Company Registration Number 06373780

South West One Limited

Financial Statements

31 December 2010

South West One Limited

Financial Statements

As at 31 December 2010

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Company Information

For the Year Ended 31 December 2010

Company Registration Number	06373780
The Board of Directors	D Pretty, Chairman R Little B Nottrodt J Smith G Butterworth C Wyatt S Humberstone
Company Secretary	I Ferguson
Registered Office	PO Box 41 North Harbour Portsmouth Hampshire PO6 3AU
Independent Auditors	PricewaterhouseCoopers LLP Chartered Accountants & Statutory Auditors Savannah House 3 Ocean Way Ocean Village Southampton Hampshire SO14 3TJ
Bankers	National Westminster Bank Plc 69 High Street Cosham Hampshire PO6 3DA

South West One Limited

Chairman's Statement

For the Year Ended 31 December 2010

I am pleased to present the financial statements of South West One Limited for the year ended 31 December 2010

South West One Limited ("SWO") is a joint venture between IBM United Kingdom Ltd and three joint venture partners Somerset County Council, Taunton Deane Borough Council and Avon & Somerset Police Authority The purpose of the company is to modernise the business processes of these three Authorities and to deliver improved services through a shared service structure SWO is engaged in major strategic projects designed to transform public services delivery in the South West of England

During the year, SWO has again pioneered multi–agency working as a means of achieving greater efficiencies It has successfully delivered benefits to joint venture partners and provided improved access to services within their communities I believe that SWO provides a sound case for delivering these services and sharing the benefits with other public sector organisations

Throughout the period the company has continued to consolidate services to deliver them consistently and more efficiently to joint venture partners Our established Customer Contact Centre is a leading example of this programme that has allowed the people of Somerset the benefit of a single point of access to services The Contact Centre provides a select range of telephone numbers and internet resources for all services, so it is simple for customers to find the service required This has reduced call waiting times and resulted in improved customer satisfaction

One of the company's success stories is the unique procurement service initiative By moving procurement from a back-end, tender focused organisation to a strategic function that can operate at the front of the business and advise joint venture partners on the most suitable way to run procurement strategies, the procurement initiative has led to significant cash savings in service delivery Examples of services that have benefited from this approach are diverse and range from sourcing police uniforms to initiatives in adult social care

SWO has also been actively engaged in supporting economic and social development in Somerset by helping promote inward investment and supporting numerous initiatives in local schools and colleges This includes a project to bring the first dedicated high speed broadband network to schools across the county, giving some 70,000 children and young people the ability to make use of exciting and innovative learning resources

The company's achievements to date have been against a backdrop of some of the most challenging economic conditions in recent times This has been most apparent in the impact of budget cuts for the joint venture partners This affects the company's base business and whilst this should provide new opportunities to extend our model into other areas as more public authorities seek to make savings through consolidation of back office functions and strategic procurement initiatives, the company had not negotiated significant new contracts to date

The impact of the current economic climate in the Public Sector, combined with the changes in operation considered by one of our major clients, mean that it is now clear that the company's original business plan will not be achieved The Board has agreed a new financial model to put the company on a more sound financial footing from 2012

As a consequence of not achieving the company's original business plan, the board has concluded that it is necessary to fully impair the deferred transition costs held on the company's balance sheet This impairment charge has been expensed in the current year Deferred transition costs are defined in note 1 to the financial statements and the reasons for impairment discussed further in note 2 which details some of the judgements in reaching this position The impairment of the deferred transition costs in 2010 will be a contributing factor to the improved financial position of the company after 2011 and the associated work undertaken will form the bedrock of future saving initiatives

The company's reported revenue for the year is £22 5 million, with an operating pre-tax loss of £14 0 million before impairment of assets of £17 0 million and pre-tax losses of £31 5 million

It remains the goal of SWO to expand the current framework and allow other interested parties to take advantage of this type of collaboration I am confident that the significant actions we have taken means that SWO is well positioned to continue to deliver benefits to our joint venture partners and the wider Public Sector throughout the South West of England

D Pretty

Chairman

17 January 2012

The directors present their annual report and the audited financial statements of the company for the year ended 31 December 2010

Principal activity

The principal activity of the company during the year has been the provision of business processes to its Public Sector joint venture partners Somerset County Council, Taunton Deane Borough Council, and Avon and Somerset Police Authority These include financial services, human resources, information technology, estates management, facilities management and procurement

Business review

The company's principal operational activity since incorporation and commencement of trade in September 2007 has focused on the development of a fully shared services structure to support its three joint venture partners in delivering business processes These services are delivered in line with a performance framework agreement that encompasses the joint venture partners The contract has an estimated value of £585 million in revenue, before netting adjustments, over ten years from the commencement of trade A separate Assistance Services Agreement exists between the company and IBM United Kingdom Limited which covers the provision of IBM services to the company

During the year, the company has continued to expand the directly employed workforce from a headcount of 28 at the end of December 2009 to 120 at 31 December 2010 The agreement provides for the staff of joint venture partners, undertaking roles in support of the services provided by the company, to remain employed by the respective partner and for them to be seconded to South West One Limited ("SWO") Seconded staff members remain public sector employees and retain the existing terms and conditions of employment as well as their public sector pension entitlement

Seconded staff benefit from an assured employment arrangement for the duration of the contract, as well as having access to the very significant personal development opportunities offered by the Information and Communications Technology process (ICT) and expertise that IBM brings to the venture At 31 December 2010 the number of seconded staff from joint venture partners providing services via the company was 1,177 (2009 1,250)

During the year, the company has continued to consolidate services to deliver them consistently to joint venture partners This has included an aggregation of demand for common procurement needs to achieve economies of scale In doing so, the procurement function has been re-evaluated to ensure procurement strategy is central to the company meeting the service and cost saving obligations to which it is committed

Business revıew (continued)

SWO has consıstently delıvered year on year ıncreases ın savıngs to joınt venture partners and thıs has contınued durıng the current year A summary of procurement savıngs that SWO has provıded to joınt venture partners at 31 December 2010 (sınce the begınnıng of the contract) and those forecast for the remaınıng lıfe of the contract ıs provıded below

Unaudıted	Somerset County Council £000	Taunton Deane Borough Councıl £000	Avon & Somerset Polıce Authorıty £000	Total £000
Total Benefit Pıpelıne	123,164	11,336	8,102	142,602
Savıngs forecast from ıdentıfied ınıtıatıves	58,529	2,731	4,898	66,158
Savıngs forecast from ımplemented projects	48,357	2,686	3,384	54,427
Savıngs delıvered to date from projects	4,221	656	1,143	6,020

SWO offers a wıde range of servıces beyond Strategıc Procurement For example, SWO's Customer Contact Centre ıs regarded as a leadıng proponent of servıce provısıon, handlıng 37,000 calls per month, 80% of whıch are answered wıthın 20 seconds Wıthın the Contact Centre, approxımately 3,000 servıces are delıvered through multıple delıvery channels, ıncludıng telephone, face-to-face and self servıce channels through the councıls' websıtes SWO also handles over 5,800 new benefits claıms a year and processes over 16,000 changes ın customers' cırcumstances In the Fıscal Year 2010/11, SWO collected 98 21% of Councıl Tax and 99 01% of Busıness Rates (Natıonal Non Domestıc Rates), an ımprovement from 2009/10 (97 74% and 98 9% respectıvely) SWO ıs also managıng and/or monıtorıng over 21 major property projects, our Payroll department pays over 43,000 people per month and our Accounts Payable functıon processes over 27,000 ınvoıces each month SWO handles over 40 mıllıon emaıls a year at the rate of approxımately 149,000 every day

