

HAMPSHIRE COUNTY COUNCIL**Decision Report**

Decision Maker:	Audit Committee
Date:	30 June 2010
Title:	Statement of Accounts 2009/10
Reference:	1746
Report From:	County Treasurer

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1. Introduction

- 1.1. The Accounts and Audit Regulations 2003 require the County Council's Statement of Accounts to be approved by the 30 June following the year end. The County Council has delegated responsibility for the approval of the draft statement of accounts to the Audit Committee.
- 1.2. A report on the final accounts for 2009/10 was submitted to the Cabinet on 28 June, and the draft Statement of Accounts is consistent with the management accounts reported to the Cabinet. A net underspending of £6.1m has been achieved in 2009/10 which has been added to balances.

2. Code of Practice on Local Authority Accounting

- 2.1. The draft Statement of Accounts has been drawn up in the form prescribed by the 2009 Code of Practice on Local Authority Accounting in the United Kingdom, which constitutes 'proper accounting practice' under the terms of section 21(2) of the Local Government Act 2003. The code is updated each year to take account of changes in accounting standards and other new developments. Some significant changes have been made to the format of the accounting statements over the last three years to separate the income and expenditure recorded in accordance with UK generally accepted accounting practice (UK GAAP) from the adjustments to those standards applicable in Local Government for the purposes of setting council tax.
- 2.2. There are four main changes in the Code of Practice which come into effect for 2009/10's accounts, which affect the presentation of the accounting statements:
 - In advance of the main implementation of International Financial Reporting Standards (IFRS) from 2010/11, the accounting

treatment of PFI and similar contracts has been amended to comply

- with the relevant IFRS from 2009/10. Government accounts are being prepared on the basis of IFRS from 2009/10 and early implementation of this standard in local government facilitates the production of Whole of Government Accounts on a consistent basis. The standard applies a different test of where the risk and reward lies in contracts involving the creation of assets for public use and the assets created by both the new street lighting PFI contract and the existing waste management contract will be included on the local authority balance sheet. As the investment financed by the street lighting PFI does not commence until 2010/11, the impact in 2009/10's accounts is confined to the Waste management contract. Inclusion of the contract on the balance sheet adds about £85m to the County Council's liabilities at 31 March 2010 and £ 84m to the value of its assets.
- The basis of accounting for the collection of council tax has also changed. Previously each billing authority maintained a Collection Account which recorded income received and the payments to each of the precepting authorities on the basis of budget estimates. The Collection Fund recorded any surplus or deficit against the budget estimate and any debtors and creditors were included in the billing authority's balance sheet. The 2009 SORP recognizes the Collection Fund account as an agency account managed by the billing authority on behalf of the precepting authorities and requires any council tax surplus or deficit and any debtors and creditors to be accounted for by the precepting authorities on a proportionate basis. This change in practice to reflect the requirements of UK GAAP has no effect on the level of future Council tax as the Government has regulated so that any difference between budgeted and actual council tax income is transferred to a council tax adjustment account. The additional income in 2009/10 is estimated at £1.3m.
- The move towards greater transparency about the pay of more senior staff in the public sector is reflected in new regulations on the disclosure of remuneration in local authority accounts. In addition to the existing requirement to disclose the numbers of staff earning more than £50k per annum, from 2009/10 in bands of £5k rather than £10k, a new senior employee remuneration statement is now required. This covers members of the Corporate Management team and details payments to individuals earning more than £150k per annum and of the amounts payable to postholders where the salary is less than £150k per annum on a whole time equivalent basis.
- In view of the tendency for accounting disclosures required by the accounting standards to become ever more voluminous, a review was carried out in 2009 of the various disclosures required by the SORP which were not requirements of UK GAAP. These were the

result of legislation requiring local authorities to account separately for particular types of expenditure or income but it was not generally a statutory requirement to incorporate this information in the Statement of Accounts. As a result, the 2009 SORP removes the requirement to disclose in the Statement of Accounts, expenditure incurred under S137 powers, expenditure on publicity and income received from providing services to other public bodies under the Local Authorities Goods and Services Act.

3. Statement of Accounts

- 3.1. The Statement of Accounts comprises a number of separate statements, the key features of which are summarised in this paragraph.

Statement of Accounting Policies

- 3.2. This sets out the policies adopted by the County Council in preparing its accounts, which are largely determined by the Code of Practice. Some minor changes have been required this year to reflect changes in the 2009 Code of Practice.

Annual Governance Statement

- 3.3. The Accounts and Audit (Amendment) (England) Regulations 2006 require local authorities to conduct a review at least once a year of the effectiveness of the system of internal control and to include, with the statement of accounts, a statement of internal control, prepared in accordance with proper practices in relation to internal control. Based on revised guidance, this now takes the form of an annual governance statement. The County Council's statement has been submitted for approval earlier on the agenda for this meeting and requires the approval and signature of the Chief Executive and Leader of the Council.

Statement of responsibilities for the statement of accounts

- 3.4. This statement records the responsibility:
- of the local authority to appoint an officer with responsibility for the proper administration of its financial affairs, the County Treasurer within the County Council
 - of the County Treasurer to prepare the accounts in accordance with proper practices as set out in the Code of Practice, and to certify that the accounts present fairly the position of the County Council. The Deputy County Treasurer will certify the 2009/10 draft accounts as the current officer with responsibility for the proper administration of the County Council's financial affairs.
 - of the chairman of the Committee to confirm that the accounts have been considered and approved by the Committee.

Income and Expenditure Account

- 3.5. The income and expenditure account reports the net cost for the year of all the functions for which the authority is responsible and demonstrates how that cost has been financed from general government grants and income from local taxpayers. The expenditure recorded reflects the value of fixed assets consumed and the projected value of retirement benefits earned by employees in the year.
- 3.6. The account is divided into three categories:
- the net cost of services recording the costs allocated to a standard classification of services, net of specific grants and income from fees and charges
 - items of income and expenditure relating to the local authority as a whole – such as interest payable and receivable, pensions interest cost and return on pension assets and the gain or loss on the disposal of assets. Added to the net cost of services, this provides the authority's net operating expenditure
 - the income from local taxation and general government grants in the period. Deducting net operating expenditure from this income provides a net deficit or surplus for the year.
- 3.7. In practice it is unlikely that a surplus would be recorded, as the statutory requirements for setting the Council tax do not require some of the costs recorded in the income and expenditure account to be taken into account. These are set out in paragraph 4.11. The guiding principles in determining the form of the income and expenditure account is that it should measure net operating costs in accordance with UK GAAP, using essentially the conventions that would be applied to a company's audited annual financial statements. The main reasons that the statutory requirements for setting council tax do not follow UK GAAP is because costs arising from the depreciation of assets and the earning of retirement benefits do not necessarily give rise to cash flows in the short and medium term. It is therefore a matter of equity between current and future taxpayers as to the extent to which taxes should be levied currently to meet costs that will crystallise in the future, given that current taxpayers are funding costs incurred in previous generations.
- 3.8. The impact of the difference between the application of UK GAAP and the statutory requirements for setting council tax was particularly striking in 2008/09. Whereas the deficit on the income and expenditure account over the previous three years had varied between £12.0m and £37.7m, the deficit in 2008/09 was £471.8m, despite the County Council having a higher general fund balance (£34.5m), the critical number for council tax setting purposes, than in any of the previous three years.
- 3.9. This arose primarily for two reasons. Firstly because of the sharp fall in the market value of land and buildings in 2008/09 and the particular circumstances that resulted in the majority of the required asset

impairments being written off to the Income and Expenditure account rather than against a revaluation reserve. Secondly it arose because of the transfer of schools from community to foundation or trust status resulting in the control of assets transferring from the County Council, although they continue to be available for Educational use within Hampshire. The position is less extreme in 2009/10 as no general market value impairment of assets has been required, but the deficit is still £155.4m, the higher deficit being partly the result of the accounting treatment of trust/ foundation schools and partly the effect of more frequent revaluation of assets that have been subject to major capital investment.

Statement of Movement on the General Fund balance

- 3.10. This statement discloses the adjustments necessary to a UK GAAP compliant Income and Expenditure account in order to determine the movement in the General Fund balance for council tax setting purposes (commonly described as the County Council's unearmarked balance or just as balances). The inclusion of this statement reflects the importance in a local authority context of the movement in general fund balance as an aspect of the Council's financial stewardship. The adjustments summarised in this statement are either determined by statute or reflect non-statutory proper accounting practices.
- 3.11. The adjustments can be summarised as follows:
- to allow for capital investment to be accounted for as it is financed, rather than when the fixed assets are consumed. Revenue contributions to the financing of capital expenditure and the statutory provision for the repayment of debt are substituted for depreciation and impairment charges in the income and expenditure account. The effect is to reduce expenditure in 2009/10 by £116.5m, and thus increase the general fund balance
 - to account for retirement benefits as payments become payable to pension funds and pensioners, rather than as future benefits are earned as required by Financial Reporting Standard 17 (FRS17). There is also a minor adjustment associated with an interest free loan. These adjustments reduce expenditure by approximately £36.6m and this also increases the general fund balance
 - to reverse the surplus or deficit on the disposal of assets, reflected in the income and expenditure account to comply with UK GAAP, as local authorities are not permitted to apply any part of a capital receipt for revenue purposes. A small deficit of £0.5m was incurred in 2009/10.
 - to allow for transfers to and from the general fund to earmarked reserves. Net transfers from earmarked reserves to the general fund totalled £5.6m in 2009/10.
 - To adjust council tax income actually received in the year to match the income actually precepted on each billing authority, by means of

a transfer to the council tax adjustment account. The County Council's share of surplus income was £1.3m in 2009/10.

- 3.12. Table 1 below summarises the general fund position and reconciles it with the presentation included in the County Council's management accounts, reported to the Cabinet on 28 June.

Table 1

	£m
Movement in balances reported in the management accounts	
Planned reduction in balances in the revised budget	-3.7
Increased balances at 31 March 2010, as a result of 2009/10 Final Accounts, as per paragraph 3.18 of the June 2010 Cabinet report	6.1
	<hr/>
Increase in balances during 2009/10	2.4
	<hr/>
Movement on the General Fund balance as per the statement of accounts	
Deficit on Income and Expenditure account	155.4
Net additional amount credited to the General Fund balance	-157.8
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Increase in General Fund during 2009/10	2.4
	<hr/>
Statement of total recognised gains and losses	

- 3.13. This statement brings together all the gains and losses that affect the County Council's net worth, including the gains and losses from the revaluation of assets and the actuarial valuation of the pension fund which do not pass through the income and expenditure account.

Balance sheet

- 3.14. The balance sheet is presented in a fairly standard format separating fixed assets from current assets and long-term liabilities from current liabilities in arriving at total net assets. Total net worth represents the reserve balances which match net assets.
- 3.15. The key distinction is between cash-backed (£0.2bn) and non cash-backed reserves (£1.5bn). The County Council's management reporting gives greater prominence to the level of cash-backed reserves in the form of the general fund balance and earmarked reserves which are potentially useable to finance revenue and capital spending. The majority of the County Council's net worth is however tied up in the value of its fixed assets, primarily the replacement value of land and buildings, which to the

extent that it exceeds outstanding borrowing is reflected in the value of the Revaluation Reserve and the Capital Adjustment account. This value would only become useable if the County Council was to dispose of all its fixed assets at their balance sheet value.

- 3.16. The pension accounting arrangements also introduced a negative reserve as a mechanism for recognising in the balance sheet the County Council's actuarially assessed pension liability as measured under FRS17, without requiring the liability to be recognised in setting council tax. The County Council's pension liability has increased during 2009/10, from £728m to £963m mainly as a result of higher assumed future inflation and lower corporate bond rates which provide the basis for discounting future liabilities, which more than offset the increase in the market value of the fund.
- 3.17. The accounting standard for financial instruments requires that the interest cost over the entire period of an interest free loan made for service purposes be recognised at the time the loan is made, but the Government has regulated so that this initial cost need not be recognized for council tax setting purposes. This results in another small negative reserve on the balance sheet.

Cash flow statement

- 3.18. The cash flow statement is designed to demonstrate the changes that have taken place in the County Council's cash position over the year and to highlight the causes of that change.
- 3.19. Income from Government grant, national business rates and council tax, covers revenue activities, servicing of finance and capital activities, but cannot be readily analysed between the categories, and is therefore shown as an inflow relating to revenue activities. The cash flow statement is therefore always likely to show an inflow in respect of revenue activities, offset by outflows relating to the servicing of finance and capital activities. The final section of the statement headed 'financing' shows the impact of borrowing decisions in the year on the cash position.

Hampshire Pension Fund

- 3.20. The accounts of the Hampshire Pension Fund show that there was a surplus of contributions over benefits payable in the year of £65m, that net investment income totalled £59m, and that the market value of investments increased by £708m, increasing the net assets of the fund by £832m from £2.396bn to £3.228bn.

4. Next Steps

- 4.1. The Audit Commission will present a report to the Audit Committee in September on the audit of the 2009/10 accounts, prior to the issue of an audit opinion on the accounts and their publication.
- 4.2. A set of summary accounts will also be produced and made available to the public condensing the information contained in the full statement of accounts.

5. Recommendation

- 5.1. That the Statement of Accounts for 2009/10 be approved.

CORPORATE OR LEGAL INFORMATION:

Links to the Corporate Strategy

Hampshire safer and more secure for all:	yes/no
Corporate Improvement plan link number (if appropriate):	
Maximising well-being:	yes/no
Corporate Improvement plan link number (if appropriate):	
Enhancing our quality of place:	yes/no
Corporate Improvement plan link number (if appropriate):	
OR	
This proposal does not link to the Corporate Strategy but, nevertheless, requires a decision because:	

Section 100 D - Local Government Act 1972 - background documents	
<p>The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)</p>	
<u>Document</u>	<u>Location</u>
None	

IMPACT ASSESSMENTS:

1. Equalities Impact Assessment:

- 1.1. Equality objectives are not considered to be adversely affected by the proposals in this report.

2. Impact on Crime and Disorder:

- 2.1. The proposals in this report are not considered to have any direct impact on the prevention of crime.

3. Climate Change:

- 3.1. How does what is being proposed impact on our carbon footprint / energy consumption?
No specific impact
- 3.2. How does what is being proposed consider the need to adapt to climate change, and be resilient to its longer term impacts?
- 3.3. No specific proposals affecting adaptation to climate change.

Statement of Accounts 2009/10

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Explanatory Foreword

1. Introduction

- 1.1. This document contains Hampshire County Council's Statement of Accounts for the year ended 31 March 2010. The pattern of presentation of the statement is laid down by a code of practice, which the County Council is legally required to follow.
- 1.2. This foreword gives:
 - a summary of the various statements that make up the County Council's 2009/10 accounts
 - a broad picture of where the money comes from and what it is spent on
 - a summary of revenue expenditure on services and capital expenditure on new assets over the course of the year.

2. Summary of Statement of Accounts

- 2.1. The accounts for 2009/10 are set out on pages 9 to 83.
- 2.2. They consist of:
 - Statement of accounting policies
 - Annual Governance Statement
 - Statement of responsibilities for the Statement of Accounts
 - Income and Expenditure Account – this covers income and expenditure on all services recorded in accordance with the Local Authority Accounting Code of Practice
 - Statement of Movement on the General Fund Balance – identifies the adjustments required to the Income and Expenditure Account in arriving at the General Fund Balance for the purposes of setting council tax
 - Statement of Total Recognised Gains and Losses – brings together all the gains and losses in the year that are reflected in the change in net worth
 - Balance Sheet – this sets out assets and liabilities at 31 March 2010
 - Cash Flow Statement – this summarises all cash coming in or going out for revenue and capital purposes
 - Pension Fund accounts - these are the accounts of the Pension Fund, which is operated for employees of the County Council, Hampshire unitary and district councils and other bodies.

3. Where the money comes from

- 3.1. Since the introduction of the new schools funding arrangements in 2006/07, most of the County Council's income comes from Specific Government grants and the council tax. A new general grant has been introduced in 2008/09, the area based grant, from the amalgamation of a number of grants previously paid as specific

government grants. Fees and charges contribute to the cost of some services and interest is earned on day-to-day balances.

3.2. The proportion of the Council's income obtained from these sources is as follows:

	2008/09	2009/10
	%	%
Council tax	29	28
National business rates	7	7
General Government grant	1	1
Area based grant	4	3
Fees, charges and interest	13	14
Specific Government grants	46	47
	100	100

In 2009/10 there was no significant change in the balance of income obtained from the various funding sources.

