3.394
Richard Huish Sixth Form College	0.151	0.474	0.625
Strode College	0.164	0.581	0.745
Yeovil College	0.205	0.576	0.781
Academies			
Ansford Academy	0.036	0.141	0.177
Ashill Primary Academy	0.003	0.012	0.015
Avishayes Academy	0.018	0.076	0.094
Axbridge Academy	0.013	0.056	0.069
Barwick and Stoford School	0.000	0.001	0.001
Bath & Wells Academy Trust	0.321	1.288	1.609
Bishop Fox's Academy	0.057	0.232	0.289
Blackbrook Primary School	0.015	0.062	0.077
Brent Knoll Primary School	0.008	0.034	0.042
Bridgwater College Academy	0.152	0.561	0.713
Brookside Academy	0.062	0.255	0.317
Bruton Sexeys Academy	0.054	0.212	0.266
Brymore Academy	0.062	0.250	0.312
Buckland St. Mary Church of England School	0.003	0.015	0.018
Buckler's Mead Academy	0.055	0.199	0.254
Castle Academy	0.078	0.304	0.382
Castle Primary School	0.009	0.040	0.049
Charlton Horethorn School	0.003	0.015	0.018
Cheddar First School	0.020	0.083	0.103
Chilton Trinity Academy	0.041	0.163	0.204
Countess Gytha Primary School	0.013	0.055	0.068
Courtfields Academy	0.048	0.195	0.243

Table continued on next page

Note 4: Contributions and benefits (continued)

	Employees' contributions £ millions	Employers' contributions £ millions	Total £ millions
Academies (continued)			
Crispin Academy	0.053	0.205	0.258
Critchill School	0.026	0.114	0.140
Danesfield Academy	0.022	0.091	0.113
Draycott and Rodney Stoke First School	0.006	0.022	0.028
East Brent School	0.007	0.030	0.037
Enmore Academy	0.006	0.027	0.033
Fairlands Middle School	0.022	0.094	0.116
Hambridge Primary School	0.011	0.045	0.056
Hamp Academy	0.021	0.089	0.110
Hatch Beauchamp Primary School	0.002	0.009	0.011
Hayesdown Academy	0.017	0.074	0.091
Haygrove Academy	0.064	0.248	0.312
Hemington Primary School	0.003	0.015	0.018
Holy Trinity Church of England School	0.029	0.124	0.153
Holyrood Academy	0.069	0.284	0.353
Horrington Primary School	0.008	0.032	0.040
Hugh Sexey's School	0.030	0.125	0.155
Huish Academy	0.028	0.119	0.147
Huish Episcopi Academy	0.086	0.341	0.427
Huish Episcopi Primary Academy	0.011	0.048	0.059
Isambard Kingdom Brunel School	0.003	0.013	0.016
King Alfred School	0.064	0.281	0.345
King Arthur's School	0.021	0.085	0.106
King Edward Road Nursery	0.009	0.038	0.047
King Ina (Monteclefe)	0.022	0.092	0.114
Kings of Wessex Academy	0.070	0.260	0.330
Kings of Wessex Leisure	0.020	0.042	0.062
Kingsmead Academy	0.062	0.249	0.311

Table continued on next page

Note 4: Contributions and benefits (continued)

	Employees' contributions £ millions	Employers' contributions £ millions	Total £ millions
Academies (continued)			
Leigh On Mendip First School	0.007	0.028	0.035
Lympsham School	0.009	0.038	0.047
Maiden Beech Academy	0.021	0.084	0.105
Manor Court Primary School	0.025	0.113	0.138
Mark Academy	0.012	0.053	0.065
Mendip School	0.046	0.194	0.240
Middlezoy Primary School	0.006	0.021	0.027
Milford Junior School	0.030	0.120	0.150
Minehead First School	0.030	0.127	0.157
Minehead Middle School	0.056	0.217	0.273
Minerva Primary School	0.020	0.084	0.104
Neroche Primary School	0.003	0.013	0.016
North Cadbury School	0.007	0.029	0.036
Northgate Primary School	0.020	0.085	0.105
Nunney First School	0.004	0.015	0.019
Oakfield Academy	0.040	0.161	0.201
Old Cleeve Academy	0.011	0.048	0.059
Othery Primary School	0.004	0.017	0.021
Otterhampton Primary School	0.009	0.037	0.046
Pawlett Primary School	0.004	0.016	0.020
Pen Mill Academy	0.013	0.055	0.068
Preston Academy	0.057	0.233	0.290
Preston C of E Primary School	0.059	0.219	0.278
Primrose Lane Primary School	0.017	0.073	0.090
Priorswood Academy	0.013	0.055	0.068
Puriton Primary School	0.009	0.038	0.047
Redstart Academy	0.039	0.155	0.194
Ruishton Primary School	0.015	0.065	0.080

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Note 4: Contributions and benefits (continued)

	Employees' contributions £ millions	Employers' contributions £ millions	Total £ millions
Academies (continued)			
Selwood Academy	0.033	0.135	0.168
Selworthy School	0.071	0.305	0.376
Shipham Church of England First School	0.006	0.027	0.033
Spaxton Primary School	0.005	0.023	0.028
St. Dunstan’s Academy	0.018	0.076	0.094
St. Cuthbert's Academy	0.012	0.048	0.060
St. Michael's Academy	0.025	0.105	0.130
St. Michael's Church of England School	0.010	0.044	0.054
St. Peter's Academy	0.011	0.047	0.058
St Peters Nursery	0.008	0.032	0.040
Stanchester Academy	0.042	0.167	0.209
Steiner Academy, Frome	0.022	0.093	0.115
Stogursey Primary School	0.006	0.027	0.033
Tatworth Academy	0.009	0.037	0.046
Taunton Academy	0.116	0.479	0.595
The Blue School, Wells	0.102	0.408	0.510
Weare Academy	0.012	0.051	0.063
Wedmore Academy	0.018	0.078	0.096
Wellesley Park Primary School	0.017	0.074	0.091
West Monkton Primary School	0.051	0.204	0.255
West Somerset Community College	0.040	0.169	0.209
Westfield Academy	0.065	0.249	0.314
Westover Green Academy	0.037	0.158	0.195
Whitstone Academy	0.037	0.148	0.185
Willowdown Academy	0.022	0.093	0.115
Winsham Primary School	0.005	0.019	0.024
Woolavington Academy	0.015	0.063	0.078
Total other scheduled employers	13.438	49.997	63.435

Table continued on next page

Note 4: Contributions and benefits (continued)

	Employees' contributions £ millions	Employers' contributions £ millions	Total £ millions
Admitted bodies			
Aster Communities Ltd	0.032	2.295	2.327
BAM FM	0.004	0.015	0.019
Capita	0.004	0.015	0.019
Dimensions	0.428	1.027	1.455
Edward and Ward Ltd	0.005	0.004	0.009
Glen Cleaning Company Ltd	0.002	0.012	0.014
Homes in Sedgemoor	0.137	0.398	0.535
Idverde Ltd	0.012	0.047	0.059
Imperial Cleaning	0.001	0.003	0.004
KGB South West	0.012	0.058	0.070
Learning South West	0.000	0.000	0.000
Leisure East Devon	0.013	0.027	0.040
Magna West Somerset Housing Association	0.058	0.251	0.309
Mama Bear's	0.002	0.007	0.009
May Gurney Ltd	0.000	0.158	0.158
MD Building Services	0.025	0.078	0.103
MITIE	0.001	0.000	0.001
National Autistic Society	0.009	0.048	0.057
NSL Ltd	0.019	0.072	0.091
Pabulum	0.004	0.018	0.022
RM Education	0.002	0.004	0.006
SASP	0.010	0.006	0.016
Shared Lives South West	0.004	0.014	0.018
Society of Local Council Clerks	0.036	0.121	0.157
Somerset Care Ltd	0.024	0.265	0.289
Somerset Skills & Learning	0.073	0.222	0.295
South West Audit Partnership	0.126	0.528	0.654
South West Heritage	0.054	0.161	0.215
South West Provincial Councils	0.039	0.318	0.357
Suez Recycling	0.022	0.083	0.105
Yarlington Housing Group	0.272	1.203	1.475
Total admitted employers	1.430	7.458	8.888
Total	**22.585**	**88.932**	**111.517**

Note 5: Transfer values

2019/2020 £ millions		2020/2021 £ millions
9.000	Group transfer values received	0.000
7.017	Individual transfer values received	8.408
16.017		**8.408**
0.000	Group transfer values paid	-7.955
-11.386	Individual transfer values paid	-9.076
-11.386		**-17.031**

Note 6: Refunds

2019/2020 £ millions		2020/2021 £ millions
-0.294	Contributions refunded to members who leave service	-0.377
-0.017	Interest accumulated on refunds agreed in the past	-0.014
-0.311		**-0.391**
-0.003	Deductions from contributions equivalent premium	0.000
0.010	Less payments to Department for Work and Pensions contributions equivalent premium	0.014
-0.304		**-0.377**

Note 7: Administrative expenses

2019/2020 £ millions		2020/2021 £ millions
0.000	Benefits administration costs charged by Somerset CC	0.000
-1.273	Benefits administration costs charged by Devon CC	-1.262
-1.273		**-1.262**
0.000	Legal advice costs charged by Somerset CC	0.000
-0.012	External legal advice	-0.008
-0.012		**-0.008**
0.000	Other expenses	0.000
-1.285		**-1.270**

Note 8: Investment management expenses

2019/2020 £ millions		2020/2021 £ millions
	Fund manager fees	
-0.339	LaSalle	-0.184
-1.102	Jupiter*	0.000
-0.171	Maple-Brown Abbott*	-0.049
-0.135	Amundi	0.000
-0.041	Somerset County Council	-0.043
-0.590	Aberdeen Standard	-0.634
-0.855	Other fund managers	-0.558
-3.233		**-1.468**
	Other expenses	
-0.094	Transaction costs	-0.073
-0.039	Custody fees	-0.035
-0.402	Property unit trust managers' fees	0.000
-0.535		**-0.108**
	Pooling	
-0.979	Brunel Fees	-0.991
-1.429	3rd Party Fund Manager Fees	-3.143
0.000	Property unit trust managers' fees	-1.086
-0.048	Custody fees	-0.164
-0.004	Other costs	-0.223
-2.460		**-5.607**
-6.228		**-7.183**

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 2020/2021 financial year are £0 (£739,000 in 2019/2020).

