

Company Registration Number 06373780

# South West One Limited

## Financial Statements

31 December 2011

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# South West One Limited

## Financial Statements

As at 31 December 2011

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# South West One Limited

## Company Information

For the Year Ended 31 December 2011

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

# South West One Limited

## Chairman's Statement

For the Year Ended 31 December 2011

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I am pleased to present the financial statements of South West One Limited for the year ended 31 December 2011

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

### Finance

As set out in these financial statements SWO has reported a loss after taxation for 2011 of £6.8 million (2010 loss after taxation £22.7 million). This improvement reflects both the impact of provisions for future losses and impairment made in 2010 as well as positive progress by management in reducing SWO's operating costs. In the second half of 2011 the Board undertook a detailed review of the company's finances and operations and worked with senior management to prepare plans to enable the company to achieve financial breakeven for the balance of the contract period from 2012 to 2018. Management continue to make cost savings and our overriding financial objective remains to break even for the balance of the contract. However, the Board have decided that it is appropriate, based on the revised forecasts, to make an onerous contract provision of £6.2 million in the accounts for 2011. This reflects the challenges of making further significant cost savings without harming service levels to the Authorities and the citizens of Somerset and Avon, of responding to the impact of the difficult external environment facing the Authorities and of other factors outside the immediate control of the company. The company would like the opportunity to increase revenue by offering its shared services to other public authorities but we have not reflected any assumption of increased revenue in our future forecasts.

SWO is dependent on the financial support of IBM to continue trading and in light of its growing indebtedness during 2011, the Board agreed in January 2012 to grant security to IBM over new borrowings to an upper limit of £10 million. The borrowings from IBM are provided on a more favourable basis than could be obtained by the company directly, if it tried to borrow on the open market.

### Environment and Change

The difficult political and economic environments in which the company has been operating have not shown any signs of easing. In particular, the financial and other pressures on the Authorities have led the largest of SWO's three partners, SCC, to adopt a new commissioning model to which the company is seeking to adapt. SCC decided that it wished to take back the Finance and HR Advisory service as well as Design and Print and these services have now been returned to SCC, although the company continues to provide these services for our other partners. The Board recognises that change is a constant and will seek to ensure that the management of the company is ready and able to adapt and respond positively to any other changes that the Authorities themselves may have to respond to.

### Service

The Business Review in the Directors' Report sets out a commentary on the services provided and the key performance indicators achieved by the company. Every commercial company must balance its financial commitments and manage scarce resources and the Board has been working hard with management to ensure that the services delivered are always of the highest standard and that contractual issues raised by the Authorities are addressed promptly.

# South West One Limited

## Chairman's Statement

For the Year Ended 31 December 2011

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The company is rightly proud of the financial benefits as well as the excellent overall service and associated improvements which it has delivered since its inception. In particular it believes that the following achievements over the last year are noteworthy

- Completion of a new high speed fibre optic broadband network (WAN) for Somerset schools, SomerNet 21CN - winning the international iCMG Enterprise & IT Architecture Excellence award for Future IT
- The best ever 'in-year' collection by the Revenues & Benefits service of both Council Tax and Business Rates for TDBC, as well as receiving the prestigious Customer Service Excellence Award in recognition of the high standard of customer service and commitment to continuous improvement
- The Customer Services teams continued to deliver an excellent service for local residents and were runners up in the 2011 South West Customer Contact Forum Awards for the best public sector Contact Centre, they also received OFSTED endorsement for their Children's Services work

### People

During the last twelve months there have been a number of important changes within the Board and senior management of SWO

Sir Jay Tidmarsh, who was the first Chair of the Board of SWO, retired from the Board at the end of June 2011. I would very much like to thank Jay on behalf of the company, his fellow directors and myself for his leadership and contribution to the affairs of SWO during his chairmanship. Having recently retired from my role as Chief Operating Officer of the University of Bristol I was appointed as Chair at the beginning of September 2011.

In May 2011 Tony McMahon, a member of TDBC appointed by TDBC as an "A" Director, resigned from the Board and Bruce Nottrodt, also a member of TDBC was appointed to succeed him. In August 2011 Colin Port, the Chief Constable of Avon and Somerset Police, an "A" Director appointed by ASPA, resigned from the Board and ASPA appointed John Smith, the CEO of ASPA, to replace him. In March 2012 Graeme Butterworth, a "B" director appointed by IBM, resigned from the Board and IBM appointed William Fisher to replace him. In July 2012, Bob Little, a member of SCC appointed by SCC as an "A" Director, resigned from the Board and John Woodman, also a member of SCC, was appointed to succeed him. I would like to thank all of the directors both outgoing and current for their support of the company and of me as the incoming Chair.