4. What the money is spent on

4.1. Type of expenditure

	2008/09	2009/10
	%	%
Staff costs	56	57
Running expenses	39	38
Capital financing	5	5
	100	100

4.2. Service shares of gross revenue expenditure

	2008/09	2009/10
	%	%
Children's services and education	69	64
Adult social care	19	22
Highways, roads and transport	4	5
Cultural, environmental and planning services	7	7
Other services	1	2
	100	100

The service shares of gross expenditure in 2008/09 were affected significantly by charges to the income and expenditure account to take account of the reduced market value of land and buildings, which have a greater impact on Education than other services. Service shares in 2009/10 reflect a more typical pattern of spending and are very similar to those in 2007/08.

5. Employees

5.1. In 2009/10 the County Council employed 42,249 people, making the Council one of the largest employers in the county. Many of these employees work part-time. In full-time equivalent (fte) terms, the total number of employees was 28,978 at 31 March 2010, 883 higher than at 31 March 2009, mainly as a result of additional school-based staff, the staffing of new children's centres financed by government specific grant and additional staff in Adult Services to meet increased demand and to modernize services.

5.2. Full-time equivalent employees

	March 2009	March 2010
School - based	17,077	17,544
Other Children's Services	3,068	3,252
Adult Services	3,207	3,359
Environment	767	796
Culture, Communities and Rural affairs	1,019	1,017
Central services and internal trading units	2,957	3,010
	28,095	28,978

6. Summary of the year – Revenue account

- 6.1. In 2009/10 the County Council continued to pursue its objective of providing services that are of well above average quality, while setting one of the lowest Band D council taxes. The County Council continues to receive transitional support through the grant floor and thus received, along with other floor authorities, the lowest increase in Government grant of all county councils – 1.75% in 2009/10. The budget was also framed in the context of the significant demographic and legislative pressures affecting social care services and the initial impact of the economic recession. Despite the pressures on the budget, the County Council has continued to improve the quality of its services with sustained or improved performance in 67% of the Corporate Improvement Plan indicators, 69% of the Local Area Agreement indicators and 62% of the national indicator set, for which data is available, while maintaining a council tax in the lower quartile. Cash-releasing efficiency improvements assessed at £48.1million (7.3%) have been identified over the period 2008/09 and 2009/10, inclusive of the carry forward of surplus efficiencies in excess of the Spending Review 2004 target ,above the 6.1% annual target set for local authorities for the period. Cumulative cashable improvements since 2004/05 amount to £92 million.
- 6.2. The County Council also maintained its excellent status for the eighth year running from the Audit Commission in the first year of the new Comprehensive Area Assessment.

- 6.3. The main components of the 2009/10 budget, revised budget and actual income and expenditure are set out below:

Budget	Original budget	Revised budget	Actual	Variation from revised budget
	£million	£million	£million	£million
Net cost of services	671.6	682.7	782.7	100.0
(Surpluses)/ deficits on trading units	-0.4	0.9	-2.0	-2.9
Net interest payable	21.4	23.1	20.3	-2.8
Loss/(gain) on disposal of assets	-	-	0.4	0.4
Pension interest cost and expected return on pensions assets	24.7	57.7	57.7	-
Net operating expenditure	717.3	764.4	859.1	94.7
Amount to be met from Government grant and local taxpayers				
Council tax precept income	-512.2	-512.2	-513.5	-1.3
General Government grant	-27.2	-27.2	-27.2	-
Area based grant	-45.1	-45.4	-45.4	-
National business rates	-117.6	-117.6	-117.6	-
	-702.1	-702.4	-703.7	-1.3
Deficit for the year on the Income and Expenditure Account	15.2	62.0	155.4	93.4
Contribution to capital	38.0	45.6	48.2	2.6
Excess of depreciation, impairment net of grant over statutory provision for debt repayment	-48.2	-57.3	-164.6	-107.3
Contribution from pensions reserve	-6.5	-36.6	-36.6	-
Net cost of soft loans, reversal of disposal gain, collection fund adjustment	-	-	0.8	1.3
Contribution to/(from) earmarked reserves	6.3	-9.5	-5.6	3.9
Movement in General Fund Balance	4.8	3.7	-2.4	-6.1
General Fund Balance				
Brought forward 1 April 2009	-29.4	-34.5	-34.5	-
Carried forward 31 March 2010	-24.1	-30.8	-36.9	-6.1

- 6.4. The budget requirement for 2009/10 was set at £657.0 million (net of area based grant of £45.1 million), an increase of 2.3% on the adjusted budget for 2008/09. The budget was influenced by the risks associated with demand led budgets, the effects of the recession and the achievement of savings within the budget. This resulted in a risk assessment of the required level of General Fund balance of approximately £16 million (2.4% of the budget requirement) and balances at 31 March 2010 were estimated at £24.1m, after allowing for a contribution from balances of £5.3 million in 2009/10 and further planned contributions of £8.1m in 2010/11 and 2011/12. The budget included provision for above-inflation increases of £7.9million in social care budgets and took account of an anticipated reduction of £3.1m in the cost of the waste management contract as a result of lower waste volumes and savings from contract negotiation, while other budgets were increased in line with corporate inflation assumptions of 1.5% for pay and 2.25% for other cost increases. Cashable efficiency savings of £20.5 million were identified, mainly available to be redeployed within service budgets as a way of meeting demand and legislative pressures not accommodated within the budget guidelines for services. The budget required a 1.9% increase in the Band D council tax to £1018.17, the lowest increase in the local tax for nearly 40 years.
- 6.5. In July 2009 the final accounts for 2008/09 were reported to the Cabinet. Service cash-limited spending was £0.8 million lower than budgeted. Further savings of £15.5m in net operating expenditure were achieved mainly as a result of lower interest costs, lower fire insurance reinstatement and higher trading unit surpluses. £11.2 million of these savings were transferred to earmarked reserves, resulting in an increase in the general fund of £5.1million compared with the revised budget. The General Fund balance therefore increased to £34.5 million at 31 March 2009. Additional non-recurring spending of £2.6 million was approved on highway structural maintenance and improvements in September 2009, with the balance of the under spending of £2.5million earmarked for use in 2011/12 to reduce the planned council tax increase, resulting in a forecast General Fund balance of £26.6 million at 31 March 2010.
- 6.6. When services revised their budgets in the autumn, services identified savings of £4.6 million to be carried forward within earmarked reserves into 2010/11. Children's Services faced by the impact of the recession and the reaction to the Baby Peter case on numbers of children being taken into care projected an overspend of £2.5million. Allowing for the scope to achieve further savings in the remainder of the year, provision was made centrally for an overspending of up to £1.25 million on Children's Services. Other savings totalled £4.2 million mainly resulting from lower interest rates, and from lower new borrowing in 2008/09 than had been projected in the 2009/10 budget , and these were factored into the 2010/11 budget strategy. As a result, the estimated balance on the General Fund increased to £30.8 million at 31 March 2010.
- 6.7. In 2008/09, an impairment of all the County Council's assets valued at current value had been required, the effect of which, together with the transfer of assets to foundation schools , had been to result in a net cost of services £471million higher than budgeted, though the impact on the General Fund and thus on council tax is neutral. Though no market value impairments were required in 2009/10, the level of depreciation and impairments again substantially exceeded the minimum provision for the repayment of debt and was the main factor in the net cost of

services in the 2009/10 final accounts exceeding the revised budget by £100 million. However, service cash limited expenditure was £0.3 million lower than budgeted and further savings of £9.7 million in net operating expenditure were achieved mainly as a result of lower interest costs, lower fire insurance reinstatement, higher trading unit surpluses and savings on the waste management contract, offset by higher spending on highways winter maintenance and revenue contributions to capital. £3.9 million of these savings were transferred to earmarked reserves, resulting in an underspending of £6.1 million against the General Fund compared with the revised budget. The General Fund therefore increased to £36.9 million at 31 March 2010.

6.8. The table below analyses the main factors:

	Over/ under(-) spending £million	Contribution to/from(-) reserves £million	Net over/ under(-) spending £million
Service cash-limited spending	-0.3	0.4	0.1
Corporate provision made for potential Children's Services overspending	-1.3		-1.3
Interest savings	-2.8		-2.8
Insurance provision	-3.6	3.3	-0.3
Waste management contract contingency	-4.1		-4.1
Higher revenue contributions to capital financed from reserves	2.6	-2.6	-
Higher trading unit net surpluses	-2.9	2.9	-
Highways winter maintenance	2.9		2.9
Provision for doubtful debts	-0.6		-0.6
Other variations	0.1	-0.1	-
	-10.0	3.9	-6.1

6.9. In view of the potential budget gaps in 2011/12 and 2012/13 resulting from anticipated Government measures to reduce the public sector deficit, it is proposed to transfer the saving against the 2009/10 revised budget into the Corporate Policy reserve in 2010/11.

7. Summary of the year – capital expenditure

- 7.1. In 2009/10 the County Council spent £167.6 million on capital projects, £16 million less than the revised budget.
- 7.2. Spending on schemes financed from Government grants, supported borrowing, contributions from developers and outside agencies and other scheme-specific funding was £15.5 million lower than forecast. So expenditure on locally resourced projects was only £0.5 million lower than estimated.
- 7.3. Capital receipts were in line with the revised estimate, but as the level of unsupported borrowing was £2 million lower than forecast, the contribution

required from the capital reserve was £8.6 million, £1.5 million higher than budgeted, fully utilizing the balance of the reserve.

- 7.4. Spending financed from supported borrowing amounted to £32.0 million, supplemented by increased unsupported borrowing of £5.7 million. Temporary unsupported borrowing in advance of capital receipts of £6.5million was repaid during the year using the relevant capital receipts. Debt repayment and finance lease repayments during the year amounted to £28.8 million. Potential outstanding borrowing for capital purposes to be serviced by the County Council now amounts to £676 million, together with extra debt of £38.9 million for services transferred to the unitary and other authorities. The Council may borrow on a day-to-day basis from internal resources, such as the revenue account and earmarked reserve balances. Internal resources were slightly higher in 2009/10 than in the previous year, so that net of temporary investments, £342.8 million (a reduction of £4.2 million on the previous year) was owed to external lenders at 31 March 2010.

8. Pension Fund liability

- 8.1. The County Council's net pension liability has increased from £727.6 million at 31 March 2009 to £963.3 million at 31 March 2010. The County Council's assessed share of the assets of the fund increased by £320.3 million as a result of improved investment performance in 2009/10, but this was more than offset by an increase in the assessed present value of the County Council's liabilities of £556 million. This is primarily the result of the interaction of the financial assumptions made in accordance with the requirements of Financial Reporting Standard 17, with assumed higher future inflation resulting in higher future pay increases in local government but a lower corporate bond rate used as the basis for discounting future liabilities. Variations in actuarial assumptions are quite volatile, having the effect of reducing liabilities by 17.2% in 2007/08, by a further 1.1% in 2008/09 and then increasing liabilities by 21.4% in 2009/10. The increased deficit on the Pension Reserve is the main factor underlying the reduction in the County Council's net worth from £1.857 billion to £1.678 billion during 2009/10.

9. Changes

- 9.1. There are no significant changes to the County Council's range of functions in 2009/10. However there are four main changes to the presentation of the Statement of Accounts in 2009/10, mainly as a result of changes to the Local Authority Accounting Code of Practice.
- 9.2. In advance of the main implementation of International Financial Reporting Standards (IFRS) from 2010/11, the accounting treatment of PFI and other related contracts has been amended to comply with the relevant IFRS (IFRIC 12) from 2009/10. This is to facilitate the production of Whole of Government Accounts on a consistent basis from 2009/10. Application of this standard requires the assets and liabilities associated with the infrastructure created by the joint Waste Management contract with Portsmouth and Southampton City Councils to be brought onto local authority balance sheets. Similarly the assets and liabilities associated with the Street Lighting PFI contract will be brought onto the balance sheet once the investment programme commences in 2010/11. The effect of this

change is to increase the value of the County Council's fixed assets in the restated 31 March 2009 balance sheet by £89.6 million and current and deferred liabilities by £88.7 million.

- 9.3. The basis of accounting for the collection of Council tax has also changed from 2009/10, so that the balance on the district council collection funds, reflecting the difference between budgeted assumptions and actual council tax collected, and associated debtors and creditors are shared between the billing authority and precepting authorities in proportion to their shares of council tax income. This treats the Council tax collection function as an agency function, whereas in the past the billing authority has been regarded as the principal. The County Council's share of the additional income in 2009/10 of £1.3 million is recorded in the income and expenditure account and then reversed by a transfer to the collection fund adjustment account, so that the general fund impact is neutral.
- 9.4. The 2009/10 Statement of Accounts also includes the additional disclosure requirements of the revised Accounts and Audit regulations relating to the remuneration of senior employees. The previous requirement to disclose the numbers of staff receiving remuneration in excess of £50,000 per annum in £10,000 bands has also been expanded by introducing £5,000 bands.
- 9.5. A review has also taken place of the disclosures in the Statement of Accounts that are not required to comply with UK Generally Accepted Accounting Practice (UK GAAP), in order to compensate for the increased disclosures required in recent years to comply with UK GAAP. As a result the 2009 Code of Practice removes the requirement to include in the Statement of Accounts disclosures relating to use of S 137 powers, expenditure incurred on publicity and income obtained under the Local Authority Goods and Services Act. The County Council has reflected this change of practice in the 2009/10 Statement of Accounts.

10. Further information

You can get more information about the accounts from

The County Treasurer, Hampshire County Council, The Castle, Winchester, SO23 8UB,
telephone (01962) 847533,
e-mail budget@hants.gov.uk.

Statement of accounting policies

1. General principles

- 1.1. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in United Kingdom: A Statement of Recommended Practice (2009) (SORP) and the Accounts and Audit Regulations 2003 as amended in 2006 and 2009. Compliance with the principal accounting policies is explained in the following notes.

2. Debtors and creditors

- 2.1. Sums due to, or from, the Council during the year are included in the accounts, whether or not the cash has actually been received or paid in the year – that is, on an accruals basis. From 1 April 2009, this includes accrued council tax income rather than the amount that under regulation was required to be paid from the Collection Fund. However, the accrual is reversed out through the Statement of Movement on the General Fund Balance so that the general fund balance is based on the regulation amount of council tax for the year.
- 2.2. However, there are some exceptions, as follows:
 - Overtime is accounted for with the basic pay with which it is paid. The total amount involved at 31 March 2010 is estimated at £3.6 million (£3.1 million in 2008/09).
 - electricity and other utility companies' quarterly payments are accounted for at the date of meter reading rather than being shared between financial years.
 - Pension Fund income includes dividends declared in the income tax year.
- 2.3. The above exceptions apply every year, so they do not have a material effect on the year's accounts.

3. Reserves and provisions

- 3.1. Specific amounts are set aside as reserves for future policy purposes or to cover contingencies. Reserves are created by transferring amounts in the Statement of Movement on the General Fund balance. Expenditure on items for which the reserves were originally created is shown as service expenditure in the Income and Expenditure Account matched by the reserve being transferred back into the General Fund balance statement so that there is no net charge against council tax for the expenditure. Details of variations to earmarked reserves are shown in the notes to the accounts.

3.2. The main reserves are as follows:

- the General Fund balance is the surplus of revenue income over expenditure. It can be used to supplement income in future years. In the balance sheet it is shown separately from reserves that are earmarked for specific purposes the schools' reserve is the cumulative unspent portion of schools' locally administered budgets. These were set up under the Local Management of Schools arrangements required by the Education Reform Act 1988
- the capital reserve is used to help pay for future years' capital expenditure
- The Landfill Allowances Trading Scheme Reserve contains income from the sale of surplus allowances. The reserve is to be used to reduce cost pressures from the existing waste contract and for further investment in waste infrastructure. This Government scheme operates from 1 April 2005 to 31 March 2020. The scheme allocates tradable landfill allowances to each Waste Disposal Authority (WDA) up to their 'cap'. The Authority can use its allowances to meet its liability for actual landfill usage or sell allowances to another WDA
- Public Service Agreement Reward Grant Reserve contains the cash reward from the Government for meeting the targets set in the first Public Service Agreement
- the Invest-to-save Reserve is used to finance future capital and revenue investment in initiatives that are expected to generate a payback which can be recycled into the reserve
- The Corporate Policy Fund uses corporate efficiency savings to support investment in front line services
- the Designated Under-spending Reserve enables services to carry forward under-spending to aid their budgets in future years
- the Insurance Reserve is maintained in case the settlement of claims for past liabilities is higher than expected (including the continuing liability to meet claims in respect of former County Council services in Southampton and Portsmouth incurred before 31 March 1997) and to provide for the reinstatement of fire damage
- the trading account reserve contains the unapplied surpluses of trading units, which are retained to finance future investment in the trading units, to cover possible future losses or to provide direct benefits to customers
- The Grant Equalisation Reserve is being used to mitigate the effect on council taxpayers of the shift in Revenue Support Grant away from the County Council over a period which started in 2004/05
- The Equal Pay Reserve will help to meet the transitional costs of restructuring the County Council's pay scales caused by the national single status agreement
- The Local Authority Business Growth Incentive (LABGI) reserve is derived from grant received under the scheme and is used to contribute to programmes designed to promote economic prosperity, wellbeing and

regeneration and other capital investment projects.