It remaıns the company's ambıtıon to expand the current framework and allow other ınterested publıc sector authorıtıes to joın the venture and ıncrease the company's scope The establıshment of a sıngle shared servıces structure and the experıence of dealıng wıth the ınevıtable change management ıssues apparent ın a collaboratıon of thıs nature wıll reduce the cost and make ıt easıer to ıncorporate new partners to the joınt venture ın the future

Whıle the affect of budget cuts for authorıtıes have added to the adverse tradıng condıtıons the company faces ın the wıder economy, the result of these cuts ıs that all publıc authorıtıes must seek new ways to reduce expendıture Thıs places the company ın a posıtıon of beıng able to provıde a solutıon to the problems faced by such Authorıtıes and thus opportunıtıes for expansıon are belıeved to be feasıble SWO has responded to Invıtatıons To Tender (ITTs) from a Unıtary Authorıty and other Polıce Forces and proactıvely made several bıds durıng 2010 to utılıse the ınfrastructure created by the company SWO has also hosted several vısıts to Taunton and Portıshead from ınterested partıes (ıncludıng County Councıls, Dıstrıct Councıls and Polıce Forces) keen to vıew the work the company ıs doıng at first hand

Business review (continued)

The company's financial results for the year ended 31 December 2010 with comparatives are

	2010	2009
	£000	£000
Revenue	**22,491**	34,999
Operating loss	**(30,977)**	(16,150)
Cash and cash equivalents	**3,061**	626
Net liabilities	**(36,380)**	(13,666)

Financial performance is monitored through monthly management accounts which include revenue, profitability, and cash collection reviews

Revenue fell on an annualised basis as the establishment of the shared services infrastructure came to an end This was in line with the revised business forecast to extend the transformational phase of the project into the third full year of trading

The operating loss reflects the extended transformation timeline, the impact of market conditions and the impairment of the deferred transition costs asset It also reflects the difficulty in reaching the efficiency levels that are required to fund the savings which are guaranteed to the joint venture partners through service improvements, procurement savings or operation cost reductions The programme of transformational projects, including the implementation of SAP Enterprise Resource Planning Software means the company now has a joined-up support function This operates across all its operations, supporting some 14,000 users, and assisting the company to continue to make cost reductions that counterbalance the effect of budget cuts for joint venture partners

It is now clear that the original business model for the company will not be achieved As explained in note 2, the board have undertaken a detailed review of the future profits of the company This assessment, which takes into consideration a number of judgements, has led to the decision to fully impair the deferred transition cost asset to a carrying value of nil at 31 December 2010 (see note 11) This has increased the company's operating loss by £17 0 million

Deferred transition costs were previously being amortised over the life of the contract and so a full impairment of these during the year under review has significantly increased the operating loss of the company Accounting for the impairment during 2010 means there is no longer a need to account for amortisation in future periods and so the financial performance will be enhanced as a result These and other improvements to the financial position of the company will become most apparent when the implementation of the financial improvement plan begins in 2012 The financial improvement plan is structured to put the company on a more sound financial footing from 2012

The directors have not paid nor proposed any dividends for the current or previous period

Key performance indicators

The company uses an extensive range of key performance and service delivery indicators (KPIs) to measure and manage the business The board of directors and key management regularly monitor progress of the overall service delivery strategy as well as the individual strategic elements of the contract by reference to these KPIs

The overall results of these KPIs for the years ended 31 December 2010 and 31 December 2009 are summarised below

	2010			**2009**		
Unaudited	**KPIs achieved**	**Total KPIs**	**%**	**KPIs achieved**	**Total KPIs**	**%**
Somerset County Council	**34**	**36**	**94 4 %**	31	33	93 9 %
Taunton Deane Borough Council	**41**	**46**	**89 0 %**	40	42	95 2 %
Avon & Somerset Police Authority	**37**	**41**	**90 2 %**	31	36	86 1 %
All customers	**112**	**123**	**91 1 %**	102	111	91 9 %

Principal risks and uncertainties
The management of the business and the execution of the company's strategy are subject to a number of risks Risks are formally reviewed by key management and appropriate processes established to monitor and mitigate these where possible

Competition

The company operates in a highly competitive market but through its unique collaboration with IBM it has an ability to innovate and integrate, which sets it apart from its competition

Customer base

The customer base is currently restricted to public sector bodies in the southwest of England Future development is to focus on expanding the customer base to other public sector organisations throughout the United Kingdom

Political and economic risk

The company has been set up with the sole purpose of providing services to joint venture partners and other public sector agencies Future performance may be impacted by changes in political leadership or the direction within government, and through potential budgetary restrictions imposed on current and future customers

System transformation

A cross-functional SAP system was introduced during the prior year The success of the company is likely to be impacted if the expected benefits gained through improved efficiencies and savings are not fully realised The performance of the SAP project is monitored closely through KPIs to ensure that issues are identified and remedial action undertaken

Financial risk management
The company is exposed to a variety of financial risks as a result of its operations including the effects of changes in market price, credit risk, liquidity risk, interest rate risk and currency risk The company has a strong risk management programme in place that is aligned to the worldwide programme of the company's ultimate parent company, International Business Machines Corporation

Price risk

The financial risk posed by external vendors is overseen by the company's central procurement function Procurement is the only business unit in SWO that is authorised to make financial commitments to external vendors The unit has responsibility for achieving overall value for the company and joint venture partners in terms of supplier selection at optimum price All procurement activities are carried out under worldwide IBM guidelines

Foreign exchange risk

The activities of the company are local to the United Kingdom and foreign exchange is not considered to be a risk due to all transactions currently being denominated in British Pound Sterling The company does not use derivatives

Principal risks and uncertainties (continued)

Credit risk

The company has policies in place that require appropriate credit checks to be carried out on potential customers before sales are made Regular reviews of credit limits on existing customers are also carried out The company's customer base is comprised of primarily large UK Public Sector organisations and the directors believe that this reduces the company's exposure to credit risk

Interest rate risk

Interest is paid on the daily balance owing to group undertakings and earned on cash held on deposit The company uses the variable one month interest rate as the basis for interest calculations

Liquidity risk

The company maintains its finance facilities with IBM Treasury Centre in Ireland to ensure it has sufficient funds available for operations and planned expansions There is a letter of support in place from IBM United Kingdom Holdings Limited confirming its intention to support the company and enable it to meet its commitments in any liquidity shortfall Borrowing of this nature has, up until the balance sheet date, been treated as short term debt finance, repayable on demand, meaning that the cumulative losses to date have in effect been funded by an unsecured credit facility from IBM

IBM has taken security over any further debt finance provided after 17 January 2012, which secures all future funding by IBM to a limit of £10 0 million This provides IBM with fixed and floating charge security over the company's assets This facility is interest bearing at LIBOR plus 30 basis points and has no fixed capital repayment terms