The pooling category above includes fees directly invoiced by Brunel as well as costs deducted directly from pooled investments provided by Brunel. Property unit trust manager fees has moved under Brunel’s management during the year and the full year cost is shown here. The increase in costs in this respect is due to improvements in transparency achieved by Brunel rather than an increase in the actual amounts of fees deducted from pooled property funds.

The transaction costs shown above are broken down as follows:

2019/2020 £ millions Broker comm-issions	2019/2020 £ millions Taxes and Fees	Manager	Asset Class	2020/2021 £ millions Broker comm-issions	2020/2021 £ millions Taxes and Fees
		Purchase Costs			
0.001	0.002	Somerset County Council	Passive global equity	0.002	0.002
0.000	0.000	Aberdeen Standard	UK equity	0.000	0.000
0.002	0.000	Somerset County Council	Passive US equity	0.000	0.000
0.005	0.007	Jupiter	European equity	0.000	0.000
0.017	0.004	Maple-Brown Abbott	Far East equity	0.005	0.002
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
0.025	0.013			0.007	0.004
		Sales Costs			
0.002	0.001	Somerset County Council	Passive global equity	0.010	0.003
0.000	0.000	Aberdeen Standard	UK equity	0.000	0.000
0.002	0.000	Somerset County Council	Passive US equity	0.000	0.000
0.007	0.000	Jupiter	European equity	0.000	0.000
0.022	0.022	Maple-Brown Abbott	Far East equity	0.023	0.026
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
0.033	0.023			0.033	0.029
0.058	**0.036**			**0.040**	**0.033**
	0.094				**0.073**

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

2019/2020 £ millions		2020/2021 £ millions
-0.010	Committee services costs charged by Somerset CC	-0.010
-0.223	Investments administration costs charged by Somerset CC	-0.232
-0.233		**-0.242**
-0.177	Actuary's fees	-0.142
0.067	Recharge of Actuary's fees to employers	0.057
-0.110		**-0.085**
-0.027	External audit fees	-0.022
0.002	Refund	0.000
0.007	Recharge of audit fees to employers	0.000
-0.018		**-0.022**
0.000	Internal audit costs charged by South West Audit Partnership	0.000
-0.081	Professional services and subscriptions	-0.078
-0.171	IT systems	-0.209
0.000	Performance measurement fees	0.000
0.000	External legal advice	0.000
-0.026	Voting advice fees	-0.022
-0.018	Pooling costs	-0.018
-0.005	Other expenses	-0.005
-0.662		**-0.681**

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.

The external audit fees disclosed in the auditor’s formal audit plan to the Fund for the 2020/2021 financial year are £37,121. The discrepancy relates to an invoice that was not accrued for, which will appear in the 2021/2022 accounts, and an estimate of an additional fee that our auditors are yet to agree with the PSAA. Similar discrepancies appear in the 2020/2021 audit plan relating to the 2019/20 fee, shown as £35,521.

Note 10: Investment income

2019/2020 £ millions		2020/2021 £ millions
10.448	Bonds	10.106
0.473	Index linked bonds	0.382
0.879	UK equities	0.132
7.760	Overseas equities	2.062
12.942	Property unit trusts	5.753
1.163	Cash invested internally	0.651
0.000	Private equity	0.000
0.137	Stock lending	0.059
33.802		**19.145**

Note 11: Investment assets and liabilities

31 March 2020					31 March 2021			
£ millions	£ millions	%	%		£ millions	£ millions	%	%
				UK equities				
1.490		0.1		Quoted	0.000		0.0	
353.367		17.2		Brunel UK equity fund	450.502		17.3	
7.995		0.4		Standard Life smaller companies fund	12.994		0.5	
	362.852		**17.7**			**463.496**		**17.8**
				Overseas equities				
91.714		4.5		North America	0.000		0.0	
4.683		0.2		Europe	0.375		0.0	
2.321		0.1		Japan	0.000		0.0	
24.466		1.2		Pacific (not including Japan)	0.000		0.0	
2.331		0.1		Emerging market	0.000		0.0	
489.305		23.9		Brunel passive global equity fund	681.900		26.1	
240.564		11.7		Brunel global high alpha equity fund	360.872		13.8	
0.000		0.0		Brunel global smaller companies fund	184.984		7.1	
69.184		3.4		Brunel emerging market equity fund	122.078		4.7	
31.933		1.6		Nomura Japan fund	0.000		0.0	
	956.501		**46.7**			**1,350.209**		**51.7**
				Bonds				
58.398		2.9		UK fixed-interest - public sector	67.294		2.6	
89.507		4.4		- corporate sector investment grade	108.801		4.2	
7.828		0.4		- corporate sector high yield	9.003		0.4	
1.193		0.1		Overseas - public sector	0.557		0.0	
80.741		3.9		- corporate sector investment grade	86.920		3.3	
26.239		1.3		- corporate sector high yield	39.441		1.5	
70.027		3.4		UK index-linked - public sector	74.302		2.9	
0.798		0.0		- corporate sector	0.795		0.0	
4.530		0.2		Overseas index-linked - public sector	3.314		0.1	
	339.261		**16.6**			**390.427**		**15.0**
				Property				
194.042		9.5		UK property funds	174.870		6.7	
0.023		0.0		Overseas property funds	0.020		0.0	
	194.065		**9.5**			**174.890**		**6.7**
				Private equity				
6.219		0.3		Neuberger Berman Crossroads 2010 fund	10.399		0.4	
15.483		0.7		Neuberger Berman Crossroads XX fund	14.982		0.6	
22.145		1.1		Neuberger Berman Crossroads XXI fund	22.313		0.9	
13.614		0.7		Neuberger Berman Crossroads XXII fund	21.711		0.8	
0.000		0.0		Brunel private equity funds	0.574		0.0	
1.640		0.1		South West regional venture fund	1.640		0.1	
0.840		0.0		Brunel	0.840		0.0	
	59.941		**2.9**			**72.459**		**2.8**

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Note 11: Investment assets and liabilities (continued)

31 March 2020 £ millions	£ millions	%	%		31 March 2021 £ millions	£ millions	%	%
				Derivatives				
1.415		0.1		Forward foreign-exchange contracts	0.529		0.0	
0.000		0.0		Government bond futures	0.000		0.0	
0.000		0.0		Swaps	0.000		0.0	
	1.415		**0.1**			**0.529**		**0.0**
				Cash and others				
132.942		6.5		Cash invested internally	156.449		6.0	
	132.942		**6.5**			**156.449**		**6.0**
	2,046.977		**100.0**	**Investment assets**		**2,608.459**		**100.0**
				Derivatives				
-0.271		0.0		Forward foreign-exchange contracts	-0.011		0.0	
0.000		0.0		Government bond futures	0.000		0.0	
0.000		0.0		Swaps	0.000		0.0	
	-0.271		**0.0**			**-0.011**		**0.0**
	-0.271		**0.0**	**Investment liabilities**		**-0.011**		**0.0**
	2,046.706		**100.0**	**Net investment assets**		**2,608.448**		**100.0**
				Made up of				
	2,051.729			Historical cost		2,174.397		
	-5.023			Unrealised profit or loss		434.051		
	2,046.706					**2,608.448**		

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 2021 was £1,975,780,000. 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 2020 £ millions		31 March 2021 £ millions
	Unit trusts	
128.341	UK property funds	128.972
	Unitised insurance policies	
489.305	Brunel passive global equity fund	681.900
7.995	Standard Life smaller companies fund	12.994
497.300		**694.894**
	Limited liability partnerships	
0.000	UK property funds	0.000
0.000	Overseas property funds	0.000
6.219	Neuberger Berman Crossroads 2010 fund	10.399
15.483	Neuberger Berman Crossroads XX fund	14.982
22.145	Neuberger Berman Crossroads XXI fund	22.313
13.614	Neuberger Berman Crossroads XXII fund	21.711
0.000	Brunel private equity funds	0.574
1.640	South West regional venture fund	1.640
59.101		**71.619**
	UK authorised contractual scheme	
353.367	Brunel UK equity fund	450.502
240.564	Brunel global high alpha equity fund	360.872
0.000	Brunel global smaller companies fund	184.984
69.184	Brunel emerging market equity fund	122.078
663.115		**1,118.436**
	Other managed funds	
31.933	Nomura Japan fund	0.000
65.701	UK property funds	45.898
0.023	Overseas property funds	0.020
97.657		**45.918**
1,445.514	**Total**	**2,059.839**