- The Segensworth Units Reserve enables annual tenant contributions towards repairs to be earmarked for periodic major repair liabilities to infrastructure.
- The Minerals & Waste Development Framework (MWDF) Reserve is made up from contributions from each of the partners (including Hampshire County Council, Portsmouth City Council, Southampton City Council and the New Forest National Park Authority). The contributions go towards the ongoing costs of operating the joint MWDF, and in particular it is earmarked to meet the costs of future Public Inquiries, which do not fall evenly across financial years.
- The Community Transport Vehicle Replacement Reserve is made up of annual contributions to meet the periodic cost of vehicle replacement.
- The Corporate Procurement Reserve includes a contribution from the supplies business unit surplus to assist in funding the additional costs of the Corporate Procurement Efficiency programme.

3.3. Provisions are made in respect of legal liabilities, where the amount or date of payment is uncertain. They are charged to the Income and Expenditure Account in the year they are recognised.

4. Fixed assets

4.1. All expenditure on the acquisition, creation or enhancement of a fixed asset that yields benefits for more than one year can be treated as capital expenditure in the accounts. Spending on IT assets and intangible assets (such as software licences) typically yields benefits for a period of less than five years. Such expenditure is capitalised only if it yields benefits of five years or more which is not in accordance with recommended practice. This does not have a material effect in the accounts.

4.2. From 2009/10, in accordance with the SORP, where the County Council has control over assets used in the provision of services through PFI and similar service concession contracts, such assets are accounted for as fixed assets in the same way as owned assets.

4.3. Fixed assets are valued on the basis recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA) and in accordance with the Statements of Asset Valuation Principles and Guidance Notes issued by the Royal Institution of Chartered Surveyors.

4.4. Fixed assets are classified into the groupings defined in the Code of Practice on Local Authority Accounting:

- land, property and other assets used for service provision are called 'operational assets'. They are included in the Balance Sheet at the open market value for their present use when there is enough evidence to support the value, or at depreciated replacement cost otherwise
- assets not used to provide services are called 'non-operational assets' and

include investment properties and assets that are surplus to requirements. They are included in the Balance Sheet at open market value. Assets under construction are also included in this category and are valued at historic cost.

- infrastructure assets (eg roads) and community assets (eg country parks) are included in the Balance Sheet at historical cost net of depreciation. For this purpose, historical cost is taken to be the debt outstanding on the assets on 1 April 1994 plus expenditure since then. Vehicles and equipment and assets under construction are also valued at depreciated historic cost
 - purchased intangible assets are valued at historic cost net of depreciation.
- 4.5. With effect from 1 April 2007, surpluses arising from the revaluation of fixed assets are credited to the revaluation reserve for each individual asset. In accordance with the code of practice, reductions in value can only be debited to the revaluation reserve to the value of previous revaluation gains. Otherwise they are charged to the Income and Expenditure Account.
- 4.6. Revaluations of fixed assets are undertaken on a five-year rolling programme. Material changes to asset valuations will be adjusted in the interim as they occur. Capital expenditure that increases the value of assets is added to the capital values of the assets pending revaluation.
- 4.7. Income from the disposal of fixed assets is accounted for in the year in which it occurs and is used to finance capital payments in the year.

5. Basis of charges for use of fixed assets

5.1. Depreciation charges are made on all fixed assets other than land, community, assets under construction and non-operational assets in accordance with Financial Reporting Standard tangible fixed assets (FRS 15). The depreciation is calculated on a straight-line basis over each asset's useful economic life as follows:

- Buildings - are mostly depreciated over 57 years provisionally assessed when FRS15 was introduced in 2000/01. But when buildings are revalued their lives are reassessed to reflect the average useful economic life of the buildings as follows:
 - traditional building structure 60 years
 - industrial type structures 50 years
 - system build and timber frame 35 years
 - temporary buildings 30 years
 - Waste disposal facilities 20 years
- Roads and bridges – reflect an assessment of the useful economic lives of different parts of road structures
- New and improved highways
 - major schemes 50 years
 - minor schemes 40 years
- Structural maintenance
 - principal roads 20 years
 - non-principal 50 years
- Area strategies and improvements for safety 25 years
- Pedestrian facilities, street lighting and cycling
- Facilities 20 years
- Traffic calming 10 years
- Furniture and equipment 10 years
- Vehiclesbetween five and 10 years

6. Revenue Expenditure Funded by Capital Under Statute

6.1. Legislation allows some expenditure such as grants to external organisations for capital purposes and spending on buildings not owned by the County Council, e.g. foundation schools, to be funded from capital resources. Such expenditure is not carried on the balance sheet and is charged to the income and expenditure account in the year it is incurred. However, so that it does not impact on the year's council tax, an adjustment is made in the Statement of Movement on the General Fund balance.

7. Redemption of debt

- 7.1. The Council's borrowing for capital purposes is controlled under the CIPFA Prudential Code for Capital Finance in Local Authorities. The total borrowing is expressed as the Capital Financing Requirement and is derived from the opening Balance Sheet.
- 7.2. With regard to The Local Authority (Capital Finance and Accounting) (England) (Amendment) Regulations 2008, the Council's policy for 2009/10 is to make a minimum revenue provision equal to 4% of the capital financing requirement at the beginning of the year on supported borrowing. For unsupported borrowing incurred after 1 April 2008, minimum revenue provision is made on an equal instalment basis that reflects the life of the related asset, using a period that is no longer than used to calculate the corresponding depreciation provision. For deferred liabilities relating to PFI and service concessions, minimum revenue provision is made on the basis of the principal element of the annuity payment required to write down the liability over the life of the related asset.

8. Central support services

- 8.1. Costs of support services are allocated over all services as follows:
 - Office accommodation – on the basis of area occupied
 - Central departments - on the basis of time spent on behalf of other departments, or in accordance with a basis of allocation set by a service level agreement

9. Basis of valuation

Financial Instruments

- 9.1. Financial instruments are shown in the Balance Sheet and relevant notes in accordance with Financial Reporting Standards (FRS) 25, 26 and 29. Investments in the Pension Fund Net Assets Statement are shown at market value at 31 March each year.

Landfill allowances

- 9.2. Surplus landfill allowances are valued at the lower of cost and net realisable value.

Stocks and stores

- 9.3. Stocks worth £3.4 million are included in the Balance Sheet. There are various bases of valuation for these stocks, according to their differing natures and purposes. For example, County Supplies stock of £1.4 million is valued at the latest buying price. The rest are mainly on an historical cost basis. Spending on consumable items is accounted for in the year of purchase.

10. Pension arrangements

- 10.1. The County Council participates in two pension schemes that meet the needs of employees in particular services. Both schemes provide members with defined benefits related to pay and service. The costs of providing pensions for employees are charged to the accounts in accordance with Financial Reporting Standard (FRS) 17 as amended in December 2006.

11. Specific revenue Government grants

- 11.1. Government grants for specific purposes are included in the accounts on the basis of the relevant percentage of eligible expenditure or the total grant awarded for the year, depending upon the grant conditions that apply. These grants are shown in a separate column in the Income and Expenditure Account.

12. Capital grants and contributions

- 12.1. The Code of Practice provides for capital grants and contributions to be credited, initially, to a Government grant's deferred account and a contributions deferred account. Amounts are released to revenue to offset the charges for depreciation on the related assets over the life of the assets.

13. Leasing

- 13.1. The Council sometimes uses operating leases for vehicles or equipment as an alternative to ownership. The rentals on the leases are charged to the Income and Expenditure Account of the service that uses the assets.

14. Non distributed costs

- 14.1. Some costs cannot be attributed to individual services and are described as non-distributed costs. They include past service costs relating to pensions which arise from decisions taken in the current year, but whose financial effect is derived from years of service earned in earlier years. Non-distributed costs also include the costs associated with surplus assets held for disposal.

Statement of Responsibilities for the Statement of Accounts

1. The Council's responsibilities

The Council is required to:

- make arrangements for the proper administration of its financial affairs and to make one of its officers responsible for the administration of those affairs. In this Council, that officer is the County Treasurer
- manage its affairs so as to use resources economically, efficiently and effectively and safeguard its assets
- approve the Statement of Accounts.

2. The County Treasurer's responsibilities

1. The County Treasurer is responsible for preparing the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain.
2. In preparing this Statement of Accounts, the County Treasurer has:
 - selected suitable accounting policies and applied them consistently
 - made judgements and estimates that were reasonable and prudent
 - complied with the Code of Practice.
3. The County Treasurer has also:
 - kept proper accounting records which are up to date
 - taken reasonable steps to prevent fraud and other irregularities.

3. The County Treasurer's statement

I certify that the Statement of Accounts presents a true and fair view of the financial position of the County Council as at 31 March 2010 and its income and expenditure for the year ended 31 March 2010.

Sarah Pook CPFA
Deputy County Treasurer and Section 151 Officer
21 June 2010

4. The Chairman's statement

I certify that the Statement of Accounts for 2009/10 was considered and approved at the Audit Committee meeting on 30 June 2010.

Councillor Keith Evans
Chairman of Audit Committee
30 June 2010

Income and Expenditure Account

This account summarises the resources that have been consumed and generated in providing services and managing the Council during the last year. It includes all day-to-day expenses and related income on an accruals basis, as well as transactions measuring the value of fixed assets actually consumed and the real projected value of retirement benefits earned by employees in the year. The net cost of services is presented using the service expenditure analysis set out in the Best Value Accounting Code of Practice.

2008/09 restated Net Expenditure £'000	See note 1		Gross Expenditure £'000	Income Specific Grants £'000	Other Income £'000	Total £'000	2009/10 Net Expenditure £'000
4,804		Central services to the public	7,664	-60	-2,333	-2,393	5,271
116,330		Cultural, environmental and planning services	136,842	-25	-28,229	-28,254	108,588
608,086	2	Children's Services & Education	1,217,223	-818,606	-113,735	-932,341	284,882
79,280		Highways, roads and transport services	85,897	-140	-8,209	-8,349	77,548
307,174		Adult Social Care	413,760	-36,833	-86,636	-123,469	290,291
431		Court services	1,554	-	-1,039	-1,039	515
15,250		Corporate and democratic core	18,077	-	-	-	18,077
-1,919		Reward grant	-	-2,250	-	-2,250	-2,250
6,040	3	Non-distributed costs	9,828	-	-5,897	-5,897	3,931
-3,274	4	Reduction in provisions	-4,182	-	-	-	-4,182
1,132,202		Net cost of services	1,886,663	-857,914	-246,078	-1,103,992	782,671
-3,432	5	Surplus on trading undertakings					-1,989
15,309	6	Interest	25,443		-5,116		20,327
31,940	7d	Pensions interest cost and expected return on pensions assets					57,690
-							
3,165	8	Gain/loss on disposal of assets					471
1,179,184		Net operating expenditure					859,170
		Amount to be met from Government grant and local taxpayers					
-64,742		Area Based Grant					-45,433
-17,432		Revenue support grant					-27,154
-125,220		National business rates					-117,643
-500,029	9	Council tax income					-513,503
471,761		Deficit for the year on the Income and Expenditure Account					155,437

Statement of Movement on the General Fund Balance

The Income and Expenditure Account shows the Council's actual financial performance for the year, measured in terms of the resources consumed and generated over the last financial year. However, the Authority is required to raise council tax on a different accounting basis, the main differences being:

- * capital investment is accounted for as it is financed, rather than when the fixed assets are consumed
- * retirement benefits are charged as amounts become payable to pension funds and pensioners, rather than as future benefits are earned.
- * Council tax income is the budgeted amount not the accrued amount for the year.

The General Fund balance compares the Council's spending against the council tax it raised for the year, taking into account the use of reserves built up in the past and contributions to reserves earmarked for future expenditure.

The reconciliation statement summarises the differences between the outturn on the Income and Expenditure Account and the General Fund Balance.

2008/09 £'000		2009/10 £'000
471,761	Deficit on the Income and Expenditure Account for the year	155,437
-482,973	Net additional amount required by statute and non-statutory proper practices to be credited to the General Fund Balance for the year (this is shown in detail below)	-157,855
-11,212	Increase(-)/decrease in General Fund Balance for the year	-2,418
-23,300	Balance brought forward 1 April	-34,512
-34,512	Balance carried forward at 31 March	-36,930
-34,512	Amount of General Fund balance generally available for new expenditure	-36,930

Reconciling items for the Statement of Movement on the General Fund Balance

See
2008/09 note
restated 1
£'000

2009/10
£'000

Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the General Fund surplus of deficit for the year

-478,692	13a	Depreciation and impairment of fixed assets	-188,144	
-12,893	14	Revenue expenditure funded by capital under statute	-14,776	
-90,743	13a	Loss on assets transferred to foundation schools	-21,579	
26,008	10a	Deferred Contributions released	7,055	
7,976	10b	Deferred Government Grants released	25,810	
-3,163	8	Net gain or loss (-) on sale of fixed assets (excluding costs of sale)	-461	
0	9	Collection Fund Adjustment	1,291	
11	11	Net cost of soft loans	10	
-78,483	7d	Net charges made for retirement benefits in accordance with FRS 17	<u>-106,235</u>	-297,029
-629,979				

Amounts not included in the Income and Expenditure Account but required by statute to be included when determining the General fund surplus or deficit for the year

47,938	12	Statutory provision for repayment of debt	28,845	
32,123	14	Capital expenditure financed from the General Fund	48,193	
-1,930	15	Contribution from other authorities	-1,866	
63,413	7d	Employer's contributions payable to the Pension Fund.	<u>69,585</u>	144,757
141,544				

Transfers to or from the General Fund Balance that are required by statute to be taken into account when determining the General Fund surplus or deficit for the year

5,462	21c	Transfers to earmarked reserves		-5,583
-482,973				-157,855

Statement of Total Recognised Gains and Losses (STRGL)

This statement brings together all the gains and losses of the Council for the year and shows the aggregate increase in its net worth. In addition to the deficit on the Income and Expenditure Account, it includes gains and losses relating to the revaluation of fixed assets and re-measurement of the net liability to cover the cost of retirement benefits.