Supplier payment policy and practice

The company agrees payment terms with its third-party (non-IBM) suppliers when it enters into binding purchase contracts The company seeks to abide by the payment terms agreed with these suppliers whenever it is satisfied that the supplier has provided the goods and services in accordance with the agreed terms and conditions The company had an average of 38 days purchases outstanding within trade payables at the year end (2009 42 days)

Future developments

The large scale reduction in central government funding announced by the current coalition government presents the company with two principal opportunities Firstly, SWO is ideally placed to assist joint venture partners in meeting the cost challenges they face as a result of reductions in funding Secondly, the directors believe that SWO's mature shared services operation and process re-engineering expertise can be extended to other public sector authorities facing a similar challenge As a pioneer in the shared approach to public services now being advocated by central government, SWO is uniquely placed to benefit from future investment in this area This position will be enhanced by the Board's approval of the financial improvement plan, designed to focus on all aspects of performance and put the company is a stronger financial position for the future

Going Concern

The company has made a loss after tax of £22 7 million (2009 £11 9 million) and has net liabilities of £36 4 million (2009 £13 7 million) After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future and that funds will be available to settle its liabilities when required The company's immediate parent undertaking, IBM United Kingdom Holdings Limited, has confirmed its intention to support the company to enable it to meet its commitments as they fall due For this reason, the directors continue to adopt the going concern basis in preparing the financial statements

Directors

The directors who served the company during the year and up to the date of signing the financial statements (and their principal employer) were as follows

Sir J Tidmarsh (Chairman)	South West One Limited	(resigned 30 Jun 2011)
D Pretty (Chairman)	South West One Limited	(appointed 01 Sep 2011)
R Little	Somerset County Council	
S Coles	Taunton Deane Borough Council	(resigned 08 Jun 2010)
W McMahon	Taunton Deane Borough Council	(appointed 24 Jun 2010)
		(resigned 20 May 2011)
B Nottrodt	Taunton Deane Borough Council	(appointed 20 May 2011)
C Port	Avon and Somerset Police Authority	(resigned 30 Aug 2011)
J Smith	Avon and Somerset Police Authority	(appointed 05 Sep 2011)
J Granger	IBM United Kingdom Limited	(resigned 25 Jun 2010)
C Wyatt	IBM United Kingdom Limited	(appointed 25 Jun 2010)
G Butterworth	IBM United Kingdom Limited	
S Humberstone	IBM United Kingdom Limited	

In accordance with the company's Articles of Association, the directors are entitled to appoint alternate directors Alternate directors have the same powers to attend, speak, and vote at meetings as the principal directors The alternate directors who served during the year (and their principal employer) were as follows

D Huxtable	Somerset County Council	(appointed 26 Mar 2010)
J O'Brien	Taunton Deane Borough Council	(appointed 24 May 2010)
W McMahon	Taunton Deane Borough Council	(appointed 08 Jun 2010)
		(resigned 24 Jun 2010)
P Watson	Taunton Deane Borough Council	(appointed 28 Sep 2010)
Dr M Hamlin	Avon and Somerset Police Authority	(resigned 29 Jul 2010)
P Heffer	Avon and Somerset Police Authority	(appointed 29 Jul 2010)

Director (continued)

None of the directors had any interest in the contracts between the company and the joint venture partners, except in their capacity as officers of the partner organisations

Statement of disclosure of information to auditors
In so far as the directors are aware

- there is no relevant audit information of which the company's auditors are unaware, and

- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information

Independent auditors
PricewaterhouseCoopers LLP are deemed to be re-appointed under section 487(2) of the Companies Act 2006

Signed by order of the board

D Pretty
Chairman

17 January 2012

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period In preparing these financial statements the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors confirm they have complied with the above requirements in preparing the financial statements

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

We have audited the financial statements of South West One Limited for the year ended 31 December 2010 which comprise the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Financial Position, the Statement of Cash Flows and the related notes The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 13, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2010 and of its loss and cash flows for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or

- the financial statements are not in agreement with the accounting records and returns, or

- certain disclosures of directors' remuneration specified by law are not made, or

- we have not received all the information and explanations we require for our audit

Nicholas Smith
Senior Statutory Auditor
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants & Statutory Auditors
Southampton

17 January 2012

South West One Limited

Statement of Comprehensive Income

For the Year Ended 31 December 2010

	Note	2010 £000	2009 £000
Revenue	3	**22,491**	34,999
Cost of sales	4	**(51,733)**	(48,321)
Gross loss		**(29,242)**	(13,322)
Administrative expenses		**(1,735)**	(2,828)
Operating loss		**(30,977)**	(16,150)
Finance income	7	**-**	5
Finance costs	8	**(563)**	(326)
Loss before income tax		**(31,540)**	(16,471)
Income tax credit	9	**8,826**	4,615
Loss for the year and total comprehensive income		**(22,714)**	(11,856)

All operations are classified as continuing

The notes on pages 20 to 47 form part of these financial statements.

South West One Limited

Statement of Changes in Equity

For the Year Ended 31 December 2010

	Issued capital £000	Retained earnings £000	Total equity £000
At 1 January 2009	10	(1,820)	(1,810)
Loss for the financial year	-	(11,856)	(11,856)
At 31 December 2009	10	(13,676)	(13,666)
Loss for the financial year	-	(22,714)	(22,714)
At 31 December 2010	10	(36,390)	(36,380)

The notes on pages 20 to 47 form part of these financial statements.

South West One Limited

Statement of Financial Position

As at 31 December 2010

	Note	2010 £000	2009 (Restated) £000
Non-current assets			
Property, plant and equipment	10	**18**	43
Deferred tax assets	15	**108**	121
Deferred transition costs	11	**-**	16,200
		126	16,364
Current assets			
Inventories	12	**233**	521
Deferred transition costs	11	**-**	2,768
Trade and other receivables	13	**15,195**	12,980
Cash and cash equivalents	14	**3,061**	626
		18,489	16,895
Total assets		**18,615**	33,259
Non-current liabilities			
Deferred income	16	**(3,396)**	(4,237)
		(3,396)	(4,237)
Current liabilities			
Deferred income	16	**(3,027)**	(2,650)
Trade and other payables	17	**(48,572)**	(40,038)
		(51,599)	(42,688)
Total liabilities		**(54,995)**	(46,925)
Net liabilities		**(36,380)**	(13,666)
Issued capital and reserves			
Share capital	23	**10**	10
Retained losses		**(36,390)**	(13,676)
Total deficit		**(36,380)**	(13,666)

Details of the 2009 restatement are included in note 16

The financial statements were approved by the directors and authorised for issue on 17 January 2012, and are signed on their behalf by

D Pretty
Chairman
Company registration number 06373780

The notes on pages 20 to 47 form part of these financial statements.

South West One Limited

Statement of Cash Flows

For the Year Ended 31 December 2010

	Note	2010 £000	2009 £000
Net cash flow from operating activities	21	**3,003**	(2,132)
Cash flows from investing activities			
Payments to acquire property, plant and equipment	10	**(5)**	-
Net cash flow from investing activities		**(5)**	-
Cash flows from financing activities			
Interest paid	8	**(563)**	(326)
Interest received		-	5
Net cash flows from financing activities		**(563)**	(321)
Net increase in cash and cash equivalents		**2,435**	(2,453)
Cash and cash equivalents at beginning of year	14	**626**	3,079
Cash and cash equivalents at end of year		**3,061**	626

Cash and cash equivalents are reconciled to the statement of financial position in note 14

The notes on pages 20 to 47 form part of these financial statements.