At the end of May 2012 Fiona Capstick, Chief Executive since December 2009, moved to a new role in IBM and I would like to take this opportunity to thank Fiona for her tremendous contribution, and her commitment and hard work and wish her well in her new role. We have appointed Ian Bowman, of IBM, as the new Chief Executive. Ian's experience includes transformation and process improvement as well as shared services delivery, which makes him ideally suited to the role.

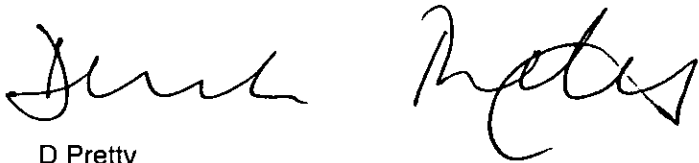
# South West One Limited

## Chairman's Statement

For the Year Ended 31 December 2011

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I had the privilege of attending the Staff Celebration of Achievement ceremony in November 2011 with the Chief Executive where the commitment of the staff and management of SWO to innovate and to provide the best services was evident from both the winners and the many others nominated by clients and colleagues. On behalf of the Board I would like to thank both those present at the Celebration and all of the staff and management of the company for their continuing hard work and for their commitment during 2011 and going forward.



D Pretty

Chairman

03 August 2012





# South West One Limited

## Directors' Report

For the Year Ended 31 December 2011

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The directors present their annual report and the audited financial statements of the company for the year ended 31 December 2011

### 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 (SCC), Taunton Deane Borough Council (TDBC), and Avon & Somerset Police Authority (ASPA). 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 (IBM) 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 120 at the end of December 2010 to 155 at 31 December 2011. The agreement provides for the staff of the 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. 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 2011 the number of seconded staff from joint venture partners providing services via the company was 1,101 (2010: 1,177). In April 2012, approximately 136 staff transferred back to Somerset County Council as some of the Human Resources and Finance Advisory services were transferred back in line with the strategic changes at the Council as they move to their new commissioning model. SWO continues to supply these services to the other authority partners.

# South West One Limited

## Directors' Report

For the Year Ended 31 December 2011

### Business review (continued)

SWO has consistently delivered year on year increases in savings to joint venture partners and this has continued during the current year. A summary of procurement savings that SWO has provided to joint venture partners at 31 December 2011 (since the beginning of the contract) and those forecast for the remaining life of the contract is provided below

Unaudited	Somerset County Council £000	Taunton Deane Borough Council £000	Avon & Somerset Police Authority £000	Total £000
Total benefit pipeline	139,268	7,309	20,594	167,171
Savings forecast from identified initiatives	57,354	2,199	11,622	71,175
Savings forecast from implemented projects	48,448	1,930	10,205	60,583
Savings delivered to date from projects	7,587	939	4,935	13,461

SWO offers a wide range of services beyond strategic procurement and some of these have been recognised with prestigious awards during the year. For example, the Revenue and Benefits team won a Customer Excellence Award in recognition of its high standards of customer service and its commitment to continuous improvement. Customer Service Excellence is the Government's national standard for excellence in customer service. The assessment is undertaken by an independent organisation, and approved by the Cabinet Office in Whitehall, and the award recognises services that put customers at the heart of their services and that focus on delivery, timeliness, information, professionalism and staff attitude.

SWO also received, in conjunction with IBM and BT, an iCMG Enterprise and IT Architecture Excellence award for Future IT. This award recognised the programme which brought a new high speed broadband network to Somerset's schools and academies – the first fibre-optics network for schools anywhere in the Southwest of England and will give 70,000 children and young people, as well as 10,000 teachers and support staff, the ability to make better use of existing and innovative learning resources.

It remains the company's ambition to expand the current framework and allow other interested public sector authorities to join the venture and increase the company's scope. The establishment of a single shared services structure and the experience of dealing with the inevitable change management issues apparent in a collaboration of this nature will reduce the cost and make it easier to incorporate new partners to the joint venture in the future.

While the effect of budget cuts for authorities have added to the adverse trading conditions the company faces in the wider economy, the result of these cuts is that all public authorities must seek new ways to reduce expenditure. This places the company in a position of being able to provide a solution to the problems faced by such Authorities and thus opportunities for expansion are believed to be feasible. SWO has responded to Invitations To Tender (ITT) from a variety of sources and has continued to make proactive bids during 2011 to utilise the infrastructure created by the company. SWO has also hosted several visits to Taunton and Portishead from interested parties (including County Councils, District Councils and Police Forces as well as NHS representatives) keen to view the work the company is doing at first hand.