2008/09 restated £'000	2009/10 £'000
-471,761 Deficit for year on the Income & Expenditure Account	-155,437
184,620 Net gains on revaluation of fixed assets	169,439
-3,848 Adjustment to prior year revaluations and capital receipts	3,064
-272,190 Actuarial loss on pension fund assets and liabilities	-199,110
162 External contribution towards debt outstanding on transferred services	161
Opening adjustment for council tax accrual	3,238
-563,017	-178,645

Balance Sheet

31 March 2009 restated £'000	See note 1		31 March 2010 £'000
	13	Tangible fixed assets	
		Operational assets	
2,911,642		Land and buildings	3,004,232
56,986		Vehicles plant and equipment	56,905
446,106		Infrastructure assets	468,180
11,913		Community assets	13,379
		Non-operational assets	
41,914		Assets under construction	32,936
64,893		Surplus assets, held for disposal	63,726
3,533,454		Total fixed assets	3,639,358
40,788	16a	Long-term debtors	39,289
3,574,242		Total long-term assets	3,678,647
		Current assets	
3,245	17	Stocks and work in progress	3,369
61,772	16b	Debtors	81,952
8,573		Payments in advance	10,244
195,209	16c	Short-term investments	184,584
5,591	18	Cash in hand	5,629
274,390			285,778
		Current liabilities	
-1,811	16h	Deposits	-3,319
-146,252	16i	Creditors	-153,905
-62,627	16j	Receipts in advance	-83,109
-99,841	16e	Borrowing repayable within one year	-89,888
-3,197	20	Finance lease repayable within one year	-3,454
-17,124	19	Cash overdrawn	-15,400
-330,852			-349,075
-56,462		Net current liabilities	-63,297
3,517,780		Total assets less current liabilities	3,615,350
-336,996	16d	Long-term borrowing	-336,556
-85,525	20	Deferred Liabilities	-82,071
-165,950	10a	Deferred Contributions	-177,859
-307,168	10b	Deferred Government Grants	-339,144
-32,706	16g	Developers' Contributions	-33,197
-5,215	4	Provisions	-5,188
-933,560			-974,015
-727,570	7e	Net liability related to defined benefit pension schemes	-963,330
1,856,650		Total net assets	1,678,005
		Financed by:	
-1,952,848	21b	Capital Adjustment Account	-1,882,356
98	21	Financial Instruments Adjustment Account	88
	9	Collection Fund Adjustment Account	-4,529
-434,573	21a	Revaluation Reserve	-563,096
-2,290		Capital Receipts Unapplied	-
727,570	21	Pensions reserve	963,330
-160,095	21c	Earmarked reserves	-154,512
-34,512		General Fund	-36,930
-1,856,650		Total net worth	-1,678,005

Cash Flow Statement

	2008/09	2009/10
	£'000	£'000
Revenue Activities		
Cash outflows		
Cash paid to and on behalf of employees	981,955	1,030,594
Other operating costs	647,646	669,369
	1,629,601	1,699,963
Cash inflows		
Rents	-4,658	-4,757
Council tax income	-500,029	-512,212
National business rates	-125,220	-117,643
Revenue Support Grant	-17,432	-27,154
Charges for goods and services	-84,885	-87,796
Specific and Area Based Government grants	-864,346	-903,417
Other income	-135,226	-130,805
	-1,731,796	-1,783,784
Net cash inflow from revenue activities (see note 22)	-102,195	-83,821
Returns on investments and servicing of finance		
Cash outflows - Interest paid	28,509	26,591
Cash inflows - Interest received	-14,531	-9,210
Net cash outflow from servicing of finance activities	13,978	17,381
Capital Activities		
Cash outflows		
Fixed assets	161,078	154,046
Cash inflows		
Sale of fixed assets	-2,355	-12,155
Capital grants (see note 23)	-67,670	-67,984
Other income	-13,155	-15,726
	-83,180	-95,865
Net cash outflow from capital activities	77,898	58,181
Net cash inflow (-)/outflow before financing (see notes 24 and 25)	-10,319	-8,259
Financing		
Borrowing repayable over periods of one year or more:		
Repayments	28,295	12,454
New loans	-16,277	-8,560
Borrowing repayable within one year:		
Repayments	546,830	552,688
New loans	-580,721	-539,460
Net cash inflow (-)/outflow	-32,192	8,863

Notes to the core financial statements

1 Prior period adjustments

Adjustments to the information within the 2008/09 statements have been made to reflect the change in accounting policy for service concessions. The County Council's existing waste management contract meets the definition of a service concession in accordance with the 2009 SORP. The waste disposal assets constructed under the contract are now included in the County Council's balance sheet, together with a deferred liability to pay for the assets over the life of the contract. Consequently the annual contract fee, hitherto charged to the income and expenditure account, needs to be separated into a service charge, a principal repayment and an interest charge.

A further adjustment is required in respect of a lump sum payment made in 2008/09 for part of the asset costs. This was charged to the income and expenditure account as 'revenue expenditure funded by capital under statute' (REFCUS) as the assets were not included in the County Council's balance sheet last year. This needs to be reversed and instead treated as a repayment of principal.

The relevant extracts of the financial statements and the required adjustments are shown below.

Income and Expenditure Account

	Published 2008/09 £'000	Adjustment £'000	Restated 2008/09 £'000
Culture, environmental and planning	134,075		
Reverse REFCUS		-19,330	
Redirect service charge to repayment of principal		-4,965	
Redirect service charge to payment of interest		-7,956	
Impairment charge for reduction in asset value		8,868	
Depreciation		5,638	
	134,075	-17,745	116,330
Net cost of services	1,149,947	-17,745	1,132,202
Interest	7,353	7,956	15,309
Net operating expenditure	1,188,973	-9,789	1,179,184
Deficit for the year on the Income and Expenditure	481,550	-9,789	471,761

	Published 2008/09 £'000	Adjustment £'000	Restated 2008/09 £'000
Statement of Movement on the General Fund Balance			
Deficit for the year on the Income and Expenditure	481,550	-9,789	471,761
Net additional amount required by statute and proper practices to be credited to the General Fund Balance for the year	-492,762	9,789 *	-482,973
Increase(-)/decrease in General Fund Balance for the year	-11,212		-11,212
Balance brought forward 1 April	-23,300		-23,300
Balance carried forward at 31 March	-34,512		-34,512
Depreciation and impairment of fixed assets	-464,186	-14,506	-478,692
REFCUS	-32,223	19,330	-12,893
Statutory provision for the repayment of debt	23,643	24,295	47,938
Capital expenditure financed from the General Fund	51,453	<u>-19,330</u>	32,123
		9,789 *	

Statement of Total Recognised Gains and Losses (STRGL)

Deficit for the year on the Income and Expenditure	-481,550	9,789	-471,761
Net gains on revaluation of assets	183,326	1,294	184,620
Overall reduction in net worth	-574,100	11,083	-563,017

	Published 2008/09 £'000	Adjustment £'000	Restated 2008/09 £'000
Balance Sheet			
Land and buildings	2,822,053	89,589	2,911,642
Long term assets	3,484,653	89,589	3,574,242
Finance lease repayable within one year	-	-3,197	-3,197
Current liabilities	-327,655	-3,197	-330,852
Deferred liability	-	-85,525	-85,525
Total net assets	1,855,783	867	1,856,650
Capital Adjustment Account	-1,953,203		
Creation of liability opening balance		10,216	
Depreciation and impairment of fixed assets		14,506	
reverse REFUCS		-19,330	
Statutory provision for the repayment of debt		-24,295	
Capital expenditure financed from the General Fund		19,330	
Excess of current value depreciation over historic cost depn.		-72	
	-1,953,203	355	-1,952,848
Revaluation Reserve	-433,351		
Asset revaluation		-1,294	
Excess of current value depreciation over historic cost depn.		72	
	-433,351	-1,222	-434,573
Total net worth	-1,855,783	-867	-1,856,650

	Published 2008/09 £'000	Adjustment £'000	Restated 2008/09 £'000
Cash Flow Statement			
Revenue activities cash outflows			
Other operating costs	679,897		
Reverse REFCUS		-19,330	
Redirect service charge to repayment of principal		-4,965	
Redirect service charge to payment of interest		-7,956	
	679,897	-32,251	647,646
Returns on investments and servicing of finance			
Cash outflows - interest paid	20,553	7,956	28,509
	13,976	-24,295	-10,319
Financing			
Borrowing repayable over periods of one year or			
Repayments	4,000		
Redirect REFCUS to repayment of principal		19,330	
Redirect service charge to repayment of principal		4,965	
	4,000	24,295	28,295
Net cash inflow (-) / outflow	-32,192	-	-32,192

2 Disclosure of deployment of Dedicated Schools Grant

The Council's expenditure on schools is funded by grants from the Department for Children, Schools and Families (DCSF) (now the Department for Education DfE), primarily the Dedicated Schools Grant (DSG).

DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget. The Schools Budget includes central expenditure covering education provision and a restricted range of services provided on an authority-wide basis and the Individual Schools Budget, which is divided into a budget share for each school. Overspends and underspends on the two elements must be accounted for separately.

Details of the deployment of DSG receivable for 2009/10 are as follows:

	Central expenditure £'000	Individual Schools Budget £'000	Total £'000
Final DSG for 2009/10 as issued by the DCSF on 25 June 2009			692,510
Brought forward from 2008/09 as agreed with DCSF			9,345
Carry forward to 2010/11 agreed in advance with the Schools Forum			-6,750
Agreed budgeted distribution in	109,061	586,044	695,105
Actual central expenditure	-96,551		-96,551
Actual ISB deployed to schools		-586,044	-586,044
Local Authority contribution for 2009/10	128		128
Carry forward to 2010/11	12,638	-	12,638

3 Non-distributed costs

Some costs cannot be attributed to individual services and are described as non-distributed costs. They include past service costs relating to pensions which arise from decisions taken in the current year, but whose financial effect is derived from years of service earned in earlier years. Further details of pension costs are included in note 7. Non-distributed costs also include the costs associated with surplus assets held for disposal.

4 Change in provisions

	31 March 2008	Change in 2008/09		31 March 2009
		Central Provision	Service Provision	
	£'000	£'000	£'000	£'000
Insurance claims	-4,237	3,120	-3,808	-4,925
Contract terminations	-262	-	-	-262
Other	-26	-	-2	-28
	-4,525			-5,215
Provision for doubtful debts (included with debtors in the Balance Sheet)	-2,288	154	-3,361	-5,495
		3,274	-7,171	

	31 March 2009	Change in 2009/10		31 March 2010
		Central Provision	Service Provision	
	£'000	£'000	£'000	£'000
Insurance claims	-4,925	-3,575	3,658	-4,842
Contract terminations	-262	-	-55	-317
Other	-28	-	-1	-29
Provisions identified in the Balance Sheet	-5,215			-5,188
Provision for doubtful debts (included with debtors in the Balance Sheet)	-5,495	-607	4,648	-1,454
		-4,182	8,250	

The insurance provision represents an assessment of the likely cost of liability claims known to the County Council at 31 March 2010. The risks covered are as follows:

Liabilities

Employer's liability, public liability and professional indemnity up to an aggregate loss of £14 million in any one year. Should this limit ever be exceeded the maximum liability for any one claim would be £5 million.

Property

Reinstatement of buildings for loss or damage as a result of fire, lightning, explosion and (for schools only) major storm and flood. This applies to buildings owned by the County Council and those leased to it where the lease allows.

Contents owned by the County Council for loss or damage as a result of fire, lightning, explosion and theft, all risk cover for IT equipment in the computer suite, and for cash on premises and in transit (limits depending on location).

Additional cover

Personal accident of staff on duty
Fidelity guarantee
Vessels

Council departments currently continue to perform services on contract where functions have been transferred from the Council. The contract termination provision recognises that the Council is likely to incur certain costs when these arrangements eventually end.

5 Internal trading accounts

The trading units had an overall surplus of £1,989,000 (2008/09 overall surplus of £3,432,000) as follows:

		2008/09 £'000	2009/10 £'000
Former Direct Services Organisation			
- provides catering and cleaning services to schools and some non-educational sites in Hampshire and supplies vehicles to departments of the County Council.	Income	-25,930	-27,369
	Expenditure	25,553	26,957
	Surplus(-)	-377	-412
Education Business Units			
- provide support services principally to schools but also to other departments and other local authorities.	Income	-40,805	-42,090
	Expenditure	39,093	42,223
	Surplus(-)deficit	-1,712	133
Information Technology Services			
- provided to County Council departments and some other local authorities.	Income	-36,920	-37,602
	Expenditure	35,823	36,949
	Surplus(-)	-1,097	-653
County Supplies			
- operate the central purchasing warehouse and arrange direct delivery and other contracts for County Council departments, other local authorities and voluntary organisations.	Income	-10,389	-11,396
	Expenditure	10,184	10,643
	Surplus(-)	-205	-753
Hampshire Printing Services			
- provide printing and reprographic services to County Council departments.	Income	-2,765	-2,782
	Expenditure	2,692	2,692
	Surplus(-)	-73	-90
Six other smaller trading units			
- including a surplus of £164,000 (£94,000 deficit in 2008/09) on the management of the River Hamble.	Income	-1,580	-1,636
	Expenditure	1,612	1,422
	Deficit/Surplus(-)	32	-214
	Total Surplus(-)	-3,432	-1,989

6 Interest

The Income and Expenditure Account includes interest receivable and payable as follows:

	original 2008/09 £'000	restated 2008/09 £'000	2009/10 £'000
Interest receivable:			
Loans and receivables financial instruments	-11,041	-11,041	-3,826
Statutory debtors relating to transferred services	-1,998	-1,998	-1,290
	-13,039	-13,039	-5,116
Interest payable:			
Financial liabilities at amortised cost	20,392	28,348	25,443
Net interest payable	7,353	15,309	20,327

7 Pensions

As part of the terms and conditions of employment of its staff, the County Council provides retirement benefits. These will be paid only when employees retire but (in accordance with Financial Reporting Standard (FRS)17) the Council must account for the commitments at the time that employees earn their future entitlement.

The County Council participates in two pension schemes:

- a) The Teachers' Pension Scheme for teachers
- b) The Local Government Pension Scheme (LGPS) for other employees

7a Teachers' Pension Scheme

This is a defined benefit scheme administered during 2009/10 by the Department for Children Schools and Families (DCSF), subsequently the Department for Education. The scheme is unfunded which means the pensions of past employees are paid out of current revenues. Scheme liabilities cannot be attributed to individual local authorities on a consistent reasonable basis. So in accordance with FRS17 pension costs are recorded as if the scheme was a defined contribution scheme. The DCSF has established a notional fund as the basis of calculating the employers' contribution. Contributions were at the rate of 14.1% of pensionable pay for 2009/10 (for 2008/09 it was 14.1%)

In 2009/10 total employer's contributions were £49.89 million (£48.27 million in 2008/09)

7b Local Government Pension Scheme (LGPS)

This is a funded, defined benefit scheme, administered by the County Council. Employers and employees pay contributions into a fund at a level estimated to balance pension liabilities with investment assets. Enhanced pensions awarded by the Council are described as unfunded benefits as they are not funded by the assets of the pension fund, but are funded by the Council when they are paid. In 2009/10, pension fund assets and liabilities have been included in the Balance Sheet based on a formal actuarial valuation for 31 March 2007. This valuation has been updated using the assumptions shown overleaf. The same assumptions were used to value the unfunded LGPS and teachers' benefits at 31 March 2010.

Principal financial assumptions

	2008/09 % per year	2009/10 % per year
Rate of discount for scheme liabilities	6.7	5.5
Rate of increase in salaries	4.9	5.15
Rate of increase in pensions in payment - funded pensions	3.4	3.65
Rate of increase in pensions in payment -unfunded pensio	3.4	3.55
Rate of increase in deferred pensions	3.4	3.65
Proportion of employees opting to take a commuted lump sum:		
for pre 1 April 2008 service	25.0	25.0
for post 1 April 2008 service	75.0	75.0
Rate of inflation - funded pensions	3.4	3.65
Rate of inflation - unfunded pensions	3.4	3.55

Principal demographic assumptions

Post retirement mortality	2008/09	2009/10
Males		
Base table in 2007 - PNMA00 with allowance for MC improvement factors to 2007		
Scaling to above base table rates	110%	110%
Cohort improvement factors from 2007	80% of LC	80% of LC
Minimum underpin to improvement factors	1.25%	1.25%
Future lifetime from age 65 (currently aged 65)	22.2	22.3
Future lifetime from age 65 (currently aged 45)	24.5	24.7
Females		
Base table in 2007 - PNFA00 with allowance for MC improvement factors to 2007		
Scaling to above base table rates	110%	110%
Cohort improvement factors from 2007	60% of LC	60% of LC
Minimum underpin to improvement factors	1.25%	1.25%
Future lifetime from age 65 (currently aged 65)	24.2	24.3
Future lifetime from age 65 (currently aged 45)	26.4	26.5

Expected return on assets

Hampshire County Council employs a building block approach in determining the rate of return on Fund assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed rate of return on each asset class is set out below. The overall expected rate of return on assets is derived by aggregating the expected return for each asset class over the actual asset allocation for the Fund at 31 March 2010.

	2008/09 % per year	2009/10 % per year
Rate of return on equities (shares)	7	8
Rate of return on Government bonds	4	4.5
Rate of return on property	6	8.5
Rate of return on corporate bonds	5.8	5.5
Rate of return on cash	1.6	0.7
Average long-term expected rate of return	5.7	6.7

7c Charges to the Income and Expenditure Account

Current Service Cost

The current service cost is an estimate at today's prices of the true economic cost of employing people in a financial year earning years of service that will eventually entitle them to a pension when they retire. This is included in the net cost of services in the Income and Expenditure Account. However the charge met by taxpayers is based on employer's contributions payable in the year. This is achieved by adjusting the Income and Expenditure account balance in the General Fund reconciliation on page 19.

The LGPS fund's actuary, Hewitt Associates Limited, has advised that the current service cost of pensions in 2009/10 is £48.8 million (£45.72 million in 2008/09). In 2009/10 the County Council paid an employer's contribution of £64.24 million into the Hampshire County Pension Fund (£57.93 million in 2008/09). This was 18.6% of pensionable pay (18.1% in 2008/09).

The contribution rate is determined by the Pension Fund's actuary, based on valuations every three years. The actuarial valuation of the Fund as at 31 March 2007 resulted in the actuary recommending a phased increase in the employers' rate. The rate was increased to 18.1% of pensionable pay in 2008/09, rising to 18.6% in 2009/10, and 19.1% in 2010/11.

Past service cost of pensions

Past service costs arise from decisions taken in the current year, but whose financial effect is derived from years of service earned in earlier years. This includes enhanced early retirements (formerly added years) for all staff including teachers as the County Council is responsible for all pension payments relating to augmented service awarded by the County Council and for meeting the additional cost of early retirement.

