Hampshire County Council

Statement of Accounts

2013/14

Hampshire County Council

Contents

Page

3 Summary Statement of Accounts
6 Explanatory Foreword
12 Movement in Reserves Statement
14 Comprehensive Income and Expenditure Statement
16 Balance Sheet
18 Cash Flow Statement
19 Notes to the Core Financial Statements
110 Pension Fund Accounts
112 Notes to the Pension Fund Accounts
153 Statement of Responsibilities for the Statement of Accounts
154 Annual Governance Statement
184 Glossary

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Summary Statement of Accounts 2013/14

1 The cost of Hampshire County Council services

The Comprehensive Income and Expenditure Statement sets out the cost of running Hampshire County Council's services in 2013/14 and where the money came from to pay for them.

	2013/14 £000 Expenditure	2013/14 £000 Income	2013/14 £000 Net expenditure
Operating income and expenditure			
Cultural, environmental and planning services	126,114	-23,947	102,167
Education and children's services	1,093,127	-799,167	293,960
Highways and transport services	124,681	-27,449	97,232
Adult social care	450,600	-93,884	356,716
Public Health	33,434	-37,072	-3,638
Other services, corporate and non-distributed costs	200,196	-106,857	93,339
Total operating income and expenditure	**2,028,152**	**-1,088,376**	**939,776**
Taxation and non-specific grant income			
Non-ringfenced government grants			-256,393
Non domestic rates			-38,963
Council tax income			-497,466
Capital grants and contributions			-92,772
Taxation and non-specific grant income			**-885,594**
Surplus on the provision of services			**54,182**

2 Impact on the General Fund Balance

The Comprehensive Income and Expenditure Statement is drawn up in accordance with international accounting standards. However, the Government has stipulated that certain costs that form part of the Comprehensive Income and Expenditure Statement need not be included in the General Fund for the purpose of setting council tax. These costs are mainly associated with the depreciation of assets and the accrual of retirement benefits, which do not necessarily lead to cash flows in the short and medium term. Consequently, these costs are transferred to the Balance Sheet and replaced with the annual repayment of loans for capital expenditure and the employer's pension contribution. This net adjustment is -£117.2 million.

The impact on the General Fund Balance is shown in the Movement in Reserves Statement which is summarised below.

	£000
General Fund Balance at 31 March 2013	-34,795
Surplus on the provision of services	54,182
Net adjustment	-117,169
Balance before transfers to earmarked reserves	-97,782
Transfers to earmarked reserves	70,084
General Fund Balance at 31 March 2014	**-27,698**

3 Financial position of the Council

The Balance Sheet presents the Council's financial position at 31 March 2014 and the value of its assets and liabilities. It shows what the Council owns, owes and is owed.

	2013/14 £000	2013/14 £000
Land, buildings, vehicles, equipment and infrastructure		3,578,207
Money owed to the Council:		
Within 12 months	541,429	
After 12 months	130,679	
Money owed by the Council:		
Within 12 months	-322,151	
After 12 months	-598,669	
Net borrowing		-248,712
Pension fund net liability		-986,090
Total net assets		**2,343,405**
Financed by:		
Cash-backed reserves		-481,748
Non-cash-backed reserves*		-1,861,657
Total net worth		**-2,343,405**

* Includes the Asset Revaluation Reserve that can only be realised when assets are sold and the adjustment accounts required to replace the accounting costs (principally for depreciation and retirement benefits) included in the Income and Expenditure Statement with the costs to be funded by the General Fund (principally loan repayments and employer's pension contributions).

4 Capital expenditure

Capital expenditure is money the Council spent on purchasing and improving assets such as buildings, roads and equipment. The Council receives the benefit from such capital expenditure over many years.

	2013/14 £000
Adult Services	4,507
Children's Services	88,039
Environment	100,833
Policy and Resources	18,833
Total	**212,212**
Financed by:	
Capital receipts	-15,365
Grants and other income	-106,122
Loans	-83,963
Revenue (main contribution)	-4,346
Revenue (reserves)	-2,416
	-212,212

5 Pension Fund

The County Council administers the Pension Fund that is open to all non-teaching employees of Hampshire County Council, Portsmouth and Southampton City Councils and the 11 district councils in Hampshire and a range of other scheduled and admission bodies. A summary of the pension fund accounts is given below.

	2013/14 £000
Pension contributions	223,101
Transfers in from other pension funds	10,668
Benefits paid	-203,468
Payments to and on account of leavers	-9,836
Administrative expenses	-2,972
Net additions from dealings with members and employers	**17,493**
Returns on investments	189,648
Investment management expenses and taxes on income	-12,041
Increase in the net assets available for benefits during the year	**195,100**
Add opening net assets of the Fund	4,340,617
Closing net assets of the Fund	**4,535,717**

Explanatory Foreword

1 Introduction

This document contains Hampshire County Council's Statement of Accounts for the year ended 31 March 2014. The pattern of presentation of the statement is laid down by a code of practice, which the County Council is legally required to follow.

This foreword gives:

- A summary of the various statements that make up the County Council's 2013/14 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

The accounts for 2013/14 are set out on pages 12 to 153.

They consist of:

- Movement in reserves statement – analyses the change in net worth between the general fund, other useable reserves and unusable reserves
- Comprehensive Income and Expenditure Statement – shows the accounting cost in the year of providing services measured in accordance with international accounting standards rather than on the basis of the costs that are required to be financed from taxation
- Balance sheet – this sets out assets and liabilities at 31 March 2014 compared with 31 March 2013
- Cash flow statement – this summarises the movement in cash and cash equivalents during the course of the year
- Notes to the accounts – which explain some of the key items and disclosures in the accounts
- 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
- Statement of responsibilities for the Statement of Accounts

3 Where the money comes from

Most of the County Council's income comes from the Dedicated Schools Grant, general Government grants, council tax and business rates. Fees and charges contribute to the cost of some services and interest is earned on day-to-day balances. Government capital grants and external contributions applied to finance capital expenditure have been excluded from the following table.

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

	2012/13 %	2013/14 %
Council tax	28	26
Business rates (i)	9	2
General Government grants	1	14
Fees, charges and interest	18	14
Specific Government grants	44	14
	100	**100**

(i) The national allocation of business rates in 2012/13 was replaced from April 2013 with a scheme of locally retained business rates. The lower yield from the County Council's share of local business rates is compensated by a top-up grant from Government which partly accounts for the increase in general Government grants.