# South West One Limited

## Directors' Report

For the Year Ended 31 December 2011

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### Business review (continued)

The company's financial results for the year ended 31 December 2011 with comparatives are

	2011	2010
	£000	£000
Revenue	21,026	22,491
Operating loss	(8,741)	(30,977)
Cash and cash equivalents	980	3,061
Net liabilities	(43,178)	(36,380)

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

The operating loss has improved since 2010 and this reflects the current year benefit from the impairment of the transition costs in 2010 as well as cost savings through the financial improvement actions that have been put in place. The company is still working on reaching the efficiency levels that are required to fund the savings which have been committed to the joint venture partners through service improvements, procurement savings and 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.

Deferred transition costs of £17 million were previously being amortised over the life of the contract and so a full impairment of these during 2010 significantly increased the 2010 operating loss of the company. However, accounting for the impairment during the prior year means there is no longer a need to account for amortisation in the current and future periods and so the financial performance for 2011 has been enhanced as a result.

In addition to the 2010 impairment of £17 million, current revised forecasts show that providing service to the existing clients of SWO will generate a further loss going forward. Hence, an onerous contract provision of £6.2 million has been booked in 2011 (see note 17).

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

# South West One Limited

## Directors' Report

For the Year Ended 31 December 2011

### 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 2011 and 31 December 2010 are summarised below.

Unaudited	2011			2010 (restated)		
	KPIs achieved	Total KPIs	%	KPIs achieved	Total KPIs	%
Somerset County Council	31	34	91 %	31	33	94 %
Taunton Deane Borough Council	38	40	95 %	37	42	88 %
Avon & Somerset Police Authority	30	36	83 %	36	40	90 %
<b>All customers</b>	<b>99</b>	<b>110</b>	<b>90 %</b>	<b>104</b>	<b>115</b>	<b>90 %</b>

The prior year KPIs have been restated to remove unreported KPIs.

### 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 south west 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.

#### *Contractual service risk*

Failure to meet contracted service delivery terms for any contract could result in termination of that service delivery contract. Service performance indicators (SPIs) are monitored closely to ensure that issues are identified and remedial action undertaken.

# South West One Limited

## Directors' Report

For the Year Ended 31 December 2011

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### Principal risks and uncertainties (continued)

#### *System transformation*

A cross-functional SAP system was introduced during 2009. 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.

#### *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 primarily of 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 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.

# South West One Limited

## Directors' Report

For the Year Ended 31 December 2011

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### 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 46 days purchases outstanding within trade payables at the year end (2010 49 days)

### Future Developments

The difficult environment for business, both public and private, will continue to place strains upon opportunities for South West One. However by being able to deliver high quality services while continually re-engineering to reduce cost, the company can be positioned as part of the solution to the requirements for cost reduction. There will be specific challenges in the forthcoming year due to the implementation of Universal Credit, the requirements of the Winsor report and changes in regard to the move from Police Authorities to Police and Crime Commissioners. These challenges can be opportunities for the company where it is flexible, quick to understand and adapt to the changes and is positioned to provide solutions for the partners and other potential customers.

The company is currently in dispute with the joint venture partners on a number of contractual matters. Following the procedure for resolving such disputes contained in the contract, a mediation was held on 4 and 5 July 2012 between the company and SCC on a confidential basis. No settlement has been reached and accordingly the board will be reviewing which of the remaining options in the contractual procedure should now be pursued.

### Going Concern

The company has made a loss after tax of £6.8 million (2010 loss £22.7 million) and has net liabilities of £43.2 million (2010 £36.4 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.

# South West One Limited

## Directors' Report

For the Year Ended 31 December 2011

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### 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 June 2011)
D Pretty (Chairman)	South West One Limited	(appointed 1 September 2011)
J Woodman	Somerset County Council	(appointed 31 July 2012)
R Little	Somerset County Council	(resigned 30 July 2012)
W McMahon	Taunton Deane Borough Council	(resigned 20 May 2011)
B Nottrodt	Taunton Deane Borough Council	(appointed 20 May 2011)
C Port	Avon & Somerset Police Authority	(resigned 30 August 2011)
J Smith	Avon & Somerset Police Authority	(appointed 5 September 2011)
C Wyatt	IBM United Kingdom Limited	
G Butterworth	IBM United Kingdom Limited	(resigned 20 March 2012)
S Humberstone	IBM United Kingdom Limited	
W Fisher	IBM United Kingdom Limited	(appointed 20 March 2012)

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	
J O'Brien	Taunton Deane Borough Council	
P Watson	Taunton Dean Borough Council	
P Heffer	Avon & Somerset Police Authority	
S Ross	Taunton Deane Borough Council	(appointed 13 September 2011)

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

# South West One Limited

## Directors' Report

For the Year Ended 31 December 2011

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### Statement of disclosure of information to auditors

