

# Somerset County Council Statement of Accounts 2022/23

**Audited Accounts for Approval**



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**SOMERSET**  
County Council



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# Executive Director - Resources & Corporate Services 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 2022/23. This will be the final set of accounts for Somerset County Council. On the 1<sup>st</sup> April 2023 all of the five Somerset Councils have merged to form a new Somerset Council.

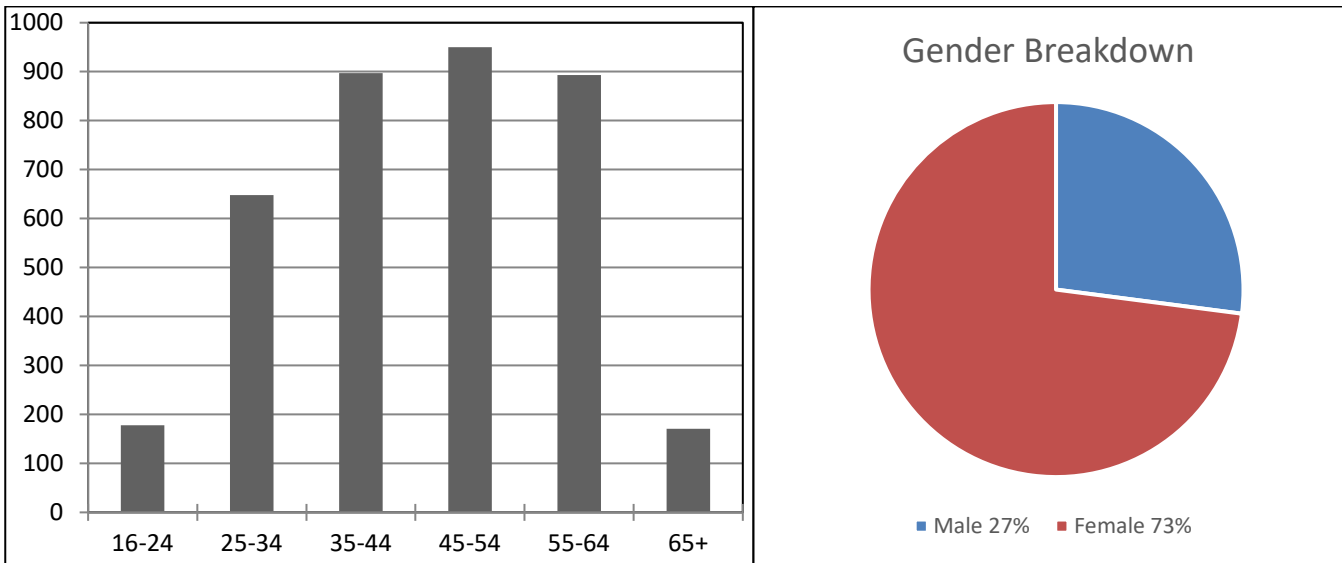
## 2. Somerset Context

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 52% urban/town, and 48% rural, making it one of the ten most rural counties in England. One third of people live in one of the county’s four largest towns: Taunton, Yeovil, Bridgwater, and Frome.

The population of Somerset is approximately 564,000 with an age profile that is weighted slightly towards people of older age; around 1 in 4 of the residents of the county are over the age of 65. Somerset’s employment rate remains higher than the national level (77.8% compared to 75.6%) with 80.2% of Somerset’s residents aged 16-64 being classified as economically active. This is marginally higher than the national average of 78.5% although average annual earnings in Somerset consistently lag behind the UK level.

## 3. People Context

Somerset County Council employed 3,737 people in full and part time contracts on 31<sup>st</sup> March 2023. Employees are a valued significant resource within the Council and employee’s costs account for 27% 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 Executive) and implemented by the Senior Leadership Team (SLT).

##### **Political Structure in 2022/23**

The Council was made up of 110 councillors elected in May 2022. The political make-up of the Council during 2022/23 was:

- Liberal Democrat – 61 councillors
- Conservative Party – 36 councillors
- Labour – 5 councillors
- Green Party – 5 councillors
- Independent – 3 councillors

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 2022 by the previous administration.

##### **Chief Officer Structure (Somerset County Council)**

Councillors were supported by Senior Leadership Team (SLT), which is headed by the Chief Executive, Duncan Sharkey. SLT were 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 was 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

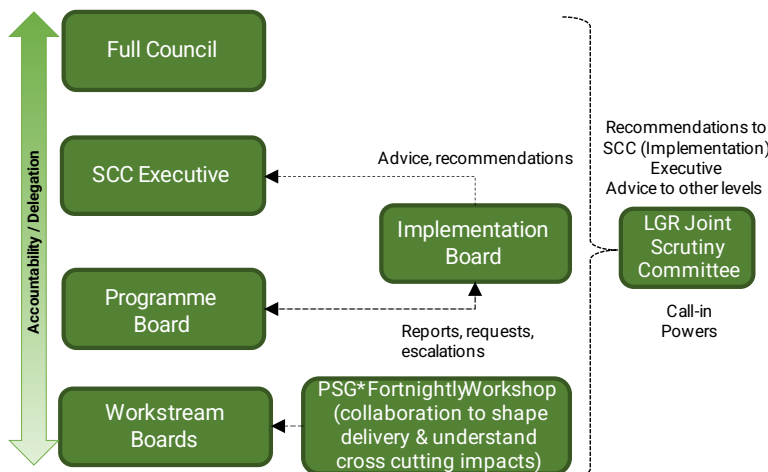
In addition to these Officer 'gateways' and internal governance arrangements, there was also the Executive & SLT meetings which meet monthly to review strategic matters and policy development.

Further details of the governance arrangements in place during 2022/23 can be found in the Annual Governance Statement.

##### **Governance Structure for delivery of the new Unitary Council**

Specific governance arrangements were formed to support the transition of Councils to the new Unitary Council. The following diagram shows the overall administrations decision making and accountabilities structure:

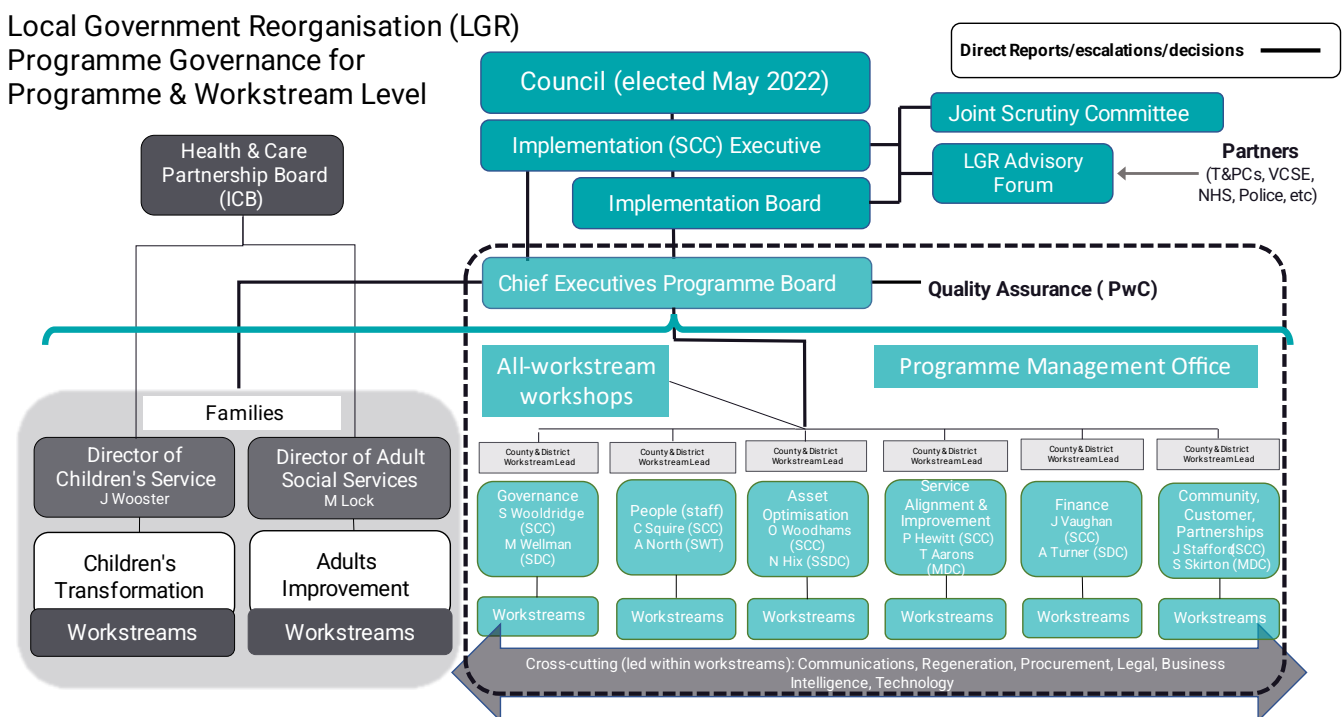
# Decision making and accountabilities



Together we are delivering your  
**New Somerset Council**

\* Programme Steering Group

Programme Governance including the programme and workstreams are shown below:



The programme is being delivered in three "tranches" :

- **Tranche 1** - Delivery of products that are required on or before Vesting Day, including those essential to signalling the change to Somerset Council for our staff, Members and customers. Also includes activity and products that enable products in tranches 2 and 3.
- **Tranche 2** - Delivery of products on or before 31/3/24 that are important to the operation of services and functions but aren't a 'must-have' for Vesting Day. Also includes some products that will either deliver early cashable benefits and post-Vesting Day objectives of the Business Case or enable subsequent benefits delivery.

- **Tranche 3** - Delivery of products to fulfil the business case outcomes and benefits. Priority transformation and improvement deliverables for Somerset Council

A Peer Review took place in November 2022 with the following scope agreed with the LGA as the following three critical areas of activity:

- **Preparedness for new unitary 'Vesting Day'** : whilst acknowledging that all the current councils and programme team are keen to move beyond the 'safe and legal' terminology, being in a position to stand up a functioning legal entity on day one is mission critical and so the peers will offer a view on how the programme is prioritising activity to ensure this.
- **Preparedness for 'day two and beyond'** : considering any resourcing tensions between programme delivery and maintaining standards with BAU to ensure the new council can deliver well run services beyond vesting day. This element will inevitably consider financial planning, and although in December the budget setting process will not be complete, the council will have a good understanding of current budget positions and future challenges and the peer review work will reflect on plans that are in place to deliver the financial requirements of the new council. This theme can also usefully offer a peer view of your transformational plans which are being developed – and the phasing of the delivery of any transformational activity.
- **Developing Local Community networks as a vehicle to drive change and improvement:** the development of these networks was a key feature of the business case for change and is perhaps the one element of the programme that is not part of the standard process. This early peer engagement could prove a useful opportunity to gauge process to date, looking to see the extent to which council and partner services are 'bought into' the idea of LCN's as a primary service delivery vehicle. Given the first area of focus (preparedness for standing up a safe and legal council) – this theme could look at what is practicable/desirable to deliver ahead of vesting day in terms of LCN's and what would be more appropriate to do at a later date, reflecting on the administration's view that they would rather develop a sound framework in the early stages that can be built upon over time, rather than being over ambitious too early and then having to revisit and potentially dismantle.

In summary, the Peer Reviewers key reflections and findings were:

- **Articulate your vision** – the reviewers heard that the political administration has a vision and sense of priority activity for the new council; this now needs to be made explicit and socialised.
- **Be explicit in your commitment to engage partners from all sectors** in the co-production and co-design of policies, structures etc in the new council.
- **Stop, think and create space as the councils 'top team'** – when key senior positions have been filled ensuring we create organisational time and space to consider ways in which the new council will thrive into the future.
- **Ensure robust finance plans are in place and widely understood** – ensuring staff are aware of the budget position and how this could impact on the functionality of the new council.
- **Make sure you allow sufficient time for tranche 2** and ensure teams and leaders are able to deliver the new plan and culture.



- **Do not underestimate the time needed for stabilisation** - this will inevitably go beyond 6 months and may even last a full electoral cycle for ambitions to be fully realised.
- **Keep resolutely focussed on delivering the one council ethos and culture**, throughout the new council and with partners.
- **Ensure you have the necessary capacity in the new council** to ensure effective communication, internally as well as externally.
- **Establish clear transition milestones** – ensure sufficient capacity to support transition. This will help avoid the risk that key systems and policies are not aligned as quickly as some may expect.
- **Settle on geography, structure and initial people & budget resourcing of LCNs** before Vesting Day, so they can operate from day 1.
- **Develop a strong package of support and engagement with Members**, including an effective member development programme.

PWC were also engaged to provide challenge to the programme with responses being made by the project team. An example of this is shown below:

## Principal PwC Summary Observations and Programme response

PwC Observation	Response under way or planned
<b>The programme needs to bring together the key products of the MTFP, Activity Analysis and LGR workstreams with the development of the TOM.</b>	<ul style="list-style-type: none"> <li>• LGA Mini-Peer Review on LGR delivery, day 1 readiness, readiness for beyond day 1, and LCN development: 6 -8 December.</li> <li>• LGR Workstream role in developing MTFP</li> <li>• Developing critical content for day 1 TOM in line with Executive steer (coordination is key)</li> <li>• Informal reference group for leads for MTFP, TOM, service standards, organisation structure and Council Plan</li> <li>• Activity Analysis interpretation and validation work under way: staff workshop complete, Workstream workshop complete and results collated</li> <li>• Work is being progressed to analyse the feedback from Activity Analysis, support MTFP and develop the TOM. This will require ongoing oversight and input from Programme Board, Implementation Board and Workstreams as well as by Council services.</li> </ul>
<b>Attention must be paid to the cumulative impact of the change management actions across the programme</b>	<ul style="list-style-type: none"> <li>• Agreed, Programme Board will review/be notified of all Programme changes.</li> <li>• Change control embedded in programme management and potential/actual changes and missed milestones visible/identified at Programme Board and at least fortnightly by Workstreams through 8-week forward look and time freed up to do so (mandated by Programme Director).</li> <li>• Monthly PMO-led quality assurance sessions with each Workstream</li> <li>• People side of change: significant effort put into this to understand change required, and how to achieve them (change readiness and adoption)</li> </ul>
<b>The current programme structure has been in place for nearly 12 months should this be reviewed?</b>	<ul style="list-style-type: none"> <li>• Whilst the programme is considered fit for purpose, amendments to the meeting structures have been made to free up capacity and focus on. Any further changes will be involve discussion and endorsement of Programme Board.</li> <li>• Change in programme structure has taken place, iteratively based on need and mitigation of risk: new sub-workstreams (equalities , VCFSE) and changes to governance – removal of Steering Group meetings in favour of collaborative fortnightly workshops</li> </ul>
<b>A level of grip must be expected of workstream leads by the programme.</b>	<ul style="list-style-type: none"> <li>• More time has been made available to Workstream Leads to meet with their respective teams: greater level of programme accountability is pushed out to Workstreams.</li> <li>• Weekly communication to Workstreams and Sub-Workstream on the rolling programme plan.</li> <li>• Fortnightly requirement for Workstream overview of programme milestones and delivery. Use of available data and "hands-on" approach encouraged.</li> <li>• Note that a principle of the programme is transparency and sharing of information and concerns. All staff, regardless of role, are encouraged to share concerns (and ideas), and this is embodied in escalation routes within Workstreams, scorecard and programme</li> </ul>
<b>There is an ever-increasing risk around capacity and capability of sub-workstream leads to deliver their products to meet key milestones.</b>	<ul style="list-style-type: none"> <li>• Steps have been taken at the programme level support Workstreams (staff release, prioritisation and mutual aid) and regular risk management reviews. This includes ensuring Programme Board have information they need to act, and involvement of Implementation Board and Joint Scrutiny Committee</li> <li>• Risks / issues around resourcing have been addressed throughout the life of the programme, including monthly reporting and escalations.</li> <li>• Need for a contingency plan for winter absence/sickness identified. Being actioned.</li> </ul>

A Finance Board consisting of the S151 and deputy S151 officers from all five authorities was set up to deliver the key milestones for Tranche 1 (ready for vesting day) and beyond. Workstreams were led by different officers in terms of delivery. A robust monitoring process was put in place and any issues escalated to the programme board.

## 5. The Council's Vision

The Council approved a new Council Plan in 2023. It included the vision for Somerset Council for the next four years. This dynamic vision puts all the people of Somerset at the heart of everything we do; we will be a council that will do our best to be there whenever our residents need us. The way in which we deliver our services may change, but we are committed to making all your interactions with the council easier and build trust over the coming years. Somerset Council will build a fairer, greener, resilient, more flourishing Somerset that cares for the most vulnerable and listens to you.




The Council also set out four priority areas:

- A greener more sustainable Somerset
- A healthy and caring Somerset
- A fairer, ambitious Somerset
- A flourishing and resilient Somerset

## 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.

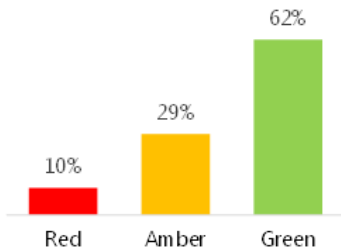
Performance Ratings	
<b>G</b>	Performance is on or exceeding target. Project is on target.
<b>A</b>	Performance is off target but within tolerance. Project requires attention.
<b>R</b>	Performance is off target and outside tolerance. Project is off target.
<b>B</b>	Metric discontinued. Project is closed.
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 31<sup>st</sup> March 2023:

# High level Summary

	RAG Rating			Direction of Performance*		
	G	A	R	↑	→	↓
A county infrastructure that drives productivity, supports economic prosperity and sustainable public services	3	0	1	0	0	0
Safe, vibrant and well-balanced communities able to enjoy and benefit from the natural environment	2	1	0	1	0	0
Fairer life chances and opportunity for all	1	2	1	1	4	3
Improved health and wellbeing and more people living healthy and independent lives for longer	4	1	0	1	3	1
Meeting the challenges for the people of Somerset through innovation and improvement	3	2	0	2	3	0
<b>TOTAL</b>	<b>13</b>	<b>6</b>	<b>2</b>	<b>5</b>	<b>10</b>	<b>4</b>

### RAG Ratings

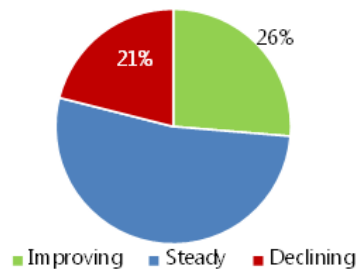


**62%**  
of measures rated as on or exceeding target



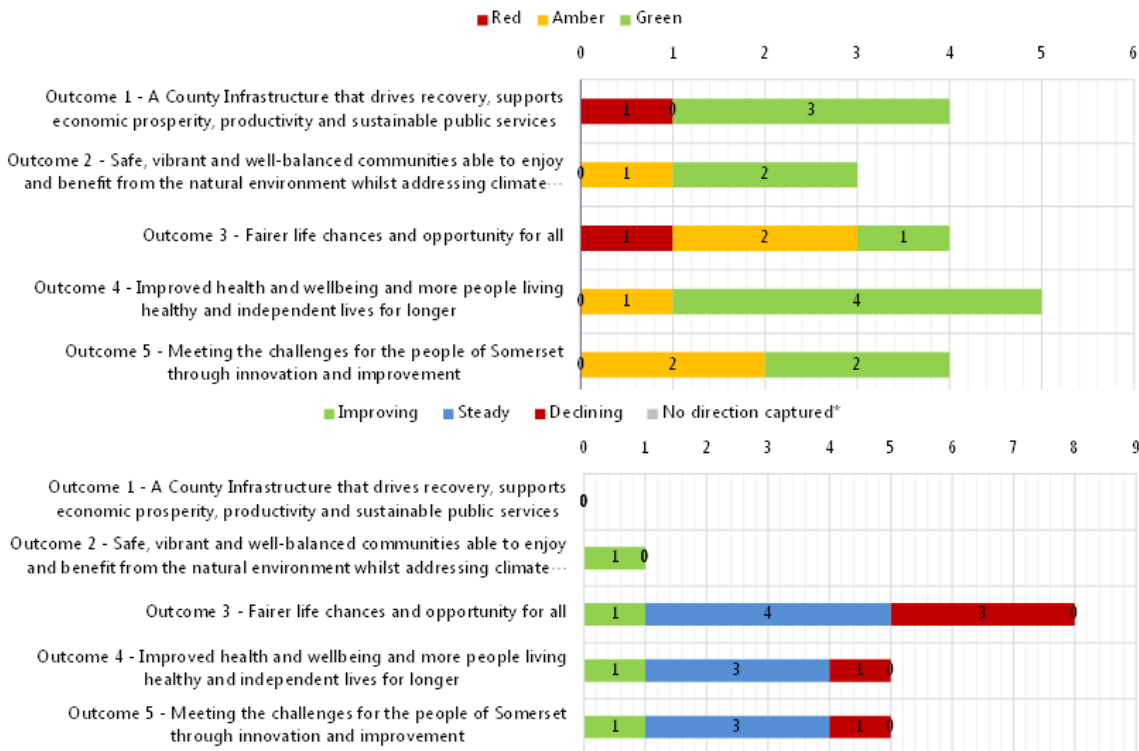
**26%**  
of measures rated as improving

### 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

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.

## 8. Revenue spending in 2022/23

In February 2022, the Council agreed its budget for 2022/23 at £378.646 million and approved a band-D council tax of £1,394.00 which included an increase in Council Tax of 1.99%, an additional precept increase specifically for Adult Social Care of 1% and a precept to cover the responsibilities for the Somerset Rivers Authority of £12.84.

The following table shows 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.

Additional use of reserves totalling £5m were approved during 2022/23, bringing the total revised budget for 2022/23 to £383.7m.

**Table 1: Comparison of net spend against revised budget**

Service	2022/23	2022/23	Difference	
	Total Revised Budget £millions	Total Net Spend £millions	£millions	%
Adult Services	160.7	176.2	15.5	9.6
Childrens Services	107.1	128.3	21.2	19.8
Public Health	1.3	1.1	-0.2	-15.4
Economic & Community Infrastructure Services	75.0	71.3	-3.7	-4.9
<b>Direct Service Provision</b>	<b>344.1</b>	<b>376.9</b>	<b>32.8</b>	<b>9.5</b>
Customers, Digital & Workforce	17.7	17.3	-0.4	-2.3
Finance & Governance	14.4	14.3	-0.1	-0.7
Accountable Bodies	4.5	4.5	0.0	0.0
Corporate Costs	0.2	-5.0	-5.2	-2600.0
Trading Units	0.0	0.0	0.0	0.0
<b>Total Service Provision (exc Schools)</b>	<b>380.9</b>	<b>408.0</b>	<b>27.1</b>	<b>7.1</b>
Corporate Contingency	2.8	0.0	-2.8	-100.0
<b>Total after Contingencies</b>	<b>383.7</b>	<b>408.0</b>	<b>24.3</b>	<b>6.3</b>
<u>Funded by:</u>				
Reserves	-13.3	-13.3	0.0	0.0
Revenue Support Grant	-279.9	-279.9	0.0	0.0
Business Rates	-84.1	-85.0	-0.9	1.1
Council Tax	-6.4	-6.4	0.0	0.0
	<b>-383.7</b>	<b>-384.6</b>	<b>-0.9</b>	<b>0.2</b>
<b>Total Outturn Surplus (-) / Deficit</b>	<b>-</b>	<b>23.4</b>	<b>23.4</b>	<b>6.1</b>

The final year-end position was £23.4m deficit with Adult Services in deficit by £15.5m (compared to £0.2m surplus in 2021/22). The main reasons for the deficit are listed below:

### Physical Disability/Sensory Loss/65 Plus

Adult Social Care ended this year with an adverse variance of £8.4m. More people have been receiving support through Residential and Nursing placements, as well as an increase in home care delivery compared to previous years. This has led to overspends of £6.5m against placements and £1.4m within direct payments.

Within the cost pressure against Residential and Nursing is £1.2m for home closures across Somerset due to difficult financial stability within the current market.

There continue to be a number of interim placements as the service works with the NHS trusts to ensure a timely discharge for people from hospital. These placements are currently funded from the Intermediate Care budget but could have a longer-term impact on the social care budget.

### Mental Health

The Mental Health budget continues to be an area of growth for the past few years, and this has continued in 2022/23 with an adverse variance of £3.3m. Residential and nursing continues to be a pressure for the service due to a combination of increasing numbers and high unit costs. This budget includes individuals who have a diagnosis of dementia.

### Learning Disabilities

Overall, Learning Disabilities ended the year with an adverse variance of £4.8m. The four main pressure areas continue to be Residential £2m, Supported Living and Homecare £2.2m, and Day Care £1.6m due to market sustainability. Supported Living is in the best interest of people but is an area where unit costs can be high.

As families feel more self-assured of living with Covid they feel more confident of using day services as an option for a carer's break/respite. Consequently, we are seeing increased need and subsequent spend.

Children's Services had an adverse variance of £21.2m compared to £4.2m in 2021/22. The main reasons for the deficit are listed below:

### External Placements

Children's Social Care services have a deficit of £17.8m. Much of this pressure is seen in the external placements budget (for children looked after) with an adverse position of £15.2m. Most of the pressure we are seeing in this year's budget relates to the cost of 15 children who have been in unregistered care at various points during the financial year (compared to 13 up to the same point in the last financial year), with a net position of £11.6m.

### Home To School Transport

The cost of transporting children and young people to their place of education continued to be an area of pressure in 2022/23 with a total adverse outturn variance of £3.8m across Home to School and Special Educational Needs and Disability (SEND) transport.

Contractual inflation of 5% was built into the 2022/23 budget, however, following rising fuel costs, driver hourly rates and other related costs, some contracts have been retendered at significantly higher contract rates.

In addition, the increase in the number of children and young people with Education, Health, and Care Plans (EHCPs) who require transport has contributed to the overspend.

The Outturn deficit of £19.8m is also reported in Note 5, but as the classification of some Corporate Costs are included in both Continuing Operations and the Provision of Services within the Comprehensive Income & Expenditure Statement (CIES), the total reported for resource management will be different from the figures in the table above. There is a similar variance with the Schools budget that is not reported at Outturn (so excluded from the table above) but included in the CIES and Note 5.

## 9. Capital spending in 2022/23

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 2022/23 our capital spending was £111.170m (£109.527m in 2021/22). The following table gives more detail on how we spent this money.

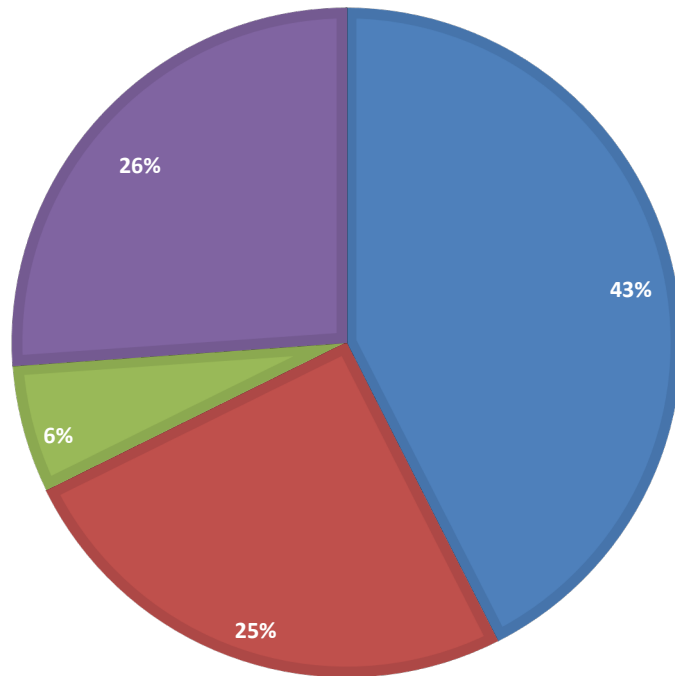
**Table 2: Major Capital Schemes**

Scheme		2022/23	
		£millions	£millions
<b>Economic Community and Infrastructure</b>	Road Structures	24.333	
	Superfast Broadband	12.255	
	Local Enterprise Partnership	6.418	
	Taunton Digital Innovation Centre	6.325	
	Traffic Control & Management	5.477	
	Integrated Transport & Improvement Schemes	5.394	
	Chard Grow On Space	3.444	
	Toneway Corridor Improvements	3.041	
	Somerset Rivers Authority	2.792	
	Bridge Structures	2.097	
	Rights of Way	0.900	
	J23 Dunball Improvements	0.827	
	Street Lighting	0.712	
	Trenchard Way/ Firepool Access Road	0.538	
	Fleet	0.388	
	Major Transport Projects	0.270	
	Other Projects	<u>0.622</u>	75.835
<b>Children and Learning</b>	Schools' Basic Need	14.091	
	Schools' Capital Repairs	5.532	
	Children's Residential Placements	3.559	
	General Education Provision	1.699	
	Early Years	0.150	
	Other School Projects	1.112	
	Other Children's Services	<u>0.080</u>	26.224
<b>Somerset Waste Partnership</b>	Depot Improvements	<u>1.029</u>	1.029
<b>Support Services</b>	Property Decarbonisation Projects	3.981	
	ICT Investment & Development	1.991	
	Other Projects	<u>1.813</u>	7.785
<b>Adult Social Care</b>	Housing/ Assistive Technology	0.180	
	Adult Social Care	<u>0.116</u>	0.296
<b>Total Capital Spending</b>			<u>111.170</u>

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

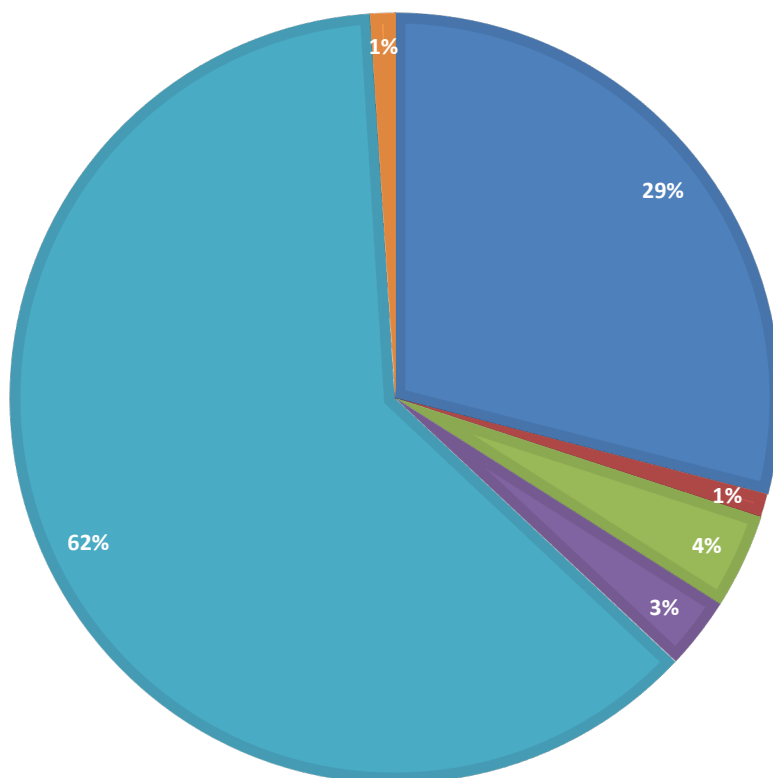
### REVENUE

■ Government Grants ■ Fees, Charges, Other Income ■ NDR ■ CTax



### CAPITAL

■ Loans Pool Funded ■ Capital Receipts ■ Revenue ■ Contributions ■ Grants ■ Leasing



## 10. Borrowing facilities

Under the Prudential Code, the Council has set an authorised limit against which our external borrowing is monitored and managed. For 2022/23, the Operational Boundary was set at £450m (£463m for 2021/22). On 31 March 2023, the amount we owed was £343m (£354 m in 2021/22).