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
2019/2020	Total	2,168.202	-69.939	1,610.774	-1,502.618	161.409	-321.122	2,046.706
Somerset County Council	Global equity	28.552	0.000	7.022	-43.689	15.465	-6.975	0.375
Aberdeen Standard	UK equity	7.995	0.000	0.000	0.000	0.000	4.999	12.994
Somerset County Council	US equity	73.111	0.000	0.414	-92.374	49.076	-30.227	0.000
Nomura	Japanese equity	31.933	0.000	0.000	-37.828	19.312	-13.417	0.000
Maple-Brown Abbott	Far East equity	25.342	0.000	3.295	-33.795	-0.735	5.893	0.000
Aberdeen Standard	Bonds	339.261	0.000	220.386	-174.032	3.993	0.819	390.427
Aberdeen Standard	Derivatives	1.144	0.000	1,315.804	-1,316.405	0.377	-0.402	0.518
LaSalle / Brunel	Property	194.065	0.000	8.120	-20.470	2.606	-9.431	174.890
Neuberger Berman	Global private equity	57.461	0.000	5.436	-6.104	1.608	11.004	69.405
TVP	UK venture capital	1.640	0.000	0.000	0.000	0.000	0.000	1.640
Brunel	Company	0.840	0.000	0.000	0.000	0.000	0.000	0.840
Brunel	UK Equity	353.367	0.000	0.000	0.000	0.000	97.135	450.502
Brunel	Pasive global equity	489.305	0.000	0.000	0.000	-0.038	192.633	681.900
Brunel	Global high alpha equity	240.564	0.000	0.000	0.000	0.000	120.308	360.872
Brunel	Global smaller co.'s	0.000	0.000	151.041	0.000	-0.034	33.977	184.984
Brunel	Emerging market equity	69.184	0.000	20.000	0.000	0.000	32.894	122.078
Brunel	Global private equity	0.000	0.000	0.374	0.000	0.000	0.200	0.574
Somerset County Council	Cash	132.942	9.654	0.000	0.000	14.189	-0.336	156.449
2020/2021	**Total**	**2,046.706**	**9.654**	**1,731.892**	**-1,724.697**	**105.819**	**439.074**	**2,608.448**

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 2021 was £1,975,780,000. 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 2021, 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 2020		31 March 2021
	Financial assumptions	
2.65%	RPI increases	3.20%
1.85%	CPI increases	2.85%
2.85%	Salary increases	3.85%
1.85%	Pension increases	2.85%
2.35%	Discount Rate	2.00%
	Life expectancy (from age 65)	
23.3	Retiring today - Males	23.1
24.7	- Females	24.6
24.7	Retiring in 20 years - Males	24.4
26.2	- Females	26.0

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 0.35% below RPI. This is a reasonable estimate for the future differences in the indices, based on the different calculation methods, recent independent forecasts and the duration of the Fund’s liabilities. 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 is consistent with the approach at the previous accounting date.

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	4,932.646	
Sensitivity to	**+0.1%**	**-0.1%**
Discount rate	4,827.676	5,039.984
Salary increase	4,941.436	4,923.916
Pension increases and deferred revaluation	5,030.183	4,837.154
Sensitivity to	**+ 1 year**	**- 1 year**
Life expectancy assumptions	5,148.857	4,725.757

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

The change in financial assumptions item includes the change in derivation of future assumed RPI and CPI inflation as noted above. These changes have resulted in a loss of £199,109,000 on the defined benefit obligation; comprising a gain of £236,844,000 from the change in assumed RPI and a loss of £435,953,000 from the change in the assumed gap between RPI and CPI inflation.

The change in demographic assumptions figure in the table above reflects the update to use the CMI_2020 Model. The demographic assumptions used are consistent with those used for the most recent Fund valuation, which was carried out as at 31 March 2019, except for the CMI projection model. The post retirement mortality tables adopted are the S3PA tables with a multiplier of 90% for males and 100% for females. These base tables are then projected using the CMI_2020 Model, allowing for a long-term rate of improvement of 1.25% p.a., smoothing parameter of 7.5, an initial addition parameter of 0.5% p.a. and a 2020 weighting of 25%.

Although the post retirement mortality tables adopted are consistent with the previous accounting date, the mortality improvement projection has been updated to use the latest version of the Continuous Mortality Investigation's model, CMI_2020, which was released in March 2021. This update has been made in light of the coronavirus pandemic and reflects the latest information available from the CMI. The new CMI_2020 Model introduces a "2020 weight parameter" for the mortality data in 2020 so that the exceptional mortality experienced due to the coronavirus pandemic can be incorporated without having a disproportionate impact on results. Placing too much weight on the 2020 mortality experience would not be appropriate given the abnormality of the 2020 data, however, the overall outlook for best-estimate future mortality improvements looks less positive as a result of the pandemic. The CMI_2020 Model with a 2020 weight parameter of 25% has been used. At the last accounting date, the CMI_2018 Model was adopted. The effect on the Employer's liabilities of updating to the most recent model is reflected in the Change in demographic assumptions figure in the table below.

As a result of the High Court's recent Lloyds ruling on the equalisation of GMPs between genders, a number of pension schemes have made adjustments to accounting disclosures to reflect the effect this ruling has on the value of pension liabilities. HM Treasury have confirmed that the judgement "does not impact on the current method used to achieve equalisation and indexation in public service pension schemes".

On 23 March 2021, the Government published the outcome to its Guaranteed Minimum Pension Indexation consultation, concluding that all public service pension schemes, including the LGPS, will be directed to provide full indexation to members with a GMP reaching State Pension Age (SPA) beyond 5 April 2021. This is a permanent extension of the existing 'interim solution' that has applied to members with a GMP reaching SPA on or after 6 April 2016.

The valuation assumption for GMP was that the Fund will pay limited increases for members that have reached SPA by 6 April 2016, with the Government providing the remainder of the inflationary increase. For members that reach SPA after this date, the calculations assume that the Fund will be required to pay the entire inflationary increase. This assumption is consistent with the consultation outcome and does not make any adjustments to the value placed on the liabilities as a result of the above outcome.

The calculations were adjusted for the outcome of the McCloud case in last year's accounts and this year's figures have been calculated in the same way.

2019/2020 £ millions		**2020/2021 £ millions**
118.814	Current service cost	125.726
93.137	Interest cost	85.430
-451.719	Change in financial assumptions	1,208.548
2.810	Change in demographic assumptions	-38.980
63.652	Experience loss/(gain) on defined benefit obligations	-47.028
0.000	Liabilities assumed/(extinguished) on settlements	0.000
-92.766	Estimated benefits paid net of transfers in	-95.258
7.057	Past service costs, including curtailments	0.472
19.550	Contributions by scheme members	22.599
-239.465		**1,261.509**

Note 15: Other investment balances

31 March 2020 £ millions		31 March 2021 £ millions
	Assets	
4.173	- Accrued income	4.037
1.184	- Payments due on investments sold	8.316
0.945	- Cash collateral provided	1.063
6.302		**13.416**
	Liabilities	
-2.345	- Payments not made on purchases and losses due on sales	-9.479
-0.197	- Cash collateral held	0.000
-2.542		**-9.479**
3.760		**3.937**

Note 16: Management structure

31 March 2020 £ millions	%	Manager	Asset class	31 March 2021 £ millions	%
28.552	1	Somerset County Council	Passive global equity	0.375	0
7.995	0	Aberdeen Standard	UK equity	12.994	0
73.111	4	Somerset County Council	Passive US equity	0.000	0
31.933	2	Nomura	Japanese equity	0.000	0
25.342	1	Maple-Brown Abbott	Far East equity	0.000	0
340.405	17	Aberdeen Standard	Bonds	390.945	15
194.065	9	LaSalle	Property	0.020	0
57.461	3	Neuberger Berman	Global private equity	69.405	3
1.640	0	Technology Venture Partners	UK venture capital	1.640	0
0.840	0	Brunel	UK venture capital	0.840	0
132.942	7	Somerset County Council	Cash	156.449	6
894.286	**44**	**Not-pooled sub total**		**632.668**	**24**
353.367	17	Brunel	UK Equity	450.502	17
489.305	24	Brunel	Pasive global equity	681.900	26
240.564	12	Brunel	Global high alpha equity	360.872	14
0.000	0	Brunel	Global smaller companies	184.984	7
69.184	3	Brunel	Emerging market equity	122.078	5
0.000	0	Brunel	Property	174.870	7
0.000	0	Brunel	Global private equity	0.574	0
1,152.420	**56**	**Pooled sub total**		**1,975.780**	**76**
2,046.706	**100**	**Net investment assets**		**2,608.448**	**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 2021 was £1,975,780,000. 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 2020 £ millions Fair value through profit & loss	Assets at amortised cost	Liabilities at amortised cost		31 March 2021 £ millions Fair value through profit & loss	Assets at amortised cost	Liabilities at amortised cost
			Investment assets and liabilities			
2,046.977			Investment assets	2,608.459		
-0.271			Investment liabilities	-0.011		
	3.760		Other investment balances		3.937	
			Current assets			
	5.865		Contributions due from employers		4.432	
	0.254		Cash at bank		0.501	
	1.152		Other debtors		3.755	
			Current liabilities			
		0.000	Unpaid benefits			0.000
		0.000	Bank overdraft			0.000
		-1.927	Other creditors			-2.001
2,046.706	**11.031**	**-1.927**	**Net assets of the scheme available to fund benefits at end of year**	**2,608.448**	**12.625**	**-2.001**

Note 18: Net gains and losses on financial instruments

2019/2020 £ millions		2020/2021 £ millions
-159.714	Fair value through profit and loss	544.893
0.000	Amortised cost - realised gains (losses) on derocognition	0.000
0.000	Amortised cost - unrealised gains (losses)	0.000
-159.714		**544.893**