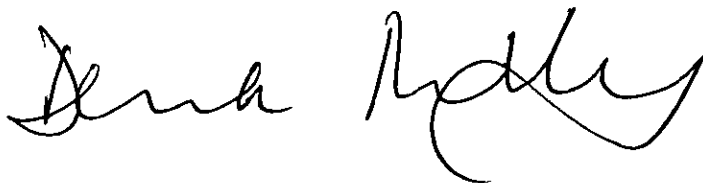
In so far as the directors are aware

- 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

03 August 2012



**South West One Limited**  
**Statement of Directors' Responsibilities**  
**For the Year Ended 31 December 2011**

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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

# South West One Limited

## Independent Auditors' Report to the Members of South West One Limited

For the Year Ended 31 December 2011

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We have audited the financial statements of South West One Limited for the year ended 31 December 2011 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. In addition, we read all the financial and non-financial information in the Chairman's Statement and the Directors' Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### 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 2011 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.

# South West One Limited

## Independent Auditors' Report to the Members of South West One Limited

For the Year Ended 31 December 2011

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### 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

9 August 2012

**South West One Limited**  
**Statement of Comprehensive Income**  
**For the Year Ended 31 December 2011**

	Note	2011 £000	2010 £000
Revenue	3	<b>21,026</b>	22,491
Cost of sales	4	<b>(28,201)</b>	(51,733)
<b>Gross loss</b>		<b>(7,175)</b>	(29,242)
Administrative expenses		<b>(1,566)</b>	(1,735)
<b>Operating loss</b>		<b>(8,741)</b>	(30,977)
Finance costs	7	<b>(498)</b>	(563)
<b>Loss before income tax</b>		<b>(9,239)</b>	(31,540)
Income tax credit	8	<b>2,441</b>	8,826
<b>Loss for the year and total comprehensive loss</b>		<b>(6,798)</b>	(22,714)

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 2011**

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	<b>Issued capital £000</b>	<b>Retained losses £000</b>	<b>Total equity £000</b>
<b>At 1 January 2010</b>	10	(13,676)	(13,666)
Loss for the financial year	-	(22,714)	(22,714)
<b>At 31 December 2010</b>	10	(36,390)	(36,380)
Loss for the financial year	-	(6,798)	(6,798)
<b>At 31 December 2011</b>	10	(43,188)	(43,178)

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

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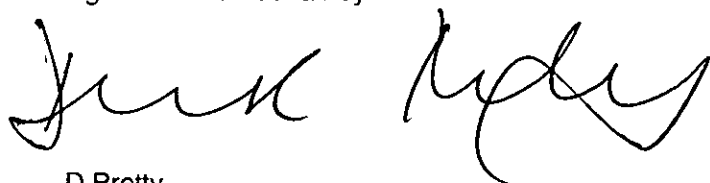
# South West One Limited

## Statement of Financial Position

As at 31 December 2011

	Note	2011 £000	2010 £000
<b>Non-current assets</b>			
Property, plant and equipment	9	-	18
Deferred tax assets	14	80	108
		80	126
<b>Current assets</b>			
Inventories	11	179	233
Trade and other receivables	12	8,462	15,195
Cash and cash equivalents	13	980	3,061
		9,621	18,489
<b>Total assets</b>		<b>9,701</b>	<b>18,615</b>
<b>Non-current liabilities</b>			
Deferred income	15	(2,922)	(3,396)
		(2,922)	(3,396)
<b>Current liabilities</b>			
Deferred income	15	(2,846)	(3,027)
Provisions for liabilities and charges	17	(6,204)	-
Trade and other payables	16	(40,907)	(48,572)
		(49,957)	(51,599)
<b>Total liabilities</b>		<b>(52,879)</b>	<b>(54,995)</b>
<b>Net liabilities</b>		<b>(43,178)</b>	<b>(36,380)</b>
<b>Issued capital and reserves</b>			
Share capital	22	10	10
Retained losses		(43,188)	(36,390)
<b>Total deficit</b>		<b>(43,178)</b>	<b>(36,380)</b>

The financial statements were approved by the directors and authorised for issue on 03 August 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 2011

	Note	2011 £000	2010 £000 (Restated)
<b>Net cash flows from operating activities</b>	20	<b>(1,808)</b>	2,416
<b>Cash flows from investing activities</b>			
Payments to acquire property, plant and equipment	9	(286)	(5)
<b>Net cash flows from investing activities</b>		<b>(286)</b>	(5)
<b>Cash flows from financing activities</b>			
Interest received		13	24
<b>Net cash flows from financing activities</b>		<b>13</b>	24
<b>Net (decrease) / increase in cash and cash equivalents</b>		<b>(2,081)</b>	2,435
Cash and cash equivalents at beginning of year	13	3,061	626
<b>Cash and cash equivalents at end of year</b>		<b>980</b>	3,061

Cash and cash equivalents are reconciled to the statement of financial position in note 13

Net cash flow from operating activities for 2010 has been restated as disclosed in note 20. The 2010 financial statements included £563,000 interest paid and £nil interest received, both of which have been restated to correctly reflect cash flows. These adjustments have no impact on the cash and cash equivalents balance.