4 What the money is spent on

Type of expenditure	2012/13 %	2013/14 %
Staff costs	49	47
Running expenses	46	49
Capital financing	5	5
	100	**100**

Service shares of gross revenue expenditure	2012/13 %	2013/14 %
Children's services and education	61	59
Adult social care	25	24
Highways, roads and transport	6	7
Cultural, environmental and planning services	7	7
Public Health	-	2
Other services	1	1
	100	**100**

5 Employees

At 31 March 2014, the County Council employed 37,416 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 24,436 at 31 March 2014, a net increase of 411 since 31 March 2013. This is largely due to an increase of 371 in school-based staff and a transfer of 156 FTE staff to the County Council from Hampshire Constabulary and Hampshire Fire and Rescue Service as a result of the joint working arrangements of all three organisations. In addition, 23.5 FTE health staff became employees of the County Council with the

transferred responsibility for Public Health from 1 April 2013. This is offset by reductions in other areas as part of the County Council's efficiency and transformation programme.

Full-time equivalent employees	March 2013	March 2014
School - based	14,536	14,907
Other children's services	2,443	2,299
Adult Services	2,777	2,712
Economy, Environment and Transport	693	688
Culture, Communities and Business Services	2,312	2,390
Central services	1,264	1,440
	24,025	**24,436**

6 Summary of the year – Revenue account

The financial year 2013/14 was the third year of the significantly reduced grant settlement announced in October 2010. Furthermore, the overall economic climate worsened since the first two years of the 2010 Comprehensive Spending Review with further reductions in public spending announced in the Autumn 2012 Statement. In headline terms this saw grant reductions of 8.7% for 2013/14 and a derived figure of 9.6% for 2014/15. This followed previous reductions of 14.3% in 2011/12 and 10.4% in 2012/13. The County Council had pre-empted these difficult times ahead and it had already started to implement an ambitious programme of cost reduction and efficiency measures. The success of this programme in 2011/12 and 2012/13 enabled the return in 2013/14 to an annual efficiency target of 2% per annum.

The budget requirement for 2013/14 was set at £755.8 million. This reflected the reduction in Government grant and enabled the council tax to be frozen at its 2010/11 level allowing the County Council to claim a Government council tax freeze grant of £5.4 million. It also planned to draw £7.1 million from general reserves and working balances as part of the agreed strategy to smooth the impact of grant reductions. A budget at this level included unavoidable increases in expenditure from inflation and social care demographic pressures and allowed for other risk contingencies and also included the 2% efficiency target for all departments.

The Council has continued to demonstrate strong financial stewardship over this extremely challenging period achieving additional savings than planned for the year, whilst also incurring significant costs in dealing with flooding in the final quarter of the financial year. This reflects the continuing financial strategy of achieving savings in the early part of the four year grant settlement period, which can then be used to meet the cost of change and invest to save or transformational projects in future years.

At the end of 2013/14, service net expenditure was £5.0 million lower than budgeted and in accordance with the financial management policy has been transferred to the designated under spending earmarked reserve. Further savings of £9.0 million were achieved largely as a result of improved treasury management activity and unused contingencies relating to waste management, pay inflation and other risks. This has been transferred to the Grant Equalisation Reserve. Other variations are offset by transfers to and from reserves.

General Balances at 31 March 2014 are £27.7 million, which after taking out the £8 million carry forward of unspent contingencies from 2012/13 which will be used to fund the 2014/15 budget, the level of general balances will be in line with the current policy of carrying a general balance that is approximately 2.5% of the County Council's Budget Requirement.

This movement in the General Fund balance is shown in the table below. The presentation follows the format of the statement of accounts, which is different to that used for setting the budget. For example, the cost of services includes items that are not managed as part of service budgets; a reconciliation of actual income and expenditure for these is included in note 18 to the accounts.

Budget	Revised budget £million	Actual £million	Variation from revised £million
Cost of services	**885.3**	**872.7**	**-12.6**
Loss/(gain) on disposal of assets	1	1	0
Net interest payable and investment property income	24.1	22.9	-1.2
Investment property gains/ losses	1	1	0
Pension interest cost and expected return on pensions assets	18.1	43.7	25.6
(Surpluses)/ deficits on trading units	0.1	-1.6	-1.7
Net operating and financing expenditure	**929.6**	**939.7**	**10.1**
Amount to be met from non-specific Government grant and local taxpayers			
Council tax precept income	-497.6	-497.6	0
General Government grant	-256.4	-256.4	0
Business rates	-38.9	-38.9	0
Capital grants and contributions	-96	-92.8	3.2
	-888.9	**-885.7**	**3.2**
(Surplus)/ Deficit on the provision of services	**40.7**	**54**	**13.3**
Adjustments between accounting and funding basis under regulations	-64.3	-117	-52.7
Contribution to/(from) earmarked reserves	30.7	70.1	39.4
Movement in General Fund Balance	**7.1**	**7.1**	**0**
General Fund Balance			
Brought forward 1 April 2013	-34.8	-34.8	0
Carried forward 31 March 2014	-27.7	-27.7	0

7 Summary of the year – Capital expenditure

In 2013/14 the County Council spent £212.2 million on capital projects, £7.5 million less than the revised budget. Capital receipts of £15.4 million were received.

Capital expenditure has been funded by Government capital grant together with contributions from developers and outside agencies and available capital receipts. Funding from these sources totalled £121.5 million. In accordance with the agreed criteria for the use of borrowing, £85.7 million was borrowed from internal resources. Adding planned revenue contributions to capital of £29.9 million gave a total of £237.1 million. This has allowed £1.7 million of prudential borrowing to be repaid and a transfer of £23.2 million to reserves to fund future capital expenditure.

The Council may borrow on a day-to-day basis from internal resources, such as the revenue account and earmarked reserve balances to finance capital expenditure. Internal resources were higher in 2013/14 than in the previous year, so that, net of investments, £60.7 million was owed to external lenders at 31 March 2014, a reduction of £50.6 million on the previous year.