On 31 March 2022	Borrowing	On 31 March 2023
£millions		£millions
160.3	Public Works Loan Board (PWLB)	160.3
183.7	Other long-term loans	182.5
10.0	Other organisations investing in the Comfund	0.2
<u>354.0</u>		<u>343.0</u>

In line with accounting practice, the Council must show the 'fair value' of its loans. The fair value of the PWLB loans is £158.559m at 31 March 2023 (£207.207m at 31 March 2022). The fair value of the other long-term loans is £195.781m at 31 March 2023 (£261.055m at 31 March 2022).

During the year, the Council adopted a strategy to limit external borrowing and reduce the cost of borrowing via 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 2023 being £96.2m.

## 11. Significant Assets & Liabilities

The Council has a strong Balance Sheet as at 31 March 2023 with the most significant Assets and Liabilities shown in the table below:

On 31 March 2022	Balance Sheet Extract	On 31 March 2023
£millions		£millions
1,008.6	Property, Plant & Equipment	1,084.9
210.2	Short Term Investments	184.4
80.3	Cash & Cash Equivalents (inc Overdraft)	2.1
-344.0	Long term Borrowing	-342.8
-38.7	Long Term Liability - PFI/Lease	-37.3
-870.0	Long Term Liability - Pensions (IAS19)	-124.1
236.5	Usable Reserves	232.0
-325.9	Unusable Reserves	469.6



## Pension Liabilities

The Council has net future pension liabilities of £124.1m (£870m as at 31 March 2022) 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 2022, assessed the funding level at 95% with a target funding level of 100%.

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.

The actual asset return for the Fund during 2022/23 was lower than the previous discount rate, leading to an actuarial loss on the assets. As a result, the fair value (bid value) of the Pension Fund's assets fell by £28.3m in year from £1,282.1m to £1,253.8m.

An increase to interest rates during 2022/23 has meant the bond yield at 31 March 2023 was higher at all terms than at 31 March 2022. This has resulted in an increase in the discount rate used by the actuary to estimate the pension liabilities. This increase (along with other positive factors) has seen the overall liability fall by £774.3m from £2,152.2m to £1,377.9m. The combined impact of the in-year movement in assets and liabilities has seen the overall net liability fall by £745.9m in 2022/23.

## Usable Reserves

On 31 March 2023, the Council had the following reserves available:

On 31 March 2022 £millions	Reserves	On 31 March 2023 £millions
	<u>Revenue - SCC</u>	
	<u>General Fund</u>	
27.1	General Reserves	3.7
	<u>Earmarked Reserves</u>	
4.3	S31 Local Tax Income Guarantee Grant Reserve	0.5
161.2	Other revenue reserves which we have set aside	190.6
	<u>Capital - SCC</u>	
13.7	Capital reserves	10.1
3.6	Capital Grants/Contributions Unapplied Reserves	3.6
	<u>Revenue - Schools</u>	
26.6	Schools' carry-forward fund	23.5
<u>236.5</u>		<u>232.0</u>

The overspend of £23.4m has been financed from General Fund Reserves with £3.7m remaining as at the 31<sup>st</sup> March 2023. However, this is before all of the Somerset authorities' reserves are combined from the 1<sup>st</sup> April 2023. A full review of reserves will take place once all of the accounts across Somerset have been completed. This will ensure that General Fund Reserves remain within the assessed risk requirement of £30m to £50m.

The following tables outline the position and use of each revenue reserve as at 31<sup>st</sup> March 2023:

<b>Name of Reserve</b>	<b>Description of Reserve</b>	<b>Balance as at 31/03/2022 £millions</b>	<b>Use of Reserves 2022/23 £millions</b>	<b>Balance as at 31/03/2023 £millions</b>
<b>General Fund Reserves</b>				
General Fund Reserves	Unrestricted funds held for general purposes and unexpected emergencies.	-27.1	23.4	-3.7
<b>Total General Fund Reserves</b>		<b>-27.1</b>	<b>23.4</b>	<b>-3.7</b>
<b>Earmarked Reserves</b>				
<u>Resilience Reserves</u>				
Social Care Transformation	To enable service transformation that delivers greater future operational savings.	-4.7	2.7	-2.0
Social Care Volatility Reserves	Resilience against future social care funding & demand.	-5.4	0.6	-4.8
Invest to Save	To enable service improvements to deliver greater future operational savings.	-0.5	0.5	0.0
Improving Lives Programme	An enabling fund to promote transformation across the Council.	-1.7	1.6	-0.1
Corporate Priorities	To deliver on Corporate Priorities.	-5.2	0.3	-4.9
Workforce Reserve	Resilience against workforce pressures.	-1.1	0.2	-0.9
Funding Volatility	Resilience against future funding changes.	-9.9	3.0	-6.9
Budget Equalisation Reserve	Enable smoothing of spend across years.	-12.6	10.2	-2.4
Capital Fund	To support significant unforeseen costs not allowable against capital schemes.	-3.7	3.7	0.0
<b>Total Resilience Reserves</b>		<b>-44.8</b>	<b>22.8</b>	<b>-22.0</b>

Name of Reserve	Description of Reserve	Balance as at 31/03/2022 £millions	Use of Reserves 2022/23 £millions	Balance as at 31/03/2023 £millions
<u>Other Reserves</u>				
Local Government Reorganisation	To support local government reorganisation in Somerset.	0.0	-10.7	-10.7
Business Support System (ERP)	To support local government reorganisation in Somerset.	-7.8	3.9	-3.9
Trading Accounts	The cumulative surplus/deficits of the Council's trading accounts	-1.3	-1.7	-3.0
Climate Emergency	Funding set aside for projects which support SCC's climate emergency strategy	-0.6	0.2	-0.4
West Somerset Opportunity Area	Programme funded by the Department for Education	-0.6	0.6	0.0
Public Health	Ring-fenced underspends from the Council's Public Health budget	-4.0	-0.8	-4.8
Prevention Fund	Preventative work including localised impact	-0.4	0.1	-0.3
Held for Infrastructure Developments	S106 / S38 / Commuted Sums	-2.6	-0.5	-3.1
Economic Development	Set aside to deliver specific economic growth (i.e. enterprise zones)	-0.6	-0.1	-0.7
Economic Recovery	Economic recovery following the impact of the Covid-19 pandemic	-5.6	1.2	-4.4
Ash die back	To fund the cost of ash die back in Somerset	0.0	-0.6	-0.6
Property Repairs & Maintenance	Funds set aside for Property Repairs and Maintenance	-0.3	0.0	-0.3
BSF Bridgwater - Equalisation Reserve	Set aside to meet future contract costs of the Councils PFI schools in Bridgwater.	-8.7	-0.6	-9.3
Short Life Asset Fund	Funds set aside for the purchase of short life assets (e.g. laptops)	-0.8	0.0	-0.8
Insurance	As the Council largely self-insures, this reserve has been set aside for Incurred But Not Reported (IBNR), Municipal Mutual Insurances (MMI) levy and other insurance related balances.	-8.8	0.5	-8.3
Collection Fund Compensation	Funding received from MHCLG to fund the shortfall in Business Rates due to Covid-19	-4.3	3.8	-0.5
Elections	Funds are set aside annually to contribute to the (usually) four yearly elections.	-1.0	0.9	-0.1
Other Children's Services	Ring-fenced funds for various children's services	-2.8	0.7	-2.1
Other ECI	Ring-fenced funds for various ECI services	-4.8	-1.8	-6.6
Other CDW	Ring-fenced funds for various services within Customers, Digital & Workforce	-0.6	0.5	-0.1
Service Carry Forwards	Service carry forwards agreed	-3.0	2.5	-0.5
Total Other Reserves		-58.6	-1.9	-60.5
<b>Total Earmarked Reserves</b>		<b>-103.4</b>	<b>20.9</b>	<b>-82.5</b>

Name of Reserve	Description of Reserve	Balance as at 31/03/2022 £millions	Use of Reserves 2022/23 £millions	Balance as at 31/03/2023 £millions
<b>Accountable Bodies</b>				
Somerset Rivers Authority	Funds held on behalf of SRA who are a separate decision making body. SCC holds as administering authority	-8.0	2.9	-5.1
Local Enterprise Partnership	Funds held on behalf of LEP who are a separate decision making body. SCC holds as accountable authority	-3.5	-0.6	-4.1
Connecting Devon and Somerset	Funds held on behalf of Connecting Devon and Somerset and the superfast broadband project. SCC holds as accountable authority.	-0.5	0.0	-0.5
Somerset and South West Mutual Scheme	A staff absence scheme run solely for the benefit of its member schools. SCC holds funds as administering authority.	-0.1	-0.1	-0.2
S256 Funding	Ring-fenced funds for various services within Adults	-48.1	-49.6	-97.7
Business Rates Retention - County Wide	Funds held on behalf of districts who are a separate decision making body. SCC holds as administering authority.	-1.9	1.0	-0.9
Local Enterprise Partnership - Governance	Pooled Funds from partner organisations involved in the South West Joint Committee. SCC holds as administering authority.	-0.1	0.0	-0.1
School's Carry Forward	Carry forward of schools funding (including Unofficial Funds)	-26.5	3.0	-23.5
<b>Total Funds Held as Accountable Body</b>		<b>-88.7</b>	<b>-43.4</b>	<b>-132.1</b>
<b>TOTAL REVENUE RESERVES HELD</b>		<b>-219.2</b>	<b>0.9</b>	<b>-218.3</b>

## 12. Other Developments & Priorities

### **Future Funding**

The Government announced a Local Government Finance Policy 2023/24 and 2024/25 setting out funding principles followed by the Provisional Finance Settlement on the 19th December 2022. Although the Policy statement covered two years the settlement only covered 2023/24. The Policy did clarify a number of areas including Council Tax Referendums limits and that Fairer Funding would not be implemented until 2025/26 at the earliest. Social care charging reforms and the Fair Cost of Care have been deferred from October 2023 to October 2025 and the provisional settlement outlined that funding for ASC reforms would be repurposed to fund ongoing pressures within care and a commitment that each authority's spending power would increase by at least 3% (this takes into account the ability to increase council tax).

## **Local Government Reorganisation**

Following consideration by both Houses of Parliament, the Secretary of State issued the Somerset Structural Changes Order 2022 on 17<sup>th</sup> March 2022 a new Somerset Council was established on 1 April 2023. This replaced Somerset County Council and the four district councils (Mendip, Sedgemoor, Somerset West and Taunton and South Somerset) Local elections on the 5th May 2022 saw 110 councillors elected to the County Council and will continue to serve the new Unitary Council.

SCC approved a budget of £6.9m for implementation costs in 2022/23 (£3.2m in 2021/22). A total of £16.5m was outlined in the business case for one off transitional cost. The District Councils agreed to contribute towards those costs. The original business case estimated that the new Somerset Council would deliver a range of benefits including freeing-up a projected ongoing saving of £18.5million. The 2023/24 MTFP has already identified £16.2m with further savings being identified in-year.

As part of the preparations the new Chief Executive was appointed in October 2022 and Tiers 2 and Tiers 3 of the Senior Leadership Team was in put place for the 1<sup>st</sup> April 2023. This meant that a provision of £4.5m has been made within Somerset County Council's accounts has been made to reflect that some identified posts would be removed from the establishment. The provision has been accounted for within Somerset County Councils accounts as all of the District Authorities contributed to the costs of those redundancies.

Somerset Council set its first budget in February 2023 of £493.4m and brought together all five Councils general fund revenue, capital, and Housing Revenue Accounts. The capital programme was based on quarter 2 estimations and therefore will need to be reviewed once the accounts of each authority have been finalised for any year end variations.

Commercial properties valued at c£289m were also transferred to the new Somerset Council. Negotiations with central Government and the PWLB have confirmed that these do not have to be separated from any requirements for the new authority to borrow from the PWLB (Public Works Loans Board).

## **Dedicated Schools Grant**

The total revised DSG allocation for 2022/23 was £461.4m before recoupment and deductions, after recoupment and deductions, and excluding individual school budgets, was £101.2m, with an outturn adverse variance of £3.4m. The DSG cumulative deficit as at 31 March 2023 was £20.7m (31 March 2022: £20.1m). Currently there is a statutory override in place which means that this does not impact on Local Authorities reserves, however the statutory override is due to end in 2025/26 and this would have a significant impact on the reserves and the resilience of Somerset Council should the deficit sit with the Local Authority.

## 2022/23 Revised DSG Allocation

<b>DSG Block</b>	<b>Allocation (before recoupment and deductions)</b>	<b>Recoupment and Deductions (Academy and NNDR)</b>	<b>Allocation (after recoupment and deductions)</b>
High Needs Block (HNB)	75.4	8.9	66.5
Central School Services Block	5.6	0.0	5.6
Early Years (EYB)	29.1	0.0	29.1
Schools Block (SB) *	351.3	227.0	124.3
<b>Total DSG</b>	<b>461.4</b>	<b>235.9</b>	<b>225.5</b>

\* The Schools Block allocation after recoupment and deductions was £124.3m which is then delegated to Local Authority (LA) maintained individual school budgets and to the growth fund for new and growing schools. £1.8m is then de-delegated back to the LA for services that are delivered by the LA to our LA Maintained Schools.

## 2022/23 DSG as at the end of March 2023 (Month 12)

<b>DSG Block *</b>	<b>Current Budget (£m)</b>	<b>Full Year Outturn (£m)</b>	<b>Outturn variance (£m)</b>	<b>A/(F)</b>	<b>Movement from Month 10</b>	<b>Direction from Month 10</b>
High Needs Block	67.5	71.4	3.9	A	(1.3)	↑
Central Schools Block	5.6	5.4	(0.2)	(F)	(0.1)	↑
Early Years	29.1	28.7	(0.4)	(F)	(0.7)	↑
De-delegated	1.8	1.9	0.1	A	0.0	→
<b>Total</b>	<b>104.0</b>	<b>107.4</b>	<b>3.4</b>	<b>A</b>	<b>(2.2)</b>	<b>↑</b>

\* The Schools Block is not included in this table. This block had an adverse outturn variance of £1.1m and this is included in the Dedicated Schools Grant note to the statutory financial statements.

## DSG - key explanations, actions, and mitigating controls

The main areas contributing to the £3.9m adverse variance in the High Needs Block are:

1. Independent & Non-Maintained Schools (INMS) (£2.2m adverse variance) The effect of the significant increase in new INMS placements agreed through the Local Authority Placement and Travel Panel or ordered by the SEND Tribunal continued throughout 2022/23. In part,

this has been due to insufficient availability of maintained specialist provision for pupils with social, emotional, and mental health needs.

2. Children Looked After (CLA) (£1.7m adverse variance)

The adverse variance in the High Needs Block contribution to the costs of placements for CLA is directly linked to the 17% increase in the number of relevant CLA during 2022/23 and the increase of 11% in the average High Needs Block placement contribution.

3. Mainstream Maintained Schools & Academies (£1.1m adverse variance)

Increases in the number and cost of new and extended Education, Health, and Care Plans (EHCPs) and related costed packages was not anticipated within the budget. The service continuously reviews such packages to limit the overspend.

4. Direct Payments (£0.3m adverse variance)

An increase in the number of Direct Payment recipients in the second half of 2021/22 was not incorporated into the budget for 2022/23 because it was assumed that the increase was temporary. This has not been the case and numbers have remained higher than expected throughout 2022/23.

5. Pupil Referral Units (£0.7m adverse variance)

The outturn reflects the lower than anticipated level of income received from schools which has resulted from a high number of exclusions and corresponding reduction in the number of places available for recharge to schools.

The £0.4m favourable outturn variance in Early Years has arisen because the payments for hours provided for 3-4-year-olds has been significantly lower than budgeted. The Early Years final adjustment for 2022/23 will only be known in July 2023 when the annual reconciliation process is completed.

There have been two key programmes of work to address the deficit. The specialist capital programme has been a four-year programme of work, supported by investment from the Council, to expand and improve Somerset's specialist estate. This has resulted in an increase of 361 additional places in specialist SEND provision across the county.

Since April 2022, the service has been working with IMPOWER Consulting to identify further opportunities to improve outcomes for children and reduce pressures on high needs budgets. This work has focused on improving early identification and support and led to the set-up of a dedicated advice line for schools to support earlier intervention, as well as a trial of the Somerset Inclusion Tool (Valuing SEND) to improve planning around transitions for children with SEND. This is helping to identify children who can remain in mainstream settings with the right support, who might otherwise have moved into more specialist settings.

Following on from this, in summer 2022, Somerset was invited to participate in the DfE-led Delivering Better Value programme. This is aimed at 55 local authorities with significant high needs deficits, but not the 20 areas with the biggest deficits (who access a different "safety valve" programme). During autumn 2022 we worked with Newton Consulting to develop an improved understanding of our demand and financial trajectories in relation to high needs, as well as identify opportunity areas where improvements and efficiencies could be made. This has

resulted in the award of a £1m grant from DfE to support transformation and test and learn activity.

Newton's analysis has suggested that there are opportunities for reducing high needs expenditure, which could realise a £1.05m benefit by the end of 2024/25, and a cumulative benefit of £7.93m by the end of 2027/28. However, based on Newton's model, it is still expected that the cumulative deficit will continue to grow each year, unless there were to be significant changes to SEND policy or funding at a national level. Newton have reported that in each of the local authorities they have worked with, they are projecting that deficits will continue to grow, so Somerset is in line with other areas in this respect.

### **The Statement of Accounts**

The annual Statement of Accounts sets out a summary of our financial affairs for 2022/23 and shows our financial position as at 31 March 2023. 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 Council was required to produce and publish its accounts by 31st May 2023 so they were available for public inspection on 1<sup>st</sup> June 2023, so that people who pay Council Tax and Business Rates, and other members of the public could ask the auditor any questions. This meant that the new Council would be required to complete five sets of accounts for Somerset County Council and each of the District Councils by the 31<sup>st</sup> May 2023, as well as the Pension Fund Accounts.

In discussions with Grant Thornton UK LLP around resources, not all accounts could be completed or audited at the same time. Therefore, Somerset County Council's accounts were published on the 7<sup>th</sup> July, with the public inspection period running from 10<sup>th</sup> July – to 18<sup>th</sup> August 2023. Grant Thornton are due to commence the audit of the Pension Fund accounts on the 3<sup>rd</sup> July 2023, and Somerset County Councils accounts on the 11<sup>th</sup> September 2023.

These accounts will be approved by our Audit Committee on 25<sup>th</sup> January 2024.



**Jason Vaughan FCCA, CPFA, IRRV (Hons)**  
**Executive Director – Resources and Corporate Services**  
**(Chief Financial Officer)**

25th January 2024



# 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 2023 and its income and spending for the year ending on that date.



**Jason Vaughan FCCA, CPFA, IRRV (Hons)  
Executive Director Resources & Corporate Services  
(Chief Financial Officer)**

25<sup>th</sup> January 2024

**Independent Auditor's Report**

**to the Members of  
Somerset County Council**

The audit report will appear here.

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# Annual Governance Statement for Year ended 31 March 2023

## What is Corporate Governance?

Corporate governance refers to the processes by which organisations are led, directed, controlled, 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 2023, 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 the scene for Local Government Reorganisation in Somerset and the transition to a new Somerset Council on 1 April 2023.

The Statement has been prepared in accordance with guidance produced by the Chartered Institute of Public Finance and Accountancy (CIPFA) called Bulletin 06 Application of the Good Governance Framework 2020/21 and the 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, 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 principals involved. The Code is available from our website or can be obtained by request from the Monitoring Officer.

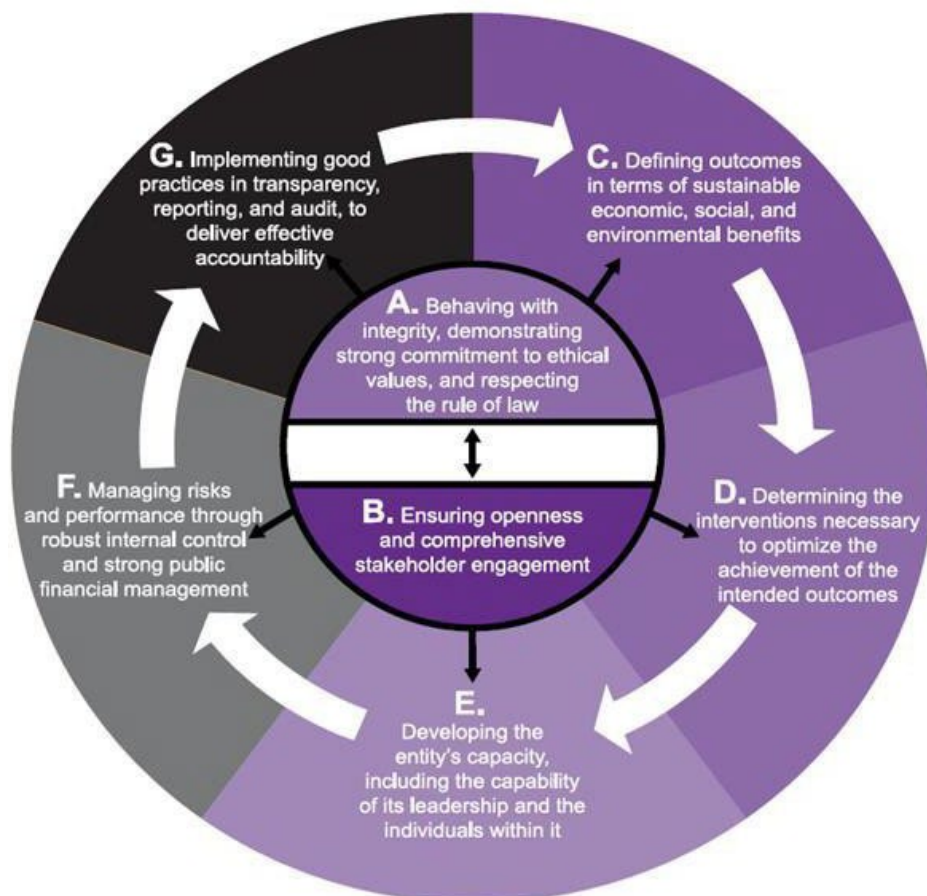


## Somerset County Council Governance Code (2017)

**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.

The diagram from the International Framework, below illustrates how the various principles for good governance in the public sector relate to each other. Principles A and B permeate implementation of principles C to G. The diagram also illustrates that good governance is dynamic, and that an entity should be committed to improving governance on a continuing basis through a process of evaluation and review.



# The Governance Framework

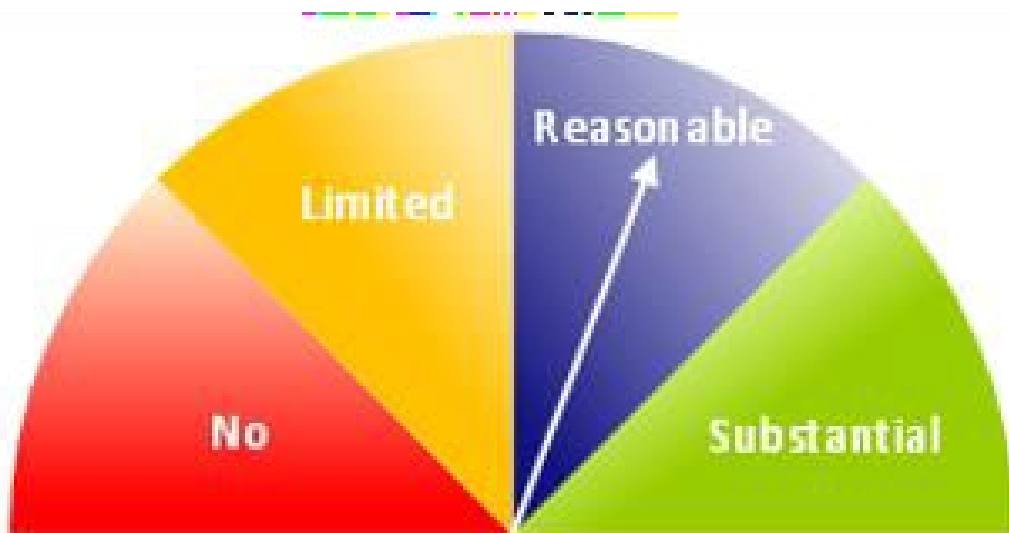
The governance framework consists of the systems and processes by which the Council is directed and controlled and through which it accounts to, engages with, and leads the community. It also includes our values and culture.

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.

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

Our internal auditors, South West Audit Partnership, are able to offer Reasonable Assurance opinion and are broadly satisfied with management's approach to resolving identified issues.



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'**

**Sources of Assurance**

**Assurance Required on:**

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

- 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

**Governance Review & Assurance**

**Annual Governance Statement**

**GOVERNANCE FRAMEWORK**

# The Council Business Plan

The Council Business Plan for 2021 – 2023 sets out our overall purpose - 'Somerset deserves the best services, opportunities and investment possible'. 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. The Plan is how the Council sets out how objectives will contribute to the goals for Somerset and how they will be achieved. Objectives and target outcomes are set within five overarching outcomes. 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 together with partners to do more.

## Evaluating Performance

The Council's Business Plan 2021-2023 was approved at Full Council in July 2021. The business plan is flexible enough to continue as the strategic direction for the authority until 31 March 2023 and a new Council Plan for the new Somerset Council was approved in February 2023.

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 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 Executive and available for review by scrutiny committees. An annual performance outturn report is reported to the Executive.

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.

## Decision Making and Responsibilities

At the start of 2022/23, the Council consisted 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. Following the May 2022 election the Council now has 110 elected Members and the Executive replaced the Cabinet.

The 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.

The Constitution sets out the functions of key governance officers, including the statutory posts of 'Head of Paid Service', 'Monitoring Officer' and 'Section 151 Officer' 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 and has been significantly revised and updated for 2023/24 for the new Somerset Council.

## Local Government Reorganisation

In July 2021 the Secretary of State approved the implementation on Local Government Reorganisation in Somerset and the creation of the new Somerset Council unitary from 1<sup>st</sup> April 2023.

Delivery of the programme is structured around a Programme Board made up of the 5 council Chief Executives, and the County Council Section 151 Officer and Monitoring Officer. A Programme Steering Group acts as design authority for the programme on behalf of the 6 workstreams delivering the approximately 700 distinct products that make up the programme, broken down over 3 Tranches based on priority and timing. Over 450 individuals are now part of the programme including PwC who act as Quality Assurance partner for the programme. An Implementation Executive acts as the political leadership of the programme.

Two legal mechanisms – Somerset (Structural Changes) Order 2022 and a Section 24 direction – provide a legal foundation for delivering the new authority, in terms of governance and ensuring robust financial management during the transition.

During 2021/22, the five councils established a Local Government Reorganisation Joint Committee and a Joint Scrutiny Committee to provide leadership and oversight for this complex programme. Following the May 2022 Elections and the establishment of a new Executive, an Implementation Board was established in order to oversee delivery of the LGR Implementation Plan (a requirement of the Structural Changes Order). A LGR Joint Scrutiny Committee has been re-established to also provide overview and scrutiny and support for the programme.

Programme Management revolves around SharePoint-based systems for risk and issues management, benefits realisation, monthly assurance reporting, change control and other programme management systems that would be expected on a programme of this size, including culture and readying people for change.

# Management of Risk

The management of risk is vital for the Council to achieve the objectives set out in the County 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. The Strategic Risks identified for 2022/23 were:-

- Safeguarding 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.
- Climate change - The Council fails to take action to mitigate and adapt to Climate Change.
- Supply chain - Potential for significant supplier disruption across all services but greatest risk to demand and sustainability of funding in the care provision sector, transport services and Waste.
- 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.
- Local Government Reorganisation – does not deliver a single unitary authority for Vesting day on 1<sup>st</sup> April 2023.
- Adult Social Care failure – The Council is unable to meet statutory obligations in relation to care provider market sufficiency and capacity.

Specific risks and mitigations associated with the delivery of the single unitary authority for Somerset are recorded and managed directly as part of the programme delivery Board.

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.

## Financial Management

The Director of Finance & Governance 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 been reviewed and assessed against the new CIPFA Financial Management Code with improvements forming part of an action plan.

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, Executive 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 Executive 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.

## 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. With in year budget monitoring highlighting significant financial pressures the SCG was suspended and replaced by a Financial Challenge Board consisting of the Director of Finance & Governance (S151 Officer), Deputy Chief Executive and Lead Director for Commissioning Director, Head of Commercial & Procurement & 2 of the District Chief Executives. This group meet every 2 weeks and reviewed all of the significant new commissioning and procurement proposals.

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.

## 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 a regular basis and a revised one for the new Somerset Council has been approved and has adopted a 'zero tolerance' in relation to fraud and corruption. Our policy sets out what we will do to maintain this commitment considering 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.

## Managing Information

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.

## Equality

The Council is committed to delivering equality and improving the quality of life for the people of Somerset. Our statutory Equalities Objectives help us understand and prioritise work for those who may be vulnerable to discrimination.

Any new, changed or stopping Council policy, proposal or service must be subjected to a consideration of Due Regard to the Public Sector Equality Duty, this is recorded in an Equality Impact Assessment to ensure that equality issues have been consciously considered throughout the decision-making processes and life of the policy or service.



## 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 form part of the Council's Constitution and 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 interests and the requirement for registering offers or acceptance of gifts and hospitality, outside commitments and personal interests.

The Seven Principles of Public Life, also known as the Nolan Principles, apply to anyone who works as a public office-holder. This includes all those who are elected or appointed to public office, nationally and locally, and all people appointed to work in the Civil Service, local government, the police, courts and probation services, non-departmental public bodies (NDPBs), and in the health, education, social and care services.

:

- 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.

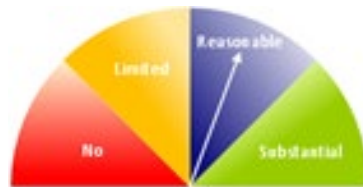
The Council has a Whistleblowing Policy that advises staff and others who work for the Council how to raise concerns about activities in the workplace. Full details are provided on the Council's website.

# Audit and 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 2022, the External Auditor gave an unqualified audit opinion on the Council's Statement of Accounts, and were satisfied that the Council had made proper arrangements for securing Value for Money (VFM) in its use of resources. The review found no significant weaknesses but made several improvement recommendations. Further details on these recommendations can be found in the Executive Summary (Page 3) of the Auditors Annual Report for 2021/22.