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

# South West One Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2011

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### 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 (IFRIC) 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 judgement in the process of applying the company's accounting policies. The areas where significant judgements and estimates have been made in preparing the financial statements are disclosed in the notes to these financial statements.

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.

#### **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 on 1 January 2011.

IAS 24 Related Party Disclosures (Revised) This does not have a material impact on the company's financial statements.

#### **New standards, interpretations and amendments not yet effective**

The following new standards, interpretations, and amendments have not been applied in the financial statements for the year beginning on 1 January 2011 and are not expected to have a material impact on the company's future financial statements in the period of initial recognition.

Amendments to IFRS 7, Financial Instruments Disclosures

There are no other new standards, interpretations and amendments not yet effective which are expected to have a material impact on the future financial statements of the company.



# South West One Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2011

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### 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

# South West One Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2011

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### 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 year 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.

# South West One Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2011

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### 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 less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives used in the calculation of depreciation are as follows

Plant and equipment	3 - 5 years
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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 year

**South West One Limited**  
**Notes to the Financial Statements**  
**For the Year Ended 31 December 2011**

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**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.

**Deferred revenue**

In some services contracts, the company bills the customer prior to recognising revenue for the services. Where this is the case, the revenue is deferred on the balance sheet and presented in non-current liabilities or current liabilities depending on when the related services will be delivered and the revenue recognised.

**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 (note 12).

**South West One Limited**  
**Notes to the Financial Statements**  
**For the Year Ended 31 December 2011**

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**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.

**South West One Limited**  
**Notes to the Financial Statements**  
**For the Year Ended 31 December 2011**

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**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 measured at amortised cost.

*Amortised cost*

The amortised cost of a debt instrument is calculated using the effective interest method which allocates interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition. Financial instruments held at amortised cost include 'trade and other payables' and 'payables to related parties' (notes 16 & 21).

*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 ceases to recognise financial liabilities when the company's obligations are discharged, cancelled or expire.



**South West One Limited**  
**Notes to the Financial Statements**  
**For the Year Ended 31 December 2011**

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**1 Accounting policies (continued)**

**Financial instruments (continued)**

*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

**Provisions**

Onerous contract provisions are recognised when the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. They are measured at management's best estimate of the cost of fulfilling the contract after deducting the income it is estimated that will be received under the contract. Provisions are discounted where material.

**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 judgement 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 judgements 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 judgements 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.



**South West One Limited**  
**Notes to the Financial Statements**  
**For the Year Ended 31 December 2011**

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**2 Significant accounting estimates and assumptions (continued)**

*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.

*Impairment of deferred transition costs and future forecast losses*

Management have undertaken a detailed review of all aspects of the original business model that underpins the operations of the company.

This review was 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 involved producing a series of forecasts to determine the means by which the goals of the new business model will be achieved. 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 has with the joint venture partners.

The forecasts are being closely monitored against actual results and updated accordingly. 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. Accordingly an onerous contract provision amounting to £6.2 million has been provided in the current year.

An impairment charge, amounting to £17 million, was taken in 2010 against the value of the deferred transition costs.

**South West One Limited**  
**Notes to the Financial Statements**  
**For the Year Ended 31 December 2011**

**3 Revenue**

	2011 £000	2010 £000 (Restated)
<b>Analysis by customer</b>		
Somerset County Council	26,174	30,663
Taunton Deane Borough Council	5,027	5,911
Avon & Somerset Police Authority	19,724	20,410
IBM United Kingdom Limited	54	-
Sales to third parties	5,548	5,967
<b>Gross revenue</b>	<b>56,527</b>	<b>62,951</b>
Less Pass through revenues	(35,501)	(40,460)
<b>Net revenues as recognised</b>	<b>21,026</b>	<b>22,491</b>
	<b>2011 £000</b>	<b>2010 £000</b>
<b>Analysis by segment</b>		
Operational	45,732	49,261
Transformational	161	1,168
Traded and other services	10,634	12,522
<b>Gross revenue</b>	<b>56,527</b>	<b>62,951</b>
Less Pass through revenues	(35,501)	(40,460)
<b>Net revenues as recognised</b>	<b>21,026</b>	<b>22,491</b>

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 by 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 2010 comparative figures for gross revenue ('Somerset County Council' and 'operational') and pass through revenue have been restated by £2.3 million. These restatements are to correct the treatment of pass through revenues related to sales to third parties. They have no impact on the net revenue of £22.5 million for 2010 and are for consistency and disclosure purposes only.