8 Pension Fund liability

The County Council's net pension liability has reduced from £1,040.6 million at 31 March 2013 to £986.1 million at 31 March 2014. This overall actuarial gain arises because of changes in assumptions underlying the present value of pension liabilities, (including a lower discount rate, lower inflation, a lower rate of increase in salaries and a lower rate of increase in pensions in payment) together with an increase in the value of pension fund assets. The net gain is shown in the Comprehensive Income and Expenditure Statement and then transferred to the Pension Reserve and does not impact on the General Fund balance. Further information can be obtained from note 32 to the accounts.

9 Changes

A significant change to the County Council's range of functions in 2013/14 was the transfer of the Public Health function from Primary Care Trusts from 1 April 2013 as a result of the Health and Social Care Act 2012. In order to improve outcomes for the health and wellbeing of their local populations, local authorities receive a ring-fenced public health grant. Hampshire County Council's grant for 2013/14 was £36.753 million and for 2014/15 it is £40.428 million. Staff and existing service contracts transferred to the County Council under statutory transfer orders. No other assets or liabilities were transferred.

During the year a number of schools became academies/foundation schools. This has resulted in a transfer of cash balances of £1.6 million. In addition building and

furniture and equipment assets valued at £48.9 million have been transferred. These transfers are not cash backed and increase the total deficit on the Comprehensive Income and Expenditure Statement by £48.9 million. This represents a movement in unusable reserves and there is no impact on the General Fund balance.

10 Impact of the current economic climate and significant movements and events in the year

The impact of the current economic climate on the County Council is taken into account when the Authority sets its budget in the February preceding the start of the financial year. The significant movements and events in the year are reported to Cabinet.

11 Further information

You can get more information about the accounts from
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Movement in Reserves Statement

This Statement shows the movement in the year on the different reserves held by the County Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The 'Surplus (-) or deficit on the provision of services' line shows the true economic cost of providing the County Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for council tax setting purposes. The 'Net increase(-)/decrease before transfers to earmarked reserves' line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the County Council.

	General Fund Balance £000	Earmarked Reserves £000	Capital Grants Unapplied Reserve £000	Total Usable Reserves £000	Unusable Reserves £000	**Total Reserves £000**
Balance at 31 March 2012	**-17,897**	**-244,442**	**-45,034**	**-307,373**	**-2,068,015**	**-2,375,388**
Surplus (-) or deficit on provision of services (accounting basis)	-8,457	-	-	**-8,457**	-	**-8,457**
Other comprehensive expenditure and income	-	-	-	**-**	106,004	**106,004**
Total comprehensive expenditure and income	**-8,457**	**-**	**-**	**-8,457**	**106,004**	**97,547**
Adjustments between accounting basis & funding basis under regulations (note 6)	-102,931	-	-	**-102,931**	102,931	**-**
Net increase(-) / decrease before transfers to earmarked reserves	**-111,388**	**-**	**-**	**-111,388**	**208,935**	**97,547**
Transfers to(-)/ from earmarked reserves (note 8)	94,490	-64,557	-29,933	**-**	-	**-**
Increase (-) / decrease in Year	**-16,898**	**-64,557**	**-29,933**	**-111,388**	**208,935**	**97,547**
Balance at 31 March 2013	**-34,795**	**-308,999**	**-74,967**	**-418,761**	**-1,859,080**	**-2,277,841**

Movement in Reserves Statement

	General Fund Balance £000	Earmarked Reserves £000	Capital Grants Unapplied Reserve £000	Total Usable Reserves £000	Unusable Reserves £000	**Total Reserves £000**
Balance at 31 March 2013	**-34,795**	**-308,999**	**-74,967**	**-418,761**	**-1,859,080**	**-2,277,841**
Surplus (-) or deficit on provision of services (accounting basis)	54,182	-	-	**54,182**	-	**54,182**
Other comprehensive expenditure and income	-	-	-	**-**	-119,746	**-119,746**
Total comprehensive expenditure and income	**54,182**	**-**	**-**	**54,182**	**-119,746**	**-65,564**
Adjustments between accounting basis & funding basis under regulations (note 6)	-117,169	-	-	**-117,169**	117,169	**-**
Net increase before transfers to earmarked reserves	**-62,987**	**-**	**-**	**-62,987**	**-2,577**	**-65,564**
Transfers to / from earmarked reserves (note 8)	70,084	-73,273	3,189	-	-	**-**
Increase (-) / decrease in year	**7,097**	**-73,273**	**3,189**	**-62,987**	**-2,577**	**-65,564**
Balance at 31 March 2014	**-27,698**	**-382,272**	**-71,778**	**-481,748**	**-1,861,657**	**-2,343,405**

Comprehensive Income and Expenditure Statement

This Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

Comprehensive Income and Expenditure Statement

2012/13 Gross expenditure £000	2012/13 Gross income £000	2012/13 **Net expenditure £000**	See note		2013/14 Gross expenditure £000	2013/14 Gross income £000	2013/14 **Net expenditure £000**
8,468	-3,140	**5,328**		Central services to the public	7,756	-3,172	**4,584**
51,014	-11,433	**39,581**		Cultural and related services	50,181	-11,705	**38,476**
58,575	-9,526	**49,049**		Environmental and regulatory services	64,916	-9,859	**55,057**
11,374	-2,557	**8,817**		Planning and development services	11,017	-2,383	**8,634**
1,096,302	-837,042	**259,260**		Education & children's services	1,093,127	-799,167	**293,960**
111,246	-19,156	**92,090**		Highways and transport services	124,681	-27,449	**97,232**
420,455	-137,319	**283,136**		Adult social care	425,507	-93,694	**331,813**
27,954	-50	**27,904**	i (below)	Supporting people	25,093	-190	**24,903**
1,528	-1,086	**442**		Court services	1,753	-1,336	**417**
12,376	-332	**12,044**		Corporate and democratic core	14,121	-624	**13,497**
	-251	**-251**		Reward grant		-204	**-204**
-1,286	-186	**-1,472**		Non-distributed costs	17,830	-7,079	**10,751**
-4,504	-	**-4,504**	15	Change in provisions	-2,794	-	**-2,794**
1,793,502	**-1,022,078**	**771,424**		**Cost of continuing operations**	**1,833,188**	**-956,862**	**876,326**
-	-	-	1.29	Acquired operations - Public Health	33,434	-37,072	**-3,638**
1,793,502	**-1,022,078**	**771,424**		**Cost of services**	**1,866,622**	**-993,934**	**872,688**
				Other operating expenditure			
33,773	-40,674	**-6,901**		(Gain)/Loss on disposal of assets	16,405	-15,365	**1,040**
149,990	-96,122	**53,868**	9	Total financing and investment income and expenditure	145,125	-79,077	**66,048**
				Taxation and non-specific grant income			
-	-20,237	**-20,237**	25	Non-ringfenced government grants		-256,393	
-	-173,882	**-173,882**		Locally retained business rates		-38,963	
-	-533,607	**-533,607**	16f	Council tax income		-497,466	
-	-99,122	**-99,122**	25	Capital grants and contributions		-92,772	
-	**-826,848**	**-826,848**		**Total taxation and non-specific grant income**			**-885,594**
		-8,457		**Surplus(-)/Deficit on the provision of services**			**54,182**
		-100,685		Net gains on revaluation of fixed assets		-60,438	
		154,919		Assets transferred to academy/foundation schools		48,882	
		51,770		Actuarial loss/(gain) on pension fund assets and liabilities		-108,190	
		106,004		**Other comprehensive income and expenditure**			**-119,746**
		97,547		**Total Comprehensive Income and Expenditure**			**-65,564**