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 Councils internal control environment for 2022-23 was:

“There is generally a 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 achievements of objectives”

- Medium risk rated weakness identified in individual audit engagements
- Isolated high risk rated weaknesses identified for isolated issues
- No critical risk rated weakness were identified
- Internal Audit is broadly satisfied with management's approach to resolving identified issues

The progress made during 2022-23 on the significant issues identified in our 2021-22 Annual Governance Statement is shown below:

<p><b>1. Financial Position</b></p>	<p>A balanced budget for Somerset Council 2023/24 and Medium Term Financial Plan were approved by Council in February 2023.</p> <p>The Medium Term Financial Plan identified a budget gap of £100m over the next 3 financial years which will require further significant savings.</p>
<p><b>2. Local Government Reorganisation</b></p> <p>Support the transition to unitary form of local government for unitary local government for Somerset by 1 April 2023.</p>	<p>Working, in partnership with our District Council colleagues and other public sector partners including the 278 town and parish councils to put in place the necessary resources, programme management, partnership and democratic arrangements to support the transition to unitary form of local government. The new Somerset Council started on 1 April 2023 and assumed the responsibilities and services delivered by the 5 predecessor councils in Somerset.</p>
<p><b>3. Covid 19</b></p> <p>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.</p> <p>Support the delivery of the Economic Recovery Plans.</p>	<p>Continued 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.</p> <p>The recovery will be long and needs to focus on minimising the indirect impacts of COVID, addressing the health and social inequalities that the pandemic has highlighted.</p>
<p><b>4. Integrated Care System</b></p>	<p>We have worked with key strategic partners to develop the ICS system in line with the emerging changing legislation and as such we have continued to 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.</p> <p>The ICS system went live from April 2023 and the council continued to play an active role in its development.</p>

<p><b>5.SEND Improvement Plan</b></p>	<p>The Written Statement of Account 2 year programme approved by Ofsted/ CQC in Dec 2020 has now been closed. Learning from its delivery, benefits framework, risks and issues have been considered and addressed through the SEND Strategy 2023-26, accelerated progress plan and revised governance arrangements.</p>
<p><b>6.Organisational capacity and resilience</b></p> <p>A significant risk facing all five councils in Somerset is organisational capacity along with recruitment and retention challenges in order to maintain services, deliver projects and priority programmes such as Local Government Reorganisation. Resilience is a concern due to the complex situation for Local Government in Somerset where there is no longer “business as usual” as we transition from five existing councils in 2022 towards the new Somerset Council on 1 April 2023, support partnership responses to Covid 19 and strive to deliver key priorities and services at the same time.</p>	<p>We will continue to review and take management action as appropriate. There is regular oversight and review of mitigations by the Executive Leadership Team and the Executive. There is regular review of business continuity and civil contingencies partnership arrangements. Regular budget and performance monitoring reports are considered by Scrutiny Committees and the Executive. A recruitment protocol has been put in place across the five councils to support the retention of staff and maximise opportunities whilst enabling the five councils to support each other during the transition to one council.</p>

The new Somerset Council will make changes to the Council’s governance framework, and we will continue to review and adapt it so that it continues to support the new Somerset Council in meeting its challenge and in fulfilling its purpose and ensure that the framework remains proportionate to the risks that are faced. The significant issues identified by the 5 processor councils will be reviewed and one overall list produced.

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.



Signed:

(Duncan Sharkey, Chief Executive)

Date: July 2023



Signed:

(Cllr Bill Revans, Leader of the Council)

Date: July 2023

# 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 2022/23 financial year and its position at the year-end of 31 March 2023. 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 2022/23, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under Section 12 of the 2003 Act.

For accounting periods commencing 1<sup>st</sup> April 2022, the statutory requirement for category 1 authorities is to make accounts available for public inspection for a period that includes the first 10 working days of June (i.e., 31<sup>st</sup> May at the latest). Due to the pressure on staff time of the Local Government Reorganisation in Somerset, and the implementation of a new finance system from 1<sup>st</sup> April 2023, the Council has been unable to meet this deadline so has published on the Council's website, a notice stating that it has not been able to commence the period for the exercise of public rights and the reasons for this.

The Statement of Accounts has been prepared on a 'going concern' basis. However, it should be noted that as part of the restructuring of local government in Somerset, the County Council has changed its name to Somerset Council from 1 April 2023 and the functions, assets and liabilities of the former district councils in Somerset have transferred to the Council from that date. 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 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.

## 6 Charges to Revenue for Using Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding non-current 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.

## 7 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 4.80% (based on the annualised yield at the 17-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 50.

## **8 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.

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:

<b>Age of Debt</b>	<b>Firm Recovery Arrangements in Place</b>	<b>Actively pursuing</b>	<b>Write Off</b>	<b>Impairment</b>
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 can be found in the Credit and Counterparty risk section of Note 34 and the Estimation Uncertainty Note 3.

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.

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

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the 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.

## **9 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 27.

## **10 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.

## **11 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.

### Operating Leases

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.

## **12 Property, Plant and Equipment (excluding Infrastructure)**

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.
- Assets under construction; and
- Surplus property, plant and equipment (not classified as held for sale).

See accounting policy 13 for details of the Council's Infrastructure assets policy.

### 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:

<b>Group of assets</b>	<b>Measure</b>	<b>Basis</b>
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
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).

### 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:

<b>Type</b>	<b>Useful life</b>
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
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	Dependent on contract.

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 2022/23, 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.

### **13 Highways Network Infrastructure Assets**

Highways network infrastructure assets include carriageways, footways and cycle tracks, structures (e.g. bridges), street lighting, street furniture (e.g. illuminated traffic signals, bollards), traffic management systems and land which together form a single integrated network.

#### Recognition

Expenditure on the acquisition or replacement of components of the network is capitalised on an accrual basis, if it is probable that the future economic benefits associated with the item will flow to the Council and the cost of the item can be measured reliably.

#### Measurement

Highways infrastructure assets are generally measured at depreciated historical cost. However, this is a modified form of historical cost – opening balances for highways infrastructure assets were originally recorded in balance sheets at amounts of capital undischarged for sums borrowed as at 1 April 1994, which was deemed at that time to be historical cost.

Where material impairment losses are identified, they are accounted for by the carrying amount of the asset being written down to the recoverable amount.

#### Depreciation

Depreciation is provided on the parts of the highways network infrastructure assets that are subject to deterioration or depletion and by the systematic allocation of their depreciable amounts over their useful lives. Depreciation is charged on a straight-line basis.

Annual depreciation is the depreciation amount allocated each year.

Useful lives of the various parts of the highways network are assessed by the Chief Highways Engineer using industry standards where applicable as follows:

Highways Infrastructure: Carriageways	30 years (based on Highways Asset Management Finance Information Group (HAMFIG) valuation toolkit)
Highways Infrastructure: Footways	23 years (based on HAMFIG toolkit)
Highways Infrastructure: Street Furniture	15 years (based on HAMFIG toolkit)
Highways Infrastructure: Highways Land	125 years (based on HAMFIG toolkit)
Highways Infrastructure: Structures	120 years (based on HAMFIG toolkit)
Highways Infrastructure: Street Lighting	30 years (based on HAMFIG toolkit)
Highways Infrastructure: Traffic Mgt	15 years (based on HAMFIG toolkit)

#### Disposals and de-recognition

When a component of the network is disposed of or decommissioned, the carrying amount of the component in the Balance Sheet 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).

The written-off amounts of disposals are not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are transferred to the capital adjustment account from the General Fund Balance 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 Pupil Referral Units (of which there are 58 within our boundary)
- Voluntary controlled (48 within our boundary)
- Voluntary aided (25 within our boundary); and
- Foundation (3 within our boundary).

The remaining type of state school, an Academy, (of which there are 130 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 12 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 11 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 48.

## **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 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.

## **26 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.

Where debtor balances for the above are identified as impaired because of a likelihood arising from a past event that payments due under the statutory arrangements will not be made, the asset is written down and a charge made to the taxation and non-specific grant income and expenditure line in the CIES. The impairment loss is measured as the difference between the carrying amount and the revised future cash flows.

## **27 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.

## **28 Local Enterprise Partnership (LEP)**

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 different funding streams.

## **29 Overheads & Support Services**

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

# 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 2022			Comprehensive Income (-) and Expenditure Statement for the year ended 31 March	31 March 2023			Notes
Gross Expenditure £millions	Gross Income £millions	Net Expenditure £millions		Gross Expenditure £millions	Gross Income £millions	Net Expenditure £millions	
			<u>Continuing Operations</u>				
276.498	-175.651	100.847	Adult Services	332.213	-205.331	126.882	5
171.286	-74.589	96.697	Children's Services	203.629	-82.410	121.219	5
181.049	-68.324	112.725	Economic and Community Infrastructure Services	186.742	-74.932	111.810	5
33.561	-35.615	-2.054	Public Health	32.107	-34.062	-1.955	5
26.734	-3.690	23.044	Customers, Digital & Workforce	28.740	-3.746	24.994	5
15.595	-6.201	9.394	Finance and Governance	19.822	-5.353	14.469	5
-2.943	-0.460	-3.403	Corporate Costs (including Contingencies)	17.838	-3.070	14.768	5
26.225	-23.755	2.470	Accountable Bodies (LEP/SRA/CDS)	13.967	-5.087	8.880	5
233.071	-188.460	44.611	Schools and Early Years	235.441	-203.120	32.321	5
<b>961.076</b>	<b>-576.745</b>	<b>384.331</b>	<b>Surplus (-) / Deficit on Continuing Operations</b>	<b>1,070.499</b>	<b>-617.111</b>	<b>453.388</b>	
30.180	-	30.180	Other operating expenditure	13.097	-	13.097	11
49.297	-9.427	39.870	Financing and investment income (-) and expenditure	43.574	-13.675	29.899	12
-	-443.107	-443.107	Taxation and non-specific grant income (-)	-	-462.470	-462.470	13
<b>1,040.553</b>	<b>-1,029.279</b>	<b>11.274</b>	<b>Surplus (-) or Deficit on Provision of Services</b>	<b>1,127.170</b>	<b>-1,093.256</b>	<b>33.914</b>	
			<u>Items that will not be reclassified to the Surplus (-) or Deficit on the Provision of Services</u>				
		-43.287	Surplus (-) or Deficit on revaluation of non-current assets			-64.134	14
		-177.118	Remeasurement gains (-) / losses on pension assets/liabilities			-760.790	50
		<b>-220.405</b>	<b>Other Comprehensive Income (-) and Expenditure</b>			<b>-824.924</b>	
		<b>-209.131</b>	<b>Total Comprehensive Income (-) and Expenditure</b>			<b>-791.010</b>	

## 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 2022 & 2023**

	Note	<u>Revenue Reserve</u>			<u>Capital Reserves</u>		Total Usable Reserves £m	Unusable Reserves £m	Total Authority Reserves £m
		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			
<b>Balance as at 1 April 2021</b>	41/42	<b>146.468</b>	<b>10.138</b>	<b>156.606</b>	<b>9.939</b>	<b>3.674</b>	<b>170.219</b>	<b>-468.759</b>	<b>-298.540</b>
<b>Movement in Reserves during 2021/22</b>									
Surplus or deficit (-) on provision of services		-11.274	-	-11.274	-	-	-11.274	-	-11.274
Other Comprehensive Income and Expenditure (-)	14/50	-	-	-	-	-	-	220.405	220.405
<b>Total Comprehensive Income and Expenditure (-)</b>		<b>-11.274</b>	<b>- -</b>	<b>11.274</b>	<b>-</b>	<b>-</b>	<b>-11.274</b>	<b>220.405</b>	<b>209.131</b>
Adjustments between accounting basis & funding basis under regulations	9	73.874	-	73.874	3.722	-0.092	77.504	-77.504	-
<b>Increase/Decrease (-) in Year Before Transfers to Reserve</b>		<b>62.600</b>	<b>-</b>	<b>62.600</b>	<b>3.722</b>	<b>-0.092</b>	<b>66.230</b>	<b>142.901</b>	<b>209.131</b>
Transfers to (-) / from Reserves	10	5.845	-5.845	-	-	-	-	-	-
<b>Balance as at 31 March 2022</b>	41/42	<b>214.913</b>	<b>4.293</b>	<b>219.206</b>	<b>13.661</b>	<b>3.582</b>	<b>236.449</b>	<b>-325.858</b>	<b>-89.409</b>
<b>Movement in Reserves during 2022/23</b>									
Surplus or deficit (-) on provision of services		-33.914	-	-33.914	-	-	-33.914	-	-33.914
Other Comprehensive Income and Expenditure (-)	14/50	-	-	-	-	-	-	824.924	824.924
<b>Total Comprehensive Income and Expenditure (-)</b>		<b>-33.914</b>	<b>-</b>	<b>-33.914</b>	<b>-</b>	<b>-</b>	<b>-33.914</b>	<b>824.924</b>	<b>791.010</b>
Adjustments between accounting basis & funding basis under regulations	9	32.976	-	32.976	-3.502	0.016	29.490	-29.490	-
<b>Net Increase/Decrease (-) before Transfers to Reserves</b>		<b>0.938</b>	<b>- -</b>	<b>0.938</b>	<b>-3.502</b>	<b>0.016 -</b>	<b>4.424</b>	<b>795.434</b>	<b>791.010</b>
Transfers to (-) / from Reserves	10	3.813	-3.813	-	-	-	-	-	-
<b>Increase/Decrease (-) in Year</b>		<b>2.875</b>	<b>-3.813 -</b>	<b>0.938</b>	<b>-3.502</b>	<b>0.016</b>	<b>-4.424</b>	<b>795.434</b>	<b>791.010</b>
<b>Balance as at 31 March 2023</b>	41/42	<b>217.788</b>	<b>0.480</b>	<b>218.268</b>	<b>10.159</b>	<b>3.598</b>	<b>232.025</b>	<b>469.576</b>	<b>701.601</b>

# 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 2022 £millions	Balance Sheet	31 March 2023 £millions	Notes
1,008.600	Property, Plant & Equipment	1,084.877	23
1.934	Heritage Assets	1.934	30
1.082	Intangible Non-Current Assets	0.716	24
44.499	Long term Investments	39.688	33
19.279	Long term Receivables & Payments in Advance	19.514	33
<b>1,075.394</b>	<b>Long term Assets</b>	<b>1,146.729</b>	
210.199	Short term Investments	184.367	33
0.932	Assets Held for Sale	0.000	26
7.443	Inventories	7.259	35
64.869	Short term Receivables & Payments in Advance	87.808	36
85.401	Cash and Cash Equivalents	17.643	43
<b>368.844</b>	<b>Current Assets</b>	<b>297.077</b>	
-125.234	Short term Payables & Receipts in Advance	-120.107	37
-41.243	Revenue Grants/Contributions Receipts in Advance	-7.096	40
-63.487	Capital Grants/Contributions Receipts in Advance	-72.226	40
-5.983	Long term Borrowing Repayable < 1 year	-10.781	33
-6.971	Provisions	-10.254	39
-10.050	Short term Borrowing	-0.165	33
-5.115	Overdraft	-15.536	43
<b>-258.083</b>	<b>Current Liabilities</b>	<b>-236.164</b>	
-0.260	Provisions	-0.305	39
-338.001	Long term Borrowing Repayable > 1 Year	-332.045	33
-908.704	Other Long Term Liabilities	-161.424	38
-3.330	Revenue Grants/Contributions Receipts in Advance	-0.089	40
-25.269	Capital Grants/Contributions Receipts in Advance	-12.178	40
<b>-1,275.564</b>	<b>Long Term Liabilities</b>	<b>-506.041</b>	
<b>-89.409</b>	<b>Net Assets</b>	<b>701.601</b>	
236.449	Usable Reserves	232.025	41
-325.858	Unusable Reserves	469.576	42
<b>-89.409</b>	<b>Total Reserves</b>	<b>701.601</b>	

The unaudited Statement of Accounts were issued on 7th July 2023, and the audited accounts were authorised for issue on 25th January 2024.



**Jason Vaughan FCCA, CPFA, IRRV (Hons)**  
**Executive Director Resources & Corporate Services**  
**(Chief Financial Officer)**

25 January 2024

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.

2021/22		2022/23	
£millions		£millions	Notes
11.274	Net surplus (-) or deficit on the provision of services	33.914	
-136.607	Adjustments to net surplus or deficit on the provision of services for non cash movements	-19.826	44
88.792	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	73.227	44
<b>-36.541</b>	<b>Net cash flows from Operating Activities</b>	<b>87.315</b>	44
34.859	Investing Activities	-21.413	45
-1.466	Financing Activities	12.277	46
<b>-3.148</b>	<b>Net increase (-) or decrease in cash and cash equivalents</b>	<b>78.179</b>	
<b>77.138</b>	<b>Cash and cash equivalents at the beginning of the reporting period</b>	<b>80.286</b>	
<b>80.286</b>	<b>Cash and cash equivalents at the end of the reporting period</b>	<b>2.107</b>	43

The Cash and Cash equivalent as 31<sup>st</sup> March 2023 of £2.107m is made up of cash balances of £17.643m less the Overdraft of £15.536m.

The value of short-term investments with an initial maturity term of less than 3 months (referred to Cash Equivalents) held at 31 March 2023, fell from £84m to £16.750m during 2022/23. This is the main reason for the reduction in total cash and cash equivalents during the year.

See Note 43 for further details on the in-year movement of the Council's cash and cash equivalents.

# Notes to the core financial statements

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

The Council has yet to adopt the following accounting standards:

- Definition of Accounting Estimates (Amendments to IAS 8) issued in February 2021.

On February 12, 2021, the IASB published Definition of Accounting Estimates (Amendments to IAS 8) to help entities to distinguish between accounting policies and accounting estimates. The amendments are effective for annual periods beginning on or after January 1, 2023

- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) issued in February 2021.

Sets out amendments to IAS 1 Presentation of Financial Statements, the Basis for Conclusions on IAS 1 Presentation of Financial Statements and other IFRS Standards and publications with effect for annual reporting periods beginning on or after 1 January 2023.

- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12) issued in May 2021.

These amendments address uncertainty in practice about how an entity applies the initial recognition exemption in paragraphs 15 and 24 of IAS 12 to transactions that give rise to both an asset and liability on initial recognition and may result in temporary differences of the same amount.

- Updating a Reference to the Conceptual Framework (Amendments to IFRS 3) issued in May 2020.

On May 14, 2020, the IASB published Reference to the Conceptual Framework (Amendments to IFRS 3) with amendments to IFRS 3, Business Combinations that update an outdated reference in IFRS 3 without significantly changing its requirements.

We do not expect any of the amendments above, to have a material impact on our accounts when they are applied prospectively from 1st April 2023.

## **Note 2: 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 of 31 March 2023, the value of schools related land and buildings (including Pupil Referral Units - PRU) where freehold interest existed was £301.397m.

The Council has also recognised a non-current asset for any leasehold arrangements that meet the definition of a finance lease under IAS17. As of 31 March 2023, the value of schools related land and buildings where leasehold interest existed was £14.597m.

For those properties (including PRU's), where neither a freehold nor leasehold interest exists (55 schools as of 31st March 2023), 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 Southwest 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) several pension bonds (totalling £1.053m) 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 the NHS Somerset Integrated Care Board (formerly known as Somerset Clinical Commissioning Group) and Somerset County Council establish a pooled fund for this purpose, which was achieved through a signed agreement under Section 75 of the National Health Service Act 2006. Under this Section 75 agreement there are three funds hosted by whichever body undertook the contracting arrangements. The arrangement has been accounted for as a joint operation - where each partner shows in its accounts its share of the expenditure, assets and liabilities of the Better Care Fund. Having assessed

the arrangement, the Council has determined that Funds 2 and 3 are administered by the Council so include the transactions funded by these Funds in its accounts.

Details of the transactions the Council reports in its accounts can be found in Note 15.

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 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. As of 31 March 23, the Council held £5.574m of unspent Growing Places funding.

As at the time of writing, the UK Government has confirmed it is "minded" to withdraw support from Local Enterprise Partnerships and transfer their responsibilities to local authorities from 2024. If that was to happen, the Council would become the principal for the Growing Places Funding and the accounting treatment would be similar to the Growth Deal and Getting Building Fund below.

### **Growth Deal and Getting Building Fund**

The Council has received a total of £197m of Growth Deal funding, and £35.4m of Getting Building Fund. Both have been fully utilised to approved projects reported to central government and fully spent using the Freedoms and Flexibilities arrangements allowed for in the grant determinations. No further allocations are anticipated.

The grants were awarded to the HotSW LEP and payable to the Council as the accountable body. The Council has a more active role in decision making, retaining a veto right on the use of the funds, and maintains the liability of grant claw-back. Acting as principle for both the Growth Deal and Getting Building Fund, all transactions for these funds are therefore included within the Council 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 2022/23. Further details of the Council's non-material interest in Futures for Somerset, can be found in Note 51.

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

The Statement of Accounts contains estimated figures that are based on assumptions made by 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 2023 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
<p><b>Valuation of operational property</b></p>	<p>As at 31 March 2023, the value of operational property carried in the Council's balance sheet was £516.713m.</p> <p>The Council's valuers use a combination of methodologies to value operational assets. This includes Depreciated Replacement Cost (DRC), Existing Use Value (EUV) and comparable methods. These methods can cause estimation uncertainty due to the indices and inputs (such as floor area, build costs, obsolescence and yield) that must be used to apply valuations.</p> <p>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 2023 for approximately 33.3% of its operational portfolio. The remaining balance of operational properties were also reviewed to ensure values reflect current values.</p> <p>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</p>	<p>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 £51.7m.</p> <p>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.</p>

	within the Council's portfolio during 2022/23 that required a material valuation uncertainty declaration.	
<b>Pensions Liability</b>	<p>As at 31 March 2023, the value of Local Government Pension Scheme IAS19 liability carried in the Council's balance sheet was £124.098m.</p> <p>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 judgements on our behalf.</p>	<p>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 £21.430m (see the sensitivity analysis in note 50 for other potential movements to the pensions liability as a result of changes in actuarial assumptions).</p> <p>Similarly, if the authorities share of pension fund assets (see note 50 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 £12.538m.</p>

#### **Note 4: Events after the Balance Sheet Date**

The Director of Finance authorised the unaudited Statement of Accounts on 7<sup>th</sup> July 2023 and the audited accounts were authorised for issue on 25<sup>th</sup> January 2024. 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 2023, 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 events post 31<sup>st</sup> March 2023 which require reporting in the Statement of Accounts.

On 22 July 2021, the Secretary of State announced that Somerset County Council and four District Council's (Mendip; Sedgemoor; South Somerset and Somerset West and Taunton) would merge to become one new Unitary local authority, Somerset Council. Unlike the four District Councils who will cease to exist after 31<sup>st</sup> March 2023, Somerset County Council will continue to exist but will be known as Somerset Council.

As a result of the merger, the assets and liabilities of the District Councils will be transferred to Somerset Council. Based on the assets and liabilities reported in the accounts for the District Councils its estimated an additional £1,389 million of assets and (£667m) of liabilities will be transferred to the new councils balance sheet on 1<sup>st</sup> April 2023. These net assets of £722m will be matched with Usable Reserves of £196m and Unusable Reserves of £526m.

**Note 5: Expenditure & Funding Analysis**

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

The classification of some Corporate Costs (reported at Outturn) is 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 Schools and Early Years figures reported in the table below as the Outturn position for Schools is not reported at Outturn. This classification issue does not impact on the deficit reported at year-end (£23.390m).



Expenditure & Funding Analysis for the year ended 31 March 2023	Directorate Total as reported for resource management £millions	Adjustment to arrive at the net amount chargeable to the General Fund balance £millions	Net Expenditure Chargeable to the General Fund £millions	Adjustments between Funding and Accounting basis £millions	Net Expenditure in the Comprehensive Income and Expenditure Statement £millions
Adult Services	176.190	-50.365	125.825	1.057	126.882
Children's Services	128.300	-10.401	117.899	3.320	121.219
Economic and Community Infrastructure Services	71.300	5.128	76.428	35.382	111.810
Public Health	1.100	-3.250	-2.150	0.195	-1.955
Customers, Digital & Workforce	17.300	6.038	23.338	1.656	24.994
Finance and Governance	14.300	1.343	15.643	-1.174	14.469
Corporate Costs (including Contingencies)	15.800	-4.000	11.800	2.968	14.768
Accountable Bodies (LEP/SRA/CDS)	4.500	0.273	4.773	-0.472	4.301
Schools and Early Years	-	7.315	7.315	25.006	32.321
<b>Surplus (-) / Deficit on Continuing Operations</b>	<b>428.790</b>	<b>-47.919</b>	<b>380.871</b>	<b>67.938</b>	<b>448.809</b>
Other Income & Expenditure	-405.400	25.467	-379.933	-34.962	-414.895
<b>Surplus (-) or Deficit on Provision of Services</b>	<b>23.390</b>	<b>-22.452</b>	<b>0.938</b>	<b>32.976</b>	<b>33.914</b>
Opening General Fund Balance at 31 March 2022			219.206		
Add Surplus (-) on General Fund in Year			0.938		
<b>Closing General Fund Balance at 31 March 2023</b>			<b>218.268</b>		

2021/22

Expenditure & Funding Analysis for the year ended 31 March 2022	Directorate Total as reported for resource management £millions	Adjustment to arrive at the net amount chargeable to the General Fund balance £millions	Net Expenditure Chargeable to the General Fund £millions	Adjustments between Funding and Accounting basis £millions	Net Expenditure in the Comprehensive Income and Expenditure Statement £millions
Adult Services	146.000	-49.841	96.159	4.688	100.847
Children's Services	106.000	-18.973	87.027	9.670	96.697
Economic and Community Infrastructure Services	74.900	-5.992	68.908	43.817	112.725
Public Health	1.700	-5.335	-3.635	1.581	-2.054
Customers, Digital & Workforce	16.500	3.251	19.751	3.293	23.044
Finance and Governance	9.800	0.722	10.522	-1.128	9.394
Corporate Costs (including Contingencies)	13.400	-3.753	9.647	-13.050	-3.403
Accountable Bodies (LEP/SRA/CDS)	7.400	-5.007	2.393	0.077	2.470
Schools and Early Years	-	7.330	7.330	37.281	44.611
<b>Surplus (-) / Deficit on Continuing Operations</b>	<b>375.700</b>	<b>-77.598</b>	<b>298.102</b>	<b>86.229</b>	<b>384.331</b>
Other Income & Expenditure	-379.800	19.098	-360.702	-12.355	-373.057
<b>Surplus (-) or Deficit on Provision of Services</b>	<b>-4.100</b>	<b>-58.500</b>	<b>-62.600</b>	<b>73.874</b>	<b>11.274</b>
Opening General Fund Balance at 31 March 2021			156.606		
Add Surplus (-) on General Fund in Year			-62.600		
<b>Closing General Fund Balance at 31 March 2022</b>			<b>219.206</b>		

## Note 6: 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.

**2022/23**

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes £millions	Net change for the Pensions Adjustments £millions	Other Differences £millions	Total Adjustments £millions
Adult Services	0.026	0.982	0.049	1.057
Children's Services	1.367	1.827	0.126	3.320
Economic and Community Infrastructure	33.879	1.444	0.059	35.382
Public Health	0.000	0.470	-0.275	0.195
Customers, Digital & Workforce	1.619	0.000	0.04	1.656
Finance and Governance	-1.196	0.000	0.02	-1.174
Corporate Costs (including Contingencies)	5.875	-2.907	0.000	2.968
Accountable Bodies (LEP/SRA/CDS)	-0.486	0.013	0.001	-0.472
Schools and Early Years	21.346	4.824	-1.164	25.006
<b>Net Cost of Services</b>	<b>62.430</b>	<b>6.653</b>	<b>-1.145</b>	<b>67.938</b>
<u>Other Income &amp; Expenditure</u>				
Other operating expenditure	12.235	0.000	0.000	12.235
Financial and investment income and expenditure	-3.753	8.202	0.063	4.512
expenditure	-46.612	0.000	-5.097	-51.709
<b>General Fund (Surplus)/Deficit</b>	<b>24.300</b>	<b>14.855</b>	<b>-6.179</b>	<b>32.976</b>

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	0.019	4.749	-0.080	4.688
Children's Services	0.824	8.981	-0.135	9.670
Economic and Community Infrastructure	37.144	6.688	-0.015	43.817
Public Health	-0.175	1.880	-0.124	1.581
Customers, Digital & Workforce	3.315	-	-0.022	3.293
Finance and Governance	-1.092	-	-0.036	-1.128
Corporate Costs (including Contingencies)	-0.010	-13.068	0.028	-13.050
Accountable Bodies (LEP/SRA/CDS)	-0.001	0.077	0.001	0.077
Schools and Early Years	15.380	23.762	-1.861	37.281
<b>Net Cost of Services</b>	<b>55.404</b>	<b>33.069</b>	<b>-2.244</b>	<b>86.229</b>
<u>Other Income &amp; Expenditure</u>				
Other operating expenditure	28.198	-	-	28.198
Financial and investment income and expenditure	-4.900	20.528	-0.042	15.586
Taxation and non-specific grant income and expenditure	-43.503	-	-12.636	-56.139
<b>General Fund (Surplus)/Deficit</b>	<b>35.199</b>	<b>53.597</b>	<b>-14.922</b>	<b>73.874</b>

### 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 the removal of internal transactions which although reported for resource management do not meet the definition of income and expenditure because they do not represent an inflow/outflow of economic benefits to/from the Council and they do not result in an increase/decrease in reserves, so the transactions are removed from the CIES. This internal adjustment does not impact on the overall deficit on the provision of service as the total of internal adjustments nets to nil.

### **Note 7a: 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:

2021/22 £ millions	Expenditure and Income	2022/23 £ millions
315.785	Employee expenses	307.179
558.426	Other service expenses	689.558
97.036	Capital charges (Depreciation/Amortisation/Impairment etc)	84.605
40.259	Interest payments (including pension interest cost)	32.731
0.849	Precepts & levies	0.862
28.198	Loss on disposal of fixed assets	12.235
<b>1,040.553</b>	<b>Total Expenditure</b>	<b>1,127.170</b>
-61.954	Revenue from contracts with service recipients	-64.435
-6.292	Other external fees and charges	-6.669
-138.135	Contributions	-195.853
-2.311	Rental income	-2.303
-3.279	Interest and investment income	-7.035
-343.009	Income from Council Tax/ NNDR/ SRA	-354.060
-474.299	Government grants and contributions	-462.902
<b>-1,029.279</b>	<b>Total Income</b>	<b>-1,093.257</b>
<b>11.274</b>	<b>Surplus or deficit on the provision of services</b>	<b>33.913</b>

#### Note 7b: 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.

2021/22 £millions		2022/23 £millions
	<u>Continuing Operations</u>	
-28.965	Adult Services	-26.325
-3.254	Childrens Services	-2.874
-0.101	Public Health	-0.010
-16.141	Economic & Community Infrastructure Services	-17.158
-2.651	Customers, Digital & Workforce	-2.073
-0.812	Finance & Governance	-0.832
-	Accountable Bodies	-
-0.235	Corporate Costs (inc Contingencies)	-2.874
-4.717	Schools & Early Years	-5.877
	<u>Provision of Services</u>	
-5.079	Financial and Investment Income and Expenditure - Trading Activities	-6.412
<b>-61.954</b>	<b>Total Income</b>	<b>-64.435</b>

Amounts included in the balance sheet for contracts with service recipients are as follows:

2021/22 £millions		2022/23 £millions
	<b><u>Receivables which are included in debtors</u></b>	
5.212	Adult Services	5.739
0.350	Children's Services	0.774
0.021	Corporate Costs (inc Contingencies)	0.034
0.184	Customers, Digital & Workforce	0.167
3.413	Economic & Community Infrastructure	2.004
0.106	Finance and Governance	0.075
0.295	Financing Income & Expenditure - Trading	0.420
<b>9.581</b>	<b>Total Receivables from Service Users</b>	<b>9.213</b>

There were £0.066m 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 2022/23 or 2021/22.