1 Accounting policies

Basis of accounting
South West One Limited ("SWO") is a limited company incorporated and domiciled in Great Britain and registered in England and Wales under the Companies Act 2006 These financial statements have been prepared under the historical cost convention with the exception of certain items which are measured at fair value as disclosed in the accounting policies below These financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs), International Financial Reporting Interpretations Committee (IFRICs) interpretations and as applied in accordance with the provisions of the Companies Act 2006

The principal accounting policies adopted in the preparation of the financial statements are set out below The policies have been applied consistently to all years presented, unless otherwise stated The preparation of financial statements in compliance with IFRSs requires the use of certain critical accounting estimates It also requires management to exercise judgment in the process of applying the company's accounting policies The areas where significant judgments and estimates have been made in preparing the financial statements are disclosed in the notes to these financial statements

The financial statements have been prepared on a going concern basis

New and amended standards adopted by the company
The following standards, interpretations, and amendments have been adopted in the financial statements for the first time for the year beginning 1 January 2010

IFRIC 18 Transfer of assets from customer (effective 1 July 2009) This amendment does not have a material impact on the company's financial statements

New standards, interpretations and amendments not yet effective
The following standards, interpretations, and amendments have not been applied in the financial statements for the year beginning 1 January 2010 and are not expected to have a material impact on the company's future financial statements in the period of initial recognition

IFRS 9 Financial Instruments

IAS 24 Related party disclosure (Revised)

The company's assessment of all other new and amended standards, mandatory for the first time for the financial year beginning 1 January 2010, and those not yet effective, are not relevant to the company during the reporting period

1 Accounting policies (continued)

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes

The company generally recognises revenue when it has persuasive evidence of an arrangement, delivery has occurred, the sales price is fixed or determinable and the ability to collect is reasonably assured Delivery does not occur until products have been shipped or services have been provided to the client, risk of loss has transferred to the client and the client acceptance has been obtained, client acceptance provisions have lapsed or the company has objective evidence that the criteria specified in the client acceptance provisions have been satisfied

The company enters into multiple-element revenue arrangements which may include any combination of services, software and hardware A multiple-element arrangement is separated into more than one unit of accounting if the commercial substance is that the individual components operate independently of each other and a reliable fair value can be attributed to each component If the components are not deemed to operate independently of each other then the arrangement is accounted for as a whole to reflect the company's right to consideration in exchange for the performance of its obligations

Revenue from sales of third-party vendor products or secondee services is recorded net of costs when the company is acting as an agent between the client and vendor and gross when the company is a principal to the transaction Several factors are considered to determine whether the company is an agent or principal, most notably where the company is the primary obligor to the client, or has inventory risk Consideration is also given to whether the company adds meaningful value to the vendor's product or service, was involved in the selection of the vendor's product or service, has latitude in establishing the sales price or has credit risk

Services revenue is recognised on a time and materials basis, a percentage of completion method, a straight line basis over the term of the contract or on an output basis that reflects the services provided during the period The methodology used is dependent on the nature of the contract

The company performs ongoing profitability analysis of its services contracts in order to determine whether the latest estimates, such as revenue, costs of sales, profits, require updating If, at any time, these estimates indicate that the contract will be unprofitable, the entire estimated loss for the remainder of the contract is recorded immediately

Long term contracts

Work in progress on long term contracts is valued at the lower of cost and net realisable value Revenue is recognised on each contract using the percentage of completion method, on a straight line basis over the term of the contract or as costs are incurred The methodology used is dependent upon the nature of the contract Amounts receivable under long term contracts are included in trade and other receivables values according to the work done at contract prices less payments received on account Full provision for future anticipated losses and any excess of payments received over amounts recoverable is included in trade and other payables

1 Accounting policies (continued)

Royalties

A royalty agreement exists between the company and the ultimate parent company, International Business Machines Corporation SWO as licensee pays a 3% net charge in connection with the profit margin achieved on any services (excluding traded services) that it provides during the term of the agreement to the public sector partners involved in the joint venture Payment of this royalty fee is made within 60 days of the end of the preceding calendar quarter

Dividend distribution

Dividend distribution to the company's shareholders is recognised as a liability in the company's financial statements in the period in which the dividends are approved by the company's shareholders

Finance income

Finance income represents interest income which is recognised on an accruals basis using the effective interest rate method

Finance costs

Finance costs represent interest on short term borrowings

Taxation

Income tax is the current tax calculated on taxable profits or losses for the year, any adjustments in respect of prior periods and the deferred tax charge or credit for the year

The current tax is based on taxable profits or losses for the year Taxable profits or losses differ from profits or losses as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible The company's liability or asset for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit or loss, and is accounted for using the liability method Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit or loss nor the accounting profit or loss

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered

Deferred tax is calculated at the tax rates that have been enacted and that are expected to apply in the year when the liability is settled or the asset realised Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity

1 Accounting policies (continued)

Taxation (continued)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the company intends to settle its current tax assets and liabilities on a net basis

Tax credits receivable on losses for the year are recoverable via group relief Consideration is received on the basis of a £1 reduction in the balance owed to group undertakings for each £1 of tax credit surrendered as group relief

Deferred transition costs

Costs related to delivering services under long-term contractual arrangements, including costs relating to bid and proposal activities, are expensed as incurred

Certain non-recurring costs which are directly incurred in the initial transition and transformation stages of a specific outsourcing contract are capitalised as an asset under the heading 'Deferred transition costs' These consist of transition and set up costs related to the installation of systems and processes and are amortised on a straight line basis over the remaining life of the contract The company performs periodic reviews to assess the recoverability of the deferred costs by comparing the minimum remaining contractual cash inflows to the non-amortised contract costs If such minimum contractual cash inflows are not sufficient to recover the non-amortised costs, an impairment is recognised Any impairment of deferred costs is included within the heading cost of sales and disclosed within note 4

Defined contribution retirement plans

Contributions to defined contribution retirement plans made by the company are recognised as an expense when the employees have rendered services entitling them to the contributions

Property, plant and equipment

Property, plant and equipment held for use in the supply of goods or services, or for administrative purposes, are stated in the statement of financial position at cost less any accumulated depreciation and accumulated impairment losses

The depreciable amount of an asset is determined after deducting its residual value The residual value of an asset is the estimated amount that the company would obtain from the disposal of the asset, after deducting the estimated cost of disposal at the end of its estimated useful life

Depreciation is charged so as to write off the cost of assets over their estimated useful lives, using the straight-line method The estimated useful lives used in the calculation of depreciation are as follows

Property, plant and equipment	3 years

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement for the period

1 Accounting policies (continued)

Inventories
Finished goods are stated at the lower of cost and net realisable value

Costs comprise direct materials and, where applicable, those overheads that have been incurred in bringing the inventories to their present location and condition Cost is calculated using the weighted average cost method

Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution Provision is made where necessary for obsolete, slow moving and defective stocks

Financial instruments

Classes of financial instruments

The company considers cash and cash equivalents and trade and other receivables to be its classes of financial assets Trade and other payables and payables to related parties are presented as separate classes of financial liabilities