Note 19: Major holdings

31 March 2020 Rank	31 March 2020 £ millions	Stock	Description	31 March 2021 Rank	31 March 2021 £ millions	% of net investments
1	489.305	Brunel passive global equity fund	Pooled fund of developed market equities	1	681.900	26.1
2	353.367	Brunel UK equity fund	Pooled fund of UK equities	2	450.502	17.3
3	240.564	Brunel global high alpha equity fund	Pooled fund of developed market equities	3	360.872	13.8
-	0.000	Brunel global smaller companies fund	Pooled fund of developed market equities	4	184.984	7.1
4	69.184	Brunel emerging market equity fund	Pooled fund of emerging market equities	5	122.078	4.7
6	22.145	Neuberger Berman Crossroads XXI fund	Private equity fund	6	22.313	0.9
16	13.614	Neuberger Berman Crossroads XXII fund	Private equity fund	7	21.711	0.8
8	20.696	CBRE UK Property Fund	Pooled fund of UK property	8	20.464	0.8
9	19.865	Nuveen UK Property Fund	Pooled fund of UK property	9	20.027	0.8
11	16.583	IPIF	Pooled fund of UK property	10	18.762	0.7
10	17.943	Blackrock UK PUT	Pooled fund of UK property	11	17.592	0.7
12	16.085	Nuveen Central London Office fund	Pooled fund of UK property	12	15.946	0.6
13	15.781	AEW Real Return Fund	Pooled fund of UK property	13	15.057	0.6
14	15.483	Neuberger Berman Crossroads XX fund	Private equity fund	14	14.982	0.6
15	14.593	Octopus Healthcare fund	Pooled fund of UK property	15	14.935	0.6
20	7.995	Standard Life smaller companies fund	Pooled fund of UK equities	16	12.994	0.5
17	12.366	Lothbury	Pooled fund of UK property	17	12.287	0.5
22	6.219	Neuberger Berman Crossroads 2010 fund	Private equity fund	18	10.399	0.4
18	10.004	UNITE UK Student Accomodation fund	Pooled fund of UK property	19	9.800	0.4
19	8.591	Hermes Property fund	Pooled fund of UK property	20	8.354	0.3

The largest four holdings of the fund each make up more than 5% of the net investment assets. 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 2020 £ millions				31 March 2021 £ millions		
Asset	**Liability**	**Net value**		**Asset**	**Liability**	**Net value**
			Forward foreign-exchange contracts			
1.415	-0.271	1.144	Aberdeen Standard fixed Interest	0.529	-0.011	0.518
1.415	**-0.271**	**1.144**		**0.529**	**-0.011**	**0.518**
			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**
1.415	**-0.271**	**1.144**		**0.529**	**-0.011**	**0.518**

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.

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 2020 £ millions				31 March 2021 £ millions		
Asset exposure value	**Liability exposure value**	**Net value**		**Asset exposure value**	**Liability exposure value**	**Net value**
			Forward foreign-exchange contracts			
59.534	-58.390	1.144	Aberdeen Standard fixed Interest	57.552	-57.034	0.518
59.534	**-58.390**	**1.144**		**57.552**	**-57.034**	**0.518**
			Government bond futures			
1.226	-1.226	0.000	UK gilt future	13.595	-13.595	0.000
0.000	0.000	0.000	European bond future	5.051	-5.051	0.000
0.668	-0.668	0.000	Australian bond future	6.876	-6.876	0.000
0.250	-0.250	0.000	Canadian bond future	0.000	0.000	0.000
6.904	-6.904	0.000	US treasury future	6.934	-6.934	0.000
9.048	**-9.048**	**0.000**		**32.456**	**-32.456**	**0.000**
			Swaps			
0.212	-0.212	0.000	Inflation swaps	0.095	-0.095	0.000
0.450	-0.450	0.000	Interest rate swaps	0.734	-0.734	0.000
0.662	**-0.662**	**0.000**		**0.829**	**-0.829**	**0.000**
69.244	**-68.100**	**1.144**		**90.837**	**-90.319**	**0.518**

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

31 March 2020 £ millions Asset exposure value	Liability exposure value	Net value		31 March 2021 £ millions Asset exposure value	Liability exposure value	Net value
			Aberdeen Standard fixed Interest			
49.702	-10.007	39.695	GB Pound	57.288	-0.264	57.024
0.290	-2.419	-2.129	Australia Dollar	0.000	-3.215	-3.215
7.904	-37.630	-29.726	Euro	0.264	-43.981	-43.717
1.638	-8.334	-6.696	US Dollar	0.000	-9.574	-9.574
59.534	**-58.390**	**1.144**		**57.552**	**-57.034**	**0.518**

Note 21: Capital commitments (investments)

As at 31 March 2021 the fund had outstanding capital commitments (investments) totalling £71.287m (31 March 2020 - £48.943m). These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the pooled private equity and pooled property fund elements of the investment portfolio. The amounts 'called' by these funds are irregular in both size and timing from the date of the original commitment due to the nature of the investments.

31 March 2020 £ millions Total commitment	Outstanding commitment		31 March 2021 £ millions Total commitment	Outstanding commitment
92.746	36.332	Neuberger Berman PE funds	83.351	27.651
48.500	12.611	Property funds	68.500	24.490
0.000	0.000	Brunel PE funds	19.523	19.146
141.246	**48.943**		**171.374**	**71.287**

Note 22: 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 2021 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 2020 £ millions		**31 March 2021 £ millions**
34.058	Value of stock on loan	33.907
35.949	Value of collateral held against loaned stock	35.301

31 March 2020 %		**31 March 2021 %**
	Form of collateral provided	
46.5	UK Government debt	46.2
10.6	US Government debt	3.9
27.1	Euro area Governments debt	49.9
0.3	UK equities	0.0
15.5	Overseas equities	0.0
0.0	Other	0.0
100.0		**100.0**

Note 23: Membership statistics

As at 31 March	2015	2016	2017	2018	2019	2020	2021
Active scheme members	**22,020**	**22,649**	**21,550**	**21,151**	**20,485**	**20,877**	**20,605**
Pensioners							
Current (in payment)	13,871	14,779	15,421	16,322	17,326	18,289	18,921
Deferred (future liability)	17,280	20,452	22,268	25,119	26,741	26,449	26,543
Undecided leavers	3,754	2,507	3,778	2,617	2,337	1,808	1,838
Total (active plus pensioners)	**56,925**	**60,387**	**63,017**	**65,209**	**66,889**	**67,423**	**67,907**
Active members for each current pensioner	1.59	1.53	1.40	1.30	1.18	1.14	1.09

Note 24: 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 2020 £ millions		31 March 2021 £ millions
	Value of additional voluntary contributions	
4.074	Prudential*	
0.218	Utmost (formally Equitable Life)	0.201
4.292		**0.201**

2019/2020 £ millions		2020/2021 £ millions
	Additional voluntary contributions paid during the year	
0.388	Prudential*	
0.000	Utmost (formally Equitable Life)	0.000
0.388		**0.000**

* Prudential have not provided AVC data regarding contributions in 2020/21 or the total value of assets as at 31 March 2021.

Note 25: Related parties

Committee members Gordon Bryant, Paul Butler 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.

Pension Board member Nigel Behan was an 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 oversees 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 £991,000 in fees for services in the 2020-2021 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 £223,000 is within the other debtors amount of £3,755,000 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 26: 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 2021 of any officer who undertake work for the fund and receives salary of greater than £60,000 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 2021 Post title	Salary (including fees and allowances) £	Compensation for loss of office £	Benefits in kind £	Total wages and benefits but not including pensions contributions 2020/21 £	Employer's pension contributions £	Total wages and benefits including pensions contributions 2020/21 £
Director of Finance and Performance	119,000	-	-	119,000	21,500	140,500

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

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 2019/20** **£**	**Employer's pension contributions** **£**	**Total wages and benefits including pensions contributions 2019/20** **£**
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

Note 27: 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 28: Contingent liabilities

There were no contingent liabilities as at 31 March 2021.

Note 29: Post balance sheet events

There were no post balance sheet events as at 25 November 2021.

Note 30: 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 2021 being £2,608m.

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 pooled funds 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 2021 by the amounts shown below.

Asset class	Value of Assets £ millions	Volatility	Increase in Assets £ millions	Decrease in Assets £ millions
UK equities	463.496	17.90%	82.966	-82.966
Overseas equities	1350.209	15.30%	206.582	-206.582
UK bonds	185.098	7.70%	14.253	-14.253
Overseas bonds	130.232	13.20%	17.191	-17.191
UK index-linked bonds	75.097	7.20%	5.407	-5.407
Property	174.89	6.20%	10.843	-10.843
Private equity*	72.459	15.30%	11.086	-11.086
Derivatives	0.518	7.50%	0.039	-0.039
Cash	156.449	0.00%	0.000	0.000
Net investment assets	**2,608.448**		**348.366**	**-348.366**

* 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 a 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 custodians.

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 £156.4m 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 2021 we held £0 of cash collateral and £1,063,000 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 majority of the Brunel provided pooled funds provide weekly dealing, providing access to further liquidity should it be required.

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 31: 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
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
Pooled equity funds	Level 2	Published single price ruling at year end	Quoted prices of underlying holdings of the assets held within the pooled fund	Not required
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

The table below analyses the fund's investment assets at 31 March 2021 into the 3 levels of the fair value hierarchy.

Asset Class	Level 1 £ millions	Level 2 £ millions	Level 3 £ millions	Total £ millions
UK equities		12.994		12.994
Overseas equities	0.375			0.375
Brunel pooled equity funds		1,800.336		1,800.336
Bonds	390.427			390.427
Property funds		174.890		174.890
Private Equity funds			72.459	72.459
Derivatives	0.518			0.518
Cash	156.449			156.449
Net investment assets	**547.769**	**1,988.220**	**72.459**	**2,608.448**

For comparison purposes the equivalent disclosure for the financial year ended 31 March 2020 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	**963.747**	**1,154.462**	**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 2021.

The following table shows a reconciliation of the movement in level 3 investments during the financial year ended 31 March 2021.