## Note 8: 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.

2021/22 £million	Segmental Analysis - Outstanding Debt	2022/23 £million
1.685	Adult Services	7.129
0.601	Children's Services	1.043
4.461	Economic and Community Infrastructure	3.666
0.086	Public Health	0.007
0.058	Customers, Digital & Workforce	0.020
0.386	Finance and Governance	0.383
0.041	Schools and Early Years	0.171
0.256	Financial and Investment Income and Expenditure - Trading Activities	0.481
<b>7.574</b>	<b>Total - as reported at Outturn</b>	<b>12.900</b>

2021/22 £million	Reconciliation of segmental debt to the total short term receivable and payment in advance reported in the Balance Sheet	2022/23 £million
7.574	Segmental Debt - as reported at Outturn <u>Debt - not reportable at Outturn:</u>	12.900
17.090	Collection Fund Debtor	15.124
4.492	Payments in Advance	4.923
5.278	VAT Debtor	6.618
30.435	Other year-end accrued debt	48.243
<b>64.869</b>	<b>Short-term receivable and payment in advance</b>	<b>87.808</b>

### 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 7b).

### **2022/23**

For the year ended 31 March 2023	<u>Income</u> Govt Grants & Contributions £millions
Adult Services	-28.234
Children's Services	-69.716
Economic and Community Infrastructure	-29.252
Public Health	-26.683
Customers, Digital & Workforce	-1.554
Finance and Governance	-3.400
Corporate Costs (inc Contingencies)	-0.151
Accountable Bodies (LEP/SRA/CDS)	-6.935
Schools and Early Years	-192.906
<b>Total Continuing Operations</b>	<b>-358.831</b>
Financing and Investment Income & Expenditure (including Trading)	-0.241
Other Operating Expenditure	-
Taxation & Non-Specific Grant	-103.830
<b>Total - Provision of Services</b>	<b>-462.902</b>



2021/22

<b>For the year ended 31 March 2022</b>	<b>Income Govt Grants &amp; Contributions (Restated) £millions</b>
Adult Services	-41.815
Children's Services	-66.679
Economic and Community Infrastructure	-24.672
Public Health	-32.906
Customers, Digital & Workforce	-0.854
Finance and Governance	-3.307
Corporate Costs (inc Contingencies)	-0.159
Accountable Bodies (LEP/SRA/CDS)	-22.070
Schools and Early Years	-180.733
<b>Total Continuing Operations</b>	<b>-373.195</b>
Financing and Investment Income & Expenditure (including Trading)	-1.007
Other Operating Expenditure	-
Taxation & Non-Specific Grant	-100.097
<b>Total - Provision of Services</b>	<b>-474.299</b>

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

2022/23

	General Fund - Schools & Other	Capital Receipts Reserve	Capital Grants & Contributions & Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£millions	£millions	£millions	£millions	£millions	£millions
<b>Adjustments between accounting basis and funding basis under regulations for the year ended 31 March 2023</b>						
<b>Adjustments involving the Capital Adjustment Account:</b>						
<u>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement</u>						
Charges for depreciation/impairment and reval loss of non current assets	46.442	-	-	46.442	-46.442	-
Impairment of current held for sale assets	-	-	-	-	-	-
Amortisation of intangible assets	0.366	-	-	0.366	-0.366	-
Capital grants and contributions	-51.191	-	51.191	-	-	-
Revenue expenditure funded from capital under statute	19.245	-	18.553	37.798	-37.798	-
Flexible Use of Capital Receipts directive	5.880	-	-	5.880	-5.880	-
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	15.719	-	-	15.719	-15.719	-
<u>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement</u>						
Statutory provision for the financing of capital investment	-12.806	-	-	-12.806	12.806	-
Capital expenditure charged against the General Fund	-4.350	-	-	-4.350	4.350	-
<b>Adjustments involving the Capital Receipts Reserve:</b>						
Transfer of sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	-3.542	3.542	-	-	-	-
Contribution from the capital receipts reserve towards administration costs of non current asset disposals	0.058	-0.058	-	-	-	-
Use of the capital receipts reserve to finance new capital expenditure	-	-1.139	-	-1.139	1.139	-
Use of the Capital Receipts Reserve to finance the Flexible Use of Capital Receipts directive	-	-5.880	-	-5.880	5.880	-
Principal repayments transferred to the capital receipts reserve	-	0.033	-	0.033	-0.033	-
<b>Adjustments involving the Capital Grants Unapplied Reserve:</b>						
Use of the capital grants unapplied reserve to finance new capital expenditure	-	-	-69.728	-69.728	69.728	-
<b>Adjustments involving the Pensions Reserve:</b>						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	53.576	-	-	53.576	-53.576	-
Employer's pension contributions and direct payments to pensioners payable in the year	-38.721	-	-	-38.721	38.721	-

## 2022/23 (Continued)

	General Fund - Schools & Other	Capital Receipts Reserve	Capital Grants & Contributions Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£millions	£millions	£millions	£millions	£millions	£millions
<b>Adjustments between accounting basis and funding basis under regulations for the year ended 31 March 2023</b>						
<b>Adjustments involving the Collection Fund Adjustment Account:</b>						
Amount by which Council Tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	-1.901	-	-	-1.901	1.901	-
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	-3.196	-	-	-3.196	3.196	-
<b>Adjustments involving the Financial Instrument Adjustment Account:</b>						
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	-
<b>Adjustments involving the Pooled Investment Funds Adjustment Account:</b>						
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	4.988	-	-	4.988	-4.988	-
<b>Adjustments involving the Dedicated Schools Grant Adjustment Account:</b>						
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	0.621	-	-	0.621	-0.621	-
<b>Adjustment involving the Accumulating Compensated Absences</b>						
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	1.834	-	-	1.834	-1.834	-
<b>Total adjustments between accounting basis &amp; funding basis under regulations</b>	<b>32.976</b>	<b>-3.502</b>	<b>0.016</b>	<b>29.490</b>	<b>-29.490</b>	<b>-</b>

	General Fund - Schools & Other	Capital Receipts Reserve	Capital Grants & Contributions Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£millions	£millions	£millions	£millions	£millions	£millions
<b>Adjustments between accounting basis and funding basis under regulations for the year ended 31 March 2022</b>						
<b>Adjustments involving the Capital Adjustment Account:</b>						
<u>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement</u>						
Charges for depreciation/impairment and reval loss of non current assets	50.925	-	-	50.925	-50.925	-
Impairment of current held for sale assets	1.133	-	-	1.133	-1.133	-
Amortisation of intangible assets	0.399	-	-	0.399	-0.399	-
Capital grants and contributions	-43.503	-	43.503	-	-	-
Revenue expenditure funded from capital under statute	3.869	-	40.714	44.583	-44.583	-
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	32.773	-	-	32.773	-32.773	-
<u>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement</u>						
Statutory provision for the financing of capital investment	-7.842	-	-	-7.842	7.842	-
Capital expenditure charged against the General Fund	-2.641	-	-	-2.641	2.641	-
<b>Adjustments involving the Capital Receipts Reserve:</b>						
Transfer of sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	-4.677	4.677	-	-	-	-
Use of the capital receipts reserve to finance new capital expenditure	-	-0.885	-	-0.885	0.885	-
Contribution from the capital receipts reserve towards administration costs of non current asset disposals	0.102	-0.102	-	-	-	-
Principal repayments transferred to the capital receipts reserve	-	0.032	-	0.032	-0.032	-
<b>Adjustments involving the Capital Grants Unapplied Reserve:</b>						
Use of the capital grants unapplied reserve to finance new capital expenditure	-	-	-84.309	-84.309	84.309	-
<b>Adjustments involving the Pensions Reserve:</b>						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	91.065	-	-	91.065	-91.065	-
Employer's pension contributions and direct payments to pensioners payable in the year	-37.468	-	-	-37.468	37.468	-

## 2021/22 (Continued)

<b>Adjustments between accounting basis and funding basis under regulations for the year ended 31 March 2022</b>	<b>General Fund - Schools &amp; Other (Restated) £millions</b>	<b>Capital Receipts Reserve £millions</b>	<b>Capital Grants &amp; Contributions Unapplied £millions</b>	<b>Total Usable Reserves (Restated) £millions</b>	<b>Unusable Reserves (Restated) £millions</b>	<b>Total Authority Reserves £millions</b>
<b>Adjustments involving the Collection Fund Adjustment Account:</b>						
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	-7.354	-	-	-7.354	7.354	-
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	-5.282	-	-	-5.282	5.282	-
<b>Adjustments involving the Financial Instrument Adjustment Account:</b>						
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	-
<b>Adjustments involving the Pooled Investment Funds Adjustment Account:</b>						
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	-0.669	-	-	-0.669	0.669	-
<b>Adjustments involving the Dedicated Schools Grant Adjustment Account:</b>						
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	5.374	-	-	5.374	-5.374	-
<b>Adjustment involving the Accumulating Compensated Absences</b>						
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	-2.285	-	-	-2.285	2.285	-
<b>Total adjustments between accounting basis &amp; funding basis under regulations</b>	<b>73.874</b>	<b>3.722</b>	<b>-0.092</b>	<b>77.504</b>	<b>-77.504</b>	<b>-</b>

## Note 10: Transfers to/from Earmarked Reserves

	Balance at 31 March 2021 £millions	Transfers Out 2021/22 £millions	Transfers In 2021/22 £millions	Net Movement 2021/22 £millions	Balance at 31 March 2022 £millions	Transfers Out 2022/23 £millions	Transfers In 2022/23 £millions	Net Movement 2022/23 £millions	Balance at 31 March 2023 £millions
<b>General Fund:</b>									
Operating Accounts	0.898	-0.077	0.467	0.390	1.288	-1.313	3.001	1.688	2.976
Economic Development Fund	0.147	-0.033	0.487	0.455	0.602	-0.010	0.150	0.140	0.742
Reserves for capital purposes	3.750	-1.040	1.000	-0.040	3.710	-3.700	-	-3.700	0.010
Invest to Save Fund	0.479	-	0.021	0.021	0.500	-0.500	0.041	-0.459	0.041
Somerset Drug & Alcohol	0.176	-0.176	-	-0.176	-	-	-	-	-
Public Health Earmarked	3.061	-	0.420	0.420	3.481	-	0.589	0.589	4.070
Public Health - Prevention Fund	0.503	-0.280	0.182	-0.098	0.405	-0.055	-	-0.055	0.350
Repairs and Maintenance Fund (inc BMIS)	0.131	-0.085	0.237	0.152	0.283	-	-	-	0.283
Business Rates Retention - County Wide Pot	2.675	-1.983	1.172	-0.811	1.864	-0.992	-	-0.992	0.872
Supply Mutual Fund Reserve	0.218	-0.218	-	-0.218	-	-	0.131	0.131	0.131
Somerset and South West Mutual Scheme	0.179	-0.347	0.218	-0.129	0.050	-	-	0.000	0.050
BSF Bridgwater Equaliation Reserve	7.580	-	1.151	1.151	8.731	-	0.534	0.534	9.265
Futures for Somerset	0.172	-0.008	0.030	0.022	0.194	-	-	-	0.194
Elections	0.799	-0.801	1.035	0.234	1.033	-1.033	0.117	-0.916	0.117
Somerset Rivers Authority	0.320	-0.295	-	-0.295	0.025	-0.128	0.103	-0.025	-
Flood Recovery & 20 year plan	0.132	-0.046	0.010	-0.036	0.096	-0.025	-	-0.025	0.071
Superfast Broadband	0.814	-0.512	0.220	-0.292	0.522	-0.302	0.319	0.017	0.539
Environment Commuted Sums Reserve	1.866	-0.041	0.027	-0.014	1.852	-	0.076	0.076	1.928
Local Enterprise Partnership (LEP)	2.157	-1.537	2.972	1.435	3.592	-1.111	1.712	0.601	4.193
SRA Precept 2016/17	7.065	-3.581	4.471	0.890	7.955	-2.878	-	-2.878	5.077
Children & Learning Commissioning	0.102	-	0.038	0.038	0.140	-	0.285	0.285	0.425
S106 funds	0.679	-0.035	0.056	0.021	0.700	-0.019	0.448	0.429	1.129
Insurance Fund Reserve	8.370	-	0.468	0.468	8.838	-0.733	0.151	-0.582	8.256
Parking Services	0.944	-0.500	0.777	0.277	1.221	-	0.189	0.189	1.410
West Somerset Opportunities Fund reserve	0.851	-0.220	-	-0.220	0.631	-0.631	-	-0.631	-
Permitting - Traffic	0.403	-	0.822	0.822	1.225	-0.207	-	-0.207	1.018
Supported Bus Service	0.443	-0.093	-	-0.093	0.350	-0.015	-	-0.015	0.335
Social Care Volatility	6.568	-2.245	1.044	-1.201	5.367	-0.577	-	-0.577	4.790
Short Life Asset Fin	2.040	-2.212	1.000	-1.212	0.828	-	-	-	0.828
Budget Equalisation	8.220	-3.963	8.360	4.397	12.617	-10.171	-	-10.171	2.446
Budget Equalisation - COVID-19 Impact	9.500	-9.500	-	-9.500	-	-	-	-	-
<b>Sub-Total</b>	<b>71.242</b>	<b>-29.828</b>	<b>26.686</b>	<b>-3.142</b>	<b>68.100</b>	<b>-24.399</b>	<b>7.845</b>	<b>-16.555</b>	<b>51.545</b>

Continued:

	Balance at 31 March 2021 £millions	Transfers Out 2021/22 £millions	Transfers In 2021/22 £millions	Net Movement 2021/22 £millions	Balance at 31 March 2022 £millions	Transfers Out 2022/23 £millions	Transfers In 2022/23 £millions	Net Movement 2022/23 £millions	Balance at 31 March 2023 £millions
S31 local tax income guarantee	10.138	-5.845	-	-5.845	4.293	-3.814	-	-3.814	0.479
Climate Emergency	0.974	-0.880	0.500	-0.380	0.594	-0.146	-	-0.146	0.448
COVID-19 Support	5.051	-5.051	-	-5.051	-	-	-	-	-
Workforce Resilience	1.254	-0.171	-	-0.171	1.083	-0.233	-	-0.233	0.850
Improving Lives Programme (ILP)	1.930	-0.238	0.002	-0.236	1.694	-1.647	0.064	-1.583	0.111
Social Care Transformation	3.713	-1.000	1.774	0.774	4.487	-2.719	-	-2.719	1.768
VPCR Reserve	0.659	-	0.325	0.325	0.984	-0.984	-	-0.984	-
Corporate Priorities	3.065	-2.871	5.030	2.159	5.224	-0.311	-	-0.311	4.913
Funding Volatility	3.735	-1.167	7.349	6.182	9.917	-3.298	0.154	-3.144	6.773
Adult Social Care Transforming	-	-	0.244	0.244	0.244	-	-	-	0.244
Economic Recovery	-	-0.409	6.000	5.591	5.591	-1.236	-	-1.236	4.355
Building Local Capacity	-	-	1.505	1.505	1.505	-1.030	1.195	0.165	1.670
Childrens Grant Reserve	-	-	0.131	0.131	0.131	-0.131	-	-0.131	0.000
ASC Grants	-	-	20.887	20.887	20.887	-0.003	-	-0.003	20.884
Domestic Abuse Statutory Duty	-	-	0.287	0.287	0.287	-	0.181	0.181	0.468
ASC Anticipatory Care	-	-	8.200	8.200	8.200	-	-	-	8.200
ASC Mental Health Services	-	-	2.700	2.700	2.700	-	-	-	2.700
ASC Prevention Services	-	-	0.500	0.500	0.500	-	-	-	0.500
ASC Adult Social Care/Hospital Discharge	-	-	3.791	3.791	3.791	-2.129	-	-2.129	1.662
ASC Childrens Services	-	-	12.000	12.000	12.000	-	-	-	12.000
ASC S256 Monies	-	-	-	-	-	-	51.793	51.793	51.793
Somerset Works (non ESF)	-	-	1.174	1.174	1.174	-0.073	-	-0.073	1.101
Bus Capacity Grant	-	-	0.264	0.264	0.264	-0.120	-	-0.120	0.144
Bus Service Improvement Grant	-	-	-	-	-	-	2.149	2.149	2.149
ICT Project Reserve	-	-	0.564	0.564	0.564	-0.453	-	-0.453	0.111
Business Support System (ERP)	-	-	7.800	7.800	7.800	-7.047	3.120	-3.927	3.873
Local Government Reorganisation	-	-	-	-	-	-	10.664	10.664	10.664
Ukrainian Resettlement	-	-	0.250	0.250	0.250	-	-	-	0.250
Other Service Reserves	0.466	-0.213	3.049	2.836	3.302	-3.406	1.502	-1.904	1.398
<b>Total excluding School Balances</b>	<b>102.227</b>	<b>-47.673</b>	<b>111.012</b>	<b>63.339</b>	<b>165.566</b>	<b>-53.180</b>	<b>78.667</b>	<b>25.487</b>	<b>191.053</b>
Balances held by schools under a scheme of delegation	24.506	-	2.032	2.032	26.538	-26.538	23.488	-3.050	23.488
<b>Total</b>	<b>126.733</b>	<b>-47.673</b>	<b>113.044</b>	<b>65.371</b>	<b>192.104</b>	<b>-79.718</b>	<b>102.155</b>	<b>22.437</b>	<b>214.541</b>

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 2022/23.

## Note 11: Other Operating Expenditure

2021/22 £millions		2022/23 £millions
28.198	(Gain)/losses on the disposal of non-current assets	12.235
1.133	Loss on the revaluation of current assets held for sale	-
	Levies:	
0.732	- Environment Agencies	0.741
0.117	- Devon and Severn Inshore Fisheries and Conservation Authority	0.121
<b>30.180</b>		<b>13.097</b>

The loss on disposal of non-current assets during 2022/23 was predominantly due to schools converting to academy status (£5.484m loss), where the full value of the asset is disposed for nil consideration, and an asset existence review (£8.092m loss) where a number of assets were being reported in the asset register despite no legal interest being held.

## Note 12: Financing and 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.

2021/22 £millions		2022/23 £millions
19.731	Interest payable and similar charges	24.532
20.528	Net pensions interest cost (on the defined liability)	8.199
-3.279	Interest receivable and similar income	-7.035
2.890	Deficit from trading activities	4.203
<b>39.870</b>		<b>29.899</b>

## Note 13: Taxation and Non-Specific Grant Income

2021/22 £millions		2022/23 £millions
-272.674	Council Tax income	-283.738
-67.775	National Non-Domestic Rates	-67.745
-2.561	Somerset Rivers Authority Precept	-2.578
-56.594	Non-ringfenced government grants	-57.218
-43.503	Capital grants and contributions	-51.191
<b>-443.107</b>		<b>-462.470</b>



## Note 14: Surplus or deficit on revaluation of fixed assets

2021/22 £millions		2022/23 £millions
-53.455	Gains (-) credited to the Revaluation Reserve	-79.893
10.168	Losses charged to the Revaluation Reserve	15.759
<u>-43.287</u>	<b>Total Gain (-) / Loss to the Revaluation Reserve</b>	<u>-64.134</u>

## Note 15: 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.

On 1 July 2022, NHS Somerset's Clinical Commissioning Group (CCG) ceased to exist, and its functions were transferred to NHS Somerset Integrated Care Board. NHS Somerset is the public name of NHS Somerset Integrated Care Board (ICB).

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 NHS Somerset ICB 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:

2021/22 £millions	Integrated Community Equipment Service (previously known as the Joint Equipment Service)	2022/23 £millions
	Income from:	
-1.796	Adults and Health Service	-2.005
-1.199	NHS Somerset Integrated Care Board (Including Continuing Healthcare Income)	-1.383
-1.543	Other Grant Income	-1.568
<u>-4.538</u>	Total income	<u>-4.956</u>
	Less the following spending:	
4.679	Equipment, delivery costs, minor work	6.211
0.096	Management and administration	0.096
<u>4.775</u>	Total spending	<u>6.307</u>
<u><b>0.237</b></u>	<b>Overspending or underspending (-)</b>	<u><b>1.351</b></u>

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 NHS Somerset ICB 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:

2021/22 £millions	Learning Disabilities Service	2022/23 £millions
	Income from:	
-65.395	Adults and Health Service	-71.091
-23.524	NHS Somerset Integrated Care Board	-24.794
-5.892	Income from charges and grant income	-6.382
<u>-94.811</u>	Total income	<u>-102.267</u>
	Less the following spending:	
29.771	Residential services	31.644
38.542	Supported housing	43.911
8.800	Day services	9.928
17.926	Domiciliary Care	19.426
2.038	Community teams	2.021
<u>97.077</u>	Total spending	<u>106.930</u>
<u><b>2.266</b></u>	<b>Overspending or underspending (-)</b>	<u><b>4.663</b></u>

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 NHS Somerset ICB. The Council acts as the lead body, so recognises the full income and expenditure for the arrangement.

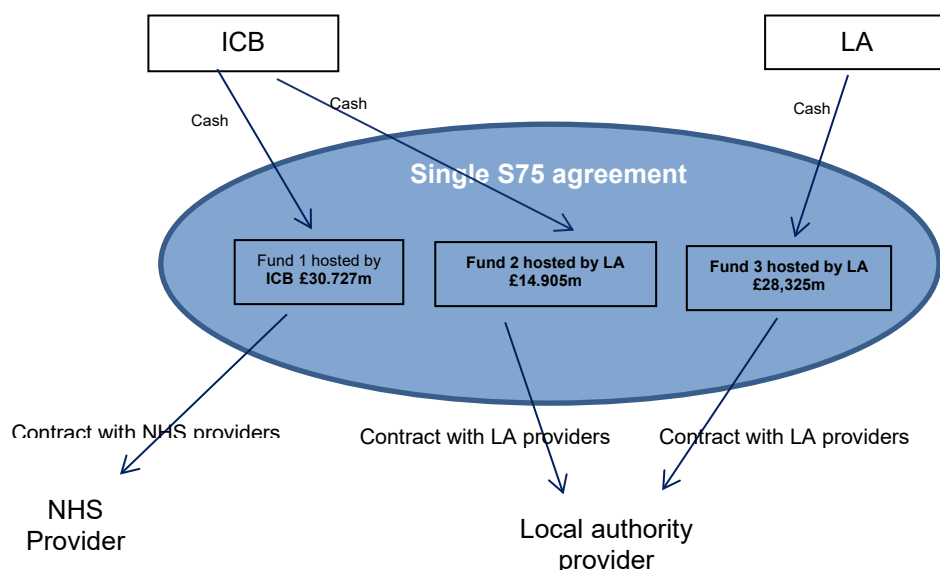
Income and expenditure for the year are as follows:

2021/22 £millions	Carers	2022/23 £millions
	Income from:	
-0.224	Adults and Health Service	-0.224
<u>-0.231</u>	NHS Somerset Integrated Care Board	<u>-0.231</u>
-0.455	Total income	-0.455
	Less the following spending:	
0.377	Universal Carers Support Service	0.377
0.015	Carers Support Worker Salary/Running Costs	0.014
<u>0.048</u>	CAMHS Carers Assessment Workers	<u>0.100</u>
0.440	Total spending	0.491
<u><b>-0.015</b></u>	<b>Overspending or underspending (-)</b>	<u><b>0.036</b></u>

Another area where the Council works with the NHS Somerset ICB 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 ICB and Somerset County Council establish a pooled fund for this purpose, which has been achieved in 2022/23 through a signed agreement under Section 75 of the National Health Service Act 2006.

Under this Section 75 agreement there are three funds totalling £73.957m and hosted by whichever body undertook the contracting arrangements. These funds support the four schemes supported by the Better Care Fund namely Reablement & other social care schemes, Person-centred care, Intermediate Care and Housing Adaptions. In addition, the Adult Social Care Discharge Fund has been pooled into the Better Care Fund. The Somerset Better Care Fund arrangement is shown diagrammatically and described below: -



<b>Actual Expenditure 2022/23</b>	<b>Fund 1</b>	<b>Fund 2</b>	<b>Fund 3</b>	<b>BCF Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Scheme A – Other social care schemes		10,664	18,074	28,739
Scheme B – New Models of Care	3,316			3,316
Scheme C – Intermediate Care	27,410	4,241	5,299	36,949
Scheme D – Housing Adaptions			4,953	4,953
<b>Total per Fund</b>	<b>30,727</b>	<b>14,905</b>	<b>28,325</b>	<b>73,957</b>
Adult Social Care Discharge Fund	4,447		2,081	6,528
<b>Total</b>	<b>35,174</b>	<b>14,905</b>	<b>30,407</b>	<b>80,486</b>

**Fund 1** is hosted by the NHS Somerset ICB and totals £30.727m, plus the Integrated Care Board share of the Adult Social Care Discharge Fund of £4.447m. The fund includes contributions from the ICB only, which have been paid to providers contracted to support the Intermediate Care and Person-centred care. The ICB controls this fund in its entirety and wholly owns any risk relating to this fund as per the Section 75 agreement.

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

**Fund 2** is hosted by Somerset County Council and totals £14.905m. This fund includes a small amount of funding, £203,500, which is the ICBs contribution to the Carers Pooled budget. The remaining fund is a contribution from the ICB paid to Somerset County Council for them to contract to support other social care schemes including protecting social care services. The County Council controls this fund and wholly owns any risk relating to this fund as per the Section 75 agreement, therefore under IFRS 11 this fund is not classed as a joint arrangement. In terms of accounting entries, the contribution incurred as part of this fund is accounted for within the ICB accounts, with the County Council accounting for this ICB contribution as income and the associated expenditure with providers for this fund.

**Fund 3** is hosted by Somerset County Council and totals £28.325m. The fund includes contributions from the County Council only, which have been paid to providers contracted to support the Housing Adaptions schemes, £4.953m, as well as a contribution to Intermediate Care, £5.299m, and the remaining improved Better Care Fund, £18,074m. The County Council controls this fund in its entirety and wholly owns any risk relating to this fund as per the Section 75 agreement.

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

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 16: Members' Allowances

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

2021/22 £millions		2022/23 £millions
0.636	Basic Allowance	1.288
0.282	Special Responsibility Allowance	0.345
0.009	Travel and Subsistence Expenses	0.029
0.003	Payments to Co-optees	0.010
<u>0.930</u>		<u>1.672</u>

## Note 17: 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 2023

2021/22			2022/23		
Number of employees		Employee pay bands	Number of employees		
Schools	Non-schools		Schools	Non-schools	
64	37	£50,000 to £54,999	69	82	
43	37	£55,000 to £59,999	44	47	
33	13	£60,000 to £64,999	42	12	
26	2	£65,000 to £69,999	25	8	
7	18	£70,000 to £74,999	10	14	
6	3	£75,000 to £79,999	6	7	
3	6	£80,000 to £84,999	6	8	
1	1	£85,000 to £89,999	2	3	
1	6	£90,000 to £94,999	-	2	
-	1	£95,000 to £99,999	1	6	
2	3	£100,000 to £104,999	-	1	
2	2	£105,000 to £109,999	1	-	
-	1	£110,000 to £114,999	1	2	
-	-	£115,000 to £119,999	-	2	
-	1	£120,000 to £124,999	-	-	
-	1	£125,000 to £129,999	-	2	
-	4	£130,000 to £134,999	-	1	
-	-	£135,000 to £139,999	-	1	
-	-	£140,000 to £144,999	-	1	
-	1	£145,000 to £149,999	-	1	
-	-	£155,000 to £159,999	-	1	
-	-	£160,000 to £164,999	-	1	
-	1	£165,000 to £169,999	-	-	
-	-	£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 2022/23 and 2021/22.

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 2023**

Post holder information (Post title and name)	Salary (including fees and allowances)	Compensation for loss of office	Total wages and benefits but not including pension contributions 2022/23	Employer's pension contributions	Total wages and benefits including pension contributions 2022/23
	£	£	£	£	£
<b>Head of paid service:</b>					
Duncan Sharkey - Started Oct22 (See Note1)	96,500	-	96,500	17,500	114,000
Patrick Flaherty - Left Sept22	75,500	-	75,500	13,700	89,200
<b>Statutory chief officers or those who report directly to the head of paid service:</b>					
- Lead Commissioner Adults & Health	137,000	-	137,000	24,800	161,800
- Director and Lead Commissioner ECI	141,500	-	141,500	25,600	167,100
- Director of Children's Services - Left Oct22 (see Note2)	90,400	-	90,400	14,600	105,000
- Director of Children's Services - Started Nov22 (see Note2)	126,900	-	126,900	23,000	149,900
- Director of Public Health	132,400	-	132,400	19,000	151,400
- Director of Finance & Governance	129,500	-	129,500	23,400	152,900
- Director of Customer, Digital & Workforce	111,400	-	111,400	20,200	131,600
- Programme Director	115,600	-	115,600	20,900	136,500
<b>Non-statutory chief officers who are directly accountable to the local authority themselves</b>					
- Group Manager Community Governance / Monitoring Officer	85,100	-	85,100	15,400	100,500
- County Solicitor	76,900	-	76,900	15,000	91,900

1. Patrick Flaherty left in Sept 2022 with a new head of paid service (Duncan Sharkey) starting in Oct 2022. The replacement was an external appointment.
2. Previous Director of Childrens Services left in Oct 2022 with a new employee appointed in Nov 2022. The replacement was an internal appointment, so the new Director's salary during 2022/23 will include amounts from their previous post.

There were no benefits in kind paid during 2022/23.

**Table 3 – Actual salary and benefits paid for the financial year ended 31 March 2022**

Post holder information (Post title and name)	Salary (including fees and allowances)	Compensation for loss of office	Total wages and benefits but not including pension contributions 2021/22	Employer's pension contributions	Total wages and benefits including pension contributions 2021/22
	£	£	£	£	£
<b>Head of paid service:</b>					
Patrick Flaherty	166,900	-	166,900	30,200	197,100
<b>Statutory chief officers or those who report directly to the head of paid service:</b>					
- Lead Commissioner Adults & Health	130,500		130,500	23,600	154,100
- Director and Lead Commissioner ECI	130,500	-	130,500	23,600	154,100
- Director of Children's Services	130,100		130,100	23,600	153,700
- Director of Public Health	126,000		126,000	18,100	144,100
- Director of Finance & Governance	123,300	-	123,300	22,300	145,600
- Director of Corporate Affairs - <i>left Nov 21 (see note 1)</i>	71,800	30,000	101,800	11,800	113,600
- Director of Customer, Digital & Workforce	101,600	-	101,600	18,400	120,000
- Programme Director - Left Feb 22 (see note 2)	146,300	-	146,300	4,200	150,500
- Programme Director - Started Feb 22	97,100		97,100	17,600	114,700
<b>Non-statutory chief officers who are directly accountable to the local authority themselves</b>					
Group Manager Community Governance / Monitoring Officer	80,900	-	80,900	14,600	95,500
County Solicitor	80,900	-	80,900	14,600	95,500

1. The Director of Corporate Affairs left the Council in November 2021, The position has been removed from the Council structure, and their responsibilities are now being covered by the Director of Customer, Digital and Workforce.
2. Previous Programme Director left in Feb 2022 with a new employee appointed in Feb 2022.

There were no benefits in kind paid during 2020/21.



**Table 4 – Total number and value of exit packages for the financial year ended 31 March 2023**

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	
	2021/22	2022/23	2021/22	2022/23	2021/22	2022/23	2021/22 £millions	2022/23 £millions
£0 - £20,000	1	10	18	25	19	35	0.149	0.249
£20,001 - £40,000	-	-	2	5	2	5	0.057	0.136
£40,001 - £60,000	-	-	1	2	1	2	0.042	0.094
£60,001 - £80,000	-	-	-	-	-	-	-	-
£80,001 - £100,000	-	-	-	-	-	-	-	-
£100,001 - £150,000	-	-	-	-	-	-	-	-
£150,001 - £200,000	-	-	1	-	1	-	0.183	-

**Note 18: Termination Benefits**

The Council terminated the contracts of 42 posts in 2022/23, incurring liabilities of £0.479 million. The redundancy total includes £0.455 million payable for 32 posts which were terminated by voluntary redundancy or early retirement. A further £0.024 million was paid for 10 post that was given compulsory redundancy. The £0.479 million can be split between teaching and non-teaching staff as follows:

**Non-teaching**

Terminations of £0.165 million, were due to organisation wide reduction within the Council (10). The Council recognised a new provision in 2022/23 for the redundancy costs resulting from the local government reorganisation taking place in Somerset from 1st April 2023. The provision was based on a best estimate of the possible redundancy costs incurred during the appointment for the new Councils Tier 1-3 posts. These costs were charged to the Provision of Service during 2022/23 but have been excluded from Note 17 – Table 4.