Financial assets and financial liabilities are recognised initially at fair value, plus directly attributable transaction costs, in the company's statement of financial position when the company becomes party to the contractual provisions of the instrument In determining the fair value of its financial instruments, the company uses a variety of methods and assumptions that are based on market conditions and risks existing at each reporting date For the majority of financial instruments, standard market conventions and techniques such as discounted cash flow analysis, replacement cost and termination cost are used to determine fair value All methods of assessing fair value result in a general approximation of value and such value may never actually be realised

Financial assets

Classification

Financial assets are classified as 'loans and receivables'

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets Loans and receivables are included in 'trade and other receivables' in the statement of financial position (notes 13 and 18)

1 Accounting policies (continued)

Financial instruments (continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and other short term, highly liquid, investments that are readily convertible to a known amount of cash and subject to an insignificant risk of changes in value

Trade and other receivables

Trade and other receivables are measured on initial recognition at fair value and subsequently at amortised cost

An allowance for uncollectable trade and other receivables is recorded based on a combination of write-off history, ageing analysis, and any specific, known troubled accounts Below are the methodologies the company uses to calculate its impairment reserves, which are applied consistently to its different portfolios

The company reviews all trade and other receivables on a regular basis The review consists primarily of an analysis based upon current information available about clients, such as financial statements, news reports and published credit ratings, as well as the current economic environment, collateral net of repossession cost and prior history Additionally, analysis is performed on its different collectively assessed portfolios, based upon credit ratings, probability of default, term, asset characteristics, and loss history to determine if there is objective evidence of impairment

Objective evidence of impairment could include

- significant financial difficulty of the issuer or counterpart, or
- default or delinquency in interest or principal payments, or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation

If there is objective evidence that accounts receivable are impaired, the company calculates an impairment loss by comparing the asset's carrying amount and the present value of the expected future cash flows Any resulting impairment loss is recognised in the income statement The carrying amount of the impaired receivable is reduced through the use of a specific allowance account

Losses incurred on trade and other receivables are charged against the allowance when management believes the doubtful classification of the receivable is confirmed Subsequent recoveries, if any, are credited to the allowance

1 Accounting policies (continued)

Financial instruments (continued)

Derecognition of financial assets

The company ceases to recognise a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity If the company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the company recognises its retained interest in the asset and an associated liability for amounts it may have to pay If the company retains substantially all the risks and rewards of ownership of a transferred financial asset, the company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received

Financial liabilities

Classification

Financial liabilities are classified as financial liabilities and measured at amortised cost

Trade and other payables

Trade and other payables are recognised when the company becomes obliged to make future payments resulting from the purchase of goods or services Amounts are unsecured and usually settled on standard commercial trade terms Trade and other payables are initially measured at fair value, net of transaction costs

Trade and other payables are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition

Derecognition of financial liabilities

The company ceased to recognise financial liabilities when the company's obligations are discharged, cancelled or expire

Debt and equity instruments

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement

Interest and dividends

Interest and dividends are classified as expenses or as distributions of profit consistent with the statement of financial position classification of the related debt or equity instruments or component parts of compound instruments

2 Significant accounting estimates and assumptions

The application of accounting standards and policies requires the company to make estimates and assumptions about future events that directly affect its reported financial condition and operating performance The accounting estimates and assumptions discussed are those that the company considers to be most critical to its financial statements An accounting estimate is considered critical if both (a) the nature of estimates or assumptions is material due to the level of subjectivity and judgment involved, and (b) the impact within a reasonable range of outcomes of the estimates and assumptions is material to the company's financial condition or operating performance

Revenue recognition

Application of the various accounting principles in IFRS related to the measurement and recognition of revenue requires that the company make judgments and estimates Specifically, complex arrangements with non-standard terms and conditions may require significant contract interpretation to determine the appropriate accounting, including whether the deliverables specified in a multiple element arrangement should be treated as separate units of accounting Other significant judgments include determining whether the company or a reseller is acting as the principal in a transaction and whether separate contracts are considered part of one arrangement

Revenue recognition is also impacted by the company's ability to estimate sales incentives, expected returns and allowances for uncollectable receivables The company considers various factors, including a review of specific transactions, the credit-worthiness of the customers, historical experience and market and economic conditions when calculating these provisions and allowances

Cost to complete service contracts

The company enters into service contracts which include multiple complex work streams and technologically demanding requirements During the contractual period, revenue, cost and profits may be impacted by estimates of the ultimate profitability of each contract, especially contracts where the company uses the percentage of completion method of accounting If at any time, these estimates indicate that the contract will be unprofitable, the entire estimated loss for the remainder of the contract is recorded immediately

The company performs ongoing profitability analysis of its services contracts in order to determine whether the latest estimates require updating Key factors reviewed by the company to estimate the future costs to complete each contract are future labour costs and productivity efficiencies

2 Significant accounting estimates and assumptions (continued)

Impairment of deferred transition costs and future forecast losses

The performance in 2010 and the period since, has required management to undertake a detailed review of all aspects of the original business model that underpins the operations of the company

This review has been completed with the specific aim of devising a new business and financial model for the future operation of the company that enables it to eliminate future losses from the start of 2012 until the expiry of the joint venture contracts A significant part of this review has involved producing a series of forecasts to determine the means by which the goals of the new business model will be achieved It is possible that the forecast financial position of the company at the date the financial statements are approved may need future revision as the elements of the new business model are implemented Part of this process involves certain negotiations to be concluded with the joint venture partners Depending on the outcome of these negotiations there remains the risk that these future revisions could be material to the financial statements The forecast financial position to end of life of the contracts with the joint venture partners are predicated on a number of assumptions, in particular those associated with uncertainties that exist around the complex contractual arrangements that SWO with the joint venture partners

The forecasts available at the date the financial statements are approved represent management's best estimate of the future performance of the company until the end of the joint venture partner contracts in 2017 and 2018 These forecasts have indicated that losses would be sustained that need to be accounted for in the current period As a result of this exercise the board has assessed the carrying value of the deferred transition costs and concluded, based on the forecast to end of life, that they will not be recoverable Accordingly an impairment charge has been taken in the current year against these assets amounting to £17 million, such that the to go position of the contacts will not incur any ongoing amortisation charges from these assets

In the prior year the Board assessed that there was no loss to go on the contracts, as it was expected that certain revenues would be receivable under the contract These, however, have been the subject of negotiations between the company and the joint venture partners The uncertainty over the amounts has contributed to the assessment in these financial statements that a loss to go is appropriate

3 Revenue

	2010	2009 (Restated)
	£000	£000
Analysis by customer		
Somerset County Council	**33,015**	42,569
Taunton Deane Borough Council	**5,911**	6,014
Avon and Somerset Police Authority	**20,410**	23,016
Sales to third parties	**5,967**	5,201
Gross revenue	**65,303**	76,800
Less Pass through revenues	**(42,812)**	(41,801)
Net revenues as recognised	**22,491**	34,999

	2010	2009 (Restated)
	£000	£000
Analysis by segment		
Operational	**51,613**	53,487
Transformational	**1,168**	14,211
Traded and other services	**12,522**	9,102
Gross revenue	**65,303**	76,800
Less Pass through revenues	**(42,812)**	(41,801)
Net revenues as recognised	**22,491**	34,999