**South West One Limited**  
**Notes to the Financial Statements**  
**For the Year Ended 31 December 2011**

**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**

	<b>2011</b>	2010
	<b>£000</b>	£000
		(Restated)
<b>Provision of goods and services from</b>		
Somerset County Council	<b>19,906</b>	20,856
Taunton Deane Borough Council	<b>3,799</b>	4,067
Avon & Somerset Police Authority	<b>13,475</b>	14,391
Other sources	<b>18,968</b>	24,676
	<b>56,148</b>	63,990
<b>Less: Costs related to pass through revenues</b>	<b>(35,501)</b>	(40,460)
	<b>20,647</b>	23,530
Direct employee costs	<b>3,191</b>	2,194
Provision of goods and services from IBM	<b>7,913</b>	18,520
Credit note issued by IBM	<b>(10,000)</b>	(9,512)
Impairment of deferred transition costs	-	17,001
Onerous contract provision	<b>6,204</b>	-
Impairment of fixed assets	<b>246</b>	-
<b>Cost of sales as recognised</b>	<b>28,201</b>	51,733

The 2010 comparative figures for 'other sources' and 'costs related to pass through revenues' have been restated by £2.3 million. These restatements are to correct the treatment of pass through revenues related to third parties. In addition the 2010 comparative figures for 'other sources' and 'provision of goods and services from IBM' have been restated by £1.2 million as a result of additional information subsequently provided. They have no impact on the underlying result for 2010 and are for consistency and disclosure purposes only.

# South West One Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2011

### 4 Expense by nature (continued)

#### Costs related to pass through revenues

Costs related to pass through revenues relate to 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.

	Note	2011 £000	2010 £000
<b>Included in costs of sales</b>			
Impairment of deferred transition costs	10	-	17,001
Amortisation of deferred transition costs	10	-	2,768
Employee expenses	5	3,191	2,194
Inventory expensed	11	1,109	1,225
Depreciation of property, plant and equipment	9	58	17
Loss on disposals of property, plant and equipment	9	-	13
Impairment of fixed assets	9	246	-
<b>Included in administration expenses</b>			
Auditors' remuneration - audit services		120	120
Auditors' remuneration - non-audit services		-	49

# South West One Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2011

### 5 Employee expenses

	2011	2010
	£000	£000
Wages and salaries	2,879	1,972
Social security costs	259	177
Pension cost for defined contribution plans	53	45
	<b>3,191</b>	<b>2,194</b>

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

	2011	2010
	No	No
Administrative	1	1
Technical	140	95
	<b>141</b>	<b>96</b>

The Chairman of the Board is directly employed by SWO and is therefore included in the above analysis

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 £153,281 (2010 £63,588)

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

	2011	2010
	£000	£000
Aggregate emoluments	22	16

**South West One Limited**  
**Notes to the Financial Statements**  
**For the Year Ended 31 December 2011**

**7 Finance costs**

	2011 £000	2010 £000
Interest on amounts due to group undertaking	493	563
Other interest payable and bank charges	5	-
	<b>498</b>	<b>563</b>

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

**8 Income tax credit**

**(a) Analysis of credit in the year**

	2011 £000	2010 £000
<b>Current tax</b>		
UK Corporation tax based on loss for the year at 26.5% (2010: 28.0%)	2,470	8,842
Adjustments relating to prior years	(1)	(3)
<b>Total current tax</b>	<b>2,469</b>	<b>8,839</b>
<b>Deferred tax</b>		
Movements on temporary differences	(29)	(16)
Adjustments relating to prior years	1	3
<b>Total deferred tax (note 14)</b>	<b>(28)</b>	<b>(13)</b>
<b>Income tax credit</b>	<b>2,441</b>	<b>8,826</b>

**South West One Limited**  
**Notes to the Financial Statements**  
**For the Year Ended 31 December 2011**

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**8 Income tax credit (continued)**

**(b) Factors affecting tax credit**

The tax assessed on the loss for the year is lower (2010 lower) than the standard rate of corporation tax in the UK of 26.5% (2010 28.0%)

	<b>2011</b>	<b>2010</b>
	<b>£000</b>	<b>£000</b>
Loss before income tax	<b>9,239</b>	31,540
Tax at the domestic income tax rate of 26.5% (2010 28.0%)	<b>2,448</b>	8,831
<b>Effects of</b>		
Expenses not deductible for tax purposes	-	(1)
Adjustment to tax rates	<b>(7)</b>	<b>(4)</b>
<b>Total income tax credit (note 8(a))</b>	<b>2,441</b>	8,826

**(c) Factors that may affect future tax credit**

Finance (No 2) Act 2010 was substantively enacted on 20 July 2010 and included legislation to reduce the main rate of corporation tax from 28% to 27%. A further reduction to 26% with effect from 1 April 2011 was enacted via a resolution passed by Parliament on 29 March 2011. On 5 July 2011, Finance Act 2011 was substantively enacted, reducing the main rate of corporation tax to 25% with effect from 1 April 2012. Closing deferred tax balances have therefore been valued at 25% (2010 27%).