Asset class	Fair Value as at 31 March 2020 £ 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 2021 £ millions
Global private equity	57.461	0.000	0.000	5.810	-6.104	1.608	11.204	69.979
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	**59.941**	**0.000**	**0.000**	**5.810**	**-6.104**	**1.608**	**11.204**	**72.459**

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 32: 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.

<u>Definition of a Business: Amendments to IFRS 3 Business Combinations</u>

The International Accounting Standards Board (IASB) issued Definition of a business (Amendments to IFRS 3) to make it easier for companies to decide whether activities and assets they acquire are a business or merely a group of assets.

The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020 and to asset acquisitions that occur on or after the beginning of that period. We do not expect these amendments to have a material impact on our accounts when they are applied from 1st April 2021.

<u>Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7</u>

The IASB published Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7), in response to the ongoing reform of interest rate benchmarks around the world. The amendments aim to provide relief for hedging relationships.

The amendments are effective for annual periods beginning on or after 1 January 2020. We do not expect these amendments to have a material impact on our accounts when they are applied retrospectively from 1st April 2021.

<u>Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16.</u>

The IASB published Interest Rate Benchmark Reform Amendments to IFRS 9, IAS 39 and IFRS 7 representing the finalisation of Phase II of the project on 27 August 2020 to address issues that might affect financial reporting when an existing interest rate benchmark is replaced with an alternative benchmark interest rate.

The amendments are effective for annual periods beginning on or after 1 January 2021. We do not expect these amendments to have a material impact on our accounts when they are applied retrospectively from 1st April 2022.

J. C. Vaughan

Jason Vaughan
Director of Finance and Governance
25 November 2021

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 Council 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 Council's agreement. Examples of these organisations include housing associations, development agencies and companies providing services that the Council used to provide. (See also Scheduled organisations.)

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

Capital charges
Charges the Council makes to services for using fixed assets when providing the service.

Capital contributions and grants
Money the Council receives towards paying for capital spending on a particular service or scheme.

Capital financing charges
The charge to the Council'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 Council'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 Council 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 Council services.
- Specific service grants – payments from the Government to cover Council 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 Council 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 Council 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 Council 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 Council but is a member of a committee or sub-committee of the Council.

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

Creditors
People the Council 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 Council 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 Council 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 Council 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 Council'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 Council 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 the Council 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 Council can only continue to benefit from by actually using it. Examples of infrastructure are roads, bridges and footpaths.

Intangible assets
Non-financial fixed assets that do not exist physically but that the Council owns or has a right to use. Examples include software licences.

Levies
The money the Council pays to the Environment Agency (for flood defence and land drainage purposes).

Long-term investments
Those investments which the Council 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 Council's financial performance or position.

Minimum debt repayment or minimum revenue provision (MRP)
The amount the Council 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 Council 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 Council 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 Council 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 Council 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 Council 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 Council 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 Council must keep within the Prudential Code, which sets out the principles that local authorities must follow. These include the following.

- Affordability – can the Council afford to make the repayments?
- Prudence – is the Council 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 Council 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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Please ask for: Paul Griffin

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Direct Dial: 01823 359574

Date: 25 November 2021

Dear Sirs

Somerset County Council
Financial Statements for the year ended 31 March 2021

This representation letter is provided in connection with the audit of the financial statements of Somerset County Council for the year ended 31 March 2021 for the purpose of expressing an opinion as to whether the Council financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards, and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

i. We have fulfilled our responsibilities for the preparation of the Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

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ii. We have complied with the requirements of all statutory directions affecting the Council and these matters have been appropriately reflected and disclosed in the financial statements.

iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. We understand our responsibilities includes identifying and considering alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the estimate used. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.

vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.

vii. Except as disclosed in the financial statements:

   a. there are no unrecorded liabilities, actual or contingent

   b. none of the assets of the Council has been assigned, pledged or mortgaged

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County Council

c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The Council's financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

xi. We have considered the unadjusted misstatements schedule included in your Audit Findings Report and attached. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Council and its financial position at the year-end. The financial statements are free of material misstatements, including omissions.

xii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

xiii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

xiv. We have updated our going concern assessment and cashflow forecasts in light of the Covid-19 pandemic. We continue to believe that the Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that:

a. the nature of the Council means that, notwithstanding any intention to liquidate the Council or cease its operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements

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b. the financial reporting framework permits the entry to prepare its financial statements on the basis of the presumption set out under a) above; and

c. the Council’s system of internal control has not identified any events or conditions relevant to going concern.

xv. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements

Information Provided

xvi. We have provided you with:

a. access to all information of which we are aware that is relevant to the preparation of the Council’s financial statements such as records, documentation and other matters;

b. additional information that you have requested from us for the purpose of your audit; and

c. access to persons within the Council via remote arrangements, in compliance with the nationally specified social distancing requirements established by the government in response to the Covid-19 pandemic. from whom you determined it necessary to obtain audit evidence.

xvii. We have communicated to you all deficiencies in internal control of which management is aware.

xviii. All transactions have been recorded in the accounting records and are reflected in the financial statements.

xix. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

xx. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council and involves:

a. management;

b. employees who have significant roles in internal control; or

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County Council

c. others where the fraud could have a material effect on the financial statements.

xxi. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

xxii. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xxiii. We have disclosed to you the identity of the Council's related parties and all the related party relationships and transactions of which we are aware.

xxiv. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement

xxv. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework, and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Report

xxvi. The disclosures within the Narrative Report fairly reflect our understanding of the Council's financial and operating performance over the period covered by the Council’s financial statements.

Approval

The approval of this letter of representation was minuted by the Council’s Audit Committee at its meeting on 25 November 2021.

Somerset County Council
County Hall, Taunton
Somerset, TA1 4DY

Yours faithfully,

………………………… …………………………

Name: Cllr Mike Lewis

Position: Chair of Audit Committee

Date: 25/11/2021

Name: Jason Vaughan

Position: Director of Finance

Date: 25/11/2021

Signed on behalf of the Council

Somerset County Council
Audit Committee – 25 November 2021

External Auditor Appointments

Lead Officer: Jason Vaughan, Director of Finance & Governance and S151
Author: Jason Vaughan, Director of Finance & Governance and S151 Officer
Contact Details: JZVaughan@somerset.gov.uk
Cabinet Member: Cllr Mandy Chilcott
Division and Local Member: All Members

1. Summary / link to the County Plan

1.1. The Council opted into the 'appointing person' national auditor appointment arrangements established by Public Sector Audit Appointments (PSAA) for the period covering the accounts for 2018/19 to 2022/23.

1.2. PSAA is now undertaking a procurement for the next appointing period, covering audits for 2023/24 to 2027/28. During Autumn 2021 all local government bodies need to make important decisions about their external audit arrangements from 2023/24. They have options to arrange their own procurement and make the appointment themselves or in conjunction with other bodies, or they can join and take advantage of the national collective scheme administered by PSAA.

1.3. If the Council wishes to take advantage of the national auditor appointment arrangements, it is required under the local audit regulations to make the decision at full Council by 11 March 2022.

2. Issues for consideration / recommendations

2.1. The Council accepts Public Sector Audit Appointments' invitation to opt into the sector-led option for the appointment of external auditors for five financial years from 1 April 2023**.**

3. Background

3.1. Under the Local Government Audit & Accountability Act 2014 ("the Act"), the council is required to appoint an auditor to audit its accounts for each financial year. The council has three options:

- To appoint its own auditor, which requires it to follow the procedure set out in the Act.
- To act jointly with other authorities to procure an auditor following the procedures in the Act.
- To opt-in to the national auditor appointment scheme administered by a body designated by the Secretary of State as the 'appointing

person'. The body currently designated for this role is Public Sector Audit Appointments Limited (PSAA).

3.2. To opt-in to the national scheme, a council must make a decision at a meeting of the Full Council.

4. Appointment of External Auditor

4.1. The auditor appointed at the end of the procurement process will undertake the statutory audit of accounts and Best Value assessment of the council in each financial year, in accordance with all relevant codes of practice and guidance. The appointed auditor is also responsible for investigating questions raised by electors and has powers and responsibilities in relation to Public Interest Reports and statutory recommendations**.**

4.2. The auditor must act independently of the council and the main purpose of the procurement legislation is to ensure that the appointed auditor is sufficiently qualified and independent.

4.3. The auditor must be registered to undertake local audits by the Financial Reporting Council (FRC) employ authorised Key Audit Partners to oversee the work. As the report below sets out there is a currently a shortage of registered firms and Key Audit Partners.

4.4. Auditors are regulated by the FRC, which will be replaced by a new body with wider powers, the Audit, Reporting and Governance Authority (ARGA) during the course of the next audit contract.

4.5. Councils therefore have very limited influence over the nature of the audit services they are procuring, the nature and quality of which are determined or overseen by third parties.

Appointment by the council/Authority itself or jointly

4.6. The Council may elect to appoint its own external auditor under the Act, which would require the council to:

- Establish an independent auditor panel to make a stand-alone appointment. The auditor panel would need to be set up by the Council itself, and the members of the panel must be wholly or a majority of independent members as defined by the Act. Independent members for this purpose are independent appointees, excluding current and former elected members (or officers) and their close families and friends. This means that elected members will not have a majority input to assessing bids and choosing to which audit firm to award a contract for the Council's external audit.

Manage the contract for its duration, overseen by the Auditor Panel

4.7. Alternatively, the Act enables the Council to join with other authorities to establish a joint auditor panel. Again, this will need to be constituted of wholly or a majority of independent appointees. Further legal advice would be required on the exact constitution of such a panel having regard to the obligations of each Council under the Act and the Council would need to liaise with other local authorities to assess the appetite for such an arrangement.