note i - Supporting People income and expenditure for the published 2012/13 accounts was included within the adult social care line

Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the County Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the capital receipts reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves are those that the Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the revaluation reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line “Adjustments between accounting basis and funding basis under regulations”.

Balance Sheet

31 March 2013				31 March 2014
£000	See note		£000	£000
3,545,510	10a	**Property, plant & equipment (PPE)**	**3,554,069**	
27,996	11	Investment property	24,138	
3,573,506		**Total non-current assets**	**3,578,207**	
110,000	-	Long-term investments	95,500	
36,914	12b	Long-term debtors	35,179	
3,720,420		**Total long-term assets**		**3,708,886**
		Current assets		
5,748	14	Current assets held for sale	609	
276,843	-	Short-term investments	351,810	
3,075	13	Inventories	3,053	
93,671	12c	Short-term debtors	107,212	
65,775	12a	Cash and cash equivalents	78,745	
445,112		**Total current assets**	**541,429**	
		Current liabilities		
-9,876	12a	Bank overdraft	-16,139	
-206,133	12g	Short-term Creditors	-246,708	
-51,539	12d	Short-term borrowing	-51,987	
-6,274		Deferred liability repayable within one year	-7,317	
-273,822		**Total current liabilities**	**-322,151**	
171,290		**Net current liabilities**		**219,278**
3,891,710		**Total assets less current liabilities**		**3,928,164**
-25,849	15	Provisions	-32,344	
-368,658	12d	Long-term borrowing	-358,568	
-127,564	29	Deferred liabilities	-152,723	
-51,198	12f	Developers' contributions	-55,034	
-573,269		**Total long term liabilities**		**-598,669**
-1,040,600	32	Net liability related to defined benefit pension schemes		**-986,090**
2,277,841		**Total net assets**		**2,343,405**
		Financed by:		
		Usable reserves		
-34,795	7	General Fund	-27,698	
-308,999	8	Earmarked reserves	-382,272	
-74,967	8	Capital grants unapplied reserve	-71,778	
-418,761		**Total usable reserves**		**-481,748**
-1,859,080	16	**Unusable reserves**		**-1,861,657**
-2,277,841		**Total net worth**		**-2,343,405**

Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the County Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

2012/13 £000	See note		2013/14 £000
-8,457		Net surplus (-) or deficit (+) on the provision of services	54,182
-249,884	17a	Adjustments to net surplus or deficit on the provision of services for non-cash movements	-283,628
139,679	17a	Adjustment for items included in the net surplus or deficit on the provision of services that are investing and financing activities	108,002
-118,662		Net cash inflow from Operating Activities	-121,444
107,907	17b	Investing Activities	100,949
10,290	17c	Financing Activities	13,788
-465		Net increase (-) or decrease (+) in cash and cash equivalents	-6,707
-55,434		Cash and cash equivalents at the beginning of the reporting period	-55,899
-55,899		**Cash and cash equivalents at the end of the reporting period (note 12a)**	**-62,606**

Notes to the Core Financial Statements

Index

Page	Note	
21	1	Accounting Policies
40	2	Critical judgements in applying accounting policies
41	3	Uncertainties relating to assumptions and estimates used
42	4	Accounting standards issued not yet adopted
43	5	Events after the Balance Sheet date
44	6	Adjustments between accounting basis and funding basis under regulations
45	7	General Fund
46	8	Transfers to/from earmarked reserves
48	9	Financing and investment income and expenditure
49	10a	Property, Plant and Equipment (PPE)
51	10b	Capital commitments
51	10c	Valuation of assets
52	10d	Impairment losses
52	10e	Foundation and aided school assets
52	10f	Heritage assets
55	11	Investment properties
56	12	Financial instruments
57	12a	Cash and cash equivalents
58	12b	Long-term debtors
58	12c	Debtors
59	12d	Borrowing
59	12e	Fair values
60	12f	Developers' contributions
60	12g	Short-term creditors
61	12h	Deposits
61	12i	Creditors and receipts in advance
61	12j	Nature and extent of risks arising from financial instruments
66	13	Inventories
67	14	Assets held for sale
67	15	Change in provisions
69	16	Unusable reserves
69	16a	Revaluation reserve
70	16b	Capital adjustment account
71	16c	Financial instruments adjustment account
71	16d	Pensions reserve
72	16e	Deferred capital receipts reserve
72	16f	Collection fund adjustment account

73	16g	Accumulated absences account
74	17a	Cash Flow Statement – operating activities
75	17b	Cash Flow Statement – investing activities
75	17c	Cash Flow Statement – financing activities
76	18	Amounts reported for resource allocation decisions
79	19	Internal trading accounts
80	20	Pooled budgets
81	21	Members' allowances
82	22a	Officer remuneration
84	22b	Senior employees' remuneration
85	22c	Termination agreements
87	23	External Audit fees
87	24	Dedicated Schools Grant
88	25	Grant and contribution income
91	26	Related party transactions
93	27	Capital financing
94	28a	Leases – operating leases – County Council as lessee
94	28b	County Council as lessor
95	28c	Leases – finance leases
95	29	PFI and service concessions
99	30	Undischarged obligations
99	31	Contingent liabilities
100	32	Pensions
100	32a	Pensions Schemes Accounted for as Defined Contribution Schemes
101	32b	Local Government Pension Scheme
102	32c	Transactions relating to post-employment benefits
103	32d	Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation)
104	32e	Reconciliation of the Movements in the Fair Value of Scheme Assets
105	32f	Pensions Assets and Liabilities Recognised in the Balance Sheet
106	32g	Basis for Estimating Assets and Liabilities
108	33	Trust funds