Revenue related to operational services is earned through the provision of day to day processes and services to the joint venture partners Revenue from the transformation activity relates to the re-engineering and streamlining of existing processes previously used of joint venture partners to allow the company to deliver cost savings and efficiencies to joint venture partners Revenue from traded and other services is generated by undertaking services on behalf of joint venture partners that do not form part of core operational activities and from sales made to third parties

The 2009 comparative figures for both types of revenue analysis have been restated to reflect the additional categorisation of revenues that has been applied to the equivalent analysis for 2010 The signed 2009 accounts previously disclosed revenue from Somerset County Council as £44 3 million and revenue from third parties as £3 4 million These also disclosed the operational segment revenue as £59 1 million and the traded and other services revenue as £3 4 million These restatements have no impact on the underlying result for 2009 and are for consistency and disclosure purposes for this note only

3 Revenue (continued)

Pass through revenues

Pass through revenues relate to (a) amounts that have been charged to the joint venture partners in respect of the costs related to the employees that have been seconded to the company and (b) costs related to other third party products and services, which had initially been charged to the company by the joint venture partners These amounts have been recorded on a net basis as the company is not principal to these transactions and is acting as an agent

4 Expense by nature

	2010	2009 (Restated)
	£000	£000
Direct employee costs	2,194	685
Provision of goods and services from IBM	7,805	29,763
Impairment of deferred transition costs	17,001	-
Provision of goods and services from:		
Somerset County Council	20,856	26,798
Taunton Deane Borough Council	4,067	4,164
Avon and Somerset Police Authority	14,391	16,622
Other sources	28,231	12,090
	67,545	59,674
Less Costs related to pass through revenues	(42,812)	(41,801)
	24,733	17,873
Costs of sales as recognised	51,733	48,321

Costs related to pass through revenues

Costs related to pass through revenues relate to a) amounts which have been charged by joint venture partners in respect of costs related to the employees whom have been seconded to the company and also the costs related to other third party products and services, that had initially been charged to the company by the joint venture partners These amounts have been recorded on a net basis as the company is acting as an agent in these transactions, and is not principal to these transactions

4 Expense by nature (continued)

	Note	2010 £000	2009 (Restated) £000
Included in costs of sales			
Impairment of deferred transition costs	11	**17,001**	-
Amortisation of deferred transition costs	11	**2,768**	4,069
Employee expenses	5	**2,194**	685
Inventory expensed	12	**1,225**	425
Depreciation of property, plant and equipment	10	**17**	25
Loss on disposals of property, plant and equipment	10	**13**	-
Operating leases land and buildings	19	**-**	11
Included in administration expenses			
Auditors' remuneration - audit services		**120**	120
Auditors' remuneration - non-audit services		**49**	-

The nature of expense comparative figures for 2009 have been restated to reflect the additional categorisation of costs that has been applied to the equivalent analysis for the year under review The signed 2009 accounts previously disclosed provision of goods and services from other sources as £14 3 million and from IBM as £28 2 million The restatement has no impact on the underlying result for 2009 and is for consistency and disclosure purposes for this note only

5 Employee expenses

	2010	2009
	£000	£000
Wages and salaries	1,972	615
Social security costs	177	52
Pension cost for defined contribution plans	45	18
	2,194	685

The average monthly number of employees, including directors, during the year was made up as follows

	2010	2009
	No.	No
Administrative	1	1
Technical	95	27
	96	28

The Chairman of the Board was previously directly employed by SWO during the year under review and is therefore included in the above analysis A new Chairman has been since been appointed after the balance sheet date whom is not employed by the company

The operational and financial activities of the company are carried out predominantly by secondees who remain employees of the joint venture partners The amount recharged to the company in respect of these activities is related to pass through revenues (explained in note 4) and is netted within cost of sales

6 Directors' emoluments

With the exception of the Chairman, no directors had contracts of employment with the company Duties performed in respect of the company are conducted as part of the directors' employment contracts with their principal employers Consequently, the company has not paid any fees to these directors for their services to the company The emoluments of these directors are paid by their principal employers An assessment of the aggregate fees earned by directors based on board attendance in respect of services to the company is valued at £63,588 (2009 £60,237)

The Chairman's aggregate emoluments which have been paid by the company in respect of qualifying services were

	2010	2009
	£	£
Aggregate emoluments	16	17

7 Finance income

	2010 £000	2009 £000
Interest on amounts due from group undertaking	-	5

Interest is charged on amounts due from group undertakings at variable rates based on LIBOR plus 30 basis points

8 Finance costs

	2010 £000	2009 £000
Interest on amounts due to group undertaking	563	310
Other interest payable and bank charges	-	16
	563	326

Interest is incurred on amounts owed to group undertakings at variable rates based on LIBOR plus 30 basis points

9 Income tax credit

(a) Analysis of credit in the year

	2010 £000	2009 £000
Current tax:		
UK Corporation tax based on loss for the year at 28 0% (2009 28 0%)	**8,842**	4,596
Adjustments relating to prior years	**(3)**	(25)
Total current tax	**8,839**	4,571
Deferred tax:		
Movements on temporary differences	**(16)**	44
Adjustments relating to prior years	**3**	-
Total deferred tax (note 15)	**(13)**	44
Income tax credit	**8,826**	4,615

(b) Factors affecting tax credit

The tax assessed on the loss for the year is lower than (2009 higher than) than the standard rate of corporation tax in the UK of 28 0% (2009 28 0%)

	2010 £000	2009 £000
Loss before income tax	**31,540**	16,471
Tax at the domestic income tax rate of 28 0% (2009 28 0%)	**8,831**	4,612
Effects of:		
Non-taxable income	-	28
Adjustments relating to prior years	-	(25)
Expenses not deductible for tax purposes	**(1)**	-
Adjustment to tax rates	**(4)**	-
Total income tax credit (note 9(a))	**8,826**	4,615

9 Income tax credit (continued)

(c) Factors that may affect future tax credit

A number of changes to UK Corporation Tax were announced in the June 2010 Budget Statement and 2011 Budget The main rate of corporation tax will reduce from 28% to 26% from 1 April 2011 Further reductions to the main rate are proposed to reduce the rate by 1% per annum to 23% by 1 April 2014

The effect of the changes enacted in the Finance (No 2) Act 2010 would have no material impact on the deferred tax asset at 31 December 2010 or the result for the year then ended

10 Property, plant and equipment

	Plant and equipment £000
Cost	
At 1 January 2009	72
At 31 December 2009	72
Additions	**5**
Disposals	**(22)**
At 31 December 2010	**55**
Accumulated depreciation	
At 1 January 2009	4
Charge for year	25
At 31 December 2009	29
Charge for year	**17**
Disposals	**(9)**
At 31 December 2010	**37**
Net book value	
At 31 December 2010	**18**
At 31 December 2009	43
At 31 December 2008	68

11 Deferred transition costs

	2010	2009 (Restated)
	£000	£000
Non current		
Balance at the beginning of the year	**16,200**	13,428
Additions in year	**801**	5,540
Impairment charge in year	**(17,001)**	-
Reclassification to current	-	(2,768)
Balance at the end of the year	-	16,200
Current		
Balance at the beginning of the year	**2,768**	4,069
Amortisation charged in year	**(2,768)**	(4,069)
Reclassification from non current	-	2,768
Balance at the end of the year	-	2,768
	-	18,968