The actuary has advised that the past service cost in 2009/10 is:

	2008/09	2009/10
	£'000	£'000
Early retirements:		
LGPS funded	820	1000
LGPS unfunded	10	0
Teachers unfunded	590	0
	1,420	1,000

Past service costs are included in non-distributed costs in the Income and Expenditure Account in accordance with BVACOP. A credit of £0.3 million (£0.8 million charge in 2008/09) has been made after adjusting for the difference between actuarial assumptions and actual cashflow in 2009/10.

The past service cost for early retirements in previous years is assessed by the actuary at £40.43 million in respect of teachers' pensions (£37.31 million in 2008/09) and £29.09 million in respect of unfunded benefits to former employees in the LGPS (£27.02 million in 2008/09). This is added to the pension liability in the Balance Sheet. However as for current service costs, the charge for council tax-setting purposes is based on the cash paid in the year.

Contributions paid to cover the cost of early retirements were:

	2008/09		
	LGPS	Teachers	Total
	£'000	£'000	£'000
Early retirements in 2008/09	843	214	1,057
Early retirements in previous years for which payments are still being made	2059	2,363	4,422
Total payments in 2008/09	2,902	2,577	5,479
			2009/10
	LGPS	Teachers	Total
	£'000	£'000	£'000
Early retirements in 2009/10	511	168	679
Early retirements in previous years for which payments are still being made	2,131	2,534	4,665
Total payments in 2009/10	2,642	2,702	5,344

7d Adjustments to the Income and Expenditure Account

In accordance with FRS 17 adjustments to the Income and Expenditure Account are set out below:

	2008/09 £'000	2009/10 £'000
Included in the Income and Expenditure Account:		
Current service cost of funded LGPS pensions	45,720	48,800
Charge to non-distributed costs for early retirement in the year:	823	-255
Interest cost on pension liabilities (note i)		
LGPS funded liabilities	97,750	102,610
LGPS unfunded liabilities	1,750	1,740
Teachers' unfunded liabilities	2,400	<u>2,410</u>
		106,760
<u>Expected return on Pension Fund assets (note ii)</u>	<u>-69,960</u>	<u>-49,070</u>
	78,483	106,235
Excluded from the Income and Expenditure Account:		
Employers' contributions to the Local Government Pension Scheme	-57,934	-64,241
Added years and early retirement cashflows in the year	-5,479	-5,344
	<u>-63,413</u>	<u>-69,585</u>

note i - Interest cost is the amount needed to unwind the discount applied in calculating the current service cost. As members of the scheme are one year older and one year closer to receiving their pension, the provisions made at present value in previous years for their retirement costs need to be uplifted by a year's discount to keep pace with current values

note ii - The expected return is a measure of the return (income from dividends, interest etc.) expected in the long-term on the investment assets held by the scheme for the year.

7e Assets and liabilities relating to retirement benefits

The LGPS's actuary assessed the share of the assets and liabilities of the Hampshire LGPS attributable to the County Council and also the unfunded benefits of teachers and LGPS members. The actuary estimated that the following overall assets and liabilities for pension costs should be included in the Balance Sheet.

	31 March 2006 £'000	31 March 2007 £'000	31 March 2008 £'000	31 March 2009 £'000	31 March 2010 £'000
Present value of liabilities in the scheme:					
LGPS funded	-1,500,790	-1,601,250	-1,431,240	-1,523,940	-2,074,760
Unfunded Liabilities:					
LGPS	-28,610	-29,050	-26,770	-27,020	-29,090
Teachers	-38,620	-39,540	-36,280	-37,310	-40,430
	-1,568,020	-1,669,840	-1,494,290	-1,588,270	-2,144,280
Fair value of assets in the scheme	979,200	1,059,280	1,053,980	860,700	1,180,950
Deficit	-588,820	-610,560	-440,310	-727,570	-963,330

The net deficit on the LGPS will be made good by increased contributions over the remaining working life of employees as assessed by the scheme actuary.

In accordance with paragraph 77(o) of FRS17 (as revised), the assets for the current period and previous three periods are measured at current bid price. Asset values previously measured at mid-market value for periods ending 2008 and 2007 have been re-measured for this purpose. Asset values for the period ending 2006 are shown at mid-market value and have not been re-measured as permitted by FRS17 (as revised). The proportion of assets by category is shown below:

	31 March 2009 %	31 March 2010 %
Equities	55.2	61.3
Government bonds	27.4	24.4
Property	7.3	6.1
Corporate bonds	3.9	2.4
Cash	6.2	5.8
	100.0	100.0

7f Changes to the present value of liabilities during the accounting period

Period ended 31 March 2009	LGPS funded £'000	LGPS Unfunded £'000	Teachers' Unfunded £'000	Total £'000
Opening present value of liabilities	-1,431,240	-26,770	-36,280	-1,494,290
Current service cost	-45,720	-	-	-45,720
Interest cost	-97,750	-1,750	-2,400	-101,900
Contributions by participants	-21,490	-	-	-21,490
Actuarial gains/(losses) on liabilities	17,820	-450	-760	16,610
Net benefits paid out (note i)	55,260	1,960	2,720	59,940
Past service cost	-820	-10	-590	-1,420
Closing present value of liabilities	-1,523,940	-27,020	-37,310	-1,588,270

Period ended 31 March 2010	LGPS funded £'000	LGPS Unfunded £'000	Teachers' Unfunded £'000	Total £'000
Opening present value of liabilities	-1,523,940	-27,020	-37,310	-1,588,270
Current service cost	-48,800	-	-	-48,800
Interest cost	-102,610	-1,740	-2,410	-106,760
Contributions by participants	-23,140	-	-	-23,140
Actuarial gains/(losses) on liabilities	-432,890	-2,320	-3,440	-438,650
Net benefits paid out (note i)	57,620	1,990	2,730	62,340
Past service cost	-1,000	-	-	-1,000
Closing present value of liabilities	-2,074,760	-29,090	-40,430	-2,144,280

note i consists of net cash-flow out of the fund in respect of the employer, excluding contributions and any death in service lump sums paid, and including an approximate allowance for the expected cost of death in service lump sums.

7g Changes to the fair value of assets during the period

	31 March 2009 £'000	31 March 2010 £'000
Opening fair value of assets	1,053,980	860,700
Expected return on assets	69,960	49,070
Actuarial gains/(losses) on assets	-288,800	239,540
Contributions by employer	59,330	66,120
Contributions by participants	21,490	23,140
Net benefits paid out (note i)	-55,260	-57,620
Net increase in assets from disposals and acquisitions	-	-
Settlements	-	-
Closing fair value of assets	860,700	1,180,950

note i consists of net cash-flow out of the fund in respect of the employer, excluding contributions and any death in service lump sums paid, and including an approximate allowance for the expected cost of death in service lump sums.

7h Net actuarial gain/(loss) on pensions

The actuarial gains identified as movements on the Pensions Reserve in 2009/10 can be analysed into the following categories measured in absolute amounts and as a percentage of assets or liabilities at 31 March 2010:

	2005/06 £'000	2006/07 £'000	2007/08 £'000 as restated	2008/09 £'000	2009/10 £'000
Difference between expected and actual return on assets	130,120 13.3%	-1,420 -0.1%	-98,040 -9.3%	-288,800 -33.6%	239,540 20.3%

Difference between actuarial assumptions about liabilities and actual experience

LGPS funded			29,220 2.0%	-5,870 -0.4%	16,660 0.8%
LGPS unfunded			-430 -1.6%	-220 -0.8%	1,320 4.5%
Teachers unfunded			- -	-400 -1.1%	1,640 4.1%
TOTAL	1,470 0.1%	-3,280 -0.2%	28,790 1.9%	-6,490 -0.4%	19,620 0.9%

Changes in assumptions underlying the present value of pension liabilities

LGPS funded			268,020 17.6%	23,690 1.1%	-449,550 -21.7%
LGPS unfunded			2,280 8.4%	-230 -0.8%	-3,640 -12.5%
Teachers unfunded			3,190 8.5%	-360 -0.9%	-5,080 -12.6%
TOTAL	-109,380 -7.0%	7,400 0.4%	273,490 17.2%	23,100 1.1%	-458,270 -21.4%

Net actuarial gain/(loss)	22,210	2,700	204,240	-272,190	-199,110
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In accordance with paragraph 79 of FRS17 (as revised), the unfunded liabilities are disclosed separately for periods beginning on or after 6 April 2007. The above history has not been re-stated for periods 2005/06 and 2006/07 and includes the experience relating to unfunded liabilities.

7i Movement on Pensions Reserve

	31 March 2009 £'000	31 March 2010 £'000
Net deficit at beginning of year	440,310	727,570
Movements in the year:		
current service cost	45,720	48,800
past service cost	1,420	1,000
contributions	-64,010	-70,840
expected return on pension assets	-69,960	-49,070
interest on pension liabilities	101,900	106,760
actuarial loss/(gain)	272,190	199,110
Net deficit at 31 March	727,570	963,330

8 **Net loss/gain on disposal of assets**

	2008/09 £'000	2009/10 £'000
Sale proceeds	-2,405	-5,769
Less net book value of assets sold	5,568	6,230
Costs of sale	2	10
Net loss	3,165	471

9 **Council tax income**

From 1 April 2009, local authorities are required to show the accrued amount of council tax income in their income and expenditure accounts rather than the amount that under regulation was required to be paid from the Collection Fund. However, the general fund balance is based on the regulation amount and so the adjustment in the income and expenditure account is reversed out to the Collection Fund Adjustment

		2009/10 £'000
Opening balance at 1 April		-3,238
accrued income	-513,503	
amount required under regulation	<u>-512,212</u>	
Collection Fund Adjustment Account		-1,291
		-4,529

10 Government grants and contributions deferred		
	2008/09	2009/10
10a Contributions	£'000	£'000
Balance at 1 April	-162,125	-165,950
Financing of expenditure in the year	-11,801	-18,964
Release of grants resulting from the depreciation of assets	7,976	7,055
Release of grants resulting from the disposal of assets	0	0
Balance at 31 March	-165,950	-177,859
10b Government grants		
Balance at 1 April	-266,528	-307,168
Financing of expenditure in the year	-66,648	-57,786
Release of grants resulting from the depreciation of assets	26,008	25,810
Release of grants resulting from the disposal of assets	0	0
Balance at 31 March	-307,168	-339,144

These accounts contain contributions and external grants that have been used to finance capital expenditure. They are adjusted for depreciation (written down) to offset depreciation charges generated by the relevant assets, and when these assets are sold.

11 Soft loans

One interest-free loan was advanced in 2007/08 to enable a foster carer to purchase a larger house. The amount was £247,597 repayable in monthly instalments within 30 years. In accordance with Financial Reporting Standard 26 (FRS 26), the Income and Expenditure Account was credited in 2009/10 with an amount for the effective interest calculated at the market rate prevailing when the loan was advanced of £10,033 (£10,909 in 2008/09). The Local Authorities (Capital Financing and Accounting) (Amendment) (England) Regulations 2007 allow this to be transferred to a financial instrument adjustment account so that it does not impact on the General

12 Statutory provision for the repayment of debt

In accordance with accounting policies for 2009/10, the County Council's provision to repay external debt is 4% of the capital financing requirement at the beginning of the year for supported borrowing. For unsupported borrowing incurred after 1 April 2008, minimum revenue provision is made on an equal instalment basis that reflects the life of the related asset, using a period that is no longer than used to calculate the corresponding depreciation provision. For deferred liabilities relating to PFI and similar contracts, minimum revenue provision is made on the basis of the principal element of the annuity payment required to write down the liability over the life of the

13a Fixed assets

The movements in fixed assets during the year were as follows:

	Other land and buildings £'000	Vehicles, plant and equipment £'000	Infra- structure £'000	Community assets £'000	Non- operational properties £'000	Assets under construction £'000	Total £'000
Gross book value (GBV) at 31 March 2009	3,492,004	110,261	544,556	11,914	73,392	41,914	4,274,041
Additions	78,533	9,779	38,153	704	1,362	24,257	152,788
Disposals write-off GBV	-2,857	-16	-	-	-3,607	-	-6,480
Transfers to other classes	29,323	-	2,371	762	198	-32,654	-
Transfers to foundation schools and other lease holders	-24,328	-	-3	-	-6	-581	-24,918
Change in certified valuations	23,634	-	-	-	1,162	-	24,796
Adjustments to prior year revaluations	-386	-2	-	-	-	-	-388
Gross book value (GBV) at 31 March 2010	3,595,923	120,022	585,077	13,380	72,501	32,936	4,419,839
Accumulated Depreciation at 31 March 2009							
depreciation/impairment	-580,362	-53,275	-98,450	-1	-8,499	-	-740,587
Depreciation for year	-68,753	-9,858	-18,446	-	-	-	-97,057
Impairment losses	-88,019	-	-2	-	-3,066	-	-91,087
Disposals accumulated depreciaton	124	14	-	-	112	-	250
Depreciation on transfers to other classes	2	-	-	-	-2	-	-
Depreciation on transfers to foundation schools and other lease holders	3,338	-	1	-	-	-	3,339
Revaluations write back depreciation	141,963	-	-	-	2,680	-	144,643
Prior year revaluations dep'n wrtie back	16	2	-	-	-	-	18
Accumulated Depreciation at 31 March 2010	-591,691	-63,117	-116,897	-1	-8,775	-	-780,481
Net book value (NBV) of fixed assets at 31 March 2009	2,911,642	56,986	446,106	11,913	64,893	41,914	3,533,454
Net book value at 31 March 2010	3,004,232	56,905	468,180	13,379	63,726	32,936	3,639,358
Nature of asset holding							
Owned	2,920,281	56,905	468,180	13,379	63,726	32,936	3,555,407
PFI/service concessions (see note 20)	83,951	-	-	-	-	-	83,951
	3,004,232	56,905	468,180	13,379	63,726	32,936	3,639,358

There was a net increase in asset values of £105.9 million in 2009/10. This was the result of additions in the year of £152.8 million, and a net increase from revaluations of £169.4 million offset by depreciation and impairments of £188.1 million, disposals of £6.2 million adjustments to prior year revaluations of £-0.4 million and transfers to foundation schools and other lease holders £21.6 million.

Foundation schools

The fixed assets of foundation schools are vested in the governing bodies of the schools, so the value of the assets has not been included in this Balance Sheet.

On 31 March 2010 there were 28 foundation schools (26 in 2008/09).

Aided schools

The fixed assets of Aided schools are vested in the governing bodies of the schools, so the value of the assets has not been included in this Balance Sheet.

On 31 March 2010 there were 56 aided schools (56 in 2008/09).

13b Valuation of assets

The freehold and leasehold properties of the Council's property portfolio have been valued, under a rolling programme, by the Estates Services of the Property, Business and Regulatory Services Department of the County Council.

FRS15 requires the dates and amounts of valuations to be analysed across each of the classes of assets carried at current value. No analysis is required for assets valued at historic cost.

Valuation	Other land and buildings £'000	Vehicles, plant and equipment £'000	Infra- structure £'000	Community assets £'000	Non- operational properties £'000
Valued at historic cost		56,905	468,180	13,379	
Pre 2005/06	1,070				-
2005/06	209,858				6,268
2006/07	181,251				3,582
2007/08	306,128				4,743
2008/09	1,210,450				22,293
2009/10	1,095,475				26,840
Total	3,004,232	56,905	468,180	13,379	63,726

13c Fixed assets held at 31 March	2009	2010
Land		
Total land holding (acres)	16,800	16,734
Buildings		
Area of all buildings (million sq. metres)	2	2
Floor area of net usable office space (000s sq. metres)	61	61
Number of sites		
Nursery schools	3	3
Primary schools	367	366
Secondary schools	51	49
Special schools	26	25
Education centres	8	8
Activity centres	4	*
Print works	1	1
Stores warehouses	2	2
Central and area offices	62	67
Waste disposal sites and recycling centres	32	*
Libraries (including library based galleries)	53	*
Museums	14	*
Countryside sites	79	*
Record Office	1	1
Arts centres	3	3
Residential homes - Adult Services	37	37
Residential homes - Children's Services	11	11
Day centres - Adult Services	23	23
Day centres - Children's Services (Children's Centres)	32	*
County road length (km)	8,567	8,582
Vehicles and plant		
Hampshire Transport Management	19	73

* 2009 figures restated on a comparable basis as 2010

Community assets not accounted for in the Balance Sheet comprise: museum exhibits, pieces of art, historic records held by Hampshire Record Office, and historic monuments.