Notes to the Core Financial Statements

1 Accounting Policies

1.1 General principles

The Statement of Accounts summarises the County Council's transactions for the 2013/14 financial year and its position at the year-end of 31 March 2014. The County Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2011. These require the accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and the Service Reporting Code of Practice 2013/14. The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

1.2 Accruals of income and expenditure

Sums due to, or from, the County 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. In particular:

- Fees, charges and rents due from customers are accounted for as income at the date the County Council provides the relevant goods or services
- Supplies and services expenditure is recorded as expenditure when they are consumed. Where there is a gap between the date supplies are received and their consumption they are carried as stock in the Balance Sheet
- Employee benefits, including pension benefits, are accounted for as they are earned
- Interest payable and receivable on borrowing and lending is accounted for on the basis of an effective interest rate calculated for the relevant financial instrument rather than the actual cash paid or received in accordance with the contract.

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 2014 is estimated at £2.1 million (£2.8 million at 31 March 2013).
- 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.

The above exceptions apply every year, so they do not have a material effect on the year's accounts.

Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

1.3 Cash and cash equivalents

Cash is represented by cash in hand in the County Council's main bank account, in schools' local bank accounts and in petty cash accounts held for minor day-to-day expenses by service units, including schools, across the whole county.

Cash equivalents are investments that are readily convertible the same day to known amounts of cash with insignificant risk of change in value.

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

1.4 Exceptional items

When items of income and expense are material, their nature and amount are disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the County Council's financial performance.

1.5 Prior period adjustments, changes in accounting policies and estimates and errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the County Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

1.6 Employee benefits

Benefits payable during employment

Short-term employee benefits, such as salaries, paid annual leave, paid sick leave and non-monetary benefits (e.g. leased cars) for current employees, are recognised as an expense in the year in which employees render service to the County Council.

Teachers' pay is governed by the Burgundy Book, which states that teachers should receive not less than one-third of a year's salary for each full term's service. With Hampshire's policy of a fixed Easter break during April, the spring terms pay and leave entitlement straddles two financial years. An accrual is made by charging children's services for the cost of Easter holiday entitlements earned by teachers but not taken until the next financial year.

Other staff work under Employment in Hampshire County Council (EHCC) terms and conditions which permit them to carry forward, in exceptional circumstances, up to 5 days (37 hours) annual leave per year, pro-rated for those working part time. In addition, some staff may have flexible working conditions which permit them to accumulate up to a maximum of 40 hours flexi-time. In this case they can theoretically carry forward up to 40 hours flexi-time from one financial year to another. However, the actual amounts of annual leave and flexi-time carried forward are much lower than the maximum amounts and are similar each year, so an accrual for non-teaching staff is not required.

These accruals are called Compensated Absences Adjustments and in accordance with statutory regulations are reversed out of the General Fund and charged to the Compensated Absences Adjustment Account within the Movement in Reserves Statement.

Termination benefits

Termination benefits are amounts payable as a result of a decision by the County Council to terminate an employee's employment before the normal retirement date, or an employee's decision to accept voluntary redundancy. These costs are charged on an accruals basis to the Comprehensive Income and Expenditure Statement (as part of the cost of services) when a termination notice has been issued to an employee. A provision for termination costs is included in the Comprehensive Income and Expenditure Statement (as part of the cost of services) where there is an agreed business case setting out the estimated termination costs resulting from a proposed restructuring.

Where termination benefits involve the enhancement of pensions by way of added years, legislation requires the General Fund Balance to be charged with the amount payable by the County Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional charges for termination benefits and replace them with a charge for the actual amounts payable to the former employee and the pension fund.

Post employment benefits (retirement pensions)

Employees of the County Council are members of three separate pension schemes:

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE)
- The NHS Pension Scheme, administered by EA Finance NHS Pensions
- The Local Government Pensions Scheme, administered by Hampshire County Council.

These schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees worked for the County Council. However, the arrangements for the teachers' and NHS scheme mean that liabilities for these benefits cannot ordinarily be identified specifically to the County Council. These schemes are therefore accounted for as if they are a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The Children's and Education Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year. The Public Health Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to the NHS Pension Scheme in the year.

The local government pension scheme is accounted for as a defined benefits scheme where:

- The liabilities of the scheme attributable to the County Council are included in the Balance Sheet on an actuarial basis using the projected unit method (i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates and projections of earnings for current employees).
- Liabilities are discounted to their value at current prices using a calculated discount rate based on a series of calculations for high quality corporate bonds over a range of periods.
- The assets of the pension fund attributable to the County Council are included in the Balance Sheet at their fair value: for quoted securities this means the current bid price; for unquoted securities this is based on a professional estimate; for unitised securities this means the current bid price; for property this means an estimate of the market value.

The change in the net pension liability is analysed into the following components:

- **Current service cost:** this is the increase in liabilities as a result of the number of years of service earned this year. This is shown as a cost in the Comprehensive Income and Expenditure Statement for the service where the employee worked.
- **Past service cost:** this is the increase in liabilities arising from current year decisions whose effect relates to the number of years of service earned in earlier years. This is shown as a non-distributed cost in the Comprehensive Income and Expenditure Statement.
- **Gains/losses on settlements and curtailments:** this is the result of members of the scheme leaving, joining or stopping their contributions to the scheme. These actions relieve the County Council of liabilities or reduce the expected future service or accrual of benefits of employees. This is shown as a non-distributed cost in the Comprehensive Income and Expenditure Statement
- **Net interest on the net defined benefit liability:** this is the change during the period in the net defined benefit liability that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement.
- **Remeasurement comprising:**
    - **the return on assets -** excluding amounts included in net interest on the net defined benefit liability – charged as Other Comprehensive Income and Expenditure.
    - **Actuarial gains and losses:** these are changes in the net pension liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions. These are shown as other income and expenditure within the Comprehensive Income and Expenditure Statement.
- **Contributions paid to the Hampshire County Council pension fund:** these are amounts paid as employer contributions to the pension fund and are not included within the cost of services.