The national auditor appointment scheme

4.8. PSAA is specified as the 'appointing person' for principal local government under the provisions of the Act and the Local Audit (Appointing Person) Regulations 2015. PSAA let five-year audit services contracts in 2017 for the first appointing period, covering audits of the accounts from 2018/19 to 2022/23. It is now undertaking the work needed to invite eligible bodies to opt in for the next appointing period, from the 2023/24 audit onwards, and to complete a procurement for audit services. PSAA is a not-for-profit organisation whose costs are around 4% of the scheme with any surplus distributed back to scheme members.

4.9. In summary the national opt-in scheme provides the following:

- The appointment of a suitably qualified audit firm to conduct audits for each of the five financial years commencing 1 April 2023.
- Appointing the same auditor to other opted-in bodies that are involved in formal collaboration or joint working initiatives to the extent this is possible with other constraints.
- Managing the procurement process to ensure both quality and price criteria are satisfied. PSAA has sought views from the sector to help inform its detailed procurement strategy.
- Ensuring suitable independence of the auditors from the bodies they audit and managing any potential conflicts as they arise during the appointment period.
- Minimising the scheme management costs and returning any surpluses to scheme members.
- Consulting with authorities on auditor appointments, giving the Council/Authority the opportunity to influence which auditor is appointed.
- Consulting with authorities on the scale of audit fees and ensuring these reflect scale, complexity, and audit risk.
- Ongoing contract and performance management of the contracts once

these have been let.

Pressures in the current local audit market and delays in issuing opinions

4.10. Much has changed in the local audit market since audit contracts were last awarded in 2017. At that time the audit market was relatively stable, there had been few changes in audit requirements, and local audit fees had been reducing over a long period. 98% of those bodies eligible opted into the national scheme and attracted very competitive bids from audit firms. The resulting audit contracts took effect from 1 April 2018.

4.11. During 2018 a series of financial crises and failures in the private sector year led to questioning about the role of auditors and the focus and value of their work. Four independent reviews were commissioned by Government: Sir John Kingman's review of the Financial Reporting Council (FRC), the audit regulator; the Competition and Markets Authority review of the audit market; Sir Donald Brydon's review of the quality and effectiveness of audit; and Sir Tony Redmond's review of local authority financial reporting and external audit. The recommendations are now under consideration by Government, with the clear implication that significant reforms will follow. A new audit regulator (ARGA) is to be established, and arrangements for system leadership in local audit are to be introduced. Further change will follow as other recommendations are implemented.

4.12. The Kingman review has led to an urgent drive for the FRC to deliver rapid, measurable improvements in audit quality. This has created a major pressure for audit firms to ensure full compliance with regulatory requirements and expectations in every audit they undertake. By the time firms were conducting 2018/19 local audits during 2019, the measures they were putting in place to respond to a more focused regulator were clearly visible. To deliver the necessary improvements in audit quality, firms were requiring their audit teams to undertake additional work to gain deeper levels of assurance. However, additional work requires more time, posing a threat to the firms' ability to complete all their audits by the target date for publication of audited accounts. Delayed opinions are not the only consequence of the FRC's drive to improve audit quality. Additional audit work must also be paid for. As a result, many more fee variation claims have been needed than in prior years.

4.13. This situation has been accentuated by growing auditor recruitment and retention challenges, the complexity of local government financial statements and increasing levels of technical challenges as bodies explore innovative ways of developing new or enhanced income streams to help fund services for local people. These challenges have increased in subsequent audit years, with Covid-19 creating further significant pressure for finance and audit teams**.**

4.14. None of these problems is unique to local government audit. Similar challenges have played out in other sectors, where increased fees and disappointing responses to tender invitations have been experienced during the past two years.

The invitation

4.15. PSAA is now inviting the Council to opt in for the second appointing period, for 2023/24 to 2027/28, along with all other eligible authorities. Based on the level of opt-ins it will enter into contracts with appropriately qualified audit firms and appoint a suitable firm to be the Council's auditor. Details relating to PSAA's invitation are provided in an Appendix to this report.

The next audit procurement

4.16. The prices submitted by bidders through the procurement will be the key determinant of the value of audit fees paid by opted-in bodies. PSAA will:

- Seek to encourage realistic fee levels and to benefit from the economies of scale associated with procuring on behalf of a significant number of bodies.
- Continue to pool scheme costs and charge fees to opted-in bodies in accordance with the published fee scale as amended following consultations with scheme members and other interested parties (pooling means that everyone within the scheme will benefit from the prices secured via a competitive procurement process – a key tenet of the national collective scheme).
- Continue to minimise its own costs, around 4% of scheme costs, and as a not-for-profit company will return any surplus funds to scheme members. In 2019 it returned a total £3.5million to relevant bodies and in 2021 a further £5.6million was returned.

4.17. PSAA will seek to encourage market sustainability in its procurement. Firms will be able to bid for a variety of differently sized contracts so that they can match their available resources and risk appetite to the contract for which they bid. They will be required to meet appropriate quality standards and to reflect realistic market prices in their tenders, informed by the scale fees and the supporting information provided about each audit. Where regulatory changes are in train which affect the amount of audit work suppliers must undertake, firms will be informed as to which developments should be priced into their bids.

4.18. The scope of a local audit is fixed. It is determined by the Code of Audit Practice (currently published by the National Audit Office), the format of the financial statements (specified by CIPFA) and the application of auditing standards regulated by the FRC. These factors apply to all local audits irrespective of whether an eligible body decides to opt into PSAA's national scheme or chooses to make its own separate arrangements. The requirements are mandatory; they shape the work auditors undertake and have a bearing on the actual fees required.

4.19. There are currently nine audit providers eligible to audit local authorities and other relevant bodies under local audit legislation. This means that a local procurement exercise would seek tenders from the same firms as the national procurement exercise, subject to the need to manage any local independence issues. Local firms cannot be invited to bid. Local procurements must deliver the same audit scope and requirements as a national procurement, reflecting the auditor's statutory responsibilities.

Assessment of options and officer recommendation

4.20. If the Council did not opt in there would be a need to establish an independent auditor panel to make a stand-alone appointment. The auditor panel would need to be set up by the Council itself, and the members of the panel must be wholly or a majority of independent members as defined by the Act. Independent members for this purpose are independent appointees, excluding current and former elected members (or officers) and their close families and friends. This means that elected members will not have a majority input to assessing bids and choosing to which audit firm to award a contract for the Council's external audit.

4.21. Alternatively, the Act enables the Council to join with other authorities to establish a joint auditor panel. Again, this will need to be constituted of wholly or a majority of independent appointees. Further legal advice would be required on the exact constitution of such a panel having regard to the obligations of each Council under the Act and the Council would need to liaise with other local authorities to assess the appetite for such an arrangement.

4.22. These would be more resource-intensive processes to implement for the Council, and without the bulk buying power of the sector-led procurement would be likely to result in a more costly service. It would also be more difficult to manage quality and independence requirements through a local appointment process. The Council is unable to influence the scope of the audit and the regulatory regime inhibits the Council's ability to affect quality.

4.23. The Council and its auditor panel would need to maintain ongoing oversight of the contract. Local contract management cannot, however, influence the scope or delivery of an audit.

4.24. The national offer provides the appointment of an independent auditor with limited administrative cost to the Council. By joining the scheme, the Council would be acting with other councils to optimise the opportunity to influence the market that a national procurement provides.

4.25. The recommended approach is therefore to opt-in to the national auditor appointment scheme**.**

The way forward

4.26. Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires that a decision to opt in must be made by a meeting of the Council (meeting as a whole), except where the authority is a corporation sole.

4.27. The Council then needs to respond formally to PSAA's invitation in the form specified by PSAA by the close of the opt-in period (11 March 2022).

4.28. PSAA will commence the formal procurement process in early February 2022. It expects to award contracts in August 2022 and will then consult with authorities on the appointment of auditors so that it can make appointments by the statutory deadline of 31 December 2022.

Local Government Reorganisation in Somerset

4.29. PSAA is aware that reorganisations in the local government areas of Cumbria, Somerset and North Yorkshire were announced in July 2021. Subject to parliamentary approval shadow elections will take place in May 2022 for the new Councils to become established from 1 April 2023. Newly established local government bodies have the right to opt into PSAA's scheme under Regulation 10 of the Appointing Person Regulations 2015. These regulations also set out that a local government body that ceases to exist is automatically removed from the scheme.

4.30. If for any reason, there is uncertainty that reorganisations will take place or meet the current timetable, PSAA has suggested that the current eligible bodies confirm their acceptance to opt in to avoid the requirement to have to make local arrangements should the reorganisation be delayed.

5. Implications

5.1. Opting into a national scheme provides maximum opportunity to ensure fees are as realistic as possible, while ensuring the quality of audit is maintained, by entering into a large-scale collective procurement arrangement. If the national scheme is not used additional resource will be needed to establish an auditor panel and conduct a local procurement.

5.2. Until a procurement exercise is completed it is not possible to state what, if any, additional resource may be required for audit fees from 2023/24.

6. Background papers

6.1. Letter from PSAA September 2021

Note For sight of individual background papers please contact the report author

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Somerset County Council
Audit Committee – 25 November 2021

Recruitment of independent member to the Audit Committee

Lead Officer: Scott Wooldridge, Monitoring Officer
Author: Scott Wooldridge
Contact Details: swooldridge@somerset.gov.uk
Cabinet Member: Cllr Mandy Chilcott, Cabinet Member for Resources
Division and Local Member: All

1. Summary / link to the County Plan

1.1. The report follows the update that the Committee received in Autumn 2020 and January 2021 regarding the independent review into local authority financial reporting and external audit review by Sir Tony Redmond.