The 2012 Finance Act was substantively enacted on 19 July 2012 and included legislation to reduce the main rate of corporation tax to 24% with effect from 1 April 2012, and by 1% per annum to 23% by 1 April 2013.

**South West One Limited**  
**Notes to the Financial Statements**  
**For the Year Ended 31 December 2011**

**9 Property, plant and equipment**

	<b>Plant and equipment £000</b>
<b>Cost</b>	
At 1 January 2010	72
Additions	5
Disposals	(22)
<b>At 31 December 2010</b>	<b>55</b>
Additions	<b>286</b>
<b>At 31 December 2011</b>	<b>341</b>
<b>Accumulated depreciation</b>	
At 1 January 2010	29
Charge for year	17
Disposals	(9)
<b>At 31 December 2010</b>	<b>37</b>
Charge for year	<b>58</b>
Impairment	<b>246</b>
<b>At 31 December 2011</b>	<b>341</b>
<b>Net book value</b>	
<b>At 31 December 2011</b>	<b>-</b>
At 31 December 2010	18

The obligations under the service contract between SWO and its existing clients are expected to generate a loss. The assets associated with the contract have been fully impaired and an onerous contract provision has been taken (see note 17)



**South West One Limited**  
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**10 Deferred transition costs**

	2011 £000	2010 £000
<b>Non current</b>		
Balance at the beginning of the year	-	16,200
Additions in year	-	801
Impairment charge in year	-	(17,001)
<b>Balance at the end of the year</b>	<b>-</b>	<b>-</b>
<b>Current</b>		
Balance at the beginning of the year	-	2,768
Amortisation charged in year	-	(2,768)
<b>Balance at the end of the year</b>	<b>-</b>	<b>-</b>

Deferred transition costs related 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 million after amortisation at 31 December 2010, concluded that the recoverable amount was such that the carrying amount of the assets should be nil.

Amortisation of deferred transition costs was charged during 2010 (prior to impairment) on a straight line basis over the remaining life of the contract.

**11 Inventories**

	2011 £000	2010 £000
Finished goods and goods for resale	179	233

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 £1.1 million (2010: £1.2 million).

**South West One Limited**  
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**12 Trade and other receivables**

	<b>2011</b>	<b>2010</b>
	<b>£000</b>	<b>£000</b>
Trade receivables	5,399	2,950
Less provision for impairment of trade receivables	(3,127)	(772)
Amounts recoverable on contracts	-	52
Group tax relief receivable	2,470	8,842
Prepayments	3,070	3,211
Accrued income	650	912
	<b>8,462</b>	<b>15,195</b>

Amounts receivable from trade customers are non-interest bearing and generally have credit terms of being repayable within 30 days

Included within the above amounts is £7.3 million (2010 £11.6 million) receivable from related parties as shown in note 21

**13 Cash and cash equivalents**

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

	<b>2011</b>	<b>2010</b>
	<b>£000</b>	<b>£000</b>
Cash at bank	980	3,061

**14 Deferred tax assets**

	<b>2011</b>	<b>2010</b>
	<b>£000</b>	<b>£000</b>
Balance at the beginning of the year	108	121
Charged to income statement	(28)	(13)
<b>Balance at the end of the year</b>	<b>80</b>	<b>108</b>

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

**South West One Limited**  
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**15 Deferred income**

	2011	2010
	£000	£000
<b>Non-current</b>		
Deferred income	2,922	3,396
<b>Current</b>		
Deferred income	2,846	3,027
	<b>5,768</b>	<b>6,423</b>

**16 Trade and other payables**

	2011	2010
	£000	£000
Payable to trade suppliers	1,015	328
Accrued expenses	1,643	3,280
Payable to group undertaking	38,249	44,964
	<b>40,907</b>	<b>48,572</b>

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.

On 17 January 2012 the company entered into an agreement with IBM United Kingdom Limited, whereby future loans from IBM United Kingdom Limited, up to a financial limit of £10 million, will be secured by way of a fixed and floating charge over the unmortgaged assets of the company.

**South West One Limited**  
**Notes to the Financial Statements**  
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**17 Provisions for liabilities and charges**

	<b>Onerous contracts</b>
	<b>£000</b>
At 1 January 2011	-
Additional provisions	<b>6,204</b>
<b>At 31 December 2011</b>	<b>6,204</b>

The obligations under the service contract between SWO and its existing clients are expected to generate a loss. The onerous contract provision is expected to be utilised over the next 3 years. The provision recognised is based on the excess of the estimated cash flows to meet the unavoidable cost under the contract over the estimated cash flows to be received from the clients.