Statutory provisions limit the County Council to raising council tax to cover the actual amounts payable by the County Council to the pension fund in the year. In the Movement in Reserves Statement an appropriation is made between the General Fund and the Pension Fund Reserve to remove the notional debits and credits for retirement benefits included in the Comprehensive Income and Expenditure Statement and replace them with debits for the actual amounts paid to the pension fund and any amounts due to the fund but unpaid at the year-end.

Discretionary benefits

The County Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff, including teachers, are accrued for in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

1.7 Events after the balance sheet date

Events after the balance sheet date are those events that occur (both favourable and non-favourable) between the date of the Balance Sheet (31 March) and the date the accounts are authorised for issue (30 September). There are two types of event:

- Adjusting events - those that provide evidence of a condition that existed at the Balance Sheet date – for this type of event the accounts are adjusted to reflect such events.
- Non-adjusting events - those that are indicative of conditions that arose after the Balance Sheet date – for this type of event the accounts are not adjusted to reflect such events. However, where the event would have a material effect, disclosure is made in the notes to the accounts of the nature and estimated effect of the event.

Events taking place after the date authorised for issue are not reflected in the Statement of Accounts

1.8 Financial instruments

Financial liabilities

Financial liabilities are recognised on the Balance Sheet when the County Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised. For most of the borrowings that the County Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The County Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial assets

Loans and receivables are recognised on the Balance Sheet when the County Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the County Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

However, the County Council has made loans at less than market rates (soft loans). When material soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement at a higher effective rate of interest than the rate receivable, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is

measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Foreign currency translation

Where the County Council has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts in foreign currency are outstanding at the year-end, they are reconverted at the spot exchange rate at 31 March.

1.9 Government Grants and other contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions are recognised as income at the date that the County Council satisfies the conditions of entitlement to the grant/contribution and there is reasonable assurance that the monies will be received and the expenditure for which the grant has been given has or will be incurred.

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

In deciding if developer contribution agreements have conditions attached the County Council has applied the substance over form concept and assumed that all agreements have a constructive obligation to repay contributions if not used even if this is not explicit in the agreement.

Monies received as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors (receipts in advance). When conditions are satisfied, or where there are no conditions attached to the grant or contribution, the income is credited to the Comprehensive Income and Expenditure Statement as follows:

- To the relevant service for revenue grants and contributions and capital grants used to fund revenue expenditure funded by capital under statute
- To the Taxation and Non-Specific Grant Income section for non-ring-fenced revenue grants and contributions and all other capital grants and contributions.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is

transferred to the Capital Grants and Contributions Unapplied Reserve. Where it has been applied in the year, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants and Contributions Unapplied Reserve that are subsequently applied in future years will be transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

Where revenue grants are credited to the Comprehensive Income and Expenditure Statement but are yet to be used, they are transferred to an earmarked reserve in the Movement in Reserves Statement. Once used in subsequent years, they are transferred to the General Fund to fund the revenue expenditure.

1.10 Intangible assets

Intangible assets do not have physical substance but are identifiable and controlled by the County Council and bring benefits to the County Council for more than one year. Typical examples include software licences, internally developed software and websites developed to deliver services rather than information about services. The County Council does not have any material intangible assets. Capital expenditure on immaterial intangible assets is classified as furniture and equipment.

1.11 Interests in companies and other entities

The County Council does not have any material interests in companies and other entities that have the nature of subsidiaries, associates and jointly controlled entities and would require the County Council to prepare group accounts. However, the County Council is corporate trustee or the designated treasurer for a number of trust funds and these funds are disclosed in the notes to the accounts.

In addition, the County Council owns a 51% share of the Reading Hampshire Property Partnership Limited which was formally incorporated on 4 March 2014 with Companies House. This is a joint public to public venture entirely owned between Hampshire County Council and Reading Borough Council and is limited by shares. It commenced operations in April 2014 and its financial impact on the County Council is anticipated to be immaterial following the elimination of intragroup transactions.

1.12 Stock and long term contracts

Stocks held in the balance sheet are valued according to their differing nature and purpose. For example, County Supplies stock of £1.3 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.

Long term contracts are accounted for on the basis of charging services with the value of works and services received under the contract during the financial year.

The cost of capital schemes that are in progress at the date of the balance sheet are included as assets under construction within Property, Plant and Equipment.

1.13 Investment properties

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale. Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between separate and knowledgeable parties. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

1.14 Jointly controlled operations

The County Council has pooled budget arrangements with NHS bodies that involve joint use of the assets and resources of each organisation rather than the establishment of a separate entity. The County Council recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs and debits and credits the Comprehensive Income and Expenditure Statement with the expenditure it incurs and the share of income it earns from the activity of the operation.

1.15 Leases

Leases are arrangements that convey the right to use an asset in return for a payment or series of payments even if the arrangement does not take the legal form of a lease. Leases are classified as either finance leases or operating leases. A finance lease is any arrangement where substantially all of the risks and rewards, incidental to ownership of the asset, transfer from the lessor to the lessee. Leases that do not transfer substantially all of the risks and rewards are classified as operating leases.

Where an arrangement includes both land and buildings, the land and buildings elements are considered separately for classification and, in general, leases of land are considered to be operating leases.

Lease classifications are determined individually by carrying out a number of qualitative and quantitative tests and then making a judgement based on the overall outcomes of the tests. For the purposes of lease classifications a deminimus level is used of £500,000.

The County Council as lessee:

Finance Leases - Where the County Council leases a material asset under a finance lease it is recognised in the accounts as if it were the County Council's asset and revalued and depreciated in line with the normal policy for non-current assets. The asset recognised is matched by a liability for the obligation to pay the lessor. The lease payment is apportioned between:

- A charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
- A finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Operating Leases - Where the County Council leases a material asset under an operating lease the asset is not recognised in the balance sheet. Rentals payable under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense to the services that benefit from use of the leased asset. Charges are made on a straight-line basis over the life of the lease.