14 Capital financing

	original 2008/09 £'000	restated 2008/09 £'000	2009/10 £'000
Capital spending on fixed assets	161,361	161,361	152,788
Revenue expenditure funded by capital under statute	32,223	12,893	14,776
	<hr/>	<hr/>	<hr/>
	193,584	174,254	167,564
funded by:			
Capital receipts	-2,405	-2,405	-11,493
Grants and other income	-78,450	-78,450	-76,750
Loans	-61,276	-61,276	-31,128
Revenue			
- main contribution	-39,082	-19,752	-37,484
- reserves	-12,371	-12,371	-10,709
	<hr/>	<hr/>	<hr/>
	-193,584	-174,254	-167,564

Commitments for major contracts entered into up to 31 March 2010 are estimated at £45.4 million (£30.4 million in 2008/09). This comprises £17.2 million (£8.4 million in 2008/09) for highways and £28.2 million (£22 million in 2008/09) for buildings.

15 Contribution from other authorities

These are principal repayments of debt charges relating to former County Council services that have transferred to other authorities.

16 Financial Instruments

In accordance with Financial Reporting Standard 26 (FRS 26), Financial Instruments: Recognition and Measurement, the Balance Sheet includes the following categories of financial instruments:

		Long-term 31 March 2010 £'000	Current 31 March 2010 £'000
Loans and receivables:			
Long-term debtors	16a		1,328
Debtors	16b		81,952
Short-term investments	16c		184,584
Payments in advance			10,244
Loans and receivables		-	278,108
Financial liabilities at amortised cost:			
Long-term borrowing	16d	-336,556	
Short-term borrowing	16e		-89,888
Deposits	16h		-3,319
Creditors	16i		-153,905
Receipts in advance	16j		-83,109
Developers' contributions	16g	-33,197	
Financial liabilities at amortised cost		-369,753	-330,221

16a Long-term debtors

	31 March 2009 £'000	31 March 2010 £'000
Car loans to staff	731	972
Other	390	356
	1,121	1,328
Transferred debt	39,667	37,961
	40,788	39,289

Transferred debt represents amounts of capital advances due to be repaid after statutory transfers of former services to independent bodies. These are not financial instruments and are shown at the book value of the amount outstanding. £35.8 million remains to be repaid by the cities of Portsmouth and Southampton, and £2.1 million by Hampshire Police Authority.

16b Debtors

Debtors, classified as loans and receivable financial instruments, are due within one year without interest and as such, the fair value of these receivables equals the original invoice amount.

	31 March 2009	31 March 2010
	£'000	£'000
Government departments	8,143	11,347
Other local authorities	8,247	7,354
Sundry debtors	45,382	63,251
	61,772	81,952

The total amount due has been reduced by £1.5 million (£5.5 million in 2008/09) to take account of debts that are likely to be uncollectable. This reduction has been calculated and accounted for in accordance with the FRS 26 requirements for impairment.

	Outstanding balance at 31 March 2010 £'000	Individually assessed impairment £'000	Collectively assessed impairment £'000	Total Provision £'000
Outstanding debt raised in 2009/10	32,027	23	-	23
Outstanding debt raised in 2006/07 and 2007/08	1,174	123	294	417
Outstanding debt raised before 06/07	1,014	190	824	1,014
	34,215	336	1,118	1,454

16c Short-term investments

Surplus cash balances are lent to borrowers on the County Council's approved list. The level of short-term investments includes the effect of joint investment of surplus Hampshire Pension Fund and Hampshire Police Authority cash for treasury management purposes, which is reflected in the level of borrowing repayable within one year.

Investments are typically for periods of up to three months and as such the loan amount is a reasonable assessment of fair value.

Credit risk

Credit risk arises from deposits with banks and financial institutions. The County Council's Annual Investment Strategy allows deposits to be placed with UK banks and financial institutions with a minimum Moody's credit rating of A2 and Aaa for money market funds.

Since the global financial crisis commenced in 2008, the criteria for selection of counterparties and for determining the duration of deposits have been subject to regular review. The list is currently restricted to the major UK clearing banks of Lloyds TSB, NatWest, Barclays and HSBC and Santander UK which operates under a UK banking licence, the highest rated building societies of Nationwide and Leeds and AAA-rated money market funds and, if necessary for security, the Government's Debt Management Office.

The County Council strictly applies credit limits in respect of all of the above financial institutions to ensure that deposits are spread across a number of its approved counterparties. Limits are also placed on the duration of deposits. The current policy is to lend for no longer than 364 days.

No credit limits were exceeded during 2009/10 and the County Council does not expect any losses from non-performance by any of its counterparties in relation to deposits.

Interest-rate risk

The County Council is exposed to risk in terms of its exposure to interest rate movements on its investments. For example, a rise in interest rates would have the following effects:

- * investments at variable rates -
the interest income credited to the Income and Expenditure Account will rise
- * investments at fixed-rates -
the fair value of investments will fall. Where fixed rate investments have short maturities, the effect will be similar to that for variable-rate investments, as the replacement investments will generate more income to the Income and Expenditure Account.

The County Council has a number of strategies for managing interest rate risk. Interest rate movements are monitored on a daily basis and the County Council seeks to lengthen the duration of the investment portfolio when it perceives that a financial advantage can be achieved. The County Council also aims to manage its investment maturity profile to ensure that no single month exposes the County Council to a substantial re-investment requirement

Foreign exchange risk

The County Council has no financial assets denominated in foreign currencies and thus has no exposure to loss arising from movements in exchange rates.

16d Long-term borrowing

Long-term borrowing is carried in the Balance Sheet at amortised cost. The fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using premature repayment interest rates from the Public Works Loan Board

	31 March 2009		31 March 2010	
	carrying amount £'000	Fair value £'000	Carrying amount £'000	Fair value £'000
Public Works Loan Board	262,963	307,461	263,556	292,394
Lender's option/borrower's option loans	74,033	78,340	73,000	74,619
	336,996	385,801	336,556	367,013

The 2009 SORP clarifies the position regarding accrued interest on loans and requires that the long-term and current parts of individual financial instruments should be separated. Therefore, all accrued interest on long-term borrowing at 31 March 2010 is included in current liabilities in Note 16e 'Borrowing repayable within one year'. Previously, accrued interest had been added to the value of the long-term loans outstanding, depending upon the maturity date of the loans, even though interest is payable within a year. Accrued interest included within the 31 March 2009 figures amounted to £3,579,000.

The fair value is more than the carrying amount because the County Council's portfolio of loans includes a number of fixed-rate loans where the interest rate payable is higher than the rates that would be applied to calculate the premiums if the loans were repaid on the Balance Sheet date. This commitment to pay interest above the current market rates increases the amount that the County Council would have to pay if it repaid the loans early.

16e Borrowing repayable within one year

These loans are due to be repaid within a year and as such, their amortised cost in the Balance Sheet is a reasonable assessment of their fair value.

	31 March 2009	31 March 2010
	£'000	£'000
Long-term borrowing repayable within one year	-4,008	-12,550
Temporary deposits by Hampshire Pension Fund	-84,746	-50,767
Other short-term borrowing	-11,087	-26,571
	-99,841	-89,888

16f Liquidity risk

As the County Council has ready access to borrowing through the Public Works Loan Board, there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the County Council will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates.

The County Council mitigates this risk by its policy of taking out its long-term borrowing requirements reasonably evenly from one year to the next.

	31 March 2009 £'000	31 March 2010 £'000
An analysis of loans by maturity is:		
Maturing between one and two years	-8,919	-4,861
Maturing between two and five years	-14,887	-19,585
Maturing between five and 10 years	-35,608	-33,307
Maturing between 10 and 15 years	-37,680	-41,308
Maturing between 15 and 20 years	-44,743	-43,308
Maturing between 20 and 25 years	-70,997	-85,307
Maturing in 25 or more years	-124,162	-108,880
	-336,996	-336,556

Interest-rate risk

The County Council is exposed to risk in terms of its exposure to interest-rate movements on its borrowings. The County Council has £73 million of lender's option/borrower's option (LOBOs) loans with banks at interest rates ranging between 3.89% and 5.0%. Under this arrangement, the banks have the option to increase the interest rate on specified call dates. If the banks increase the interest rate, the County Council has the right to repay the loan without penalty. If the banks did exercise their option, it is likely that the County Council would have to pay a higher rate of interest if it chose to replace the loan.

The rest of the County Council's borrowing consists of fixed-rate PWLB debt at interest rates ranging between 3.39% and 9.875%. Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings will not affect the Income and Expenditure Account. In real terms, the value of the debt will be substantially eroded through the rest of its term by inflation.

Foreign exchange risk

The County Council has no financial liabilities denominated in foreign currencies and thus has no exposure to loss arising from movements in exchange rates.

16g Developers' contributions

'Developers' contributions arise mainly as a result of agreements under Section 278 of the Highways Act 1980. If a development derives special benefit from highway works, developers can be required to contribute towards the costs. Before being applied, deposits are credited with interest on the basis of market rates. Therefore the carrying amount is a reasonable assessment of the fair value of the financial

	2008/09			2009/10		
	Highways	Other	Total	Highways	Other	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 April	-31,599	0	-31,599	-32,706	0	-32,706
Income	-7,391	0	-7,391	-7,218	-25	-7,243
Contributions applied	6,284	0	6,284	6,752	0	6,752
Balance at 31 March	-32,706	0	-32,706	-33,172	-25	-33,197

16h Deposits

	31 March 2009 £'000	31 March 2010 £'000
Capital deposits and unapplied contributions	-1,304	-2,719
Other	-507	-600
	-1,811	-3,319

16i Creditors

The County Council's policy is to pay creditors within 30 days of the date shown on the invoice. Therefore, the invoice amount is a reasonable assessment of the fair value of the financial liability.

	31 March 2009 £'000	31 March 2010 £'000
HM Revenue and Customs and Government departments	-28,308	-33,584
Other local authorities	-16,668	-11,390
Sundry creditors	-101,276	-108,931
	-146,252	-153,905

16j Receipts in advance

	31 March 2009 £'000	31 March 2010 £'000
Education Standards Fund and devolved capital grants	-31,185	-42,630
Dedicated Schools Grant	-9,345	-12,638
Other receipts and contributions	-22,097	-27,841
	-62,627	-83,109

17 Stocks and work in progress

	31 March 2009 £'000	31 March 2010 £'000
Stocks		
Catering stock	384	377
County Supplies general	1,314	1,412
Recreation and Heritage sales stocks	261	263
Other (including landfill allowances)	282	295
	2,241	2,347
Work in progress		
Highway rechargeable works	962	958
Other	42	64
	1,004	1,022
Total stocks and work in progress	3,245	3,369

Closing stock valuations have been assessed using the latest purchase price. This does not accord with the Statement of Standard Accounting Practice (SSAP) 9 - stocks and long-term Standard Accounting Practice (SSAP) 9 - stocks and long-term contracts that requires stock to be valued at the lower of the original purchase price and current value but the differences in the valuations are not material.

18 Cash in hand

	31 March 2009 £'000	31 March 2010 £'000
The balance shown comprises:		
- Schools' local bank accounts	4,704	4,738
- Petty cash	887	891
	5,591	5,629

Schools' local bank accounts include the balances held by 16 schools (20 in 2008/09) that have elected to have separate bank accounts. Petty cash includes 881 imprest accounts (867 in 2008/09) for minor day-to-day expenses held by establishments, including schools across the whole county.

19 Cash overdrawn

This is the ledger balance of the main bank account and is almost entirely represented by payments drawn but not presented at the bank by the end of the year. The actual bank balance is managed on a daily basis to very modest limits, usually less than £100,000.

20 PFI and Service Concessions

The County Council has entered into one PFI contract for street lighting. This comes into effect from the financial year 2010/11. An existing contract for waste management meets the definition of a service concession. The contract with Veolia Environmental Services Hampshire (VESH) is jointly administered by the County Council and Portsmouth and Southampton unitary authorities. The contract began in January 1996 and runs until 2024/25. The waste disposal assets constructed under the contract are now included in the County Council's balance sheet, together with a deferred liability to pay for the assets over the life of the contract. The movement in the asset values during the year were as follows:

	2009/10
Gross book value	£'000
At 1 April	95,227
Additions	-
Disposals	-
Revaluations	-
<hr/>	
Gross book value at 31 March	95,227
Depreciation	
At 1 April	-5,638
Depreciation for the	
year	-5,638
Impairments	-
Disposals	-
Revaluations	-
<hr/>	
Depreciation at 31 March	-11,276
Net book value at 1 April	89,589
Net book value at 31 March	83,951

The movement in the deferred liability was:

	31 March 2008/09 £'000	31 March 2009/10 £'000
Balance brought forward 1 April	-113,017	-88,722
Principal repayment in the year	24,295	3,197
Balance at 31 March	-88,722	-85,525
Finance lease repayable in one year	-3,197	-3,454
deferred liability	-85,525	-82,071
Balance at 31 March	-88,722	-85,525

The waste management contract has 16 years to run. The expected payments are shown below.

	Principal repayment £'000	Interest £'000	Service Charge £'000	Total £'000
Next year	3,454	6,842	34,271	44,567
Years two to five	16,807	24,375	154,475	195,657
Years six to 10	29,768	21,709	213,399	264,876
Years 11 to 15	35,179	7,974	244,198	287,351
Year 16	317	2	14,773	15,092
	85,525	60,902	661,116	807,543

21 Movement on Reserves

	Balance 1 April 2009 £'000	Net Movement in the year £'000	Balance 31 March 2010 £'000	see note
Reserve				
Revaluation reserve	-434,573	-128,523	-563,096	21a
Capital Adjustment Account	-1,952,848	70,492	-1,882,356	21b
Financial Instrument Adjustment Account	98	-10	88	11
Collection Fund Adjustment Account	-3,238	-1,291	-4,529	9
Capital receipts unapplied	-2,290	2,290	-	
Pensions reserve	727,570	235,760	963,330	7i
Earmarked reserves	-160,095	5,583	-154,512	21c
General Fund	-34,512	-2,418	-36,930	
	-1,859,888	181,883	-1,678,005	

21a Revaluation reserve

This reserve represents a collection of net gains on the revaluation of individual fixed assets written down by the excess of current value depreciation over historic cost depreciation.