Further details on the Local Reorganisation in Somerset, can be found in the Narrative Report.

## Teaching

The Council terminated the contract of 32 teachers in 2022/23, incurring liabilities of £0.314 million.

## Note 19: 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:

2021/22 £millions		2022/23 £millions
	<u>Fees payable to Grant Thornton, appointed under the Local Audit &amp; Accountability Act 2014</u>	
0.144	– Main audit (proposed for 2022-23 audit)	0.136
0.008	– Grant claims	0.008
0.041	– Additional audit fees in relation to 2019/20 (approved by PSAA)	-
-	– Additional audit fees in relation to 2021/22 (subject to PSAA approval)	0.011
<u>0.193</u>		<u>0.155</u>

## Note 20: 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.

Under the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2020, any local authority with a deficit on its school budget must charge the amount of the deficit to an unusable reserve (Dedicated Schools Grant Adjustment Account) established solely for the purpose of recognising deficits in its school's budget. Any in-year deficits, during the period of the regulation are transferred to this unusable reserve to neutralise the impact on the General Fund.

Details of the deployment of DSG receivable for 2022/23 are shown in the following table:

	Central spending £millions	Individual Schools Budget £millions	Total £millions
Final Dedicated Schools Grant for 2022/23			
- before Academy and High Needs Recoupment			-461.391
Academy and High Needs figure recouped for 2022/23			235.902
Total Dedicated Schools Grant after Academy and High Needs recoupment for 2022/23			-225.489
Plus: Brought Forward from 2021/22			-
Less: Carry Forward to 2023/24 agreed in advance			-
Agreed initial budgeted distribution in 2022/23	92.292	133.197	225.489
In year adjustments	4.146		4.146
<b>Final budgeted distribution for 2022/23</b>	<b>96.438</b>	<b>133.197</b>	<b>229.635</b>
Less actual central expenditure	97.060		97.060
Less Actual ISB deployed to schools		133.197	133.197
Plus Local Authority contribution for 2022/23	-	-	-
<b>In Year Carry-forward to 2023/24</b>	<b>-0.621</b>	<b>-</b>	<b>-0.621</b>
Plus: Carry Forward to 2023/24 agreed in advance			-
DSG Unusable Reserve at the end of 2021/22			-20.109
Addition to DSG Unusable Reserve at the end of 2022/23			-0.621
Total of DSG Unusable Reserve at the end of 2022/23			-20.730
<b>Net DSG position at the end of 2022/23</b>			<b>-20.730</b>

In previous years some reserves under the control of the local authority have been incorrectly included within the reserves identified as being under the control of the local authority's-maintained schools. An adjustment has been made in 2022/23 to reflect the correct position by including these reserves within those under the control of the local authority.

The in-year adjustment of £4.146m in the table above includes an adjustment of £3.934m relating to unspent Schools Block DSG funding allocation, that had previously been included in General Fund – Schools.

Further details of the Dedicated Schools Grant Adjustment Account can be found in Note 42: Unusable Reserves.

The total DSG allocation for 22/23 in the table above, includes a late Early Years funding adjustment for 21/22, that reduced the amount of DSG received in 22/23.

## Note 21: Grant Income

The Council credited the following grants, capital contributions and capital donations to the Comprehensive Income and Expenditure Statement in 2022/23:

2021/22 £millions		2022/23 £millions
	<b>Credited to Taxation and Non-Specific Grant Income</b>	
	<u>Revenue Grants</u>	
-6.209	- Revenue Support Grant	-6.407
-0.134	- Inshore Fisheries Grant	-0.134
-1.246	- New Homes Bonus	-1.266
-10.852	- COVID 19 Support Grant	-
-8.884	- Business Rates Cap	-10.839
-0.837	- Rights to Free Travel	-0.900
-3.888	- Building Schools for the Future	-3.808
-17.959	- Adult Social Care Support Grant	-24.591
-0.358	- Local Reform and Community Voices Grant	-0.358
-2.521	- Rural Services Delivery Grant	-2.521
-3.705	- Council Tax Income Guarantee Scheme	-
-	- Services Grant	-4.709
-	- Market Sustainability and Fair Cost of Care Fund	-1.686
<b>-56.594</b>		<b>-57.218</b>
	<u>Capital Grants</u>	
-3.224	- Standards Fund Capital Grant	-4.511
-26.378	- Department for Transport Capital Grant	-32.063
-0.105	- LEP	-8.885
-	- Dept for Levelling Up, Housing and Communities	-1.200
-4.040	- Dept for Business, Energy & Industrial Strategy	-
-3.325	- Building Digital UK	-
-1.070	- European Regional Development Fund	-2.051
-2.147	- Rural Development Programme for England	-2.243
-3.214	- Other capital grants / Contributions (including developer S106 income)	-0.238
<b>-43.503</b>		<b>-51.191</b>
<b>-100.097</b>	<b>Total Grants Credited to Taxation &amp; Non-Specific Grants</b>	<b>-108.409</b>

**2021/22**  
**(Restated)**  
**£millions**

**2022/23**  
**£millions**

**Credited to Services**

Revenue Grants

-214.106	- Dedicated Schools Grant (including Copyright Licence allocation)	-225.701
-3.956	- Standards Fund	-4.151
-8.144	- Pupil Premium Grant	-8.773
-0.673	- Music Education Grant	-0.671
-0.500	- LEP - Start Up Fund	-0.375
-29.810	- LEP - Growth Hub	-7.938
-0.099	- Adoption Support Grant	-0.132
-2.048	- Sixth Form Funding (S6F)	-2.151
-2.322	- Primary PE and Sports Grant	-2.212
-0.513	- Youth Justice	-0.563
-1.206	- Supporting Families (formerly Troubled Families) Grant	-1.642
-0.378	- Step Up Social Work	-1.263
-0.513	- School Improvement Grant	-0.226
-0.398	- Social Workers in School Scale Up	-0.060
-3.162	- Universal Infants Free School Meals	-2.961
-0.047	- Teachers Pay Grant	-0.027
-0.909	- Children/Schools and Early Years – other grants	-1.741
-1.193	- Independent Living Fund	-1.193
-21.284	- Public Health grant	-21.881
-22.685	- Care Act	-23.372
-	- Adult Social Care Discharge Fund	-2.100
-	- Data Accelerator Grant	-0.466
-1.042	- Domestic Abuse	-0.487
-0.356	- Adult services – other grants	-0.601
-0.271	- DEFRA - AONB & LARC	-0.332
-0.492	- Triple C Project	-0.236
-0.590	- Co-Adapt Project	-0.005
-0.307	- Kickstart	-0.044
-0.215	- Farming in Protected Landscapes	-0.323
-0.212	- Somerset Skills for Growth	-0.411
-1.495	- Holiday Activities & Food Programme	-1.586
-	- Homed for Ukraine Education Grant	-3.008
-0.509	- Community Renewal Fund	-3.076
-0.381	- Local Transport Authority Bus Capacity Grant	-
-0.241	- Universal Drug Treatment (Substance Misuse)	-0.692
-0.220	- Staying Put Implementation Grant	-0.242
-0.212	- Adults Obesity	-
-0.454	- Bus Service Operators	-0.454
-	- Bus Services Improvement Grant	-2.175
-2.950	- Building Schools for the Future contributions	-3.030
-0.895	- West Somerset Opportunities Area Fund (WSOA)	-
-	- Schools Supplementary Grant	-3.514
-3.978	- Department for Transport Capital Grant (funding REFCUS)	-0.408
-	- Building Digital UK	-2.948
-1.320	- Economic, Communities & Infrastructure services - other grants	-2.405
-6.299	- Other services grants	-4.847

COVID-19 Grants

-	- Omicron Support Grant	-0.624
-1.998	- Winter Grant Scheme	-
-0.943	- Funding for Clinically Extremely Vulnerable	-
-12.414	- Infection Control & Rapid Testing Grant	-
-8.765	- Outbreak Management Grant	-3.612
-0.905	- Loss of Income Grant	-
-3.770	- Household Support Fund	-7.641
-2.430	- Various Schools Grants	-2.116
-5.018	- Workforce Capacity Fund	-0.076
-0.559	- School and College Transport	-
-1.017	- Other COVID-19 related grants	-

<b>-374.202</b>	<b>Total Grants Credited to Service</b>	<b>-354.493</b>
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<b>-474.299</b>	<b>Total Grants Credited to Comprehensive Income &amp; Expenditure</b>	<b>-462.902</b>
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The 2021/22 comparatives have been restated to correct an overstatement of the Troubled Families Grant. The 21/22 published accounts incorrectly reported (£1.206m) of Troubled Families grant along with (£0.700m) of Service Transformation Funding and (£0.419m) of DCLG Funding for Successful Outcomes. These two allocations formed part of the Troubled Families allocation so should not have been disclosed separately. This overstatement had been offset by an understatement of Other Services grants.

The reclassification to remove the overstatement and uplift the Other Service grants was net nil, so has not affected the Total Grants Credited to Service in the 2021/22 comparatives.

## **Note 22: 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 21.

### **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 2022/23 is shown in Note 16. 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 2022/23 the Council paid £32.6 million to Discovery (including £27.7 million for the Discovery Contract).
- Various local companies (20 in total) that provide transport on behalf of the Council. The total paid to these companies during 2022/23 was £12.283 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 2022/23 the Council paid £1.899 million to Futures for Somerset.

## Note 23: Property, Plant & Equipment

<b>Movements in 2022/23</b>					
	<b>Other Land &amp; Buildings £millions</b>	<b>Vehicles, Plant &amp; Equipment £millions</b>	<b>Surplus Assets £millions</b>	<b>Assets Under Construction £millions</b>	<b>Total £millions</b>
<b>Cost or valuation</b>					
At 1 April 2022	476.014	57.042	5.179	8.584	546.819
Additions	15.322	4.158	-	11.315	30.795
Disposals	-15.026	-11.994	-0.090	-	-27.110
Reclassifications	3.205	-	0.561	-3.296	0.471
Revaluation Increase/decrease (-):					
- to Revaluation Reserve	55.313	-	-0.541	-	54.772
- to Surplus/Deficit on the provision of service	-11.977	-	-0.563	-	-12.540
At 31 March 2023	<u>522.852</u>	<u>49.207</u>	<u>4.546</u>	<u>16.603</u>	<u>593.208</u>
<b>Depreciation and impairments</b>					
At 1 April 2022	-9.426	-34.916	-0.129	-0.001	-44.472
Charge for 2022/23	-9.498	-6.054	-0.140	-	-15.692
Disposals	0.884	11.125	0.002	-	12.011
Reclassifications	0.113	-	-0.135	-	-0.022
Revaluation Increase/decrease (-):					
- to Revaluation Reserve	9.019	-	0.342	-	9.361
- to Surplus/Deficit on the provision of service	2.769	-	0.030	-	2.799
At 31 March 2023	<u>-6.139</u>	<u>-29.844</u>	<u>-0.030</u>	<u>-0.001</u>	<u>-36.014</u>
<b>Balance sheet amount at 1 April 2022</b>					
	<u>466.588</u>	<u>22.126</u>	<u>5.050</u>	<u>8.583</u>	<u>502.347</u>
<b>Balance sheet amount at 31 March 2023</b>					
	<u>516.713</u>	<u>19.362</u>	<u>4.515</u>	<u>16.602</u>	<u>557.193</u>
<b>Nature of asset holding at 31 March 2023</b>					
Owned	483.260	19.362	4.515	16.603	523.740
Finance lease	33.453	-	-	-	33.453
	<u>516.713</u>	<u>19.362</u>	<u>4.515</u>	<u>16.603</u>	<u>557.193</u>



<b>Movements in 2021/22</b>					
	<b>Other Land &amp; Buildings £millions</b>	<b>Vehicles, Plant &amp; Equipment £millions</b>	<b>Surplus Assets £millions</b>	<b>Assets Under Construction £millions</b>	<b>Total £millions</b>
<b>Cost or valuation</b>					
At 1 April 2021	444.611	59.005	3.225	30.542	537.384
Additions	16.747	4.572	0.009	6.395	27.722
Disposals	-31.970	-6.535	-	-	-38.505
Reclassifications	25.663	-	0.868	-28.353	-1.822
Revaluation Increase/decrease (-):					
- to Revaluation Reserve	34.540	-	1.058	-	35.598
- to Surplus/Deficit on the provision of service	-13.577	-	0.019	-	-13.558
At 31 March 2022	<u>476.014</u>	<u>57.042</u>	<u>5.179</u>	<u>8.584</u>	<u>546.819</u>
<b>Depreciation and impairments</b>					
At 1 April 2021	-8.633	-33.198	-0.048	-0.037	-41.916
Charge for 2021/22	-8.531	-8.019	-0.172	-	-16.722
Disposals	0.112	6.302	-	-	6.414
Reclassifications	-0.017	-	0.044	0.036	0.063
Revaluation Increase/decrease (-):					
- to Revaluation Reserve	7.643	-	0.046	-	7.689
- to Surplus/Deficit on the provision of service	-	-	-	-	-
At 31 March 2022	<u>-9.426</u>	<u>-34.916</u>	<u>-0.130</u>	<u>-0.001</u>	<u>-44.472</u>
<b>Balance sheet amount at 1 April 2021</b>	<b><u>435.979</u></b>	<b><u>25.807</u></b>	<b><u>3.177</u></b>	<b><u>30.505</u></b>	<b><u>495.469</u></b>
<b>Balance sheet amount at 31 March 2022</b>	<b><u>466.588</u></b>	<b><u>22.127</u></b>	<b><u>5.049</u></b>	<b><u>8.583</u></b>	<b><u>502.347</u></b>
<b>Nature of asset holding at 31 March 2022</b>					
Owned	436.707	22.127	5.049	8.583	472.466
Finance lease	29.881	-	-	-	29.881
	<u>466.588</u>	<u>22.127</u>	<u>5.049</u>	<u>8.583</u>	<u>502.347</u>

## Infrastructure

<b>Movements on Balances</b>	<b>2021/22 £millions</b>	<b>2022/23 £millions</b>
<b>Net Book Value at 1 April 2022</b>	489.528	506.253
Additions	37.222	42.578
Derecognition	-	-0.138
Depreciation	-20.641	-21.009
Other movements in cost	0.144	-
<b>Net Book Value at 31 March 2023</b>	<b><u>506.253</u></b>	<b><u>527.684</u></b>

## Total Property, Plant and Equipment

	2021/22	2022/23
Property, Plant & Equipment (PPE)	£millions	£millions
Infrastructure Assets	506.253	527.684
Other PPE Assets	502.347	557.193
<b>Total PPE Assets</b>	<b><u>1,008.600</u></b>	<b><u>1,084.877</u></b>

In accordance with the Temporary Relief offered by the Update to the Code on infrastructure assets this note does not include disclosure of gross cost and accumulated depreciation for infrastructure assets because historical reporting practices and resultant information deficits mean that this would not faithfully represent the asset position to the users of the financial statements.

The Council is unable to provide sufficient evidence of the value of replaced components of infrastructure assets when they are derecognised. This is particularly the case in relation to roads, though the issue impacts all infrastructure assets. This can lead to issues relating to the reporting of gross historical cost and accumulated depreciation.

This is particularly the case with older infrastructure assets that were either built, developed, or adopted prior to when accounting requirements for their recognition were first introduced. Given the uncertainties attached to the original costs of such historical structures, a consistent methodology cannot be applied to faithfully disclose the derecognition values for such assets. The nature of infrastructure assets is such that there would not usually be an open market in which to conduct any exchange or to derive an accurate value. In this respect, the ownership of existing infrastructure assets would remain with the Council or any subsequent public authority responsible for holding and maintaining them.

### Capital Commitments

At 31 March 2023, the Authority anticipated investing £159.600m (£256.230m at 31 March 2022) in the construction or enhancement of Property, Plant, Equipment and Infrastructure during 2023/24 and future years. Some of this will be for schemes that have not yet started.

Alongside this, the new Somerset Council approved a capital programme of £75.967m for 2023/24 onwards.

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

- £20.609m for the Connecting Devon & Somerset Broadband Programme
- £0.978m for the Taunton Digital Innovation Centre
- £0.864m for Trenchard Way/ Firepool Junction
- £0.800m for St Dunstan's School ASD Base
- £0.474m for the Traffic Signals Recovery Programme

In addition to the individual items above we have the following contracts:

1. An on-going contract for the procurement of the highways major repairs that will result in an estimated capital expenditure of between £25 million and £30 million in 2023/24 (£25-£30 million in 2022/23). These payments will relate to new projects in 2023/24 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 new Somerset Council's Capital Programme for 2023/24 to 2024/25 can be found in the Medium-Term Financial Plan papers (Agenda Item 5 - Paper A) taken to Full Council on 22 February 2023.

Similar commitments listed as of 31 March 2022 were £46.522m, comprising:

- £27.193m for the Connecting Devon & Somerset Broadband Programme
- £7.656m for the Taunton Digital Innovation Centre
- £4.466m for the Public Sector Decarbonisation Programme
- £3.169m for the Traffic Signals Recovery Programme
- £2.089m for the Toneyway Corridor Improvement project
- £1.949m for the Sky College expansion project

## 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, or furniture and equipment; depreciated historic cost is used as a proxy for fair value. Assets under construction are also not revalued so are recorded at historic cost. 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
- Assets classified as 'Held for Sale' are initially valued using the current value measure appropriate to the class in which they are held when the Assets Held for Sale criteria were satisfied. This value is then compared to the fair value of the asset less costs to sell (based on market value net of the incremental costs directly attributable to the disposal of the asset). The assets valuation is then reduced (where applicable) to the lower of these two values.

	Other Land & Buildings	Vehicles, Plant & Equipment	Infrastructure Assets	Surplus Assets	PPE Under Construction	Total
	£millions	£millions	£millions	£millions	£millions	£millions
Carried at historical cost	2.614	19.362	527.684	-	16.603	<b>566.263</b>
Valued at current value as at:						
31 March 2023	366.152	-	-	4.515	-	<b>370.667</b>
31 March 2022	77.720	-	-	-	-	<b>77.720</b>
31 March 2021	24.053	-	-	-	-	<b>24.053</b>
31 March 2020	19.271	-	-	-	-	<b>19.271</b>
31 March 2019	26.903	-	-	-	-	<b>26.903</b>
<b>Total cost or valuation</b>	<b>516.713</b>	<b>19.362</b>	<b>527.684</b>	<b>4.515</b>	<b>16.603</b>	<b>1,084.877</b>

During 2022/23, there were properties that became operational where a formal valuation was not possible due to limited valuation team capacity. As a result, these assets have been carried at their historic cost as at 31 March 2023 (£2.614m). These properties will be included in the 2023/24 valuation cycle to ensure they are carried at current value in accordance with the Council's accounting policy.

#### **Note 24: 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 £0.366 million for 2022/23 was charged to the following service areas:

- £0.101 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 £0.265 million was charged to various services for use of specific IT systems.

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

2021/22 £millions		2022/23 £millions
	<b>Balance at start of year:</b>	
7.830	– Gross carrying amount	7.830
-6.349	– Accumulated amortisation	-6.748
<b>1.481</b>	<b>Net carrying amount at start of year</b>	<b>1.082</b>
	<b>Movement in year:</b>	
-	Purchases	-
-0.399	Amortisation for the period	-0.366
<b>1.082</b>	<b>Net carrying amount at end of year</b>	<b>0.716</b>

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

	Carrying amount at 31 March 2022 £millions	Carrying amount at 31 March 2023 £millions	Remaining Amortisation Period at 31 March 2023
HCL SAP system (Integrated finance and payroll system)	0.295	0.194	2 years
SAP system licences	0.783	0.522	2 years

### Note 25: Impairment Losses

During the valuation process for 2022/23, consideration was given to the Authorities entire asset portfolio. There were no material impairments identified during this review.

### Note 26: Assets Held For Sale

The Council's assets held for sale at 31 March 2023 and the movement in the year are reflected in the table shown below:

Current 2021/22 £millions		Current 2022/23 £millions
1.131	<b>Balance outstanding at start of year</b>	0.932
	<b>Assets newly classified as held for sale:</b>	
1.615	Property, plant and equipment	-
0.000	Revaluation gain to Revaluation Reserve	-
-1.133	Revaluation loss charged to Surplus/Deficit on the provision of service	-
	<b>Assets declassified as held for sale:</b>	
-	Property, plant and equipment	-0.450
-0.681	Assets sold	-0.482
<b>0.932</b>	<b>Balance outstanding at year end</b>	<b>0.000</b>

## Note 27: Surplus Assets – Fair Value Measurement

### Valuation Process for Surplus Properties

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

When measuring the fair value of non-financial assets (e.g. surplus properties), highest and best use is determined only from the perspective of market participants even if the 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 2023:

	Other significant observable inputs (level 2) £millions	Significant unobservable inputs (level 3) £millions	Fair value as at 31 March 2023 £millions
Office/specific use properties	-	0.689	0.689
Commercial units	-	-	-
Land	0.705	3.118	3.823
	<b>0.705</b>	<b>3.806</b>	<b>4.511</b>

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 2022:

	Other significant observable inputs (level 2) £millions	Significant unobservable inputs (level 3) £millions	Fair value as at 31 March 2022 £millions
Office/specific use properties	-	1.114	1.114
Commercial units	0.060	-	0.060
Land	0.207	3.668	3.875
	<b>0.267</b>	<b>4.782</b>	<b>5.049</b>

### Transfers between Levels of the Surplus Asset Fair Value Hierarchy

There were no transfers between levels of the surplus asset fair value hierarchy during 2022/23.

## Reconciliation of Surplus Asset Fair Value Measurements within Level 3

2022/23	01 April 2022 £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 2023 £millions
Surplus assets	4.781		-	-0.951	-	-	-0.024	-	3.806

## 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 31/03/2023 £millions	Valuation technique used to measure fair value	Significant unobservable inputs	Range with (average used)	Sensitivity
Office/specific use properties	0.689	Investment income approach using market- derived yields	Yield	6% - 12% (8%)	Fluctuations in current market conditions, and nature of tenant
			Conversion costs	Variable (discounted at 6% per annum)	Current Market value and discount rate applied.
Land	3.118	Value of developed land with significant hope values applied	Hope values	10% - 80% (61%)	Purchasers perceived risk of planning consent (20% based on peer review for specific properties).
			Yield	6% - 12% (8%)	Fluctuations in current market conditions.
			Conversion costs	Variable (discounted 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 2022/23 is as follows:

- Depreciation of £0.140m 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 £0.533m. This went to the relevant service within the surplus or deficit on continuing operations.
- £0.199m as a loss to the Surplus or deficit on revaluation of fixed assets within other comprehensive income.

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



## Note 28: 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 2022 £millions	31 March 2023 £millions
Other Land and Buildings	29.881	33.453
	<u>29.881</u>	<u>33.453</u>

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 2022/23 (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 29 for further details.

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

2021/22 £millions		2022/23 £millions
	Finance lease liabilities (net present value of minimum lease payments):	
1.202	- Current	1.319
38.671	- Non Current	37.326
37.550	Finance costs payable in future years	34.719
<u>77.423</u>	Minimum lease payments	<u>73.364</u>

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

	Minimum Lease Payments		Finance Lease Liabilities	
	31 March 2022 £millions	31 March 2023 £millions	31 March 2022 £millions	31 March 2023 £millions
Not later than one year	4.961	5.011	1.203	1.319
Later than one year and not later than five years	19.844	20.037	6.076	6.657
Later than five years	52.618	48.316	32.594	30.669
	<b>77.423</b>	<b>73.364</b>	<b>39.873</b>	<b>38.645</b>

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. There was no material contingent rent payable during 2022/23, and no material sub-lease arrangements were in place during the year.

### Operating Leases

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

Operating Leases	31 March 2022		31 March 2023	
	Land & Buildings £millions	Vehicles & Equipment £millions	Land & Buildings £millions	Vehicles & Equipment £millions
Not later than one year	0.732	0.158	0.711	0.121
Later than one year and not later than five years	2.292	0.103	2.287	0.125
Later than five years	6.556	0.000	5.125	0.000
	<b>9.580</b>	<b>0.261</b>	<b>8.123</b>	<b>0.246</b>

There were no material sub-lease arrangements in place during 2022/23 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 78 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 93 years and the Rural Life Barn museum to the Somerset Preservation Trust with a remaining term of 70 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 2022 £millions	31 March 2023 £millions
Finance lease debtor (net present value of minimum lease payments):		
- Current	0.033	0.035
- Non Current	14.249	14.214
Unearned Finance Income	46.399	45.642
Gross investment in the lease	<u><u>60.681</u></u>	<u><u>59.891</u></u>

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 2022 £millions	31 March 2023 £millions	31 March 2022 £millions	31 March 2023 £millions
Not later than one year	0.790	0.790	0.790	0.703
Later than one year and not later than five years	3.160	3.160	3.160	2.813
Later than five years	56.731	55.941	56.731	49.658
	<u><u>60.681</u></u>	<u><u>59.891</u></u>	<u><u>60.681</u></u>	<u><u>53.174</u></u>

During 2022/23, 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 2022/23. This will be reviewed again in 2023/24, 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. There were no material contingent rents were receivable by the Council, during 2022/23.

### 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 2022 £millions	31 March 2023 £millions
Not later than one year	1.025	1.085
Later than one year and not five years	3.874	3.634
Later than five years	5.703	5.542
	<b>10.602</b>	<b>10.261</b>

## **Note 29: Private Finance Initiatives (PFI) and Similar Contracts**

### **Building Schools for the Future (BSF)**

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

These rights of occupation and use are enforced through the availability and performance measures and penalties mentioned below, specifically in relation to the educational use.

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

The 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 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 23.

### 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

	<b>Repayments of Liability £m</b>	<b>Interest Charges £m</b>	<b>Service Charges £m</b>	<b>LifeCycle Replacement £m</b>	<b>Total Payments £m</b>
Within 1 year	1.311	3.693	2.129	0.585	<b>7.718</b>
Within 2 - 5 years	6.631	13.387	8.515	2.339	<b>30.872</b>
Within 6 - 10 years	12.562	12.461	10.643	2.924	<b>38.590</b>
Within 11 - 15 years	17.796	4.900	9.756	2.924	<b>35.376</b>
Within 16 - 20 years	0.000	0.000	0.000	0.000	<b>0.000</b>
	<b>38.301</b>	<b>34.441</b>	<b>31.043</b>	<b>8.772</b>	<b>112.556</b>

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 28 (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:

	2021/22 £millions	2022/23 £millions
Balance outstanding at start of year	40.588	39.497
Payments made during the year	-1.091	-1.196
<b>Balance outstanding at year-end</b>	<b><u>39.497</u></b>	<b><u>38.301</u></b>

The total estimated indexed payments under the contract amount to £180.467 million. These payments are scheduled to be funded from the following revenue streams:

Source of Funding	Proportion of Costs
Central Govt. Grant (PFI Credits)	81.5%
Delegated School Budgets	16.2%
SCC Contribution	2.3%
	<b><u>100%</u></b>

### Note 30: Heritage Assets - Summary of Transactions

	2021/22 £millions	2022/23 £millions
<b><u>Collections</u></b>		
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
<b>Total Carrying Value - as at 31 March</b>	<b>1.934</b>	<b>1.934</b>

There have been no heritage assets acquired by donation or purchased during 2022/23 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 31: 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 transferred all relevant land and buildings to the Trust on leases. The Trust took 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 has remained the owner of collections and other heritage assets (reported in Notes 30 and 31) where that was already 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 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. Current opening hours are advertised on the Trust's website.
- 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 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.

### Archaeology

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

Particular strengths of the collection lie in the following archaeological archives, some of which are of national importance:

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

The only item the 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 in the early 20th century and Walter in 1901), finds from archaeological excavations and by purchase. The focus has always been upon acquiring specimens made, 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

Together with its own historic administrative archives, the Council owns many other significant collections, including those of the Luttrell, Dickinson, Sanford, Strachey, Wyndham and Walker-Heneage families. They comprise hundreds of linear metres of archives and are fundamental to the history of the county. They range in date from the early middle ages to the 20th century and contain a great diversity of material, including manorial and estate records, political papers, records of local and parish government, and many personal papers. Among hundreds of items which could be specified here are Somerset's earliest medieval coroner's roll (for deaths in West Somerset), extensive papers relating to the Civil War and Monmouth Rebellion, letters from the Somerset-born philosopher John Locke, and one of the most important collections of letters from the humourist Edward Lear.

### Preservation and Management

Details of the Council's preservation and management policy can be found in the Heritage Services' *Museum Collections Development Policy* which has been produced in accordance with national guidelines and is available on the Heritage Trust's website.

## **Note 32: Capital Expenditure and Capital Financing**

The total amount of capital expenditure incurred in the year is included in the table below (including the value of assets acquired under finance leases and PFI/PPP contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the 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.