The 2009 comparative for deferred transition costs have been restated to correctly reflect the split between current and non-current and the movement during the year The effect of this has been to reduce the 'current' disclosure by £1 5 million and increase the 'non-current' disclosure by the same amount This adjustment is for presentation purposes for this note only and has no impact on the total amount for deferred transition costs disclosed for 2009

Deferred transition costs relate to the capitalisation of non-recurring costs which were directly incurred in the initial transition and transformation stages of a specific outsourcing contract An impairment review of these assets, valued at £17 0 million after amortisation at 31 December 2010, has concluded that the recoverable amount is such that the carrying amount of the assets should be nil

Amortisation of deferred transition costs has been charged during 2010 (prior to impairment) and 2009 on a straight line basis over the remaining life of the contract

12 Inventories

	2010	2009
	£000	£000
Finished goods and goods for resale	**233**	521

The replacement cost of inventories does not differ materially from the amount stated above

The cost of inventories recognised as an expense and included in cost of sales amounted to £1 2 million (2009 £0 4 million)

13 Trade and other receivables

	2010 £000	2009 £000
Trade receivables	**2,950**	6,072
Less provision for impairment of trade receivables	**(772)**	(503)
Amounts recoverable on contracts	**52**	283
Group tax relief receivable	**8,842**	4,596
Prepayments	**3,211**	2,036
Accrued income	**912**	496
	15,195	12,980

Amounts receivable from trade customers are non-interest bearing with generally repayable within the 30 day credit terms

Included within the above amounts is £11 6 million (2009 £7 6 million restated) receivable from related parties as shown in note 22

14 Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following

	2010 £000	2009 £000
Cash at bank	**3,061**	626

15 Deferred tax assets

	2010 £000	2009 £000
Balance at the beginning of the year	**121**	77
(Credit)/charge to income statement	**(13)**	44
Balance at the end of the year	**108**	121

Deferred tax assets are recognised as a result of depreciation charged in excess of capital allowance claimed These are expected to be recoverable against future taxable profits

16 Deferred income

	2010	2009 (Restated)
	£000	£000
Non-current		
Deferred income	**3,396**	4,237
Current		
Deferred income	**3,027**	2,650
	6,423	6,887

The deferred income comparative figures for 2009 has been restated to disclose current and non-current deferred income separately The signed 2009 accounts previously disclosed all £6 9 million of deferred income within current assets This is a presentational adjustment for this note only and has no effect on the company's financial position for 2009

17 Trade and other payables

	2010	2009
	£000	£000
Payable to trade suppliers	**328**	144
Accrued expenses	**3,280**	5,447
Payable to group undertaking	**44,964**	34,447
	48,572	40,038

The sales to and purchases from group undertakings are made at normal market prices Outstanding balances at the year end are unsecured and repayable on demand Interest is incurred on amounts owed to group undertakings and calculated on variable rates based on LIBOR plus 30 basis points No guarantees have been provided or received at the balance sheet date in respect of balances due to group undertakings

18 Financial instruments

Financial risk management

In the normal course of business, the company is routinely subject to a variety of risks In addition to the market risk associated with interest rates on interest bearing assets and liabilities, other examples of risk include credit risk and liquidity risk The company regularly assesses these risks and has established policies and business practices to protect against the adverse effects of these and other potential exposures As a result, the company does not anticipate any material gains or losses, not otherwise reflected in the financial statements, to arise from these risks

Further details of the financial instruments and associated risk management policies of the company are outlined below

18 Financial instruments (continued)

Capital risk management

Capital represents equity attributable to the equity shareholders The primary objective of the company's capital management is to ensure that it maintains a healthy cash position Funding is obtained principally from other group undertakings No changes were made in the objectives, policies or processes since the prior year

The company has no externally imposed capital requirements to which it is subject

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement, and the basis on which income and expenses are recognised in respect of each class of financial asset, financial liability, and equity instrument are disclosed in note 1 to the financial statements

18 Financial instruments (continued)

Categories of financial instruments

	2010 £000 Loans and receivables	2010 £000 Amortised cost
Financial assets		
Trade and other receivables	11,984	-
Cash and cash equivalents	3,061	-
	15,045	-
Financial liabilities		
Trade and other payables	-	(3,608)
Payable to group undertaking	-	(44,964)
	-	(48,572)

	2009 (Restated) £000 Loans and receivables	2009 (Restated) £000 Amortised cost
Financial assets		
Trade and other receivables	10,944	-
Cash and cash equivalents	626	-
	11,570	-
Financial liabilities		
Trade and other payables	-	(5,591)
Payables to group undertaking	-	(34,447)
	-	(40,038)

The comparative figures for 2009 trade and other receivables have been restated (previously £6 1 million) to reflect the additional categorisation of receivables that has been applied to the equivalent analysis for the year under review This adjustment is for presentation purposes for this note only and has no impact on the total amount for deferred transition costs disclosed for 2009

18 Financial instruments (continued)

Credit risk

The company is exposed to potential loss if any party fails to pay amounts due to the company under contractual terms ('credit risk') The company has established policies and procedures for mitigating credit risk on principal transactions, including reviewing and establishing credit limits for credit exposure, and continually assessing the credit-worthiness of existing and potential customers Cash balances are held with the IBM Treasury Centre and with NatWest Bank, which the directors assess as having high credit ratings

The company has policies in place to minimise credit risk, including obtaining appropriate credit checks on potential customers before sales are made The company's exposure to credit risk is further reduced due to the counter parties being UK public sector bodies with high credit ratings Debt collection is managed on a timely basis and is controlled to keep any risk of impairment to a minimum

The table below summarises the maturity of the company's trade receivables which are past due but not impaired as at 31 December 2010

	2010	2009
	£000	£000
Days past due date		
0 - 30	402	533
31 - 60	494	569
61 - 90	270	625
Over 90	390	356
	1,556	2,083

Interest rate risk

The company has some exposure to interest rate risk as interest bearing assets and interest bearing liabilities are entered into at a floating interest rate Interest rate on non - IBM Treasury Centre activity attracts an interest rate of base rate less 1%, subject to a minimum rate of 0%, while IBM Treasury Centre balances attract a rate of LIBOR +/- 30 basis points

Liquidity risk management

The company maintains a healthy cash balance to ensure that debts can be paid as they fall due The company also maintains adequate reserves, banking facilities and reserve borrowing facilities through its agreements with the IBM Treasury Centre in Ireland

18 Financial instruments (continued)

Interest rate sensitivity

The sensitivity analysis below have been determined based on the exposure to interest rates for non-derivative financial instruments at the reporting date For variable rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the reporting period end date was outstanding for the whole year A one percent increase or decrease is used when reporting interest rate risk internally to key management personnel and represents managements assessment of the effects of possible changes in interest rates

At the reporting date, if interest rates had been one percent higher/lower and all other variables were held constant, the company's net loss would increase/decrease by £0 6 million (2009 £0 3 million) This is principally attributable to the company's exposure to interest rates on its variable rate borrowings and cash deposits and the balances owing to and due from related parties which, are repayable on demand

19 Operating lease commitments

	2010	2009
	£000	£000
As lessee		
Less than one year	-	11

The company had a short term lease on its principal place of business which ended on 31 March 2010 Staff and secondees now occupy space at the strategic partner sites to minimise costs