The County Council as lessor:

Finance leases - Where the County Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. A gain, representing the County Council's net investment in the lease, is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- A charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received),
- Finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve. The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Operating Leases - Where the County Council grants an operating lease on an asset it is retained in the Balance Sheet. Rentals receivable are credited to the relevant service area in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease.

1.16 Overheads and support services

The costs of overheads and support services are apportioned to those services that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice that applies for the relevant year. This means that the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core costs (as these relate to the County Council's status as a multi-functional, democratic organisation)
- Non-Distributed Costs (as these are the costs of discretionary benefits awarded to employees retiring early and impairment charges for assets held for sale).

These two cost categories are accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of the cost of services.

1.17 Property, plant and equipment (PPE)

Material assets that have a physical substance and are held for use in the provision of services or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of PPE assets is capitalised on an accruals basis, provided that it benefits the County Council and the services

that it provides are for more than one financial year. Expenditure that maintains, but does not extend, the previously assessed standards of performance of the asset (e.g. repairs and maintenance) is charged to the relevant service area within the Comprehensive Income and Expenditure Statement as it is incurred.

Measurement

PPE assets are initially measured at cost, comprising all expenditure that is directly attributable to bringing the asset into working condition for its intended use. Assets are then carried in the Balance Sheet using the following measurement bases:

- Land and Buildings are measured at fair value. For land and buildings this means Existing Use Value (EUV) for non-specialised properties or Depreciated Replacement Cost (DRC) for specialised properties. For surplus land and buildings this means open market value.
- Vehicles, Plant and Equipment are measured at depreciated historical cost (as this is not materially different from the fair value).
- Infrastructure Assets are measured at depreciated historical cost.
- Community Assets and Assets Under-Construction are measured at historical cost.

PPE assets included in the Balance Sheet at fair value (i.e. land and buildings) are re-valued where there have been material changes in the value, but as a minimum every five years.

Increases in valuations are matched by credits to the Asset Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the relevant service area within the Comprehensive Income and Expenditure Statement where they arise from the reversal of an impairment loss previously charged to the service area. The Asset Revaluation Reserve only contains revaluation gains recognised since 1 April 2007, the date of its formal implementation. Gains arising before that date form part of the Capital Adjustment Account.

Impairment

Decreases in value (due to either physical impairment or market prices) are either charged to the Asset Revaluation Reserve (to the extent that it has any balance relating to the specific asset) or to the relevant service area within the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

However, revaluation losses and subsequent reversals are not permitted by statutory arrangements to have an impact on the General Fund Balance and therefore any gains or losses are reversed out of the General Fund Balance (in the Movement in Reserves Statement) and are transferred to the Capital Adjustment Account.

Depreciation

Depreciation is provided for on all PPE assets with a determinable and finite life by allocating the value of the asset in the Balance Sheet over their useful lives. An exception is made for assets without finite lives (e.g. land and community assets), assets that are not yet available for use (e.g. assets under construction) and assets held for sale.

The accounting standard IAS16 requires each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item to be depreciated separately. However, where parts of the item are individually not significant and there are varying expectations for these parts, approximation techniques may be necessary to depreciate them in a manner that faithfully represents the consumption pattern and/or useful life of its parts. For building assets, the County Council uses a weighted average of all components rather than depreciating components separately. The difference in the depreciation calculated is not material.

Depreciation commences in the year after the year of acquisition and a full year's depreciation is charged in the year of disposal, except for vehicles disposed of in the first six months of a financial year when no depreciation is charged in the final period.

Depreciation is calculated on the following basis:

- Dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer *
- Furniture and equipment 10 years
- Vehicles between five and 10 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

* The useful life of a building is the weighted average of all its components. When one or more components are replaced or enhanced incurring capital expenditure in excess of £350,000, all assets on the site are revalued and the useful life of each asset is reassessed to ensure an appropriate rate of depreciation. Replaced components are derecognised by disposing of their gross book value and accumulated depreciation.

Depreciation is charged to the relevant revenue service area within the Comprehensive Income and Expenditure Statement. However, depreciation charges are not permitted by statutory arrangements to have an impact on the General Fund Balance and therefore any gains or losses are reversed out of the General Fund Balance (in the Movement in Reserves Statement) and are transferred to the Capital Adjustment Account.

Where assets have been re-valued, the revaluation gains held in the Asset Revaluation Reserve are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been charged, based on their historic cost, being transferred each year from the Asset Revaluation Reserve to the Capital Adjustment Account.

Disposals and assets held for sale

When a material PPE asset is to be disposed of, and meets all of the criteria of an asset held for sale, it is reclassified as Assets Held for Sale. If the carrying amount at the time of reclassification is higher than the fair value less costs to sell the asset, then the asset held for sale will be impaired. This impairment is charged to non-distributed costs in the Comprehensive Income and Expenditure Statement. Assets that are being abandoned or scrapped are written out without being reclassified.

When the asset is disposed of, or decommissioned, the carrying value of the asset is written out to the Other Operating Income and Expenditure line within the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement. Any revaluation gains accumulated for the asset in the Asset Revaluation Reserve are written out to the Capital Adjustment Account by way of a transfer between the accounts.

Amounts received in excess of £10,000 are categorised as capital receipts and are credited to the other operating expenditure line within the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. They are then appropriated to the Capital Receipts Reserve from the General Fund Balance within the Movement in Reserves Statement and then can only be used for new capital

investment or set aside to reduce the County Council's underlying need to borrow (the capital financing requirement).

1.18 Foundation schools and voluntary aided and voluntary controlled schools

The fixed assets and long term liabilities of foundation schools remain vested in the Governing Bodies and are not included in the County Council's Balance Sheet. In addition, the County Council also has voluntary aided schools (VA schools) and voluntary controlled schools (VC schools). The County Council owns some of the assets in relation to these schools but some of the assets are the property of another party (e.g. the diocese). The County Council recognises the value of the assets it owns in relation to VA schools in the Balance Sheet. All assets of VC schools are recognised by the County Council, even those it does not own, as the County Council controls the service and economic potential of these assets.

1.19 Heritage assets

Heritage assets are assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are maintained principally for their contribution to knowledge and culture. The principal heritage assets owned by the County Council are its museum collections, archives collection and a small number of historic buildings and archaeological sites.