Upon disposal, the balance on the revaluation reserve for the individual asset is written off to the capital adjustment account. The reserve is not cash backed as it relates to unrealised asset gains. The movement in the account is analysed below:

	2008/09 £'000	2009/10 £'000
Balance brought forward 1 April	-273,073	-434,573
Net gain on valuation of fixed assets	-184,620	-169,439
Excess of current value depreciation over historic cost dep'n	12,804	40,688
Write off net gains for assets transferred to foundation schools	9,345	-63
Write off net gains for assets disposed of during the year	971	291
Balance at 31 March	-434,573	-563,096

21b Capital adjustment account

This account contains expenditure financed from revenue and capital receipts together with the statutory amount required to provide for the repayment of external loans less the amounts included for depreciation, impairment and revenue expenditure financed by capital under statute and the historic cost of asset disposals. The reserve is not cash backed. The movement in the account is analysed below:

	2008/09 £'000	2009/10 £'000
Balance brought forward 1 April	-2,403,356	-1,952,848
Revenue contributions	-32,123	-48,193
Capital receipts applied	-2,405	-11,493
Minimum revenue provision	-47,938	-28,845
Depreciation and impairment	478,692	188,144
Revenue expenditure funded from capital under statute	12,893	14,776
Assets transferred to foundation schools	90,743	21,579
Deferred government contributions released	-7,976	-7,055
Deferred government grants released	-26,008	-25,810
External contribution to minimum revenue provision	1,768	1,705
Adjustment to prior year revaluations	414	370
Asset disposals current value	5,568	6,230
Excess of current value depreciation over historic cost dep'n	-12,804	-40,688
Write off net gains for assets transferred to foundation schools	-9,345	63
Write out revaluations on asset disposals	-971	-291
Balance as at 31 March	-1,952,848	-1,882,356

21c Earmarked reserves

Specific amounts are set aside as reserves for future policy purposes or to cover contingencies. Schools reserves are made up of net underspendings on budgets managed by governors as adjusted for advances made under the school balances loan scheme. They are not available to other services. The opening and closing balances for each reserve is shown below:

	31 March 2009 £'000	Net movement in the year £'000	31 March 2010 £'000
Schools	-37,433	3,464	-33,969
Capital	-8,899	8,430	-469
Landfill allowances	-5,758	-226	-5,984
Local Public Service			
Agreement Reward Grant	-3,774	-963	-4,737
Insurance	-9,392	-3,250	-12,642
Designated underspendings	-16,707	2,226	-14,481
Grant equalisation	-24,905	2,490	-22,415
Equal Pay	-39,198	-1,833	-41,031
Trading accounts	-10,649	-1,592	-12,241
Invest-to-save	-2,361	-1,933	-4,294
Corporate Policy Reserve	-	-650	-650
Corporate Procurement Reserve	-	-500	-500
Other	-1,019	-80	-1,099
	-160,095	5,583	-154,512

22	Reconciliation of Income and Expenditure Account deficit to net cash inflow from revenue activities	2008/09 £'000	2009/10 £'000
	Net surplus (-) deficit (+) on the Income and Expenditure Account	471,761	155,437
	Net cash outflow from servicing of finance activities	-13,978	-17,381
	Variation in stocks	-117	124
	Variation in deposits	519	-83
	Variation in debtors	8,102	27,672
	Variation in long-term debtors	-242	206
	Variation in payments in advance	2,046	1,671
	Variation in creditors	-12,620	-8,911
	Variation in receipts in advance	3,000	-20,482
	Variation in provisions	-690	27
	Variation in interest accruals on borrowing	42	-3,532
		40	-3,308
	Non-cash transactions		
	Transfers to reserves	-5,462	5,583
	Variation in doubtful debts provision	-3,207	607
	Interest on developer contributions	-1,197	-28,845
	Provision for loan and lease repayments	-47,938	-103
	Financial Instruments Adjustment Account	-11	-10
	Collection Fund Adjustment Account	-	-4,529
	Contribution to capital outlay	-32,123	-48,193
		-89,938	-75,490
	Net additional amount required by statutory and non-statutory proper practices to be credited to the General Fund Balance	-482,973	-157,855
	Adjustment to Revenue Expenditure funded by capital under statute	12,893	14,776
	Net cash inflow from revenue activities	-102,195	-83,821
23	Analysis of capital grants (Revenue grants are analysed in the Income and Expenditure Account)	2008/09 £'000	2008/09 £'000
	Capital grants		
	Department for Children, Schools and Families	56,857	49,293
	Department of Health	1,762	2,165
	Department for Transport	6,198	5,565
	Department for Communities and Local Government	1,659	2,611
	Home and Communities Agency	-	5,206
	Other Bodies	1,194	3,144
		67,670	67,984

24	Movement in net debt	at 1 April 2009 £'000	at 31 March 2010 £'000	Movement in the year £'000
	Cash			
	Cash in hand	5,591	5,629	38
	Cash overdrawn	-17,124	-15,400	1,724
	Short-term investments	195,209	184,584	-10,625
	Cash inflow	183,676	174,813	-8,863
	Financing			
	Finance lease liabilities	-88,722	-85,268	3,454
	Borrowing repayable within one year	-99,684	-86,456	13,228
	Long term borrowing	-333,417	-332,977	440
	Total borrowing	-521,823	-504,701	17,122
	Net debt	-338,147	-329,888	8,259
25	Reconciliation of movement in net debt to cash flow statement		2008/09 £'000	2009/10 £'000
	Cash inflow/(-) outflow		32,192	-8,863
	Repayment of amount borrowed		28,295	12,454
	New loans		-16,277	-8,560
	Net reduction/increase in temporary borrowing		-33,891	13,228
			10,319	8,259

26 Leases - Operating leases - County Council as lessee

Some vehicles, items of equipment and property are financed under operational leases. The annual sum payable for leased vehicles and items of equipment is £3.7 million (£3.3 million in 2008/09). For property it is £0 million (£3.7 million in 2008/09). The figures now include contributions from employees in respect of leased cars and the 2008/09 figures have been restated to include these.

The amount paid in 2009/10 is shown below. The amount payable in 2010/11 is also shown together with an analysis of the year of expiry.

	Paid in 2009/10 £'000	Payable in 2010/11 £'000	Expires in that year £'000	Expires in second to fifth year £'000	Expires in over five years £'000
Other land and buildings	-	-	-	-	-
Vehicles, plant and equipment	3,659	3,175	396	2,555	224
	3,659	3,175	396	2,555	224

Future obligations under operational leases payable in 2009/10 and subsequent years total £8 million (£45 million in 2008/09).

County Council as lessor

The annual rent received from leased properties is £3.2 million (£3.2 million in 2008/09 *). The annual rent received from leased vehicles is £2.8 million (£2.7 million in 2008/09).

The value of assets held for use in operating leases is shown below:

	31 March 2009 £'000	31 March 2010 £'000
Gross book value	21,547 *	20,679
Accumulated depreciation	-2,857 *	-2,019
Net book value	18,690	18,660

* 2008/09 figures restated after revised analysis of all relevant assets on leased sites.

Finance leases

At 31 March 2010 there were no outstanding obligations on finance leases.

See note 20 for details of assets acquired under PFI and service concession contracts.

27 Related party transactions

During the year, transactions with related parties arose as follows:

	2008/09	2009/10
	£'000	£'000
Central Government Receipt of Government Grants		
- Revenue	1,006,963	1,048,144
- Capital	66,233	67,166
	1,073,196	1,115,310

Levy paid to the Environment Agency	547	553
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The County Council administers the Hampshire Pension Fund on behalf of its non-teaching employees, those of other local authorities in the county area and 194 other contributing scheduled and admitted bodies

The Pension Fund invests its surplus cash balances jointly with the County Council's to gain the benefits of scale. Interest was paid to the Pension Fund in 2009/10 based on the actual rate of interest earned.

The County Treasurer is also the appointed Treasurer of the Hampshire Police Authority and Hampshire Fire and Rescue Authority.

These two authorities pool surplus cash balances with the County Council and are paid interest at the average monthly seven-day rate.

Transactions with these related parties are shown below:

	2008/09	2009/10
	£'000	£'000
Pension Fund		
Interest paid	1,836	356
Temporary borrowing 31 March	-70,939	-50,767
Administration charge	-1,873	-2,109
Hampshire Police Authority		
Interest paid	497	67
Temporary borrowing/investment 31 March	-13,807	7,603
Hampshire Fire and Rescue Authority		
Interest paid	73	8
Temporary investments 31 March	5,950	3,282

'There were 22 related party transactions totalling £25,000 arising from disbursements from members' devolved budgets. All such payments were countersigned by a member other than the budget-holding member.

There were no other related-party transactions involving members or chief officers of the Council.

28 Related companies

The County Council does not have a controlling or dominant influence in any company under the terms of the Local Government and Housing Act 1989. A dominant influence means that the company operates in accordance with the Council's wishes. The Council does not consider that group accounts are required to accord with the criteria in the Accounting Code of Practice.

29 Members' allowances

The total of members' allowances paid in the year was £1,329,000 (£1,285,000 in 2008/09).

30a Officers' emoluments

The number of employees whose remuneration was £50,000 or more, in bands of £5,000, is shown below, including senior employees. Remuneration includes all amounts paid to an employee, including the taxable value of expenses.

	2008/09			Number of employees 2009/10		
	Schools	Other	Total	Schools	Other	Total
£50,000 - £54,999	269	176	445	271	198	469
£55,000 - £59,999	142	102	244	176	118	294
£60,000 - £64,999	72	83	155	97	62	159
£65,000 - £69,999	34	34	68	43	43	86
£70,000 - £74,999	21	18	39	21	24	45
£75,000 - £79,999	13	19	32	12	16	28
£80,000 - £84,999	11	13	24	20	6	26
£85,000 - £89,999	8	3	11	5	11	16
£90,000 - £94,999	2	6	8	5	3	8
£95,000 - £99,999	3	4	7	3	6	9
£100,000 - £104,999	-	-	-	1	2	3
£105,000 - £109,999	1	3	4	-	2	2
£110,000 - £114,999	2	1	3	2	1	3
£115,000 - £119,999	1	-	1	3	-	3
£120,000 - £124,999	1	1	2	-	2	2
£125,000 - £129,999	-	1	1	-	2	2
£130,000 - £134,999	-	-	-	1	-	1
£135,000 - £139,999	-	3	3	-	2	2
£140,000 - £144,999	-	-	-	-	-	-
£145,000 - £149,999	-	-	-	-	1	1
£150,000 - £154,999	-	1	1	-	-	-
£155,000 - £159,999	-	-	-	-	1	1
£160,000 - £164,999	-	-	-	-	1	1
£165,000 - £169,999	-	1	1	-	-	-
£170,000 - £174,999	-	1	1	-	-	-
£175,000 - £179,999	-	-	-	-	-	-
£180,000 - £184,999	-	-	-	-	-	-
£185,000 - £189,999	-	-	-	-	-	-
£190,000 - £194,999	-	-	-	-	-	-
£195,000 - £199,999	1	-	1 *	-	-	-
£200,000 - £204,999	-	-	-	-	-	-
£205,000 - £209,999	-	-	-	-	1	1
£210,000 - £214,999	-	-	-	-	-	-
£215,000 - £219,999	-	1	1	-	-	-
	581	471	1,052	660	502	1,162

* includes a termination payment

30b Senior Employees' remuneration

This statement covers the remuneration of members of the Corporate Management Team
Senior Employees 2008/09

	Salary, (Including fees and allowances)	Other emoluments	Benefits in Kind	Total remuneration excluding pension contributions	Pension contribution	Total remuneration including pension contributions
	£	£	£	£	£	£
Chief Executive Andrew Smith	204,723	15,000	-	219,723	39,878	259,601
Director of Children's Services John Coughlan	155,715	12,500	-	168,215	30,529	198,744
County Treasurer Jon Pittam	155,715	12,500	81	168,296	30,529	198,825
Director of Environment	144,036	10,000	110	154,146	27,901	182,047
Acting Director of Property, Business and Regulatory Services	127,913	-	-	127,913	23,215	151,128
Director of Adult Services (Appointed 1 December 2008)	43,403	10,000	-26	53,377	9,654	63,031
Director of Culture, Communities and Rural affairs	124,655	10,000	95	134,750	24,127	158,877
Director of Human resources	125,001	10,000	-	135,001	24,127	159,128

Senior Employees 2009/10

	Salary, (Including fees and allowances)	Other emoluments	Benefits in Kind	Total remuneration excluding pension contributions	Pension contribution	Total remuneration including pension contributions
	£	£	£	£	£	£
Chief Executive Andrew Smith	207,969	-	-	207,969	38,679	246,648
Director of Children's Services (and Deputy Chief Executive from 1 May 2009) John Coughlan	158,190	5,000	-	163,190	30,351	193,541
County Treasurer Jon Pittam	158,190	-	-202	157,988	29,421	187,409
Director of Environment (to 20 September 2009)/ Acting Director of Environment (from 21 September 2009)	139,762	-	269	140,031	26,093	166,124
Director of Economic Development (appointed 21 September 2009)	85,849	-	74	85,923	15,909	101,832
Director of Property, Business and Regulatory Services (Acting Director until 1 May 2009)	138,622	1,000	-	139,622	25,968	165,590
Director of Adult Services	136,262	-	68	136,330	25,338	161,668
Director of Culture, Communities and Rural affairs	124,893	-	-8	124,885	23,228	148,113
Director of Human resources	124,893	1,000	-	125,893	23,414	149,307

31 Pooled Budgets

The County Council is a partner in two pooled budget arrangements.

The County Council is a partner in Hampshire's Comprehensive CAMHS Commissioning Partnership. The Partnership's purpose is to develop integrated commissioning of Child and Adolescent Mental Health Services in Hampshire under Section 75 of the National Health Service Act 2006.

The partner bodies are:

Hampshire County Council (host partner) and NHS Hampshire

	2008/09 £'000	2009/10 £'000
Gross income	-3,629	-9,450
Expenditure	3,118	9,380
Surplus	-511	-70
Council's Contribution	2,132	1,924

The County Council is a partner in the Mid Hampshire Mental Health Services pooled budget. Its objective is to promote the independence of adults with severe mental-health problems.

The partner bodies are:

Hampshire County Council (host partner) and Hampshire Primary Care Trust (PCT)

	2008/09 £'000	2009/10 £'000
Gross income	-898	-975
Expenditure	785	828
Surplus	-113	-147
Councils Contribution	64	79

32 External Audit fees

Fees charged by the Audit Commission to the County Council can be analysed as follows:

	2008/09 £'000	2009/10 £'000
Code of Audit Practice	252	264
Grant Claims	15	4
Inspection	17	18
National Fraud Initiative	1	2
	285	288

33 Contingent liabilities

The County Council self-insures and therefore handles all its own liability claims. The liabilities are uncertain but to cover them a provision is maintained for known liability claims, assessed at £4.8 million at 31 March 2010 (see note 4).

The County Council has set aside a reserve of £41 million at 31 March 2010 for transitional costs for non-schools staff of implementing the single status agreement to recognise potential equal pay compensation costs. To date 999 equal pay claims have been lodged in the employment tribunal. A total of 985 grievances have been received. It is unlikely that any claims will be resolved until later in 2010/11 so it is not possible to quantify the liability associated with equal pay compensation reliably.

34 Post Balance Sheet events

As at 21 June 2010, when the accounts were reported by the Deputy County Treasurer, there were no material post Balance Sheet events that required disclosure.

35 Trust funds

The Council acts as sole trustee for 24 trust funds (25 in 2008/09) and as administrator for 12 other trust funds (13 in 2008/09). They include educational prize funds for financing improvements in education, social care and museum establishments, and musical and sports scholarship funds. The trusts are mainly invested in specialist pooled funds for charities and cash held on deposit with the County Council.

	Balance at 31 March 2009 £'000	Income £'000	Expenditure £'000	Transfer of Trust £'000	Balance at 31 March 2010 £'000
Sole trustee funds					
Educational trusts					
Butlocks Heath/Netley Abbey School	287	18	-27	-	278
Dayas Music Scholarship	89	5	-2	-	92
Michael Austin Harlick Memorial	259	14	-14	-	259
Mace Educational Trust	113	6	-6	-	113
Other	25	-0	-	-9	16
Total	773	42	-48	-9	758
Social Services trusts					
Hampshire Mentally Handicapped Persons					
Holiday Organisation	43	-	-	-	43
Hampshire Old Industrial and Reformatory Schools	65	4	-2	-	67
Green Meadows Older Persons Home	16	1	-	-	17
Total	124	4	-2	-	126
Museums trusts					
Allen Curtis Museum Trust	24	3	-3	-	24
Red House Museum Trust	50	5	-5	-	50
Total	74	8	-8	-	74
Libraries trust					
Julian Davies Foundation	2	0	-	-	2
Other					
Hillier Arboretum trust	13	-	-1	-	12
Total - sole trustee trusts	986	55	-59	-9	972
Administrator funds					
The Eggars Grammar School Alton Site Foundatior	1,837	66	-4	-	1,899
Hampshire Foundation for Young Musicians	69	4	-6	-	68
Other	28	1	-	-4	25
Social services trusts	6	-	-	-	6
Total administrator trusts	1,940	71	-9	-4	1,997
Total trust funds	2,926	126	-69	-13	2,970

36 Undischarged obligations

Hampshire Public Service Network

A contract for Hampshire Public Service Network2 (HPSN2) has been entered onto with NTL Telewest. Building on the foundation of the existing HPSN service. HPSN2 will offer improved data, voice and service networks for major partners and affordable solutions for town and parish councils and up to 800 schools. The contract has an initial period of seven years, with an option to extend for a further 3 years. At 31 March 2010 the payments remaining under the contract are estimated to be £8.55m.

Enterprise Licence

During 2006/07 the County Council entered into an agreement with IBM to implement an IBM Enterprise Licence.

The implementation programme is expected to take up to five years and will deliver a range of benefits including improved security, a fully integrated information management system and integration of the wide variety of corporate IT systems hosted on Hantsnet.

The payments remaining under the contract are £0.8 million at 31 March 2010 (£1.41 million at 31 March 2009) with approximately 1.5 years remaining.

The South Coast Street Lighting PFI

The South Coast Street Lighting PFI project was procured in partnership between Hampshire County Council, Southampton City Council and West Sussex County Council, together with the successful contractor, Tay Valley Lighting. Each council has its own separate contract, to deliver individualised lighting requirements under a standard contractual framework. Hampshire County Council is replacing some 90,000 of its 150,000 street lighting columns and modernising all of the lanterns used to improve energy efficiency over a five year core investment period. The long-term contract with Tay Valley Lighting (Hampshire) will run for 25 years from 1 April 2010, and will also provide for the ongoing maintenance of the council's street lighting network, running until 2035/36. The payments under the contract are estimated to be £451 million for the maintenance of columns (part of which will be recovered from Parish and District Councils) and £139 million for energy, with PFI credits of £234 million due to be paid by the Department for Transport to the County Council.