20 Other commitments or contingencies

No contingent liabilities or commitments existed as at 31 December 2010 and 31 December 2009

21 Notes to the cash flow statement

Reconciliation of loss for the year to net cash outflow from operating activities

	2010 £000	2009 £000
Loss for the year	**(22,714)**	(11,856)
Adjustments for		
Depreciation	**17**	25
Loss on disposal of fixed assets	**13**	-
Finance income	**-**	(5)
Finance cost	**563**	326
Income taxes	**(8,826)**	(4,615)
Changes in operating assets and liabilities		
Decrease / (increase) in trade and other receivables	**6,627**	(3,217)
Decrease / (increase) in deferred transition costs	**18,968**	(1,469)
Increase in trade and other payables	**8,531**	27,310
Decrease in deferred income	**(464)**	(8,416)
Decrease / (increase) in inventories	**288**	(215)
Cash generated from operations	**3,003**	(2,132)
Net cash flow from operating activities	**3,003**	(2,132)

22 Related party transactions

The company has outstanding balances with related parties These balances are disclosed in "trade and receivables" (note 13) and "trade and other payables" (note 17) Transactions and outstanding balances between the company and its related parties are disclosed below

	Joint venture partners 2010 £000	**IBM group undertakings 2010 £000**
Sale of goods and services	**22,692**	**-**
Purchase of goods and services	**(2,670)**	**(7,805)**
Interest payable	**-**	**(563)**
Amounts due to	**(442)**	**(44,964)**
Amounts due from	**2,778**	**8,842**

	Joint venture partners 2009 £000 (Restated)	IBM group undertakings 2009 £000 (Restated)
Sale of goods and services	35,128	-
Purchase of goods and services	(11,113)	(29,763)
Interest receivable	-	5
Interest payable	-	(326)
Amounts due to	(1,599)	(34,447)
Amounts due from	3,003	4,596

Notes

1 Joint venture partners include Somerset County Council, Taunton Deane Borough Council and Avon and Somerset Police Authority

2 IBM group undertakings include IBM United Kingdom Limited and IBM Treasury Centre

22 Related party transactions (continued)

The 2009 comparative figures for sales to and purchases from joint venture partners have been restated to correct the element of pass through costs/revenues that relate to employees of joint venture partners seconded to SWO The 2009 signed accounts previously disclosed these figures as follows sales of goods and services to joint venture partners £31 6 million Purchases of good and services from joint venture partners £5 8 million, from IBM £28 2 million The restatement is to reflect the equivalent analysis for the current year, has no impact on the underlying result for 2009 and is for disclosure purposes only

A royalty agreement exists between the company and the ultimate parent company, International Business Machines Corporation The company as licensee, pays a 3% net charge in connection with the profit margin achieved on any services (excluding traded services) that it provides during the term of the agreement to the United Kingdom local government partners

Due to the loss making position of the company, no royalty was payable for the year ended 31 December 2010 or for the year ended 31 December 2009

Key management compensation

Members of the key management are remunerated by their principal employer and not by the company The total remuneration of members of key management paid by their principal employer in the period in respect of services to the company was as follows

	2010 £000	2009 £000
Short term benefits	**590**	889
Post employment benefits	**190**	191
Share based payments	**97**	105

23 Share capital

Authorised share capital:

The authorised share capital of the company is £10,000 divided into

	No. of shares	Value of shares
A1 ordinary shares with a par value of £ 1	1,175	1,175
A2 ordinary shares with a par value of £ 1	500	500
A3 ordinary shares with a par value of £ 1	825	825
B ordinary shares with a par value of £ 1	7,500	7,500
At 31 December 2010 and 2009	**10,000**	10,000

Allotted, called up and fully paid:

	No. of shares	Value of shares
A1 ordinary shares issued to Somerset County Council	1,175	1,175
A2 ordinary shares issued to Taunton Deane Borough Council	500	500
A3 ordinary shares issued to Avon and Somerset Police Authority	825	825
B ordinary shares issued to IBM United Kingdom Holdings Limited	7,500	7,500
At 31 December 2010 and 2009	**10,000**	**10,000**

All shares which the directors propose to issue shall be comprised of 25% A shares and 75% B shares Any newly issued shares will be offered first to the same class of shareholder, unless agreed otherwise by special resolution The rights of each of the three classes of A shares are the same in principle

Any A class shareholder may transfer its entire shareholding to a local authority (a) taking over the relevant services contract, or (b) following a reorganisation, assuming all responsibilities for the same functions as the shareholder The B shareholder may transfer its entire shareholding to any intermediate holding company of all its associated companies registered in England and Wales and with "IBM" in its title

The B shareholder may require an A shareholder to sell all its A shares to the B shareholder or another IBM associated company designated by the B shareholder (the call option) An A shareholder may require the B shareholder to purchase all its A shares (the put option) These options are triggered when the relevant A shareholder's agreement with the company for the provision of services is terminated, or when an A shareholder no longer receives substantially all of its services from the company as originally agreed These options are triggered on service of a written notice given by the shareholder exercising the option The option price will be the par value of the A shares over which the option is being exercised

Dividends only accrue in respect of the B shares and are to be paid only with the consent of all shareholders As the company has cumulative losses there are no available reserves from which to make dividends payable to the holder of the B shares

23 Share capital (continued)

If the company is wound up the liquidator may, with the requisite majority of the shareholders (being consent of the holders of not less than 88% of the shares in issue) and in accordance with any other sanction required by the Companies Act 2006, divide among the shareholders the whole or any part of the assets of the company, value the assets for that purpose and determine how this division shall be made The liquidator may vest the whole or any part of the assets in trust for the benefit of the shareholders (although no shareholder is compelled to accept any assets upon which there is a liability)

Meetings

The B shareholder is entitled to appoint three directors and to remove such directors Each of the A shareholders is entitled to appoint one director respectively and to remove such director The consent of the B shareholder is required for the appointment to the board of a director of an A shareholder if the proposed director is not an employee, officer or elected member of the A shareholder

The quorum required for a board meeting is four directors, always with at least one B director present and (provided they are in office) at least one A1, one A2 and one A3 director present If a board resolution or board matter is determined on the basis of a majority of votes and the B directors' votes are less than the number of votes of the other directors, then the B directors are entitled to cast such additional votes to pass the resolution as if the B directors had held a majority of the votes of the directors The quorum for a general meeting is two members present provided that members holding at least 70% of the total issued share capital must be present in person or by proxy

24 Ultimate parent company

The company's majority shareholder is IBM United Kingdom Holdings Limited, which owns 75% of the company's shares The remaining 25% of the shares are held by Somerset County Council (11 75%), Taunton Deane Borough Council (5%) and Avon and Somerset Police Authority (8 25%) All entities are registered in England and Wales

Control is governed by a Joint Venture Agreement between these parties but IBM United Kingdom Holdings Limited is the controlling party subject to the terms of this agreement

The company's ultimate parent undertaking is International Business Machines Corporation, which is incorporated in the United States of America and is the parent undertaking of the smallest and largest group to consolidate these financial statements Copies of the financial statements of this undertaking may be obtained from IBM Corporate Headquarters, New Orchard Road, Armonk, New York 10504