2021/22 £millions		2022/23 £millions
458.016	Opening Capital Financing Requirement	471.793
	<u>Capital Investment:</u>	
64.944	- Property, Plant and Equipment (inc Infrastructure)	73.372
44.583	- Revenue Expenditure Funded from Capital Under Statute	37.798
-	- Expenditure funded under the Capital Receipts Flexibility Directive	5.880
-0.032	Reduction of capital debtors	-0.035
-0.045	Loan Premium (under the Capital Financing Regs (SI 2003 no.3146 as amended)	-0.046
	<u>Sources of Finance</u>	
-0.885	- Capital receipts	-1.139
-	- Capital Receipts under the Flexibility Directive	-5.880
-84.308	- Government grants and contributions	-69.729
	<u>- Sums set aside from revenue:</u>	
-2.639	- Direct revenue contributions	-4.350
-4.392	- Minimum Revenue Provision	-9.029
-3.449	- Other (including lease principal payments)	-3.776
<b>471.793</b>	<b>Closing Capital Financing Requirement</b>	<b>494.859</b>

2021/22 £millions		2022/23 £millions
	<u>Explanation of movements in year</u>	
-4.393	Increase/Decrease (-) in underlying need to borrow (supported by government financial assistance)	-9.029
18.170	Increase/Decrease (-) in underlying need to borrow (unsupported by government financial assistance)	32.095
<b>13.777</b>	<b>Increase/Decrease (-) in Capital Financing Requirement</b>	<b>23.066</b>

### Note 33: Financial Instruments

#### Categories of Financial Instrument

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

31 March 2022			31 March 2023	
Non Current	Current		Non Current	Current
£millions	(Restated) £millions		£millions	£millions
		<b><u>Investments</u></b>		
-	210.199	Financial assets at amortised cost	-	184.367
44.499	-	Pooled Funds at fair value through profit or loss	39.688	-
<b>44.499</b>	<b>210.199</b>	<b>Total Investments</b>	<b>39.688</b>	<b>184.367</b>
		<b><u>Receivables</u></b>		
17.649	38.009	Financial assets at amortised cost	17.595	61.143
1.630	26.860	Receivables that are not financial instruments	1.919	26.665
<b>19.279</b>	<b>64.869</b>	<b>Total Receivables</b>	<b>19.514</b>	<b>87.808</b>
		<b><u>Cash and cash equivalents (excluding Overdraft)</u></b>		
-	61.401	Cash and cash equivalents at amortised cost	-	0.893
-	24.000	Cash equivalents at fair value through profit or loss	-	16.750
<b>-</b>	<b>85.401</b>	<b>Total Cash and cash equivalents (excluding Overdraft)</b>	<b>-</b>	<b>17.643</b>
		<b><u>Other Assets</u></b>		
1,011.616	8.375	Other Assets that are not financial instruments	1,087.527	7.259
<b>1,011.616</b>	<b>8.375</b>	<b>Total Other Assets</b>	<b>1,087.527</b>	<b>7.259</b>
		<b><u>Borrowings (including Overdraft)</u></b>		
-	-5.115	Overdraft	-	-15.536
-338.001	-16.033	Financial liabilities at amortised cost	-332.045	-10.946
<b>-338.001</b>	<b>-21.148</b>	<b>Total Borrowings (including Overdraft)</b>	<b>-332.045</b>	<b>-26.482</b>
		<b><u>Payables</u></b>		
-0.260	-97.380	Financial liabilities at amortised cost	-0.305	-86.692
-	-33.623	Payables that are not financial instruments	-	-42.349
<b>-0.260</b>	<b>-131.003</b>	<b>Total Payables</b>	<b>-0.305</b>	<b>-129.041</b>
		<b><u>Other Liabilities</u></b>		
-38.671	-1.202	PFI and finance leases carried at amortised cost	-37.326	-1.319
-898.632	-104.730	Other Liabilities that are not financial instruments	-136.365	-79.322
<b>-937.303</b>	<b>-105.932</b>	<b>Total Other Liabilities</b>	<b>-173.691</b>	<b>-80.641</b>

## Categories of Financial Assets and Financial Liabilities

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

31 March 2022			31 March 2023	
Non Current	Current		Non Current	Current
£millions	(Restated) £millions		£millions	£millions
		<b><u>Financial Assets:</u></b>		
17.649	309.609	Measured at amortised cost	17.595	246.403
44.499	24.000	Measured at fair value through profit or loss	39.688	16.750
<b>62.148</b>	<b>333.609</b>		<b>57.283</b>	<b>263.153</b>
		<b><u>Financial Liabilities</u></b>		
-376.932	-119.730	Measured at amortised cost	-369.676	-114.493
<b>-376.932</b>	<b>-119.730</b>		<b>-369.676</b>	<b>-114.493</b>

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

The 2021/22 comparatives in the tables above have been restated to reclassify the Overdraft as a Financial liability at amortised cost rather than included within Cash and Cash equivalents (as a finance asset at amortised cost).

## 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 2022			31 March 2023			
Financial Liabilities - measured at amortised cost £millions	Financial Assets - measured at fair value through profit or loss £millions	Financial Assets - measured at amortised cost £millions		Financial Liabilities - measured at amortised cost £millions	Financial Assets - measured at fair value through profit or loss £millions	Financial Assets - measured at amortised cost £millions
19.731	-	-	Interest expense	19.544	-	-
-	-	-	Net loss on financial assets at fair value through profit and loss	-	4.988	-
<b>19.731</b>	<b>0.000</b>	-	<b>Total Expense in Surplus/Deficit on the Provision of Service</b>	<b>19.544</b>	<b>4.988</b>	-
-	-	-2.610	Interest Income	-	-	-7.035
-	-0.669	-	Net gain on financial assets at fair value through profit and loss	-	-	-
-	<b>-0.669</b>	<b>-2.610</b>	<b>Total Income in Surplus/Deficit on the Provision of Service</b>	<b>0.000</b>	<b>0.000</b>	<b>-7.035</b>
<b>19.731</b>	<b>-0.669</b>	<b>-2.610</b>	<b>Net (Gain)/Loss for the Year</b>	<b>19.544</b>	<b>4.988</b>	<b>-7.035</b>

## Fair Values of Assets and Liabilities

Financial liabilities and financial assets are carried in the Balance Sheet according to their contractual cash flow characteristics and the business models under which they are held. Instruments will be classified either at amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL). 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 (PWL) at 31 March 2023;
- 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 2022			Fair Value Level	31 March 2023	
Carrying Amount (Restated) £millions	Fair value (Restated) £millions			Carrying Amount £millions	Fair Value £millions
		<u>Finance asset measured at amortised cost</u>			
61.401	61.401	- Cash and Cash Equivalents (excluding Overdraft)		0.893	0.893
41.376	41.376	- Receivables (non-Lease)		64.489	64.489
14.282	20.246	- Receivables (Lease)	3	14.249	15.189
210.199	210.199	- Investments (exc Pooled Fund)		184.367	184.367
		<u>Finance asset measured at fair value through profit and loss</u>			
44.499	44.499	- Pooled Fund Investment	2	39.688	39.688
24.000	24.000	- Cash Equivalents	1	16.750	16.750
395.757	401.721	Total Financial Assets		320.436	321.376
1,048.481	1,048.481	Other assets that are not financial instruments		1,123.370	1,123.370
<b>1,444.238</b>	<b>1,450.202</b>	<b>Total Assets</b>		<b>1,443.806</b>	<b>1,444.746</b>
		<u>Financial liabilities at amortised cost</u>			
-97.640	-97.640	Payables		-86.997	-86.997
-10.050	-10.050	Short Term Borrowing		-0.165	-0.165
-5.115	-5.115	Overdraft		-15.536	-15.536
-160.292	-207.207	PWLB	2	-160.292	-158.559
-183.692	-261.055	Other long term loan	2	-182.534	-195.781
-39.873	-63.305	PFI/Finance Lease liability	3	-38.645	-51.710
-496.662	-644.372	Total Financial Liabilities		-484.169	-508.748
-1,036.985	-1,036.985	Other liabilities that are not financial instruments		-258.036	-258.036
<b>-1,533.647</b>	<b>-1,681.357</b>	<b>Total Liabilities</b>		<b>-742.205</b>	<b>-766.784</b>
<b>-89.409</b>	<b>-231.155</b>	<b>Net Assets</b>		<b>701.601</b>	<b>677.962</b>

The 2021/22 comparatives in the table above have been restated to reclassify the Overdraft as a Financial liability at amortised cost rather than included within Cash and Cash equivalents (as a finance asset at amortised cost).

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 9.

The fair value of the PWLB liability is lower than the carrying amount because the Council's portfolio of PWLB loans includes a number of fixed rate loans where the interest rate payable is lower than the prevailing rates at the Balance Sheet date. This shows a notional future gain (based on economic conditions at 31 March 2023) arising from a commitment to pay interest to lenders below current market rates.

The fair value of the other long term loan liability is higher than the carrying amount because the Council's portfolio of other 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 2023) 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

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

2021/22 £millions		2022/23 £millions
	<u>Fixed Interest Rate Deposits:</u>	
20.000	Santander UK 95-Day Notice A/c	-
20.000	DBS Bank	15.000
15.000	Sedgemoor District Council	34.000
15.000	London Borough of Croydon	15.000
15.000	Lloyds Bank	10.000
15.000	Nordea Bank AB	10.000
10.000	Woking Borough Council	10.000
10.000	Lancashire County Council	5.000
10.000	Thurrock Borough Council	5.000
10.000	Bank of Montreal	-
10.000	Duetsche Zentral Genossenschafts Bank	-
10.000	Toronto-Dominion Bank	10.000
10.000	London Borough of Enfield	-
10.000	Oxford City Council	-
-	Landesbank Hessen Thuringen	10.000
-	Liverpool CC	10.000
30.000	Other Fixed Interest Rate Deposits	49.000
210.000		183.000
0.199	Interest due on temporary investments	1.367
<b>210.199</b>	<b>Total short-term investments</b>	<b>184.367</b>
16.431	CCLA Pooled Property Fund	13.754
14.253	RLAM Investment Grade Credit Fund	13.380
13.815	M&G Strategic Corporate Bond Fund	12.554
<b>44.499</b>	<b>Total long-term investments</b>	<b>39.688</b>

## Long-term Receivables

2021/22 £millions		2022/23 £millions
	<u>Loans to:</u>	
0.060	Central Government (Academy loans)	0.030
0.032	Other authorities (mostly for housing)	0.018
3.308	Other organisations/individuals	3.333
14.249	Leasing arrangements with Somerset Care Ltd	14.214
	<u>Payment in advance:</u>	
1.630	BSF Lifecycle costs	1.919
<b>19.279</b>		<b>19.514</b>



## Short-term borrowing

2021/22 £millions		2022/23 £millions
-10.050	Other organisations investing in the Comfund	-0.165
<u>-10.050</u>		<u>-0.165</u>

## Long-term borrowing

2021/22 £millions		2022/23 £millions
	Loans due to be repaid:	
-2.131	within one year	-6.922
-6.893	between one and two years	-6.777
-31.155	between two and five years	-31.729
-19.817	between five and 10 years	-22.879
-280.136	after more than 10 years	-270.661
-3.853	Interest due on long-term borrowing	-3.858
<u>-343.984</u>		<u>-342.826</u>

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

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

The 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 Department for Levelling Up, Housing and Communities (DLUHC). 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 2022/23, can be found under the reports for the County Council meeting 23 February 2022, agenda item 7, 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 DLUHC 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 (DLUHC 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 regular treasury management meeting, where proposals for any new counterparties will be discussed. New counterparties must be approved by the Section 151 Officer (Executive Director Resources & Corporate Services) 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 CCLA investment).

<b>Borrower Credit Rating</b>	<b>Amount outstanding £millions</b>	<b>Potential at risk £millions</b>
<b>Money-market funds</b>	16.750	-
<b>Local Authorities</b>	113.000	-
<b>UK banks</b>		
A+	20.000	0.015
<b>Overseas Banks</b>		
AA-	40.000	-
A+	10.000	0.007
	<b>199.750</b>	<b>0.022</b>

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

#### Credit and Counterparty Risk – Trade and Lease Receivables

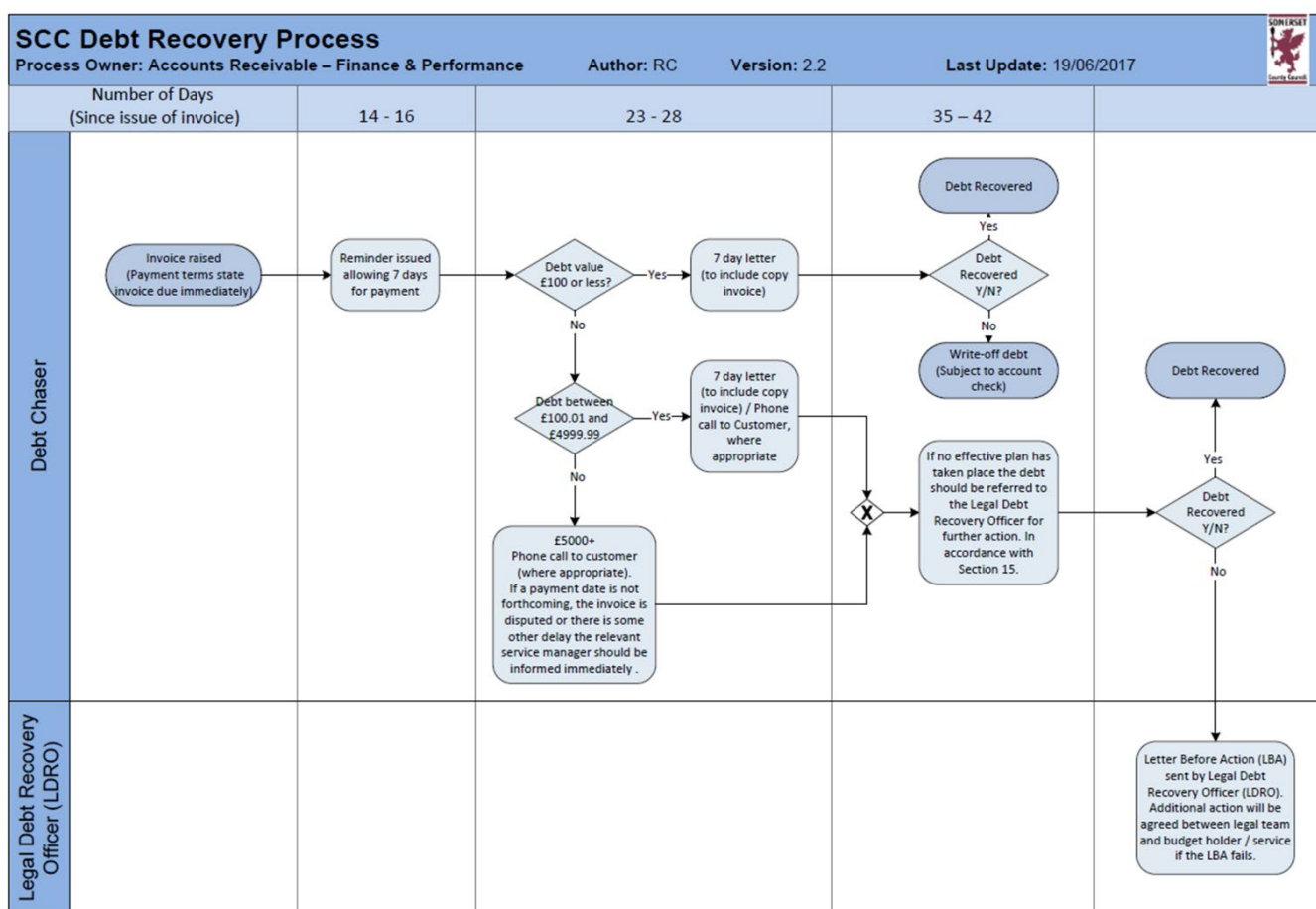
The standard position of the Council is that wherever possible payment must be obtained either prior to, or at the time of provision of goods or services and without recourse to raising invoices. If credit is to be extended, service teams ensure in advance that the customer is made aware of the Council's 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 customer's 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. 8). 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.

As at 31 March 2023, the gross past due sundry debtor amount (excluding debts to accrue) can be analysed as follows:

	<b>2021/22</b>	<b>2022/23</b>
	<b>£millions</b>	<b>£millions</b>
Less than 3 months	6.157	10.070
3 to 6 months	0.488	0.682
6 months to 1 year	0.366	1.168
More than 1 year	0.700	0.980
	<b><u>7.712</u></b>	<b><u>12.900</u></b>

### **Amounts Arising from Expected Credit Losses**

During the year, the Council wrote off financial assets with a contractual amount outstanding of £0.074m (£0.227m in 2021/22), with a further £0.614m 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. During periods of low interest rates, it was unlikely the lender would exercise their option to request early repayment of these LOBOs, but as interest rates are starting to rise the lender may exercise the option. An exercise of the option would only become a problem for council if rates become so high it was unable to refinance at a rate materially similar to the loan being repaid.

The maturity analysis of financial liabilities can be found in Note 33 – Long-term Borrowing.

### **Market Risk – Interest Rate Risk**

The Council is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates can have a complex impact on the 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 (excluding Pooled Funds) 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.

### **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 31<sup>st</sup> March 2025) 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 £1.500m charge to the Other Comprehensive Income & Expenditure section of the Comprehensive Income & Expenditure Statement - under current accounting regulations this would only impact on the General Fund when the investment was sold, as a statutory override exists (until 31<sup>st</sup> March 2025) 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 effect 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 35: Inventories

	Consumable Stores		Musical Instruments		Book Stocks		Total	Total
	2021/22 £millions	2022/2023 £millions	2021/22 £millions	2022/2023 £millions	2021/22 £millions	2022/2023 £millions	2021/22 £millions	2022/2023 £millions
<b>Balance outstanding at start of year</b>	<b>0.726</b>	<b>0.716</b>	<b>0.885</b>	<b>0.817</b>	<b>6.056</b>	<b>5.910</b>	<b>7.667</b>	<b>7.443</b>
Purchases	0.730	1.143	0.003	0.009	0.576	0.799	1.309	1.951
Recognised as an expense in the year	-0.740	-1.237	-0.071	-0.002	-0.722	-0.897	-1.533	-2.136
<b>Balance outstanding at year-end</b>	<b>0.716</b>	<b>0.622</b>	<b>0.817</b>	<b>0.824</b>	<b>5.910</b>	<b>5.812</b>	<b>7.443</b>	<b>7.258</b>

## Note 36: Short term receivables and payments in advance

	2021/22 £millions	2023/23 £millions
Money owed to us by:		
19.946 Central Government		26.231
Local Government:		
31.634 - Council Tax/NDR owed by local residents/businesses		31.417
5.000 - Other		2.964
7.521 NHS		21.146
0.006 Public Corporations		0.076
10.948 Other organisations/individuals		17.410
Loss Allowance:		
-14.545 - Council Tax/NDR related		-16.293
-0.133 - Other trade debtors		-0.066
<u>60.377</u> Short term Receivables		<u>82.885</u>
4.492 Payments made in advance		4.923
<u><b>64.869</b></u>		<u><b>87.808</b></u>

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 37: Short term payables and receipts in advance

2021/22 £millions		2022/23 £millions
	Money we owe to:	
	Government Departments:	
-1.214	- Central Government	-0.413
-20.733	- Local Government	-15.220
-1.498	- NHS	-0.953
-0.035	- Public Corporations	-0.028
-82.903	Other organisations	-68.933
-6.908	Employees (under IAS19)	-8.742
<u>-113.291</u>		<u>-94.289</u>
-11.943	Receipts in advance	-25.818
<u><b>-125.234</b></u>		<u><b>-120.107</b></u>

### Note 38: Other long-term liabilities

2021/22 £millions		2022/23 £millions
-38.671	Finance Lease Liability - due in more than 1 year	-37.326
-870.033	Pensions liability	-124.098
<u><b>-908.704</b></u>		<u><b>-161.424</b></u>

### Note 39: 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 2022/23.

2021/22 £millions		2022/23 £millions
-3.510	Total insurance provision (excl. MMI) set aside on 1 April	-2.899
	Add:	
-1.936	- premiums received from services	-3.141
	Less:	
1.302	- insurance premiums paid	0.958
0.652	- net claims paid	1.519
0.593	- professional and administrative costs	0.233
<b>-2.899</b>	<b>Total insurance provision set aside on 31 March</b>	<b>-3.330</b>
	<u>Non-Service</u>	
-0.576	NDR Collection Fund - Provision for appeals	-0.860
	<u>Children's Services</u>	
-0.586	Care Leavers Grant	-0.620
	<u>Other Services</u>	
-1.846	Highways Network	-
-0.780	ECI Service	-0.505
-0.284	County Hall NNDR	-0.449
-	Local Government Reorganisation redundancy costs	-4.490
<b>-6.971</b>	<b>Total Provisions due in less than 1 year</b>	<b>-10.254</b>
	<u>Municipal Mutual Insurance (MMI) Provision</u>	
-0.260	Relating to asbestos claims paid by MMI	-0.305
<b>-0.260</b>	<b>Total Provisions due in more than 1 year</b>	<b>-0.305</b>

The Council recognised a new provision in 2022/23 for the redundancy costs resulting from the local government reorganisation taking place in Somerset from 1<sup>st</sup> April 2023. The provision was based on a best estimate of the possible redundancy costs incurred during the appointment for the new Councils Tier 1-3 posts. Further details on the Local Reorganisation in Somerset, can be found in the Narrative Report.

### 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 £3.635m of claims not yet finally agreed (£3.159m in 2021/22) 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 £8.256m. 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 40: Revenue and 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

2021/22 £millions		2022/23 £millions
<b><u>Capital Grant Receipts in Advance</u></b>		
Where the conditions are likely to be met within 1 year:		
-12.831	- Standards Fund (Schools Department for Education)	-20.567
-32.785	- Department for Transport	-33.280
-14.842	- Local Enterprise Partnership - Local Growth Fund (MHCLG)	-10.060
-0.024	- Other	-0.933
<b>-60.482</b>		<b>-64.840</b>
Where the conditions are likely to be met in more than 1 year:		
-0.589	- Standards Fund (Schools Department for Education)	-0.589
-0.014	- Department for Transport	-0.014
-11.472	- Local Enterprise Partnership - Getting Building (MHCLG)	-
0.000	- Other	-
<b>-12.074</b>		<b>-0.603</b>
<b><u>Capital Contribution Receipts in Advance (RIA)</u></b>		
Where the conditions are likely to be met within 1 year:		
-2.545	- Section 106 Contributions	-6.925
-0.460	- Other Contributions to our Capital Schemes	-0.460
<b>-3.005</b>		<b>-7.385</b>
Where the conditions are likely to be met in more than 1 year:		
-12.886	- Section 106 Contributions	-11.266
-0.309	- Other Contributions to our Capital Schemes	-0.309
<b>-13.195</b>		<b>-11.576</b>
-63.487	Total Capital Grant/Contributions RIA's, where conditions are likely to be met within 1 year	-72.226
-25.269	Total Capital Grant/Contributions RIA's, where conditions are likely to be met in more than 1 year	-12.178
<b>-88.756</b>	<b>Total</b>	<b>-84.404</b>

## Revenue grants

2021/22 £millions		2022/23 £millions
<b><u>Revenue Grant/Contributions Receipts in Advance</u></b>		
Where the conditions are likely to be met within 1 year:		
-6.895	- Central Government	-2.368
-31.608	- NHS	-
-2.740	- Other organisations	-4.728
<b>-41.243</b>		<b>-7.096</b>
Where the conditions are likely to be met in more than 1 year:		
-0.653	- Central Government	-0.089
-2.677	- Other organisations	-
<b>-3.330</b>		<b>-0.089</b>
<b>-44.573</b>		<b>-7.185</b>

### Note 41: Usable Reserves

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

2021/22 £millions		2022/23 £millions
<b><u>General Fund - Revenue</u></b>		
<b><u>Schools</u></b>		
26.538	General Fund - Schools	23.488
<b><u>Local Authority</u></b>		
27.102	General Fund - Other	3.728
161.273	Earmarked Reserves - set aside for revenue purposes	190.572
4.293	S31 Local Tax Income Guarantee Grant Reserve	0.480
<b>219.206</b>		<b>218.268</b>
<b><u>Other Usable Capital Reserves</u></b>		
13.661	Capital Receipts Reserve	10.159
0.827	Capital Grants Unapplied Reserve	0.686
2.755	Capital Contributions Unapplied Reserve	2.912
<b>17.243</b>		<b>13.757</b>
<b>236.449</b>	<b>Total Usable Reserves</b>	<b>232.025</b>

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.

#### 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.

#### S31 Local Tax Income Guarantee Grant Reserve

This balance represents funding received from MHCLG to fund the shortfall in Business Rates due to Covid-19.

#### 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.

#### 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 42: Unusable Reserves

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

2021/22 £millions		2022/23 £millions
227.721	Revaluation Reserve	279.644
328.342	Capital Adjustment Account	328.251
14.282	Deferred Capital Receipts Reserve	14.249
-870.033	Pensions Reserve	-124.098
2.443	Collection Fund Adjustment Account	7.539
-6.908	Accumulated Compensated Absences Adjustment Account	-8.741
-20.109	Dedicated Schools Grant Adjustment Account	-20.730
-0.960	Financial Instruments Adjustment Account	-0.914
-0.636	Pooled Investment Funds Adjustment Account	-5.624
<b>-325.858</b>	<b>Total Unusable Reserves</b>	<b>469.576</b>

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.

2021/22 £millions		2022/23 £millions	2022/23 £millions
<b>192.344</b>	<b>Balance at 1 April</b>		<b>227.721</b>
53.455	Upward revaluation of assets	79.893	
-10.168	Revaluation/Impairment (losses) not charged to the Surplus/Deficit on the Provision of Services	-15.759	
		<hr/>	
<b>43.287</b>	Surplus/(Deficit) on revaluation of non-current assets not posted to the Surplus/Deficit on the Provision of Services		<b>64.134</b>
-4.079	Difference between fair value depreciation and historical cost dep'n	-4.822	
-3.831	Accumulated gains on asset disposals	-7.389	
<b>-7.910</b>	Amount written off to the Capital Adjustment Account		<b>-12.211</b>
		<hr/>	
<b>227.721</b>	<b>Balance at 31 March</b>		<b>279.644</b>

### Capital Adjustment Account

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

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

2021/22 £millions		2022/23 £millions
<b>354.568</b>	<b>Balance at 1 April</b>	<b>328.342</b>
	<u>Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:</u>	
-37.363	Charges for depreciation and impairment of non current assets/assets held for sale	-36.701
-14.691	Revaluation losses on Property, Plant and Equipment	-9.741
-0.399	Amortisation of intangible assets	-0.366
-44.583	Revenue expenditure funded from capital under statute	-37.798
-	Revenue expenditure funded under Capital Receipts Flexibility directive	-5.880
	Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	-15.719
<u>-32.773</u>		<u>-15.719</u>
-129.809		-106.205
7.910	Adjusting amounts written out of the Revaluation Reserve	12.210
-121.899	Net written out amount of the cost of non current assets consumed in the year	-93.995
	<u>Capital Financing applied in the year:</u>	
0.885	Use of the Capital Receipts Reserve to finance new capital expenditure	1.139
-	Use of the Capital Receipts Reserve to finance expenditure under Capital Receipts Flexibility directive	5.880
84.308	Capital grants and contributions that have been applied to capital financing	69.729
7.841	Statutory provision for the financing of capital investment charged against the General Fund	12.806
<u>2.639</u>	Balance	<u>4.350</u>
95.673	Capital expenditure charged against the General Fund balance	93.904
<b><u>328.342</u></b>	<b>Balance at 31 March</b>	<b><u>328.251</u></b>

### 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.

2021/22 £millions		2022/23 £millions
<b>14.314</b>	<b>Balance at 1 April</b>	<b>14.282</b>
-0.032	Amounts transferred to the Capital Receipts Reserve during the year	-0.033
<b><u>14.282</u></b>	<b>Balance at 31 March</b>	<b><u>14.249</u></b>

### 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.

An increase to interest rates during 2022/23 has meant the bond yield at 31 March 2023 was higher at all terms than at 31 March 2022. This has resulted in an increase in the discount rate used by the actuary to estimate the pension liabilities. This increase (along with other positive factors) has seen the overall deficit (based on IAS19) fall significantly during 2022/23.

<b>2021/22</b> <b>£millions</b>		<b>2022/23</b> <b>£millions</b>
<b>-993.554</b>	<b>Balance at 1 April</b>	<b>-870.033</b>
177.118	Remeasurement gains / losses (-) on pension assets/liabilities	760.790
-91.065	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	-53.576
37.468	Employer's pensions contributions and direct payments to pensioners payable in the year	38.721
<b><u>-870.033</u></b>	<b>Balance at 31 March</b>	<b><u>-124.098</u></b>

#### 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.

<b>2021/22</b> <b>£millions</b>		<b>2022/23</b> <b>£millions</b>
<b>-10.193</b>	<b>Balance at 1 April</b>	<b>2.443</b>
7.354	Amount by which Council Tax income credited to the Comprehensive Income and Expenditure Statement is different from Council Tax income calculated for the year in accordance with statutory requirements	1.901
5.282	Amount by which NDR income credited to the Comprehensive Income and Expenditure Statement is different from NDR income calculated for the year in accordance with statutory requirements	3.195
<b><u>2.443</u></b>	<b>Balance at 31 March</b>	<b><u>7.539</u></b>

## 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.

<b>2021/22 £millions</b>		<b>2022/23 £millions</b>
<b>-9.193</b>	<b>Balance at 1 April</b>	<b>-6.908</b>
9.193	Settlement or cancellation of accrual made at the end of the preceding year	6.908
-6.908	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	-8.741
<b><u>-6.908</u></b>	<b>Balance at 31 March</b>	<b><u>-8.741</u></b>

## Dedicated Schools Grant Adjustment Account

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 school's budget.

The new regulations confirm the existence of a deficit on the school's budget when the amount of expenditure incurred on the school's 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 school's budget) is recognised as an earmarked reserve (see Note 10 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.

There was no in-year surplus recognised as an earmarked reserve as at 31 March 2023.

2021/22 £millions		2022/23 £millions
-14.735	<b>Balance as at 1 April</b>	-20.109
-0.200	In-year adjustments	-
-5.174	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	-0.621
<u>-20.109</u>	<b>Balance at 31 March</b>	<u>-20.730</u>

### 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 at 31 March 2023 will be charged to the General Fund over the next 20 years.

2021/22 £millions		2022/23 £millions
-1.005	<b>Balance at 1 April</b>	-0.960
0.045	Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	0.046
<u>-0.960</u>	<b>Balance at 31 March</b>	<u>-0.914</u>

### 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 (until 31<sup>st</sup> March 2025). 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.

2021/22 £millions		2022/23 £millions
-1.305	<b>Balance at 1 April</b>	-0.636
0.669	Revaluation gains/(losses) on Pooled Investment Funds	-4.988
<u>-0.636</u>	<b>Balance at 31 March</b>	<u>-5.624</u>

The rising interest rate during 2022/23 has reduced the value of the Councils pooled bonds investment. Typically, yields for bonds and property (the pooled funds held by the Council) will adjust to maintain a steady spread (difference) compared to Bank of England base rate or yield on Government gilts. Assuming the income paid remains relatively static, for income yield to increase in line with base rates then the release valve must be a fall in asset value.