1.2. One of the recommendations within the Redmond Review related to the appointment of at least one independent member, suitably qualified, to the Audit Committee. Currently the only members of the County Council's Audit Committee are county councillors and they are appointed by the County Council.

1.3. A number of councils already have agreed to co-opt independent members (on an advisory capacity without voting rights) onto their Audit Committees ahead of the Redmond Review in line with CIPFA best practice guidance.

1.4. Audit Committees are a key component of corporate governance. They are a key source of assurance about the organisation's arrangements for managing risk, maintaining an effective control environment, and reporting on financial and non-financial performance.

1.5. Independent members with appropriate skills and experience supplement those of the elected members and this is intended to improve the effectiveness of an Audit Committee.

2. Issues for consideration / recommendations

2.1. Members are asked to note the attached recruitment pack and timetable for an independent member to the Audit Committee. It is proposed that recruitment will be completed to enable the successful candidate to attend the Committee's meeting on 27 January 2022.

3. Background

3.1. Sir Tony Redmond was commissioned in July 2019, under the former Communities Secretary, James Brokenshire to undertake a review into local authority financial reporting and external audit. The review was completed on 8th September and the results have been published. The Government published its response to the recommendations on 17 December 2020.

3.2. One of the recommendations related to the appointment of independent persons as co-opted members of Audit Committees. Whilst not a statutory requirement a number of councils have already appointed independent members to their Audit Committees in line with CIPFA guidance in 2018 'Practical Guidance for Local Authorities and Police'.

3.3. The revised and updated 2018 edition considered the development of audit committees since the original edition and incorporated the legislative changes that had affected the sector since 2013. It included additional guidance and resources to support those acting as audit committee members in local authorities and those working with and supporting the committee's development. The key changes contained within CIPFA's guidance related to the following areas:-

a. inclusion of an independent member on the Committee;
b. additional guidance on how the Committee can oversee independence, objectivity and performance of Internal Audit and support the effectiveness of the internal audit process;
c. additional guidance on how the committee can support independence of the external auditor and monitor the external audit process.

3.4. CIPFA's view is that the injection of an external independent view can often bring a new approach to committee discussions. Authorities that have chosen to recruit independent members have done so for a number of reasons:

- To bring additional knowledge and expertise to the committee;
- To reinforce the political neutrality and independence of the committee;
- To maintain continuity of committee membership where membership is affected by the electoral cycle.

3.5. CIPFA do though acknowledge there are potential pitfalls to the use of independent members which should also be borne in mind:

- Over-reliance on the independent members by other committee members can lead to a lack of engagement across the full committee;
- Lack of organisational knowledge or 'context' among the independent members when considering risk registers or audit reports;
- Effort is required from both independent members and officers to establish an effective working relationship and establish appropriate protocols for briefings and access to information.

3.6. The Audit Committee agreed to the recruitment of an Independent Member and Full Council approved the recruitment an Independent Person (IP) to the Committee. The IP will be a non-councillor with some experience in the area of audit. The IP would have not a vote in the same way as councillors do at the Committee and will be there in an advisory capacity.

3.7. A copy of the recruitment pack is attached for Members information.

4. Implications

4.1. **Equalities** – there are no direct implications arising from this report.

Legal – Whilst there are no direct implications arising from this report, the Accounts and Audit Regulations specifically require that a relevant body must "maintain an adequate and effective system of internal audit of its accounting records and of its systems of internal control in accordance with the proper internal audit practices".

Under S102(3) of the Local Government Act 1972, Co-opted members are not permitted to be members on Committees which are responsible for "*regulating and controlling the finance of the local authority".*

CIPFA do acknowledge these limitations recommending that Local Authorities should have regard to Section 13 of the Local Government and Housing Act 1989 which relates to the voting rights of non-elected committee members. This states that "*A person who – (a) is a member of a committee appointed under a power to which this section applies by a relevant authority and is not a member of that authority; shall for all purposes be treated as a non-voting member of that committee".*

CIPFA's view is that where an audit committee is operating as an advisory committee under the Local Government Act 1972, making recommendations rather than policy, then all members of the committee (including any co-opted members) should be able to vote on those recommendations. However, where a council has delegated decisions to the committee, for example the adoption of the financial statements, then independent members will not be able to vote on those matters for decision.

As part of the Audit Committee's remit is therefore to regulate and control the Councils' finances, under S102(3), co-opted members with voting rights are not permitted on this Committee.

Financial implications – Any costs associated with the recruitment, selection, appointment and subsequent disbursements to any independent member(s) would need to be met from the Members Allowances Budgets. These costs are currently not budgeted for and therefore if these proposals are approved then funding will need to be met initially from the Contingency Budget and subsequently form part of the planning for the Medium Term Financial Plan.

Risk implications – Whilst there are no direct implications from this report, the Audit Committee objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources. Subject to adequate recruitment procedures and adherence to the Person Specification, this proposal should augment the Audit Committee's independence, provide additional expertise, and provide an opportunity for the community to play an enhanced role in the governance of the Council.

5. Background papers

5.1. Redmond Review (published)
CIPFA – Practical guidance for Local Authorities and Police 2018 Edition
Audit Committee Functions – Somerset County Council Constitution

Somerset County Council

Independent Member Recruitment Information Pack

Appointment of an Independent Member to the Audit Committee

Background Information

Somerset County Council is keen to implement continuous improvement in the areas of corporate governance and robust financial management. The Council's Audit Committee provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.

In 2020 the Government asked Sir Tony Redmond to conduct an independent review into local authority financial reporting and external audit. One of the review recommendations related to the appointment of independent persons as co-opted members of Audit Committees. Whilst not a statutory requirement a number of councils have independent members on their Audit Committees and the Council's Audit Committee asked the County Council to approve its request to recruit and appoint an independent member.

Functions

The Audit Committee is responsible for overseeing the authority's corporate governance arrangements and reviewing its financial internal controls. This includes monitoring of the internal audit reporting, risk management reporting and the financial reporting process. The Independent Member plays a key role in the understanding of and reviewing the authority's statement of accounts for its approval.

The successful applicant must be able to demonstrate the desire to serve the local community and uphold local democracy and be able to receive reports and presentations from key partners, including the Council's internal auditors and external auditors.

The Committee provides independent assurance of the adequacy of the risk management framework and associated control environment and independent scrutiny of the authority's financial and other performance to the extent that it reflects on exposure to risk or weakens the control environment.

To assist applicants, the following documents are attached:

- 1. Independent Member Role Specification.

- 2. Person Specification
- 3. Audit Committee Terms of Reference
- 4. Disqualifications for Appointment

Eligibility for Appointment

A person cannot be appointed as an Independent Member if they are or were within a period of five years prior to the appointment:

(a) A member, or co-opted member or officer of Somerset County Council,

(b) A member, or co-opted member or officer of a Town or Parish Council within the area of Somerset County Council,

or, if they have a relative or close friend of a person in (a) or (b) above – see below.

A relative is defined as:

(a) The applicant's spouse or civil partner;
(b) Any person with whom the applicant is living as if they were spouse or civil partners;
(c) The applicant's grandparent;
(d) Any person who is a lineal descendent of the applicant's grandparent;
(e) A parent, brother, sister or child of anyone in paragraphs (a) or (b);
(f) The spouse or civil partner of anyone within paragraphs (c), (d) or (e); or
(g) Any person living with a person within paragraphs (c), (d) or (e) as if they were spouse or civil partner to that person.

There are also restrictions on appointment for persons who have been convicted of any criminal offence, or is an undischarged bankrupt and there are also requirements that the Member has not significant business dealings with the Council or any formal connection with any political group.

Financial management experience is an essential requirement for this role.

Information about the Role

The Independent Member will need to be contactable at all times during regular working hours (Monday-Friday 9am to 5pm) by telephone or by email and will need to be available to attend meetings in the day time, perhaps sometimes at relatively short notice. All scheduled Audit Committee meetings for 2021 and 2022 are for 10am Thursday mornings.

The Committee meets approximately five to seven times each year and the Independent Member will be required to attend these meetings.

This is not a job vacancy, and should you be appointed as an Independent Member you will not be an employee of the Council. This role does not attract any financial recompense, other than reimbursement of necessary travel expenses and a subsistence allowance. As a co-opted member you may be able to claim a financial loss of earnings allowance for loss of earnings and expenses through undertaking this role i.e. attending meetings and briefings.

The term of office will be for a fixed term until 31/3/2023 (up to vesting of the Unitary Council) and will be subject to the Independent Member maintaining high standards of personal conduct. The Council may terminate an appointment at any time.

Completion and Submission of Application Form

The selection criteria for the role is set out in the person specification. Please ensure that you carefully demonstrate in your application form how you meet the criteria, as this will be used to assist in the short-listing process.

Applications will be assessed by reference to your completed application form and, if shortlisted, by interview. Shortlisted applicants will be invited to attend for interview. The successful applicant will receive specific training to enable them to undertake the role effectively.

Applications must be received by midnight on 20 December 2021.

Interviews will be held during the week commencing 3 January 2022.

1. Independent Member Role Specification

Background Information

The aim of the independent member is to bring a fresh and objective viewpoint to the work of the Audit Committee and support them to carry out their work. The Audit Committee comprises 8 County Councillors who are not part of the ruling administration.

The role of the Audit Committee has evolved and it has become central to the governance, internal control, compliance and risk aspects of the operation of the Council. Having an independent voice with the appropriate background knowledge and skills is advocated by the Chartered Institute of Public Finance and Accountancy (CIPFA) in their Audit Committee Guidance.