**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.

*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.

**South West One Limited**  
**Notes to the Financial Statements**  
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**18 Financial instruments (continued)**

**Categories of financial instruments**

	2011 £000	2011 £000
	Loans and receivables	Amortised cost
<b>Financial assets</b>		
Trade and other receivables	5,392	-
Cash and cash equivalents	980	-
	<b>6,372</b>	<b>-</b>
<b>Financial liabilities</b>		
Trade and other payables	-	(2,658)
Payable to group undertaking	-	(38,249)
	-	<b>(40,907)</b>

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

# South West One Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2011

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### 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 swept by the IBM Treasury Centre and held 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 2011.

	2011	2010
	£000	£000
<b>Days past due date</b>		
0 - 30	505	402
31 - 60	134	494
61 - 90	87	270
Over 90	652	390
	1,378	1,556

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#### *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. The company is funded internally by the IBM Treasury Centre in Ireland. Interest is paid or earned on the balance using a variable one month interest 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.

**South West One Limited**  
**Notes to the Financial Statements**  
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**18 Financial instruments (continued)**

*Interest rate sensitivity*

The sensitivity analysis below has been determined based on 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 management's 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 £0.5 million (2010: £0.6 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 Other commitments or contingencies**

No contingent liabilities or commitments existed as at 31 December 2011 and 31 December 2010.

The company is currently in dispute with the joint venture partners on a number of contractual matters. No settlement was reached in the mediation held in July 2012 and the outcome of the dispute is unknown.

**South West One Limited**  
**Notes to the Financial Statements**  
**For the Year Ended 31 December 2011**

**20 Notes to the cash flow statement**

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

	2011	2010
	£000	£000 (Restated)
<b>Loss for the year</b>	<b>(6,798)</b>	<b>(22,714)</b>
Adjustments for		
Depreciation	58	17
Impairment	246	-
Loss on disposal of fixed assets	-	13
Finance costs	512	587
Income taxes	(2,441)	(8,826)
Changes in operating assets and liabilities		
Decrease in trade and other receivables	9,203	6,627
Decrease in deferred transition costs	-	18,968
(Decrease) / increase in trade and other payables	(8,191)	7,920
Decrease in deferred income	(655)	(464)
Decrease in inventories	54	288
Increase in provisions	6,204	-
Cash generated from operations	(1,808)	2,416
<b>Net cash (outflows) / inflows from operating activities</b>	<b>(1,808)</b>	<b>2,416</b>

Finance costs and increase in trade and other payables for 2010 have been restated by £24,000 and £611,000 respectively to correctly reflect cash flows



# South West One Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2011

### 21 Related party transactions

The company has outstanding balances with related parties. These balances are disclosed in "trade and other receivables" (note 12) and "trade and other payables" (note 16). Transactions and outstanding balances between the company and its related parties are disclosed below.

	Joint venture partners	IBM group undertakings
	2011	2011
	£000	£000
Sale of goods and services	19,547	55
Purchase of goods and services	(5,456)	(7,913)
Credit note	-	10,000
Administration expenses	-	(1,566)
Interest payable	-	(498)
Amounts due to	(215)	(38,249)
Amounts due from	4,836	2,470

	Joint venture partners	IBM group undertakings
	2010	2010
	£000	£000
	(Restated)	(Restated)
Sale of goods and services	22,692	-
Purchase of goods and services	(5,022)	(18,520)
Credit note	-	9,512
Administration expenses	-	(1,727)
Interest payable	-	(563)
Amounts due to	(442)	(44,964)
Amounts due from	2,778	8,842

#### Notes

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

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

# South West One Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2011

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### 21 Related party transactions (continued)

The 2010 comparative figures for 'purchase of goods and services' from joint venture partners has been restated by £2.3 million to correct the treatment of pass through costs. The 2010 comparative figure for 'purchase of goods and services' from IBM has been restated by £1.2 million as a result of additional information which has subsequently been provided.

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.

#### 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 year in respect of services to the company was as follows:

	2011 £000	2010 £000
Short term benefits	543	590
Post employment benefits	106	190
Share based payments	53	97

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**South West One Limited**  
**Notes to the Financial Statements**  
**For the Year Ended 31 December 2011**

**22 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
<b>At 31 December 2011 and 2010</b>	<b>10,000</b>	<b>10,000</b>

**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 & Somerset Police Authority	825	825
B ordinary shares issued to IBM United Kingdom Holdings Limited	7,500	7,500
<b>At 31 December 2011 and 2010</b>	<b>10,000</b>	<b>10,000</b>

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.

# South West One Limited

## Notes to the Financial Statements

For the Year Ended 31 December 2011

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### 22 Share capital (continued)

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.

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.

### 23 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 & 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.