### Note 43: 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.

2021/22 £millions		2022/23 £millions
1.401	Net Cash in hand	0.894
84.000	Short term Investment (initial maturity term less than 3 months)	16.750
<b>85.401</b>	<b>Cash and cash equivalents sub total</b>	<b>17.644</b>
-5.115	Bank overdraft	-15.536
<b>80.286</b>	<b>Cash and cash equivalents at the end of the reporting period</b>	<b>2.107</b>

### Note 44: Cash Flow Statement – Operating Activities

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

2021/22 £millions		2022/23 £millions
<b>11.274</b>	Net surplus(-)/deficit on the provision of services	<b>33.914</b>
-37.762	Depreciation and amortisation	-37.067
-13.615	Impairment and other non-cash adjustments	-18.058
-53.597	IAS 19 - Pension Liability	-14.855
-32.773	Carrying amount of non-current assets sold	-15.719
	<u>Movement in working capital</u>	
-3.419	(Increase)/decrease in creditors	41.773
4.783	Increase/(decrease) in debtors	24.284
-0.224	Increase/(decrease) in inventories	-0.184
<b>-136.607</b>		<b>-19.826</b>
<b>88.792</b>	Adjustment for items that are investing or financing activities	<b>73.227</b>
<b>-36.541</b>		<b>87.315</b>

The cash flows for operating activities include the following items:

2021/22 £millions		2022/23 £millions
-2.731	Interest received	-5.690
19.783	Interest paid	24.526

#### Note 45: Cash Flow Statement – Investing Activities

2021/22 £millions		2022/23 £millions
53.909	Purchase of property, plant and equipment and intangible assets	74.227
215.000	Purchase of short term and long term investments	183.000
0.019	Other payments for investing activities	0.326
-4.607	Proceeds from the sale of property, plant and equipment and intangible assets	-3.516
-155.000	Proceeds from short term and long term investments	-210.000
-73.429	Capital Grants received	-65.402
-1.033	Other receipts from investing activities	-0.048
<b><u>34.859</u></b>	<b>Net cash flows from investing activities</b>	<b><u>-21.413</u></b>

#### Note 46: Cash Flow Statement – Financing Activities

2021/22 £millions		2022/23 £millions
-4.572	Receipts from new long-term borrowing	-0.978
2.009	Repayments of short term and long term borrowing	12.027
1.097	Other payments for financing activities	1.228
<b><u>-1.466</u></b>	<b>Net cash flows from financing activities</b>	<b><u>12.277</u></b>

## Note 47: Reconciliation of Liabilities Arising from Financing Activities

### 2022/23

	<b>Liabilities</b>			
	Long Term Borrowing	Short Term Borrowing	Finance Leases	PFI
Balance at 1st April 2022	-343.984	-10.050	-0.377	-39.497
<b><u>Changes from financing cash flows</u></b>				
New borrowings taken out	-0.978		-	-
Repayment of borrowings/interest	5.994	9.885	-	-
Payment of finance lease liabilities	-	-	0.040	1.196
Total changes from financing cash flows	5.016	9.885	0.040	1.196
<b><u>Non-cash changes</u></b>				
Interest accrued at year-end	-3.858	-	-	-
<b>Balance at 31st March 2023</b>	<b>-342.826</b>	<b>-0.165</b>	<b>-0.337</b>	<b>-38.301</b>

### 2021/22

	<b>Liabilities</b>			
	Long Term Borrowing	Short Term Borrowing	Finance Leases	PFI
Balance at 1st April 2021	-344.303	-7.220	-0.382	-40.588
<b><u>Changes from financing cash flows</u></b>				
New borrowings taken out	-1.740	-2.830	-	-
Repayment of borrowings/interest	5.912	-	-	-
Payment of finance lease liabilities	-	-	0.005	1.091
Total changes from financing cash flows	4.172	-2.830	0.005	1.091
<b><u>Non-cash changes</u></b>				
Interest accrued at year-end	-3.853	-	-	-
<b>Balance at 31st March 2022</b>	<b>-343.984</b>	<b>-10.050</b>	<b>-0.377</b>	<b>-39.497</b>

## Note 48: Contingent Liabilities

There are several 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 many 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 are currently disputing a contractual claim from one of its suppliers. The current legal position is there is no obligation for the Council to pay as the contractual position is very clear. The estimated value of the claim is £2.5m.
- The Council has commenced a survey programme to identify or rule out the presence of Reinforced autoclaved aerated concrete (RAAC) across its entire property estate. To date, the survey has found the presence of RAAC in one local authority-maintained school that has resulted in the closure of the school hall. Arrangements are in place for dining and other activities impacted by this closure. Until the full impact of RAAC on the Council's property estate is known, it's not possible to estimate the value of capital works required to rectify any issues identified.

## Note 49: Trust Funds

The Council has not included the funds, which it manages on behalf of trusts, on its consolidated balance sheet because use of the funding is not controlled by the Council. As of 31 March 2023, 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:

<b>2021/22</b>		<b>2022/23</b>
<b>£millions</b>		<b>£millions</b>
-0.054	Total income	-0.056
0.055	Total spending	0.055
<u><b>0.001</b></u>	<b>(Surplus)/ Deficit</b>	<u><b>-0.001</b></u>
0.521	Value of fund - brought forward	0.520
-0.001	Movement in year	0.001
<u><b>0.520</b></u>	<b>Total value of the fund</b>	<u><b>0.521</b></u>



## **Note 50: 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 2023 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 were 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 it's 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:

2021/22			2022/23	
£millions	%		£millions	%
14.696	23.68	Pension costs charged to the accounts	14.834	23.68
<b>14.696</b>		<b>Total for the Year</b>	<b>14.834</b>	

There were no discretionary payments made during 2022/23.

### **National Employment Savings Trust**

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

2021/22			2022/23	
£millions	%		£millions	%
0.036	4.00	Pension costs charged to the accounts	0.036	4.00

### **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 2022, which set contributions for the period from 1 April 2023 to 31 March 2026. 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 2022 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 2025 valuation, should the employer remain in the pool. Each employer within the pool pays a contribution rate based on the cost of benefits of the combined membership of the pool. The Council recognises the cost of retirement benefits in the net cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge required to be made against the council tax is based on the cash payable in the year, so the real cost of retirement benefit is reversed out in the statement of Movement in Reserves.

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

**Local Government  
Pension Scheme &  
Unfunded Benefit  
Arrangements -  
Liabilities**

**2021/22    2022/23  
£millions   £millions**

**Comprehensive Income and Expenditure Statement**

Net Cost of Services:

- current service cost	80.574	45.274
- past service cost and gains/losses arising from settlements	-10.037	0.103

Financing and Investment Income and Expenditure:

- net interest expense	20.528	8.199
------------------------	--------	-------

**Total Post-employment Benefit Charged to the Surplus or Deficit on the Provision of Services**

**91.065    53.576**

**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)	-73.537	76.266
- actuarial (gains) and losses arising on changes in demographic assumptions	-	-163.496
- actuarial (gains) and losses arising on changes in financial assumptions	-108.306	-838.760
- experience (gain)/loss on defined benefit obligation	4.725	171.025
- other actuarial (gains)/losses on assets	-	-5.825

**-177.118    -760.790**

**Total Post-employment Benefit Charged to the Comprehensive Income and Expenditure Statement**

**-86.053    -707.214**

**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

**-91.065    -53.576**

Actual amount charged against the General Fund Balance for pensions in the year:

- employers' contributions payable to the scheme

**37.468    38.721**

**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**

	2020/21 £millions	2021/22 £millions	2022/23 £millions
Present value of the defined benefit obligation:			
- Funded obligation	-2,148.658	-2,115.707	-1,349.160
- Unfunded obligation	-39.449	-36.467	-28.718
	-2,188.107	-2,152.174	-1,377.878
Fair value of plan assets	1,194.553	1,282.141	1,253.780
<b>Net liability arising from defined benefit obligation</b>	<b>-993.554</b>	<b>-870.033</b>	<b>-124.098</b>

The net liability shows the underlying commitments that the Council has in the long run to pay retirement benefits. The total liability of £124.098 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 22 June 2022, the Government Actuary's Department (GAD) published its 2016 cost cap valuation report for the LGPS. The Pension Fund Actuary has advised that there is no immediate action the Fund needs to take, as there is still a challenge outstanding regarding the inclusion of McCloud in the cost cap. The Actuary will need to wait for the outcome of that challenge before it knows for sure the final outcome of the 2016 cost cap valuation. If the Government win the judicial review, the benefits will not change, and the chapter can be closed on the 2016 cost cap valuation. If the Government does not win, then the 2016 valuation may have to be revisited with the possibility that benefit improvements will be required and potentially backdated to April 2019.

If any benefit changes are made then they will have a negligible effect on past service liabilities, and the Actuaries prudence allowance already allows for an element of regulatory uncertainty. In terms of contribution rates, The Actuary are suggesting it will not be making any changes to contributions because of the 2016 cost cap valuation. If a review of the cost cap valuation is required and leads to any changes in Scheme benefits, then this can be reflected in the following valuation.

#### Impact of high interest rates

IAS 19 requires an entity to determine the rate used to discount employee benefits by reference to market yields on high quality corporate bonds at the end of the reporting period. Higher interest rates make the fixed return or coupon of bonds become less appealing to investors. In order for the bond to become more attractive to investors in this situation, the price has to fall to make it a more competitive investment.

As a bond's price always moves in the opposite direction of its yield, the fall in bond prices has resulted in an increased yield, which in turn has increased the rate used to discount pension obligations. This increased discount rate has been one of the primary reasons for the reduction in the pension fund deficit (£745.935m) since 31 March 2022.

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 purposes 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.

<b>Reconciliation of the Movements in the Fair Value of Scheme (Plan) Assets:</b>	<b>2021/22</b>	<b>2022/23</b>
	<b>£millions</b>	<b>£millions</b>
<b>Opening balance at 1 April</b>	<b>1,194.553</b>	<b>1,282.141</b>
Interest income	21.565	51.096
<u>Remeasurement gain/(loss):</u>		
- return on plan assets (excluding the amount included in the net interest expense)	73.537	-76.266
Employer contributions - funded	34.434	35.711
Employer contributions - unfunded	3.034	3.010
Contributions by scheme participants	9.470	10.010
Benefits paid (including unfunded)	-51.711	-57.075
Other actuarial gains/(losses)	-	5.825
Other	-2.741	-0.672
<b>Closing balance at 31 March</b>	<b>1,282.141</b>	<b>1,253.780</b>

The return on the Fund (on a bid value to bid value basis) for the year to 31 March 2023 is estimated to be -1.91%. 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	2022/23		
	Quoted in an active market £millions	Unquoted £millions	Total £millions
Cash/Temporary Investments	37.613	-	37.613
Fixed Interest Government Securities			
- UK	-	25.076	25.076
Index Linked Government Securities			
- UK	-	25.076	25.076
Corporate Bonds			
- UK	-	87.765	87.765
- Overseas	-	37.613	37.613
Equities			
- UK	-	137.916	137.916
- Overseas	-	752.268	752.268
Property	-	100.302	100.302
Private Equity	-	50.151	50.151
<b>Total assets</b>	<b>37.613</b>	<b>1,216.167</b>	<b>1,253.780</b>

#### Reconciliation of Present Value of the Scheme Liabilities

Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation):	2021/22 £millions	2022/23 £millions
<b>Opening balance at 1 April</b>	<b>-2,188.107</b>	<b>-2,152.174</b>
Current service cost	-80.574	-45.274
Interest cost	-42.093	-59.295
Contributions by scheme participants	-9.470	-10.010
Past service costs, including curtailments	-0.602	-0.288
Settlements	13.380	0.857
Benefits paid (including unfunded)	51.711	57.075
<u>Remeasurement gains and (losses):</u>		
- actuarial gains/(losses) arising from changes in demographic assumptions	-	163.496
- actuarial gains/(losses) arising from changes in financial assumptions	108.306	838.760
- experience gain/(loss) on defined benefit obligation	-4.725	-171.025
<b>Closing balance at 31 March</b>	<b>-2,152.174</b>	<b>-1,377.878</b>

There was a total of £0.288m of capitalised redundancy costs included within the Past service costs in the table above during 2022/23.

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 2022/23, there were 2 transfers in relation to Academy schools, where £0.857m of liabilities and £0.672m of assets were transferred to the new employer, resulting in a capitalised gain to the Council on settlements of £0.185m.

The value of the transferred defined benefit obligation for each settlement was calculated using assumptions derived based on market conditions at 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 (as at 31<sup>st</sup> March 2025) is due to be completed by 31 March 2026. 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 £32.752m contributions to the scheme in 2023/24.

The weighted average duration of the defined benefit obligation for scheme members is 17 years for 2022/23 (21 years in 2021/22).

### 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 2023, by rolling forward the value of the liabilities calculated for the Triennial valuation as at 31 March 2022 allowing for the different financial assumptions required under IAS19. A similar roll-forward approach was taken for the report as at 31 March 2022.

The principal assumptions used by the actuary have been:

2021/22		2022/23
	<b>Mortality Assumptions:</b>	
	<i>Longevity (in years) at 65 for current pensioners:</i>	
23.1	- Men	21.4
24.7	- Women	23.2
	<i>Longevity (in years) at 65 for future pensioners:</i>	
24.4	- Men	22.7
26.1	- Women	24.7
3.25%	Rate of Inflation (CPI)	2.90%
4.25%	Rate of increase in salaries	3.90%
3.25%	Rate of increase in pensions	2.90%
2.60%	Rate of discounting scheme liabilities	4.80%



2021/22		2022/23	
	<b>Post Retirement Mortality:</b>		
S3PA	Base table	S3PA	
90%/100%	Multiplier (Male/Female)	105%/115%	
CMI_2020	Future Improvements Model	CMI_2021	
1.25%	Long term rate of improvement (per annum)	1.25%	
7.5	Smoothing parameter	7.0	
0.5%	Initial addition parameter (per annum)	0.0%	
n/a	2020 weight parameter	5.0%	
n/a	2021 weight parameter	5.0%	

These assumptions are reviewed annually and are based on long term projections (over the duration of the pension liability) rather than the current position at the balance sheet date.

The Actuary allowed for actual pension increases up to and including the 2023 Pension Increase Order. This is reflected in the Experience loss/(gain) on defined benefit obligation figure in the results. The Actuary also allowed for actual CPI inflation experienced from September 2022 to March 2023.

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	£000's	£000's
<b>Adjustment to discount rate</b>	<b>+0.5%</b>	<b>+0.1%</b>	<b>0.0%</b>	<b>-0.1%</b>	<b>-0.5%</b>
Present value of total obligation	1,275.975	1,356.448	1,377.878	1,399.870	1,493.829
Projected service cost	22.253	25.628	26.546	27.496	31.646
<b>Adjustment to long term salary increase</b>	<b>+0.5%</b>	<b>+0.1%</b>	<b>0.0%</b>	<b>-0.1%</b>	<b>-0.5%</b>
Present value of total obligation	1,384.483	1,379.177	1,377.878	1,376.590	1,371.544
Projected service cost	26.632	26.563	26.546	26.529	26.460
<b>Adjustment to pension increases and deferred revaluation</b>	<b>+0.5%</b>	<b>+0.1%</b>	<b>0.0%</b>	<b>-0.1%</b>	<b>-0.5%</b>
Present value of total obligation	1,488.901	1,398.960	1,377.878	1,357.324	1,280.072
Projected service cost	31.781	27.509	26.546	25.616	22.125
<b>Adjustment to mortality age rating assumption</b>		<b>+1 Year</b>	<b>None</b>	<b>-1 Year</b>	
Present value of total obligation		1,434.392	1,377.878	1,323.847	
Projected service cost		27.507	26.546	25.610	

## 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:

2021/22			2022/23	
£millions	%		£millions	%
0.742	14.38	Pension costs charged to the accounts	0.730	14.38

There were no discretionary payments made during 2022/23.

### **Note 51: 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 2023.

### Fund Account

2021/2022		2022/2023		
£ millions	£ millions	£ millions	£ millions	Notes
<b>Contributions and other income</b>				
24.077		Contributions from employees	26.079	5
93.882		Contributions from employers	96.627	5
2.728		Recoveries from member organisations	2.486	5
11.494		Transfer values received	9.175	6
<b>132.181</b>			<b>134.367</b>	
<b>Less benefits and other payments</b>				
-87.162		Recurring pensions	-90.903	5
-13.189		Lump sum on retirement	-13.473	5
-1.994		Lump sum on death	-2.073	5
-9.115		Transfer values paid	-11.761	5
-0.320		Refund of contributions to leavers	-0.373	7
0.000		Employer exit payments	-0.355	
<b>-111.780</b>			<b>-118.938</b>	
<b>20.401</b>		<b>Net additions from dealings with members</b>		<b>15.429</b>
<b>Management Expenses</b>				
-1.363		Administrative expenses	-1.443	8
-8.511		Investment management expenses	-9.768	9
-0.583		Oversight and governance expenses	-0.653	10
<b>-10.457</b>			<b>-11.864</b>	
<b>9.944</b>		<b>Net additions including management expenses</b>		<b>3.565</b>
<b>Investment income</b>				
14.981		Investment income received	10.020	11
0.620		Investment income accrued	0.894	11
0.000		Less irrecoverable tax	0.000	
<b>15.601</b>			<b>10.914</b>	
<b>Change in market value of investments</b>				
37.169		Realised profit or loss	295.738	14
163.310		Unrealised profit or loss	-349.914	14
<b>200.479</b>			<b>-54.176</b>	
<b>216.080</b>		<b>Net return on investments</b>		<b>-43.262</b>
<b>226.024</b>		<b>Net increase/ (decrease) in the net assets available for benefits during the year</b>		<b>-39.697</b>

Table continued on next page

## Fund Account (continued)

2021/2022			2022/2023		
£ millions	£ millions		£ millions	£ millions	Notes
		<b>Change in actuarial present value of promised retirement benefits</b>			
54.133		Vested benefits	1,772.442		15
<u>5.743</u>		Non-vested benefits	<u>42.765</u>		15
	<b>59.876</b>	<b>Net change in present value of promised benefits</b>		<b>1,815.207</b>	
	<b>285.900</b>	<b>Surplus/(deficit) on the pension fund for the year</b>		<b>1,775.510</b>	
	-2,313.564	Add net liabilities at beginning of year		-2,027.664	
	<u><b>-2,027.664</b></u>	<b>Net liabilities at end of year</b>		<u><b>-252.154</b></u>	

# Net Assets Statement

On 31 March 2022 £ millions		On 31 March 2023 £ millions	Notes
	<b>Investment assets and liabilities</b>		
2,837.350	Investment assets	2,797.832	12
0.000	Investment liabilities	0.000	12
0.620	Other investment balances	0.894	16
	<b>Current assets</b>		
4.078	Contributions due from employers	7.144	
0.500	Cash at bank	0.831	
4.713	Other debtors	0.560	
	<b>Current liabilities</b>		
0.000	Unpaid benefits	0.000	
0.000	Bank overdraft	0.000	
-2.165	Other creditors	-1.862	
<b>2,845.096</b>	<b>Net assets of the scheme available to fund benefits at end of year</b>	<b>2,805.399</b>	
	<b>Actuarial present value of promised retirement benefits</b>		
-4,794.764	Vested benefits	-3,022.322	15
-77.996	Non-vested benefits	-35.231	15
<b>-2,027.664</b>	<b>Net liabilities at end of year</b>	<b>-252.154</b>	

# 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 5 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 2022-2023 financial year were the third 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 1<sup>st</sup> 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 2022-2023 financial year and its financial position at 31 March 2023. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2022-2023 (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 assets 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;
- 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 assets 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 assets 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 12.

#### **Note 4: Critical judgements in applying accounting policies**

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts. Estimates and assumptions take account of historical experience, current trends and future expectations. However, actual outcomes could be different from the assumptions and estimates made. The items in the net assets statement for which there is a significant risk of material adjustment the following year are as follows:

- Actuarial present value of promised retirement benefits (note 15)
- Level 3 investments as described in the Fair Value Hierarchy (note 32)



## Note 5: Contributions and benefits

2022/2023	Somerset County Council £ millions	Other scheduled employers £ millions	Admitted employers £ millions	Total £ millions
Employees' contributions				
- Normal	8.931	15.644	1.290	<b>25.865</b>
- Additional	0.083	0.131	0.000	<b>0.214</b>
Total	<u>9.014</u>	<u>15.775</u>	<u>1.290</u>	<b>26.079</b>
Employers' contributions				
- Normal	25.470	42.708	3.659	<b>71.837</b>
- Augmentation	0.211	0.229	0.070	<b>0.510</b>
- Deficit funding	10.030	12.800	1.450	<b>24.280</b>
Total	<u>35.711</u>	<u>55.737</u>	<u>5.179</u>	<b>96.627</b>
Recurring pension and lump sum payments	-49.081	-45.430	-11.938	<b>-106.449</b>
Money recovered from member organisations	1.481	0.991	0.014	<b>2.486</b>
	<u><b>-2.875</b></u>	<u><b>27.073</b></u>	<u><b>-5.455</b></u>	<u><b>18.743</b></u>

2021/2022	Somerset County Council £ millions	Other scheduled employers £ millions	Admitted employers £ millions	Total £ millions
Employees' contributions				
- Normal	8.126	14.274	1.419	<b>23.819</b>
- Additional	0.108	0.149	0.001	<b>0.258</b>
Total	<u>8.234</u>	<u>14.423</u>	<u>1.420</u>	<b>24.077</b>
Employers' contributions				
- Normal	23.295	38.860	4.041	<b>66.196</b>
- Augmentation	0.346	0.484	0.168	<b>0.998</b>
- Deficit funding	9.670	13.663	3.355	<b>26.688</b>
Total	<u>33.311</u>	<u>53.007</u>	<u>7.564</u>	<b>93.882</b>
Recurring pension and lump sum payments	-48.225	-43.452	-10.668	<b>-102.345</b>
Money recovered from member organisations	1.452	1.262	0.014	<b>2.728</b>
	<u><b>-5.228</b></u>	<u><b>25.240</b></u>	<u><b>-1.670</b></u>	<u><b>18.342</b></u>

**Note 5: Contributions and benefits (continued)**

	<b>Employees' contributions £ millions</b>	<b>Employers' contributions £ millions</b>	<b>Total £ millions</b>
<b>County council</b>			
Somerset	9.014	35.711	44.725
<b>Police &amp; Crime Commissioner</b>			
Avon & Somerset	6.406	18.293	24.699
<b>District councils</b>			
Mendip	0.448	1.871	2.319
Sedgemoor	0.846	3.793	4.639
South Somerset	0.832	3.650	4.482
Somerset West & Taunton	1.366	5.736	7.102
<b>Other bodies</b>			
Exmoor National Park	0.146	0.549	0.695

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**Note 5: Contributions and benefits (continued)**

	<b>Employees' contributions £ millions</b>	<b>Employers' contributions £ millions</b>	<b>Total £ millions</b>
<b>Parish and town councils</b>			
Axbridge Town Council	0.002	0.007	0.009
Berrow Parish Council	0.001	0.004	0.005
Bishop Hull Parish Council	0.001	0.003	0.004
Bridgwater Town Council	0.023	0.082	0.105
Burnham & Highbridge Town Council	0.017	0.062	0.079
Castle Cary Town Council	0.003	0.010	0.013
Chard Town Council	0.020	0.069	0.089
Cheddar Parish Council	0.003	0.009	0.012
Coleford Parish Council	0.001	0.004	0.005
Comeytrove Parish Council	0.001	0.003	0.004
Crewkerne Town Council & Burial Board	0.010	0.037	0.047
East Coker Parish Council	0.001	0.002	0.003
Frome Town Council	0.053	0.184	0.237
Glastonbury Town Council	0.018	0.063	0.081
Iminster Town Council	0.011	0.035	0.046
Langport Town Council	0.002	0.007	0.009
Lower Brue Drainage Board	0.045	0.139	0.184
Minehead Town Council	0.016	0.056	0.072
Nether Stowey Parish Council	0.001	0.004	0.005
North Petherton Town Council	0.003	0.007	0.010
Puriton Parish Council	0.001	0.003	0.004
Shepton Mallet Town Council	0.008	0.030	0.038
Somerton Town Council	0.004	0.017	0.021
Street Parish Council	0.008	0.024	0.032
Watchet Town Council	0.004	0.006	0.010
Wellington Town Council	0.007	0.023	0.030
Wells Burial Board & Parish Council	0.037	0.117	0.154
West Coker Parish Council	0.001	0.003	0.004
Williton Parish Council	0.002	0.010	0.012
Wincanton Town Council	0.005	0.021	0.026
Yeovil Town Council	0.016	0.052	0.068

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**Note 5: Contributions and benefits (continued)**

	Employees' contributions £ millions	Employers' contributions £ millions	Total £ millions
<b>Further-education colleges</b>			
Bridgwater and Taunton College	0.827	2.743	3.570
Richard Huish Sixth Form College	0.169	0.524	0.693
Strode College	0.175	0.623	0.798
Yeovil College	0.254	0.713	0.967
<b>Academies</b>			
Ansford Academy	0.042	0.168	0.210
Ashill Primary Academy	0.003	0.013	0.016
Avishayes Academy	0.023	0.093	0.116
Axbridge Academy	0.015	0.062	0.077
Barwick and Stoford School	0.001	0.002	0.003
Bath & Wells Academy Trust	0.378	1.466	1.844
Bishop Fox's Academy	0.077	0.310	0.387
Blackbrook Primary School	0.015	0.066	0.081
Brent Knoll Primary School	0.013	0.057	0.070
Bridgwater College Academy	0.194	0.760	0.954
Brookside Academy	0.076	0.310	0.386
Bruton Sexseys Academy	0.072	0.286	0.358
Brymore Academy	0.066	0.272	0.338
Buckland St. Mary Church of England School	0.006	0.026	0.032
Buckler's Mead Academy	0.047	0.188	0.235
Castle Academy	0.087	0.335	0.422
Castle Primary School	0.012	0.050	0.062
Charlton Horethorn School	0.004	0.017	0.021
Cheddar First School	0.022	0.093	0.115
Chilton Trinity Academy	0.047	0.188	0.235
Countess Gytha Primary School	0.016	0.065	0.081
Courtfields Academy	0.062	0.251	0.313
Crispin Academy	0.057	0.231	0.288
Critchill School	0.050	0.205	0.255

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**Note 5: Contributions and benefits (continued)**

	Employees' contributions £ millions	Employers' contributions £ millions	Total £ millions
<b>Academies (continued)</b>			
Danesfield Academy	0.024	0.099	0.123
Draycott and Rodney Stoke First School	0.005	0.022	0.027
East Brent School	0.008	0.033	0.041
East Huntspill Primary School	0.006	0.029	0.035
Enmore Academy	0.009	0.037	0.046
Fairlands Middle School	0.022	0.093	0.115
Hambridge Primary School	0.011	0.046	0.057
Hamp Academy	0.022	0.098	0.120
Hatch Beauchamp Primary School	0.003	0.014	0.017
Hayesdown Academy	0.020	0.084	0.104
Haygrove Academy	0.077	0.290	0.367
Hemington Primary School	0.005	0.020	0.025
Holy Trinity Church of England School	0.037	0.156	0.193
Holyrood Academy	0.082	0.327	0.409
Horrington Primary School	0.009	0.039	0.048
Hugh Sexey's School	0.039	0.139	0.178
Huish Academy	0.037	0.155	0.192
Huish Episcopi Academy	0.094	0.368	0.462
Huish Episcopi Primary Academy	0.013	0.055	0.068
Isambard Kingdom Brunel School	0.017	0.073	0.090
King Alfred School	0.078	0.318	0.396
King Arthur's School	0.024	0.095	0.119
King Edward Road Nursery	0.014	0.058	0.072
King Ina (Monteclefe)	0.028	0.120	0.148
Kings of Wessex Academy	0.089	0.333	0.422
Kings of Wessex Leisure	0.027	0.059	0.086
Kingsmead Academy	0.063	0.247	0.310
Leigh On Mendip First School	0.008	0.034	0.042
Lympsham School	0.013	0.059	0.072

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## Note 5: Contributions and benefits (continued)

	Employees' contributions £ millions	Employers' contributions £ millions	Total £ millions
<b>Academies (continued)</b>			
Maiden Beech Academy	0.013	0.157	0.170
Manor Court Primary School	0.029	0.127	0.156
Mark Academy	0.013	0.053	0.066
Mendip School	0.055	0.228	0.283
Middlezoy Primary School	0.004	0.015	0.019
Milford Junior School	0.037	0.149	0.186
Minehead First School	0.026	0.112	0.138
Minehead Middle School	0.054	0.221	0.275
Minerva Primary School	0.019	0.078	0.097
Neroche Primary School	0.016	0.069	0.085
North Cadbury School	0.008	0.033	0.041
Northgate Primary School	0.027	0.117	0.144
Nunney First School	0.006	0.023	0.029
Oakfield Academy	0.040	0.160	0.200
Old Cleeve Academy	0.011	0.048	0.059
Othery Primary School	0.003	0.014	0.017
Otterhampton Primary School	0.009	0.038	0.047
Our Lady of the Mount Catholic School	0.013	0.054	0.067
Pawlett Primary School	0.004	0.017	0.021
Pen Mill Academy	0.015	0.061	0.076
Preston Academy	0.066	0.255	0.321
Preston C of E Primary School	0.078	0.289	0.367
Primrose Lane Primary School	0.023	0.098	0.121
Priorswood Academy	0.014	0.060	0.074
Puriton Primary School	0.014	0.058	0.072
Redstart Academy	0.050	0.199	0.249
Ruishton Primary School	0.022	0.092	0.114
Selwood Academy	0.034	0.133	0.167
Selworthy School	0.091	0.382	0.473
Shipham Church of England First School	0.010	0.042	0.052
Spaxton Primary School	0.006	0.026	0.032

Table continued on next page

**Note 5: Contributions and benefits (continued)**

	Employees' contributions £ millions	Employers' contributions £ millions	Total £ millions
<b>Academies (continued)</b>			
St. Dunstan's Academy	0.025	0.105	0.130
St. Cuthbert's Academy	0.012	0.053	0.065
St Gildas Catholic Primary School	0.016	0.068	0.084
St Joseph & St Teresa School	0.011	0.048	0.059
St Josephs Catholic Primary School	0.020	0.085	0.105
St Josephs Catholic School	0.015	0.064	0.079
St. Michael's Academy	0.031	0.125	0.156
St. Michael's Church of England School	0.012	0.049	0.061
St. Peter's Academy	0.009	0.040	0.049
St Peters Nursery	0.010	0.040	0.050
Stanchester Academy	0.035	0.144	0.179
Steiner Academy, Frome	0.016	0.070	0.086
Stogursey Primary School	0.008	0.033	0.041
Tatworth Academy	0.013	0.055	0.068
Taunton Academy	0.168	0.698	0.866
The Blue School, Wells	0.112	0.452	0.564
Weare Academy	0.015	0.065	0.080
Wedmore Academy	0.017	0.071	0.088
Wellesley Park Primary School	0.020	0.087	0.107
West Huntspill Primary School	0.012	0.051	0.063
West Monkton Primary School	0.066	0.264	0.330
West Somerset Community College	0.042	0.175	0.217
Westfield Academy	0.083	0.317	0.400
Westover Green Academy	0.041	0.189	0.230
Whitstone Academy	0.045	0.179	0.224
Willowdown Academy	0.027	0.116	0.143
Winsham Primary School	0.005	0.020	0.025
Woolavington Academy	0.016	0.064	0.080
<b>Total other scheduled employers</b>	15.775	55.737	71.512

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## Note 5: Contributions and benefits (continued)

	Employees' contributions £ millions	Employers' contributions £ millions	Total £ millions
<b>Admitted bodies</b>			
Abri	0.252	1.208	1.460
Aster Communities Ltd	0.035	0.314	0.349
BAM FM	0.003	0.013	0.016
Capita	0.002	0.007	0.009
Dimensions	0.295	0.697	0.992
Edward and Ward Ltd	0.001	0.001	0.002
Everyone Active	0.025	0.087	0.112
Freedom Leisure	0.007	0.029	0.036
Glen Cleaning Company Ltd	0.004	0.023	0.027
Homes in Sedgemoor	0.163	0.489	0.652
Idverde Ltd	0.009	0.035	0.044
Imperial Cleaning	0.000	0.000	0.000
KGB South West	-0.003	-0.016	-0.019
Leisure East Devon	0.002	0.003	0.005
Lifestyle Fitness	0.002	0.014	0.016
Magna West Somerset Housing Association	0.057	0.277	0.334
Mama Bear's	0.002	0.006	0.008
MD Building Services	0.011	0.039	0.050
National Autistic Society	0.006	0.036	0.042
NSL Ltd	0.015	0.056	0.071
Pabulum	0.001	0.004	0.005
SASP	0.008	0.004	0.012
Shared Lives South West	0.000	-0.001	-0.001
Society of Local Council Clerks	0.045	0.134	0.179
Somerset Care Ltd	0.022	0.276	0.298
Somerset Skills & Learning	0.075	0.268	0.343
South West Audit Partnership	0.125	0.550	0.675
South West Heritage	0.055	0.177	0.232
South West Provincial Councils	0.050	0.366	0.416
Suez Recycling	0.021	0.083	0.104
<b>Total admitted employers</b>	<u>1.290</u>	<u>5.179</u>	<u>6.469</u>
<b>Total</b>	<u><b>26.079</b></u>	<u><b>96.627</b></u>	<u><b>122.706</b></u>



## Note 6: Transfer values

2021/2022 £ millions		2022/2023 £ millions
0.950	Group transfer values received	0.000
10.543	Individual transfer values received	9.175
<u>11.493</u>		<u>9.175</u>
-1.434	Group transfer values paid	0.000
-7.681	Individual transfer values paid	-11.761
<u>-9.115</u>		<u>-11.761</u>

## Note 7: Refunds

2021/2022 £ millions		2022/2023 £ millions
-0.316	Contributions refunded to members who leave service	-0.367
<u>-0.006</u>	Interest accumulated on refunds agreed in the past	<u>-0.014</u>
<u>-0.322</u>		<u>-0.381</u>
0.000	Deductions from contributions equivalent premium	0.000
0.002	Less payments to Department for Work and Pensions contributions equivalent premium	0.008
<u>-0.320</u>		<u>-0.373</u>

## Note 8: Administrative expenses

<b>2021/2022</b> <b>£ millions</b>		<b>2022/2023</b> <b>£ millions</b>
0.000	Benefits administration costs charged by Somerset CC	0.000
<u>-1.339</u>	Benefits administration costs charged by Devon CC	<u>-1.429</u>
<b>-1.339</b>		<b>-1.429</b>
0.000	Legal advice costs charged by Somerset CC	0.000
<u>-0.024</u>	External legal advice	<u>-0.014</u>
<b>-0.024</b>		<b>-0.014</b>
<u><b>-1.363</b></u>		<u><b>-1.443</b></u>

## Note 9: Investment management expenses

2021/2022 £ millions		2022/2023 £ millions
	<b>Fund manager fees</b>	
-0.031	Somerset County Council	-0.006
-0.078	Abrdn	-0.018
-0.515	Other fund managers	-0.353
<b>-0.624</b>		<b>-0.377</b>
	<b>Other expenses</b>	
0.000	Transaction costs	0.000
-0.058	Custody fees	-0.044
<b>-0.058</b>		<b>-0.044</b>
	<b>Pooling</b>	
-0.881	Brunel Fees	-1.016
-4.838	3rd Party Fund Manager Fees	-5.680
-1.217	Property unit trust managers' fees	-1.570
-0.645	Custody fees	-0.767
-0.248	Other costs	-0.314
<b>-7.829</b>		<b>-9.347</b>
<b>-8.511</b>		<b>-9.768</b>

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.