The work of the Audit Committee includes:-

Annual Governance Statement – Annual Governance Statement (somerset.gov.uk)
Audit Committee Annual Report – Somerset County Council
Annual Statement of Accounts – Final Audited Statement of Accounts 2019-20
Full details of the Committee's responsibilities are in the Audit Committee's Terms of Reference attached as an extract from the County Council's Constitution.

Members of the Audit Committee receive on-going training relevant to their role and are expected to keep up to date. The independent member will be appointed through a process of public advertisement, application, interview and appointment.

The Council has a commitment to equal opportunities and welcomes applicants from all sections of the community. Also we operate a no smoking policy. This role does not attract any financial recompense, other than reimbursement of necessary travel expenses and a subsistence allowance. As a co-opted member you may be able to claim a financial loss of earnings allowance for loss of earnings and expenses through undertaking this role i.e. attending meetings and briefings.

The independent member will attend and participate in meetings of the County Council's Audit Committee. The Audit Committee meets 5-7 times per year and on an 'exception' basis as required. The term of office will be for a fixed term until 31/3/2023 (up to vesting of the Unitary Council) and will be subject to the Independent Member maintaining high standards of personal conduct. The Council may terminate an appointment at any time.

The independent member, through their participation will assist the Audit Committee to discharge their powers and functions. It will be important for the appointed person to:

- To apply strategic thinking and materiality to reports presented and be able to review at an appropriate level.
- To ask questions that draw out relevant facts and explanations.
- To provide challenge.
- To seek understanding and enable solutions.
- To evaluate information on the basis of evidence presented without political bias.
- To weigh up differing views and be able to come to an evidence based conclusion.
- To ask difficult questions to get to the facts while maintaining positive relationships.

Given the independent nature of this role, we would not appoint a person who:

- has within the period of five years immediately preceding the date of the appointment been a member or officer of Somerset County Council
- is a serving member or officer of any other local authority, or
- is a relative of close friend of a member or officer of Somerset County Council

Also attached are further details on Disqualifications for Appointment.

2. Person Specification

Requirements	Where identified	Essential	Desirable
A broad range of experience in any sector with Board experience, preferably in an audit role.	A	Yes	
Understanding of the wider local government environment and accountability structures.	A		Yes
Strategic/financial management responsibilities	A		Yes
Qualification in accountancy, finance, risk management, business management or internal audit.	A		Yes
Good understanding of corporate governance and risk management. The ability to formulate and evaluate solutions to the issues identified.	A	Yes	
Good understanding of the roles of internal and external audit.	I	Yes	
Ability to understand complex issues and make objective, evidence-based decisions.	I	Yes	
Strong interpersonal and communication skills	I	Yes	
Willingness to participate in meetings and ask searching questions in order to challenge and hold to account Council Officers and the representatives of internal and external audit.	I	Yes	
Attend and prepare for each meeting of the Audit Committee.	I	Yes	
Ability/willingness to attend any relevant training or development activities associated with the role.	I	Yes	
Independence of mind, objectivity and impartiality.	I	Yes	

***A is application form – I is Interview**

3. Audit Committee terms of reference

AUDIT COMMITTEE
FUNCTIONS: In summary, the Committee approves internal audit arrangements, considers external audit reports and deals with other governance matters including risk.

The Committee:
(a) Approves (but not directs) internal audit's strategy, plan and performance;
(b) Reviews summary internal audit reports and the main issues arising, and seeks assurance that action has been taken where necessary;
(c) Considers the reports of external audit and inspection agencies;
(d) Ensures that the Council's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it;
(e) Ensures that there are effective relationships between external and internal audit, inspection agencies and other relevant bodies, and that the value of the audit process and effective financial governance is actively promoted;
(f) Reviews the financial statements, external auditor's opinion and reports to Members, and monitors management action in response to the issues raised by external audit.
(g) Approves the annual accounts of the Council and the Annual Governance Statement, together with considering the Matters Arising from the Accounts Audit.

FORM AND COMPOSITION:
The Committee comprises 9 Members and the membership reflects the political composition of the Council. Membership must not include Cabinet Members. Substitution is allowed but excluding Cabinet Members.

QUORUM:
A minimum of 5 members is required for a valid meeting of the Committee.

COMMITTEE BUSINESS:
The following can include items on the Committee's agenda: (a) The Committee itself (b) Full Council (c) A member of the Committee (d) The Chief Executive (e) The Monitoring Officer (f) The County Solicitor (g) The Chief Internal Auditor (h) The Section 151 Officer.

REPORTING:
The Committee submits an Annual Report to Full Council and reports to the Leader / Cabinet as necessary.

4. Disqualifications for Appointment

Summary of Sections 80 and 81 of the Local Government Act 1972.

(i) A person shall be disqualified from being appointed if he/she: -

(a) holds any paid office or employment with the Authority;

(b) is a person who has been adjudged bankrupt or made a composition or arrangement with his/her creditors;

(c) has, within five years before the day of his/her appointment, been convicted of any offence and had passed upon him/her a sentence of imprisonment (whether suspended or not) for a period of not less than three months without the option of a fine;

(d) has been convicted of a corrupt or illegal practice under Part III of the Representation of the People Act 1983;

(e) is disqualified for membership for a specified period by Order of the Court because of his/her involvement in expenditure contrary to law; and

(f) is disqualified from membership for five years following an Auditor's certificate that a loss or deficiency has been caused by his/her wilful misconduct while a member of a local authority.

(ii) The disqualification attaching to a person by reason of having been adjudged bankrupt ceases: -

(a) on his/her discharge from bankruptcy unless the bankruptcy order made against the person is previously annulled; and

(b) if the bankruptcy order is so annulled, on the date of the annulment.

(iii) The disqualification attaching to a person by reason of his/her having made a composition or arrangement with his/her creditors ceases: -

(a) on the date on which payment is completed if he/she pays the debts in full; or

(b) in any other case, on the expiration of five years from the date on which the terms of the deed of composition or arrangement are fulfilled.

Audit Committee Work Programme

Future Agenda Items	Notes
18 November 2021	Training Session (Virtual) on Statement of Accounts
25 November 2021	
Internal Audit Update	The regular progress report from SWAP on the completion of the current Internal Audit Plan, highlighting any high risks
Approval of the Statement of Accounts 2020/2021	To consider the matters raised in Grant Thornton's Audit Findings Report, approve the updated Annual Governance Statement, approve the Council's audited Statement of Accounts, and approve the Letter of Representation
Approval of the Pension Fund Accounts 2020/2021	To consider the matters raised in Grant Thornton's Audit Findings Report, approve the Pension Fund Accounts, and approve the Letter of Representation
Appointment of External Auditors	To receive a report and proposals for external appointment through the PSAA from the Director of Finance & Governance
Independent Member for the Audit Committee	Proposal to recruit an independent member of the Audit Committee
Committee Work Programme	To consider the current work programme for future meetings and receive any suggestions for additional items.
27 January 2022	
External Audit Plan and Sector Update	To receive an update on the external audit timetable and audit work undertaken, and any initial findings
Internal Audit Update report	SWAP overview and general update of the progress made against the Audit Plan
Debtor Management update report	To report on the performance in terms of collecting monies owed to the County Council
Risk Management Update	To Review the Strategic Risk Register
Review of Internal Audit	For members to consider a review carried out by officers, with independent validation, into the effectiveness of the SWAP internal audit function in the current year.
10 March 2022	
External Audit Plan and	To receive an update on the external audit timetable

Sector Update	and audit work undertaken, and any initial findings
Internal Audit Plan and Audit Charter	To consider the proposed internal Audit Plan and internal Audit Charter
Internal Audit update report	SWAP overview and general update of the progress made against the Audit Plan
16 June 2022	
Annual Report to Council	To approve the Committee's Annual report to Full Council
Risk Management update	To review the Strategic Risk Register
Debtor Management update report	To report on the performance in terms of collecting monies owed to the County Council
28 July 2022	
Draft Annual Governance Statement (AGS)	For members to review the content of the draft AGS for the current year. (The AGS is a mandatory statement that sits alongside the Statement of Accounts and provides assurance that SCC has effective internal controls in place)
Review of Internal Audit	For members to consider a review carried out by officers, with independent validation, into the effectiveness of the SWAP internal audit function in the current year
Annual Audit Opinion from SWAP	To receive the annual audit opinion from the Council's internal auditors
Internal Audit Update	Progress report from SWAP on the status of the current Internal Audit Plan, noting any high risks identified
External Audit Update	An update on the progress of Grant Thornton's audit work and progress
Anti-Fraud and Corruption Report	Our formal annual review of national fraud risks, our fraud policies and our work to prevent and detect frauds against the County Council
External Audit Plan for the Council and Pension Fund	To approve the external auditors audit plans for the Council and the Pension Fund
22 September 2022	
External Audit Update	An update on the progress of the audit as it moves towards a conclusion following the approval of the accounts in July
Internal Audit Update	The regular progress report from SWAP on the completion of the current Internal Audit Plan, highlighting any high risks that have arisen from their work

Risk Management	The regular update on progress in mitigating the highest scoring risks
Debtor Management	The usual update report on collection of monies owed to the County Council, and an update on management progress against the latest SWAP audit
Partial Audit and Risks	To review any completed internal audits that have only received a Partial Assurance, where the dates in the agreed Action Plan show progress should have been made
24 November 2022	
Statement of Accounts	To approve both the County Council's and Pension Fund's accounts, final Annual Governance Statement and Value for Money arrangements
National Audit Office report	For members to consider a report from the NAO that looks at the governance requirements of transformational projects
External Audit Update	An update on Grant Thornton's work and planning progress, and an update from the audit sector in general
Internal Audit Update	The regular progress report from SWAP on the completion of the current Internal Audit Plan, highlighting any high risks that have arisen from their work

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