Project Integra - see note 20 on PFI and service concessions

Pension Fund Accounts		2008/09	2009/10
Fund Account	See note	£'000	£'000
Dealings with members and employers			
Contributions			
- from employers			
- normal	4	118,586	125,759
- augmentation	4	4,313	4,741
- deficit funding	4	29,442	35,470
- from members			
- normal	4	52,931	56,060
- additional voluntary	4	1,584	1,724
Transfers in			
Individual transfers in from other schemes		13,328	21,872
Benefits			
Pensions	4	-113,835	-124,207
Commutation of pensions and lump-sum retirement benefits	4	-29,516	-31,426
Lump-sum death benefits	4	-2,510	-4,168
Payments to and on account of leavers			
Individual transfers out to other schemes		-7,475	-18,302
Refunds of contributions		-35	-35
State scheme premiums		7	7
Administrative expenses	5	-1,971	-2,220
Net additions from dealings with members and employers		64,849	65,275
Returns on investments			
Investment income			
Interest from fixed-interest securities		5,471	5,210
Dividends from equities		58,892	49,733
Income from index-linked securities		55	108
Income from pooled investment vehicles		1,067	1,283
Net rents from properties		8,181	9,110
Income from property unit trusts		1,242	1,237
Income from other alternative investments		108	928
Interest on cash deposits		6,472	1,637
Other		663	564
Change in market value of investments			
Realised		-269,756	-11,844
Unrealised		-418,574	720,117
Taxation	6	-2,034	-1,504
Investment management expenses	5	-8,516	-9,777
Net returns on investments		-616,729	766,802
Net increase (decrease) in the Fund during the year		-551,880	832,077
Add opening net assets of the Fund		2,947,980	2,396,100
Closing net assets of the Fund		2,396,100	3,228,177

Net Assets Statement		31 March 2009	31 March 2010
	See Note	£'000	£'000
Investments at market value			
Fixed-interest securities	14	109,947	149,844
Index-linked securities	14	3,868	5,219
Equities	8,11,14	1,194,721	1,823,228
Pooled investment vehicles:			
– index-linked	9,14	616,714	680,988
– equities	9,14	23,545	33,380
Derivative contracts	13	0	24,134
Property	14	93,550	134,273
Property unit trusts	14	62,918	60,656
Other alternative investments	14	105,679	128,326
Cash deposits		164,527	198,838
Investment liabilities			
Derivative contracts	13	0	-33,466
Net investment assets		2,375,469	3,205,420
Net current assets and liabilities			
Contributions due from employers		9,509	12,037
Other current assets		15,345	14,117
Current liabilities		-4,223	-3,397
Net assets - balance of Fund		2,396,100	3,228,177
Reconciliation of the net movements of assets of the Fund			
Opening net assets		2,947,980	2,396,100
Net income available for investment:			
net additions from dealing with members		64,849	65,275
investment income less expenses		71,601	58,529
Revenue surplus		136,450	123,804
Change in market value of investments		-688,330	708,273
Closing net assets		2,396,100	3,228,177

Notes to the Pension Fund Accounts

1. Operations and management

The Hampshire Pension Fund covers employees of Hampshire County Council, Portsmouth and Southampton City Councils and the 11 district councils in Hampshire, except teachers, for whom separate arrangements apply. It also covers 194 other scheduled and admitted bodies.

Detailed Government regulations control rates of contribution and scales of benefits. Benefits are normally in the form of a lump sum and annual pension. In 2009/10, employees contributed £57.8 million and employers £166.0 million to the Fund. Contributions are calculated as a percentage of pensionable pay. As at 31 March 2010, 29,245 people were receiving pensions from the Fund.

A comprehensive review of the Fund's investment management arrangements in 2006/07 identified the need to diversify risks by increasing the number of specialist fund managers. The aim is to match liabilities by having an asset allocation designed to produce returns of 2.5% a year above a low-risk bond portfolio. At the end of 2009/10, the investments were managed by companies based in London:

	..As a proportion of Fund's overall value
- Aberdeen Asset Management Limited	20.2%
- Newton Investment Management	12.0%
- Schroders Investment Management	11.7%
- Legal & General Investment Management	10.6%
- State Street Global Advisors	10.6%
- AllianceBernstein	8.9%
- GLG Partners	6.4%
- Western Asset Management	5.0%
- CB Richard Ellis Investors	4.6%
- Aberdeen Property Investors	1.3%

The Fund also employs the services of Northern Trust as its global custodian and Aberdeen Asset Management (formerly Bramdean) as its adviser on alternative investments.

The Pension Fund Panel directs the management of the Fund. This consists of nine county councillors. Co-opted to the Panel are also one representative of the two city unitary authorities (Portsmouth and Southampton), and one representative of the 11 district councils and other employers in Hampshire; both have full voting rights. Two representatives of the Fund's pensioners and contributors are co-opted to the Panel, also with full voting rights. There is also an independent adviser who attends Panel meetings. The Panel meets the managers regularly to discuss performance and approve their management strategies. Member attendance at the Pension Fund Panel's seven meetings held during 2009/10 averaged 77%.

2. Accounting policies

Accounting standards

The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the UK 2009 issued by the Chartered Institute of Public Finance and Accountancy. The accounts summarise the transactions and net assets of the Fund. They do not take account of future liabilities to pay pensions and other benefits. See note 3 for the actuarial position of the Fund, which does take account of such liabilities.

Basis of preparation

Income and expenditure are generally credited and debited to the revenue account when earned or incurred, not when received or paid (that is, on an accruals basis). However, transfer values paid and received have been included on a receipts-and-payments basis as recommended in the pension Statement of Recommended Practice (SORP).

Additional voluntary contributions, which are separately invested, are not included in the Pension Fund Accounts in accordance with regulation 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009 No. 3093).

Investments

Investments are shown in the accounts at their market value, which has been determined as follows:

- FTSE-100 and Reserve List stocks are valued using the Stock Exchange Trading Service (SETS) bid price
- other listed securities and securities on other domestic markets – bid price at the close of business on 31 March 2010
- unlisted securities and alternative investments – using latest dealings, professional valuations, asset values and other appropriate financial information
- investments held in overseas securities – bid price at the close of dealing on 31 March 2010 translated into sterling at the rate that day
- the UK property portfolio – open-market value at 31 March 2010 as estimated by the Fund's property advisers.
-
- *Acquisition costs*

The cost of acquiring property and securities includes brokerage commission, legal fees and stamp duty.

3. Actuarial position

The Scheme Regulations require a full actuarial valuation every third year. This is to establish that the Hampshire Pension Fund can meet its liabilities to past and present contributors, and to review employer contribution rates. The last full actuarial investigation into the financial position of the Fund was completed at 31 March 2007.

The valuation at 31 March 2007 showed that the Fund's financial position had improved since the previous valuation at 31 March 2004 in relation to benefits promised for service before the valuation date. This was mainly as a result of higher-than-expected investment returns and additional employers' contributions. The value of the Fund's assets was enough to cover 77% of the promised benefits earned to date by the Fund's members (that is, a 77% funding level). The cost of future benefit promises had increased compared with the costs identified in the previous calculation. This was due to the combined impact of benefit changes, changed economic conditions and better life expectancy.

The actuary calculated that a phased increase in the employers' contribution rates would be necessary to meet the Fund's long-term liabilities. The rate was 17.7% of pensionable pay in 2007/08, and 18.1% in 2008/09, rising to 18.6% in 2009/10 and 19.1% in 2010/11.

The employers' contribution rates were calculated using the projected unit actuarial method, which is consistent with the aim of achieving the 100% funding level described above.

The main actuarial assumptions used for the March 2007 actuarial valuation were as follows:

Discount rate for periods

In service

Admitted bodies	6.20% a year
Scheduled bodies	6.20% a year

Left service

Admitted bodies	5.20% a year
Scheduled bodies	6.20% a year

Short-term investment returns until 1 April 2011

Equity/property assets	7.05% a year
Other investments	5.20% a year

Rate of general pay increases 4.70% a year

Rate of increase to pensions in payment 3.20% a year

Valuation of assets market value

The next actuarial valuation of the Fund is due to take place at 31 March 2010 and is currently being carried out.

4. Contributions and benefits

The figures in the revenue account are broken down in the following table:

	2008/09	2009/10
	£'000	£'000
Contributions receivable		
Administering authority	78,728	86,931
Scheduled bodies	120,242	127,930
Admitted bodies	7,885	8,893
Total	206,855	223,754
Benefits payable		
Administering authority	55,835	60,153
Scheduled bodies	85,089	93,602
Admitted bodies	4,937	6,046
Total	145,861	159,801

The funding objective is to achieve and maintain a funding level of 100% of liabilities. For this reason, a certain proportion of employer contributions received will be used to reduce an existing deficit. The 2007 actuarial valuation stated that the deficit could be eliminated by improving the funding of the scheme for a period of 25 years from 1 April 2008. In accordance with the 2009 pension Statement of Recommended Practice (SORP), the normal employers' contributions that relate to this deficit funding have been separately identified.

5. Administrative and investment management expenses

The figures in the revenue accounts are broken down in the following table:

	2008/09	2009/10
	£'000	£'000
Administrative expenses		
Pension administration costs and other overheads	1,797	2,061
Office and other administrative expenses	174	159
Total	1,971	2,220
Investment management expenses		
Investment management expenses	6,654	7,306
Property managers' expenses	996	1,514
Custodian's fees	290	339
Actuary's and other fees	576	618
Total	8,516	9,777

6. Taxation

The Fund is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold.

UK equity dividends are quoted and accounted for at the net rate. In line with the 2009 pension Statement of Recommended Practice (SORP), the tax credit which the Fund is unable to recover is not recognised.

Income from overseas investments suffers a withholding tax in the country of origin, unless exemption is permitted, as in the United States, Australia, Norway, and the Netherlands.

7. Investment returns

The return on the Fund in 2009/10 was 32.3%.

In the three years to 31 March 2010, a return of 1.7% a year was achieved.

8. Ten largest equity holdings

At 31 March 2010, the ten largest equity (company share) holdings by market value were as follows:

	£'000
Vodafone plc	58,995
Rio Tinto plc	44,784
Royal Dutch Shell plc	37,612
GlaxoSmithKline plc	36,352
HSBC plc	35,619
British American Tobacco plc	35,531
BP plc	33,898
Standard Chartered plc	32,880
BG Group plc	26,631
Centrica plc	25,693

9. Pooled investment vehicle holdings

At 31 March 2010, pooled investment vehicle holdings comprised the following:

	£'000
Index-linked	
SSGA Over 5-year index-linked gilts	340,723
Legal & General Over 5-year index-linked gilts	340,265
Total	680,988
UK equities	
Aberdeen UK Emerging Companies	8,157
Aberdeen UK Mid-Cap Companies	7,431
Schroders Institutional UK Smaller Companies	7,687
Schroders Recovery A	6,839
Mellon Fund Manager Newton Discovery	3,266
Total	33,380

10. Concentration of investments

During the year, no individual investment exceeded 5% of the total value of net assets of the Fund.

11. Analysis of UK equity investments by industrial sector

	£'000
Oil and gas	113,950
Basic materials (<i>chemicals, mining, forestry</i>)	106,036
Industrials (<i>aerospace, defence, electronics, engineering</i>)	85,046
Consumer goods (<i>vehicles, household goods</i>)	96,199
Health care (<i>health care, pharmaceuticals</i>)	59,878
Consumer services (<i>general retailers, leisure, media</i>)	106,258
Telecommunications (<i>fixed line and mobile</i>)	70,654
Utilities (<i>electricity, gas, water suppliers</i>)	33,024
Financials (<i>banks, insurance, real estate, investment trusts</i>)	183,270
Technology (<i>computer hardware and software</i>)	31,357
Total	885,672

12. Unlisted investments

All investments held by the Fund at 31 March 2010 were listed on recognised stock exchanges, except the following:

	£'000
Indirect European property	43,788
Private equities	65,819
Hedge funds	7,160
Indirect UK property	16,868
Renewable energy	8,227
Other alternative investments	47,120
Total	188,982

These holdings represent 5.9% of the value of the Fund.

13. Derivative contracts

Derivative receipts and payments represent the realised gains and losses on futures contracts. The Fund's objective is to decrease risk in the portfolio by entering into futures positions to match assets that are already held in the portfolio without disturbing the underlying assets.

	31 March 2010	
	Assets	Liabilities
	£'000	£'000
UK fixed income futures	0	-8,839
Overseas fixed income futures	24,123	-24,627
Overseas fixed income options	11	0
Total	24,134	-33,466

All of the above derivative contracts expire in June 2010.

14. Investment transactions

	Market value at 1 April 2009	Purchases	Sales	Change in value	Market value at 31 March 2010
	£'000	£'000	£'000	£'000	£'000
UK fixed- interest bonds	10,089	4,584	-5,962	2,453	11,164
Overseas fixed- interest bonds	99,858	126,289	-110,640	23,173	138,680
Overseas index- linked bonds	3,868	4,007	-3,260	604	5,219
UK equities	552,175	281,356	-261,787	313,928	885,672
North America equities	230,443	179,786	-144,241	98,559	364,547
Japan equities	68,399	38,474	-37,347	24,831	94,357
Europe equities	232,062	107,794	-126,495	84,990	298,351
Other overseas equities	111,642	70,869	-72,690	70,480	180,301
Pooled investment vehicles:					
- index-linked	616,714	0	0	64,274	680,988
- equities	23,545	15,016	-18,986	13,805	33,380
Property	93,550	23,301	-3,225	20,647	134,273
Property unit trusts	62,918	12,033	-22	-14,273	60,656
Other alternative investments	105,679	27,352	-14,061	9,356	128,326
Cash movements allowing for currency hedging	164,527	209,580	-180,047	-4,554	189,506
Total	2,375,469	1,100,441	-978,763	708,273	3,205,420

15. Contingent liabilities

The Fund had no contingent liabilities on 31 March 2010.

16. Capital commitments

The Fund had the following capital commitments at 31 March 2010:

	Committed	Invested at
	£'000	31 March 2010
		£'000
Private equities	119,231	49,276
Indirect European property	54,977	37,471
Renewable energy	12,247	9,073
Other alternative investments	68,270	31,966
Total	254,725	127,786

17. Related-party transactions

The County Council administers the Hampshire Pension Fund on behalf of its non-teaching employees, those of other local authorities in the county area and 194 other scheduled and admitted bodies (199 in 2008/09).

The Pension Fund invests its surplus cash balances jointly with the County Council's to gain the benefits of scale. Interest was paid to the Pension Fund in 2009/10 based on the actual rate of interest earned.

Transactions with these related parties are shown below:

	2008/09	2009/10
	£'000	£'000
Hampshire County Council		
Interest received	-1,836	-356
Temporary lending 31 March	70,939	50,767
Administration charge	1,873	2,109

18. Property

All the Fund's directly owned property is held as freehold. In December each year the directly held properties in the UK property portfolio are independently valued by Colliers CRE, Chartered Surveyors. All properties held in the UK property portfolio are subject to leases with upward-only rent reviews every five years.

19. Stock lending

The Fund lends stock to third parties under a stock lending agreement with its custodian, Northern Trust. The total amount of stock on loan at the year-end was £94.371 million, and this value is included in the Net Asset Statement to reflect the Fund's continuing economic interest in the securities on loan. The table below summarises the value of stock lent out by the Fund on 31 March 2010.

	£'000
Equities – UK	37,820
Equities – overseas	45,840
Fixed interest – UK	675
Fixed interest – overseas	10,036
Total	94,371

As security for the stocks on loan, the Fund was in receipt of collateral at the year-end valued at £99.564 million, which represents 105.5% of the value of securities on loan and comprises 92% government fixed interest bonds and 8% equities.

The income received from stock lending activities was £59,949 net of administrative fees for the year ending 31 March 2010 and is included within the 'Investment Income' figure detailed on the Pension Fund Account.

20. Additional voluntary contributions

The Fund's current main additional voluntary contribution (AVC) provider is Zurich. AVCs can also be paid to Equitable Life, but only if they are invested in its building society fund or for an additional death-in-service grant. The AVCs are invested separately from the Fund's main assets and used to buy extra pension benefits on retirement. Members participating in these AVC arrangements each receive an annual statement confirming the amounts held in their account and the movements during the year.

A summary of the information provided by Zurich and Equitable Life for the year to 31 March 2010 is shown below. (This summary has not been subject to audit and the Fund relies on the individual contributors to check that deductions made on their behalf are accurately reflected in the statements provided by the AVC providers.)

	Zurich	Equitable	Total
	£'000	Life	£'000
	£'000	£'000	£'000
Contributions received in year	1,442	36	1,478
Market value at 31 March 2009	6,535	1,577	8,112
Market value at 31 March 2010	8,083	1,538	9,621