No performance related fees were invoiced to the Fund by fund managers.

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

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 10: Oversight and governance expenses

2021/2022 £ millions		2022/2023 £ millions
-0.010	Committee services costs charged by Somerset CC	-0.010
<u>-0.227</u>	Investments administration costs charged by Somerset CC	<u>-0.241</u>
<b>-0.237</b>		<b>-0.251</b>
-0.105	Actuary's fees	-0.186
<u>0.073</u>	Recharge of Actuary's fees to employers	<u>0.080</u>
<b>-0.032</b>		<b>-0.106</b>
-0.037	External audit fees	-0.049
0.013	Refund of external audit fees	0.015
-0.014	Non-audit fees of external auditor	0.000
<u>0.000</u>	Recharge of non-audit fees to employers	<u>0.000</u>
<b>-0.038</b>		<b>-0.034</b>
0.000	Internal audit costs charged by South West Audit Partnership	0.000
-0.051	Professional services and subscriptions	-0.040
-0.197	IT systems	-0.198
0.000	Performance measurement fees	0.000
-0.003	External legal advice	0.000
0.000	Voting advice fees	0.000
-0.017	Pooling costs	-0.017
-0.008	Other expenses	-0.007
<u><b>-0.583</b></u>		<u><b>-0.653</b></u>

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 2022/2023 financial year are £39,871 plus £12,600 for IAS 19 assurance work for employers. Any discrepancy relates to invoices being received by the Fund after the accounts are closed and not being accrued for in relation to invoices for both the 2021/22 and 2022/23 financial years. Similar discrepancies appear in the 2021/2022 audit plan relating to the 2021/22 fee, shown as £33,659. The £39,871 does not include the fees for IAS assurance work undertaken by Grant Thornton on behalf of employers but this is included in the external audit fees in the table above. Due to a change in the disclosure rules for accounts this year the prior year IAS 19 work is separately disclosed as non-audit fees.

## Note 11: Investment income

<b>2021/2022</b>		<b>2022/2023</b>
<b>£ millions</b>		<b>£ millions</b>
2.795	Bonds	0.000
0.050	Index linked bonds	0.000
0.074	UK equities	0.000
0.054	Overseas equities	0.324
12.332	Property unit trusts	7.923
0.293	Cash invested internally	2.667
0.000	Private equity	0.000
0.003	Stock lending	0.000
<b>15.601</b>		<b>10.914</b>

## Note 12: Investment assets and liabilities

31 March 2022				31 March 2023			
£ millions	£ millions	%	%	£ millions	£ millions	%	%
				<b>UK equities</b>			
489.006		17.2		317.222		11.3	
13.260		0.5		0.000		0.0	
	<b>502.266</b>		<b>17.7</b>		<b>317.222</b>		<b>11.3</b>
				<b>Overseas equities</b>			
782.616		27.6		586.312		21.0	
392.475		13.8		796.008		28.5	
189.091		6.7		183.745		6.6	
108.096		3.8		102.535		3.7	
	<b>1,472.278</b>		<b>51.9</b>		<b>1,668.600</b>		<b>59.8</b>
				<b>Bonds</b>			
62.263		2.2		43.760		1.6	
80.882		2.9		56.275		2.0	
196.828		6.9		195.845		7.0	
77.723		2.7		94.869		3.4	
	<b>417.696</b>		<b>14.7</b>		<b>390.749</b>		<b>14.0</b>
				<b>Property</b>			
227.892		8.0		224.486		8.0	
	<b>227.892</b>		<b>8.0</b>		<b>224.486</b>		<b>8.0</b>
				<b>Private equity</b>			
10.190		0.4		6.822		0.2	
8.211		0.3		13.100		0.5	
20.955		0.7		25.872		0.9	
33.762		1.2		34.632		1.2	
10.188		0.4		18.104		0.6	
1.640		0.1		1.640		0.1	
0.840		0.0		0.840		0.0	
	<b>85.786</b>		<b>3.1</b>		<b>101.010</b>		<b>3.5</b>
				<b>Cash and others</b>			
131.432		4.6		95.765		3.4	
	<b>131.432</b>		<b>4.6</b>		<b>95.765</b>		<b>3.4</b>
	<b><u>2,837.350</u></b>		<b><u>100.0</u></b>		<b><u>2,797.832</u></b>		<b><u>100.0</u></b>
				<b>Made up of</b>			
	2,239.989				2,550.385		
	597.361				247.447		
	<b><u>2,837.350</u></b>				<b><u>2,797.832</u></b>		

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.. The £840,000 investment shown as Brunel within private equity above refers to the value of the shares the fund holds in Brunel Pension Partnership Ltd. (BPP Ltd.). This value is not the value of assets managed by BPP Ltd, which as at 31 March 2023 was £2,619,161,000. This investment is also disclosed separately from any other investment in note 14, note 17 and note 32 and a written disclosure is made in note 26 with regard to related parties.

## Note 13: Analysis of collective investment fund investments

31 March 2022 £ millions		31 March 2023 £ millions
	<b>Unit trusts</b>	
166.720	UK property funds	158.902
	<b>Unitised insurance policies</b>	
782.616	Brunel passive global equity fund	586.312
13.260	Standard Life smaller companies fund	0.000
62.263	Brunel passive gilt fund	43.760
80.882	Brunel passive index-linked gilt fund	56.275
196.828	Brunel sterling corporate bond fund	195.845
<b>1,135.849</b>		<b>882.192</b>
	<b>Limited liability partnerships</b>	
73.118	Neuberger Berman private equity funds	80.426
10.188	Brunel private equity funds	18.104
1.640	South West regional venture fund	1.640
<b>84.946</b>		<b>100.170</b>
	<b>UK authorised contractual scheme</b>	
489.006	Brunel UK equity fund	317.222
392.475	Brunel global high alpha equity fund	796.008
189.091	Brunel global smaller companies fund	183.745
108.096	Brunel emerging market equity fund	102.535
<b>1,178.668</b>		<b>1,399.510</b>
	<b>Other managed funds</b>	
61.172	UK property funds	65.584
77.723	Brunel multi-asset credit funds	94.869
<b>138.895</b>		<b>160.453</b>
<b>2,705.078</b>	<b>Total</b>	<b>2,701.227</b>

## Note 14: 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
2021/2022	Total	2,608.448	-30.651	1,183.186	-1,124.112	37.169	163.310	2,837.350
Abrdn	UK equity	13.260	0.000	0.000	-10.323	7.171	-10.108	0.000
LaSalle / Brunel	Property	227.892	0.000	56.193	-24.621	5.643	-40.621	224.486
Neuberger Berman	Global private equity	73.118	0.000	0.000	-10.203	4.569	12.942	80.426
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	489.006	0.000	0.000	-174.615	22.247	-19.416	317.222
Brunel	Passive global equity	782.616	0.000	1,122.298	-1,312.297	238.722	-245.027	586.312
Brunel	Global high alpha equity	392.475	0.000	706.526	-346.610	13.482	30.135	796.008
Brunel	Global smaller co.'s	189.091	0.000	0.000	0.000	0.000	-5.346	183.745
Brunel	Emerging market equity	108.096	0.000	0.000	0.000	0.000	-5.561	102.535
Brunel	UK Government Gilts	62.263	0.000	0.000	0.000	-0.006	-18.497	43.760
Brunel	UK Gov't index linked Gilts	80.882	0.000	0.000	0.000	-0.007	-24.600	56.275
Brunel	Sterling corporate bonds	196.828	0.000	20.000	0.000	0.000	-20.983	195.845
Brunel	Multi-asset credit	77.723	0.000	20.000	0.000	0.000	-2.854	94.869
Brunel	Global private equity	10.188	0.000	7.895	-0.007	0.006	0.022	18.104
Somerset County Council	Cash	131.432	-39.578	0.000	0.000	3.911	0.000	95.765
<b>2022/2023</b>	<b>Total</b>	<b><u>2,837.350</u></b>	<b><u>-39.578</u></b>	<b><u>1,932.912</u></b>	<b><u>-1,878.676</u></b>	<b><u>295.738</u></b>	<b><u>-349.914</u></b>	<b><u>2,797.832</u></b>



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
2020/2021	Total	2,046.706	9.654	1,731.892	-1,724.697	105.819	439.074	2,608.448
Somerset County Council	Global equity	0.375	0.000	0.000	-0.381	-0.008	0.014	0.000
Abrdn	UK equity	12.994	0.000	0.000	0.000	0.000	0.266	13.260
Abrdn	Bonds	390.427	0.000	300.590	-700.685	47.445	-37.777	0.000
Abrdn	Derivatives	0.518	0.000	347.123	-347.569	0.698	-0.770	0.000
LaSalle / Brunel	Property	174.890	0.000	41.031	-11.999	-19.383	43.353	227.892
Neuberger Berman	Global private equity	69.405	0.000	1.142	-15.818	2.754	15.635	73.118
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	450.502	0.000	0.000	0.000	0.000	38.504	489.006
Brunel	Passive global equity	681.900	0.000	0.000	0.000	-0.036	100.752	782.616
Brunel	Global high alpha equity	360.872	0.000	0.000	0.000	0.000	31.603	392.475
Brunel	Global smaller co.'s	184.984	0.000	0.000	0.000	0.000	4.107	189.091
Brunel	Emerging market equity	122.078	0.000	0.000	0.000	0.000	-13.982	108.096
Brunel	UK Government Gilts	0.000	0.000	67.444	0.000	-0.004	-5.177	62.263
Brunel	UK Gov't index linked Gilts	0.000	0.000	80.872	0.000	-0.004	0.014	80.882
Brunel	Sterling corporate bonds	0.000	0.000	210.024	0.000	0.000	-13.196	196.828
Brunel	Multi-asset credit	0.000	0.000	126.567	-47.660	0.150	-1.334	77.723
Brunel	Global private equity	0.574	0.000	8.393	0.000	-0.071	1.292	10.188
Somerset County Council	Cash	156.449	-30.651	0.000	0.000	5.628	0.006	131.432
<b>2021/2022</b>	<b>Total</b>	<b>2,608.448</b>	<b>-30.651</b>	<b>1,183.186</b>	<b>-1,124.112</b>	<b>37.169</b>	<b>163.310</b>	<b>2,837.350</b>

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.). This value is not the value of assets managed by BPP Ltd, which as at 31 March 2023 was £2,619,161,000. This investment is also disclosed separately from any other investment in note 12, note 17 and note 32 and a written disclosure is made in note 26 with regard to related parties.

### Note 15: 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 2023, the actuary has rolled forward the value of the Fund's liabilities calculated for the funding valuation as at 31 March 2022

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 assets statement date. The assumptions used are as follows:

31 March 2022		31 March 2023	
<b>Financial assumptions</b>			
3.20%	CPI increases		2.85%
4.20%	Salary increases		3.85%
3.20%	Pension increases		2.85%
2.60%	Discount Rate		4.80%
<b>Life expectancy (from age 65)</b>			
23.1	Retiring today - Males		21.4
24.7	- Females		23.2
24.4	Retiring in 20 years - Males		22.7
26.1	- Females		24.7

The Retail Prices Index (RPI) increase assumption is set using a Single Equivalent Inflation Rate (SEIR) approach. The SEIR adopted is such that the single assumed rate of inflation results in the same liability value (when discounted using the yield curve valuation described above) as that resulting from applying the BoE implied inflation curve. The BoE implied inflation curve is assumed to be flat beyond the 40 year point.

Following a recent review of the market, and in particular noting the muted market reaction to the likely alignment of RPI with CPIH (Consumer Prices Index with Housing) from 2030, the actuary's view is that gilt-implied inflation rates are currently distorted by supply and demand factors at medium and longer terms. We have therefore allowed for an Inflation Risk Premium (IRP) of 0.4% at medium and longer terms (from 9 years). This results in an overall IRP of between 0.0% p.a. and 0.25% p.a. depending on the term of the liabilities (for terms ranging from 1 year up to 30 years).

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	3,057.553	
<b>Sensitivity to</b>	<b>+0.1%</b>	<b>-0.1%</b>
Discount rate	3,006.575	3,109.920
Salary increase	3,061.246	3,053.892
Pension increases and deferred revaluation	3,107.181	3,009.233
<b>Sensitivity to</b>	<b>+ 1 year</b>	<b>- 1 year</b>
Life expectancy assumptions	3,175.224	2,944.755

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

<b>2021/2022</b> <b>£ millions</b>		<b>2022/2023</b> <b>£ millions</b>
-210.913	Current service cost	-184.085
-97.832	Interest cost	-125.629
301.406	Change in financial assumptions	2073.799
0.000	Change in demographic assumptions	328.684
-10.424	Experience loss/(gain) on defined benefit obligations	-359.835
5.407	Liabilities assumed/(extinguished) on settlements	0.000
97.257	Estimated benefits paid net of transfers in	107.171
-0.923	Past service costs, including curtailments	-0.569
-24.102	Contributions by scheme members	-24.329
<b>59.876</b>		<b>1,815.207</b>

## Note 16: Other investment balances

31 March 2022 £ millions		31 March 2023 £ millions
	<b>Assets</b>	
0.620	- Accrued income	0.894
<u>0.000</u>	- Payments due on investments sold	<u>0.000</u>
<b>0.620</b>		<b>0.894</b>
	<b>Liabilities</b>	
<u>0.000</u>	- Payments not made on purchases and losses due on sales	<u>0.000</u>
<b>0.000</b>		<b>0.000</b>
<u><b>0.620</b></u>		<u><b>0.894</b></u>

## Note 17: Management structure

31 March 2022		Manager	Asset class	31 March 2023	
£ millions	%			£ millions	%
13.260	0	Abrdn	UK equity	0.000	0
73.118	2	Neuberger Berman	Global private equity	80.426	3
1.640	0	Technology Venture Partners	UK venture capital	1.640	0
0.840	0	Brunel	UK venture capital	0.840	0
131.432	5	Somerset County Council	Cash	95.765	3
<b>220.290</b>	<b>7</b>	<b>Not-pooled sub total</b>		<b>178.671</b>	<b>6</b>
489.006	17	Brunel	UK Equity	317.222	11
782.616	28	Brunel	Passive global equity	586.312	21
392.475	14	Brunel	Global high alpha equity	796.008	28
189.091	7	Brunel	Global smaller companies	183.745	7
108.096	4	Brunel	Emerging market equity	102.535	4
62.263	2	Brunel	UK Government Gilts	43.760	2
80.882	3	Brunel	UK Gov't index linked Gilts	56.275	2
196.828	7	Brunel	Sterling corporate bonds	195.845	7
77.723	3	Brunel	Multi-asset credit	94.869	3
227.892	8	Brunel	Property	224.486	8
10.188	0	Brunel	Global private equity	18.104	1
<b>2,617.060</b>	<b>93</b>	<b>Pooled sub total</b>		<b>2,619.161</b>	<b>94</b>
<b>2,837.350</b>	<b>100</b>	<b>Net investment assets</b>		<b>2,797.832</b>	<b>100</b>

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.). This value is not the value of assets managed by BPP Ltd, which as at 31 March 2023 was £2,619,161,000. This investment is also disclosed separately from any other investment in note 12, note 14 and note 32 and a written disclosure is made in note 26 with regard to related parties.

## Note 18: Classification of financial instruments

31 March 2022 £ millions			31 March 2023 £ millions		
Fair value through profit & loss	Assets at amortised cost	Liabilities at amortised cost	Fair value through profit & loss	Assets at amortised cost	Liabilities at amortised cost
<b>Investment assets and liabilities</b>					
2,837.350			2,797.832		
0.000			0.000		
	0.620			0.894	
	4.078			7.144	
	0.500			0.831	
	4.713			0.560	
		0.000			0.000
		0.000			0.000
		-2.165			-1.862
<b>2,837.350</b>	<b>9.911</b>	<b>-2.165</b>	<b>2,797.832</b>	<b>9.429</b>	<b>-1.862</b>
<b>Net assets of the scheme available to fund benefits at end of year</b>					

## Note 19: Net gains and losses on financial instruments

<b>2021/2022</b> <b>£ millions</b>		<b>2022/2023</b> <b>£ millions</b>
200.479	Fair value through profit and loss	-54.176
0.000	Amortised cost - realised gains (losses) on derocognition	0.000
0.000	Amortised cost - unrealised gains (losses)	0.000
<b><u>200.479</u></b>		<b><u>-54.176</u></b>



## Note 20: Major holdings

31 March 2022			Description	31 March 2023		% of net investments
Rank	£ millions	Stock		Rank	£ millions	
3	392.475	Brunel global high alpha equity fund	Pooled fund of developed market equities	1	796.008	28.5
1	782.616	Brunel passive global equity fund	Pooled fund of developed market equities	2	586.312	21.0
2	489.006	Brunel UK equity fund	Pooled fund of UK equities	3	317.222	11.3
4	196.828	Brunel sterling corporate bond fund	Pooled fund of corporate bonds	4	195.845	7.0
5	189.091	Brunel global smaller companies fund	Pooled fund of developed market equities	5	183.745	6.6
6	108.096	Brunel emerging market equity fund	Pooled fund of emerging market equities	6	102.535	3.7
9	46.421	Brunel Neuberger Berman MAC fund	Pooled fund of multi-asset credit	7	56.413	2.0
7	80.882	Brunel passive index-linked gilt fund	Pooled fund of UK Gov't index-linked gilts	8	56.275	2.0
8	62.263	Brunel passive gilt fund	Pooled fund of UK Gov't gilts	9	43.760	1.6
10	33.762	Neuberger Berman Crossroads XXII fund	Private equity fund	10	34.632	1.2
15	20.955	Neuberger Berman Crossroads XXI fund	Private equity fund	11	25.872	0.9
-	0.000	UBS Triton UK PUT	Pooled fund of UK property	12	24.656	0.9
13	23.993	CBRE UK Property Fund	Pooled fund of UK property	13	21.067	0.8
12	24.183	Nuveen UK Property Fund	Pooled fund of UK property	14	20.911	0.7
11	26.693	IPIF	Pooled fund of UK property	15	19.915	0.7
22	15.576	Brunel Oaktree MAC fund	Pooled fund of multi-asset credit	16	19.237	0.7
14	22.708	Clearbell UK Property Fund	Pooled fund of UK property	17	19.224	0.7
21	15.727	Brunel CQS MAC fund	Pooled fund of multi-asset credit	18	19.220	0.7
18	18.815	Octopus Healthcare fund	Pooled fund of UK property	19	18.940	0.7
16	20.739	Blackrock UK PUT	Pooled fund of UK property	20	17.013	0.6

The largest five 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 21: 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 didn't use any derivatives. The use of derivatives is permitted by some of the collective investment funds managed by Brunel that we invest in.

## Note 22: Capital commitments (investments)

As at 31 March 2023 the fund had outstanding capital commitments (investments) totalling £86.814m (31 March 2022 - £74.842m). 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 2022 £ millions			31 March 2023 £ millions	
Total commitment	Outstanding commitment		Total commitment	Outstanding commitment
87.343	27.760	Neuberger Berman PE funds	93.008	29.560
21.000	13.425	Property funds	42.100	16.866
42.423	33.657	Brunel PE funds	57.283	40.388
<b>150.766</b>	<b>74.842</b>		<b>192.391</b>	<b>86.814</b>

## Note 23: Stock lending

Following the transition of assets to Brunel the Fund no longer directly undertakes stock lending. Stock lending is permitted by some of the collective investment funds managed by Brunel that we invest in.

## Note 24: Membership statistics

As at 31 March	2017	2018	2019	2020	2021	2022	2023
<b>Active scheme members</b>	<b>21,550</b>	<b>21,151</b>	<b>20,485</b>	<b>20,877</b>	<b>20,605</b>	<b>21,378</b>	<b>21,508</b>
<b>Pensioners</b>							
Current (in payment)	15,421	16,322	17,326	18,289	18,921	19,690	20,399
Deferred (future liability)	22,268	25,119	26,741	26,449	26,543	26,906	27,565
Undecided leavers	3,778	2,617	2,337	1,808	1,838	1,586	1,630
<b>Total (active plus pensioners)</b>	<b>63,017</b>	<b>65,209</b>	<b>66,889</b>	<b>67,423</b>	<b>67,907</b>	<b>69,560</b>	<b>71,102</b>
Active members for each current pensioner	1.40	1.30	1.18	1.14	1.09	1.09	1.05

## Note 25: 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.

<b>31 March 2022</b> <b>£ millions</b>	<b>31 March 2023</b> <b>£ millions</b>
<b>Value of additional voluntary contributions</b>	
4.238 Prudential	
0.200 Utmost (formally Equitable Life)	
<b><u>4.438</u></b>	<b><u>0.000</u></b>

<b>2021/2022</b> <b>£ millions</b>	<b>2022/2023</b> <b>£ millions</b>
<b>Additional voluntary contributions paid during the year</b>	
0.511 Prudential	
0.000 Utmost (formally Equitable Life)	0.000
<b><u>0.511</u></b>	<b><u>0.000</u></b>

Neither Prudential or Utmost have provided AVC data regarding contributions in 2022/23 or the total value of assets as at 31 March 2023 at the time of publication.

## **Note 26: Related parties**

Committee members Sarah Williams and Paul Butler 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 members Nigel Behan and Rachel Ellins were active members of the scheme during the year. Pension Board members Antony White and Roderick Bryant were deferred members of the scheme during the year.

Via collective investment funds 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 the fund managers that Brunel employ within the pooled funds we invest in without referring to the county council, its officers or other member bodies.

Payments made to Somerset County Council by the fund for administration and related services are disclosed in notes 8, 9 and 10.

### 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 £1,016,000 in fees for services in the 2022-2023 financial year as disclosed in note 9.

During the year the fund did not purchase or sell shares in BPP Ltd. These accounts show this investment valued at £840,000 and is disclosed separately from any other investment in note 12, note 14, note 17 and note 32.

No other related party transactions other than normal contributions, benefits and transfers occurred during the year. In note 5 we analyse the total contributions we were due to receive and benefits the fund paid for scheduled and admitted bodies.

## Note 27: 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 8, 9 and 10 of these accounts.

The total actual salary and benefits paid for the financial year ended 31 March 2023 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 2023						
Post title	Salary (including fees and allowances) £	Compensation for loss of office £	Benefits in kind £	Total wages and benefits but not including pensions contributions 2022/23 £	Employer's pension contributions £	Total wages and benefits including pensions contributions 2022/23 £
Director of Finance and Governance	129,500	-	-	129,500	23,400	152,900

For comparison purposes the equivalent disclosure for the financial year ended 31 March 2022 is shown in the table below.

<b>Year to 31 March 2022</b>						
<b>Post title</b>	<b>Salary (including fees and allowances) £</b>	<b>Compensation for loss of office £</b>	<b>Benefits in kind £</b>	<b>Total wages and benefits but not including pensions contributions 2021/22 £</b>	<b>Employer's pension contributions £</b>	<b>Total wages and benefits including pensions contributions 2021/22 £</b>
Director of Finance and Performance	123,300	-	-	123,300	22,300	145,600

## **Note 28: 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 Somerset Council website.

## **Note 29: Contingent liabilities**

There were no contingent liabilities as at 31 March 2023.

## **Note 30: Post balance sheet events**

There were no post balance sheet events as at 30 June 2023.

## **Note 31: 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 12 of these accounts, the approximation of the fair value of the net of these assets and liabilities at 31 March 2023 being £2,798m.

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 17 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 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 2023 by the amounts shown below.

<b>Asset class</b>	<b>Value of Assets £ millions</b>	<b>Volatility</b>	<b>Increase in Assets £ millions</b>	<b>Decrease in Assets £ millions</b>
UK equities	317.222	17.90%	56.783	-56.783
Overseas equities	1,668.600	15.30%	255.296	-255.296
UK bonds	239.605	7.70%	18.450	-18.450
Overseas bonds	94.869	13.20%	12.523	-12.523
UK index-linked bonds	56.275	7.20%	4.052	-4.052
Property	224.486	6.20%	13.918	-13.918
Private equity*	101.010	15.30%	15.455	-15.455
Cash	95.765	0.00%	0.000	0.000
<b>Net investment assets</b>	<b><u>2,797.832</u></b>		<b><u>376.475</u></b>	<b><u>-376.475</u></b>

\* Includes level 3 assets, further details can be found in note 32 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 £95.8m is subject to credit risk.

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 any forward foreign exchange contracts held are provided in note 21 of these accounts.

It is arguable that the fund has significant exposure to credit risk within its bond holdings, the reality is that as the perception of the credit quality of the bond issuer varies through time the market price of the bond varies accordingly, this means that the market risk of these holdings effectively encompasses the counterparty risk.

#### Liquidity risk

Liquidity risk represents the risk that the fund will not be able to meet its financial obligations as they fall due by not having available cash. 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. This gives the fund access to in excess of £50m 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 assets 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.

## Note 32: 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.

<b>Description of Asset</b>	<b>Fair Value Hierarchy</b>	<b>Basis of Valuation</b>	<b>Observable and unobservable inputs</b>	<b>Key sensitivities affecting the valuation provided</b>
Market quoted equities and bonds	Level 1	Published closing bid prices ruling at year end.	Not required.	Not required.
Cash and cash equivalents	Level 1	Carrying value is deemed to be fair value because of the short-term nature of these financial instruments.	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

<b>Description of Asset</b>	<b>Fair Value Hierarchy</b>	<b>Basis of Valuation</b>	<b>Observable and unobservable inputs</b>	<b>Key sensitivities affecting the valuation provided</b>
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	Valued using a number of different market and income valuation methods as well as comparable market transaction prices.	Earnings and revenue multiples. A discount for lack of marketability may be applied.	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 2023 into the 3 levels of the fair value hierarchy.

<b>Asset Class</b>	<b>Level 1 £ millions</b>	<b>Level 2 £ millions</b>	<b>Level 3 £ millions</b>	<b>Total £ millions</b>
UK equities				0.000
Brunel pooled equity funds		1,985.822		1,985.822
Brunel pooled bond funds		390.749		390.749
Property funds		224.486		224.486
Private Equity funds			101.010	101.010
Cash	95.765			95.765
<b>Net investment assets</b>	<b><u>95.765</u></b>	<b><u>2,601.057</u></b>	<b><u>101.010</u></b>	<b><u>2,797.832</u></b>

For comparison purposes the equivalent disclosure for the financial year ended 31 March 2022 is shown in the table below.

<b>Asset Class</b>	<b>Level 1 £ millions</b>	<b>Level 2 £ millions</b>	<b>Level 3 £ millions</b>	<b>Total £ millions</b>
UK equities		13.260		13.260
Brunel pooled equity funds		1,961.284		1,961.284
Brunel pooled bond funds		417.696		417.696
Property funds		227.892		227.892
Private Equity funds			85.786	85.786
Cash	131.432			131.432
<b>Net investment assets</b>	<b><u>131.432</u></b>	<b><u>2,620.132</u></b>	<b><u>85.786</u></b>	<b><u>2,837.350</u></b>

There have been no transfers of assets between levels within the fair value hierarchy during the financial year ended 31 March 2023.

The following table shows a reconciliation of the movement in level 3 investments during the financial year ended 31 March 2023.

<b>Asset class</b>	<b>Fair Value as at 31 March 2022 £ millions</b>	<b>Transfers into Level 3 £ millions</b>	<b>Transfers out of Level 3 £ millions</b>	<b>Purchases £ millions</b>	<b>Sales proceeds £ millions</b>	<b>Realised profit or loss £ millions</b>	<b>Unrealised profit or loss £ millions</b>	<b>Fair Value as at 31 March 2023 £ millions</b>
Global private equity	83.306	0.000	0.000	7.895	-10.210	4.575	12.964	98.530
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
<b>Total</b>	<b>85.786</b>	<b>0.000</b>	<b>0.000</b>	<b>7.895</b>	<b>-10.210</b>	<b>4.575</b>	<b>12.964</b>	<b>101.010</b>

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.). This value is not the value of assets managed by BPP Ltd, which as at 31 March 2023 was £2,619,161,000. This investment is also disclosed separately from any other investment in note 12, note 14 and note 17 and a written disclosure is made in note 26 with regard to related parties.

### **Note 33: 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. The Pension Fund has yet to adopt the following accounting standards:

#### Definition of Accounting Estimates (Amendments to IAS 8) issued in February 2021.

On February 12, 2021, the IASB published Definition of Accounting Estimates (Amendments to IAS 8) to help entities to distinguish between accounting policies and accounting estimates. The amendments are effective for annual periods beginning on or after January 1, 2023

#### Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) issued in February 2021.

Sets out amendments to IAS 1 Presentation of Financial Statements, the Basis for Conclusions on IAS 1 Presentation of Financial Statements and other IFRS Standards and publications with effect for annual reporting periods beginning on or after 1 January 2023.

#### Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12) issued in May 2021.

These amendments address uncertainty in practice about how an entity applies the initial recognition exemption in paragraphs 15 and 24 of IAS 12 to transactions that give rise to both an asset and liability on initial recognition and may result in temporary differences of the same amount.

#### Updating a Reference to the Conceptual Framework (Amendments to IFRS 3) issued in May 2020.

On May 14, 2020, the IASB published Reference to the Conceptual Framework (Amendments to IFRS 3) with amendments to IFRS 3, Business Combinations that update an outdated reference in IFRS 3 without significantly changing its requirements.

We do not expect any of the amendments above, to have a material impact on our accounts when they are applied prospectively from 1st April 2023.



**Jason Vaughan**  
**Executive Director Resources & Corporate Services**  
**30 June 2023**

# 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 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 (Payables)**

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 (Receivables)**

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:

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TA1 4DY.

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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.