It is the County Council's opinion that due to the size and variety of the museum and archives collection and the fact that many of the items are unique and irreplaceable, it is not possible to obtain a fair value at a cost commensurate to the benefit derived by the users of the accounts. The historical cost of buildings and archaeological sites, where known, is not material. Therefore, asset values are not included in the balance sheet, but details of heritage assets are given in the notes to the accounts.

The County Council also owns a number of operational heritage assets that, in addition for being held for their contribution to knowledge and culture, are also used for other activities or to provide other services. Operational heritage assets are accounted for as operational assets and valued in the same way as other assets of that type.

1.20 Private Finance Initiative (PFI) and similar contracts

PFI and similar contracts are agreements to receive services, where the PFI contractor is responsible for making available the property, plant and equipment needed to provide the services. As the County Council is deemed to control the services that are provided under its PFI schemes, and as ownership of the property, plant and equipment will pass to the County Council at the end of the contracts for

no additional charge, the County Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) is balanced by the recognition of a deferred liability on the balance sheet for amounts due to the scheme operator to pay for the capital investment. Non current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the County Council. During the life of the assets, any enhancement or replacement costs are added to the asset value and PFI liability.

The amounts payable to the PFI operators each year are analysed into three elements:

- fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement
- finance cost – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- principle repayment – applied to write down the Balance Sheet liability

1.21 Provisions

Provisions are made where an event has taken place that gives the County Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation, but the timing of the transfer is uncertain. For example, the County Council makes provision for doubtful debts and also for legal claims that could eventually result in the payment of compensation or other settlement.

Provisions are charged to the Comprehensive Income and Expenditure Statement in the year that the County Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that payments will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the Comprehensive Income and Expenditure Statement.

1.22 Carbon reduction commitment scheme

The County Council is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. This scheme is currently in its introductory phase

which will last until 31 March 2014. The County Council is required to purchase and surrender allowances, currently retrospectively, on the basis of emissions i.e. carbon dioxide produced as energy is used. As carbon dioxide is emitted (i.e. as energy is used), a liability and an expense are recognised.

The liability will be discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the County Council is recognised and reported in the costs of the County Council's services and is apportioned to services on the basis of energy consumption.

1.23 Contingent liabilities

A contingent liability arises where an event has taken place that gives the County Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the County Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that payments will be required or the amount of the payment cannot be measured reliably. Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

1.24 Contingent assets

A contingent asset arises where an event has taken place that gives the County Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the County Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

1.25 Reserves

The County Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate heading within the Comprehensive Income and Expenditure Statement in that year and is included in the Surplus or Deficit on the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the County Council.

1.26 Revenue expenditure funded from capital under statute

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 Statement 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.

1.27 Redemption of debt

The County 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.

With regard to The Local Authority (Capital Finance and Accounting) (England) (Amendment) Regulations 2008, the County Council's policy 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. 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.

1.28 VAT

Income and expenditure excludes VAT, as all VAT collected is payable to HM Revenue and Customs (HMRC), and all VAT paid is recoverable from HMRC.

1.29 Transferred functions

The Health and Social Care Act 2012 transferred responsibility for Public Health from Primary Care Trusts to local authorities effect from 1 April 2013. Staff and existing service contracts transferred to the County Council under statutory transfer orders. No other assets or liabilities were transferred. This function is included in the County Council's accounts from 1 April 2013 in line with the County Council's accounting policies.

2 Critical judgements in applying accounting policies

In applying the accounting policies set out in note 1, the County Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

2.1 Asset classifications

The County Council has made judgements on whether assets are classified as Investment Property or Property, Plant and Equipment. These judgements are based on the main reason that the County Council is holding the asset. If the asset is used in the delivery of services or is occupied by third parties who are subsidised by the County Council they are deemed to be Property, Plant and Equipment assets. If there is no subsidy and/or full market rent is being charged this would indicate that the asset is an Investment Property. Where assets are being held vacant for purposes of future capital appreciation, due to market conditions or planning decisions, these have been classified as Investment Property. The classification determines the valuation and depreciation method to be used.

2.2 Lease classifications

The County Council has made judgements on whether its lease arrangements are operating leases or finance leases. These judgements are based on a series of tests designed to assess whether the risks and rewards of ownership have been transferred from the lessor to the lessee. For the purposes of lease classifications a deminimus level is used of £500,000.

As a result, no material finance leases have been identified. In addition, judgements have been made on whether any contracts for services include embedded leases. None have been identified.

2.3 Providing for potential liabilities

The County Council has made judgements about the likelihood of pending liabilities and whether a provision should be made or whether there is a contingent liability. This includes appeals against the rateable value of business properties and legal claims that could eventually result in the payment of compensation or other settlement. The judgements are based on the degree of certainty around the results of pending cases based on experience in previous years or in other local authorities.

2.4 Future funding for local government

There is a high degree of uncertainty about future levels of funding for local government. However, earmarked reserves will provide invest to save funding for a

range of efficiency measures to ensure services can continue to be provided at an appropriate level.

2.5 Production of group accounts

The County Council is sole trustee of a number of trust funds as a result of individuals or executors of an estate seeking to place an asset or assets in a charitable trust and requesting the County Council to act as trustee given that as a statutory corporation, the local authority will provide certainty that the charitable purpose can be sustained. This is an alternative to creating trustees within the family of the individual. As such, these trusts are unconnected with the County Council's role of providing services funded from taxation. Therefore, in order to assess the County Council's financial position either from year to year or as compared with other authorities, trust funds are excluded from the County Council's accounting statements, although they are disclosed in note 33.

In addition, the County Council owns a 51% share of the Reading Hampshire Property Partnership Limited which was formally incorporated on 4 March 2014 with Companies House. This is a joint public to public venture entirely owned between Hampshire County Council and Reading Borough Council and is limited by shares. It commenced operations in April 2014 and its financial impact on the County Council is anticipated to be immaterial following the elimination of intragroup transactions.

3 Uncertainties relating to assumptions and estimates used

The financial statements contain some estimated figures that are based on assumptions made by the County Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with complete certainty, actual results could be different from the assumptions and estimates made.

There is one item in the County Council's Balance Sheet at 31 March 2014 for which there is a risk of adjustment in the forthcoming financial year and that is the pension liability. Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the County Council with expert advice about the assumptions to be applied.

The effects on the net pension's liability of changes in individual assumptions can be measured. For instance, a 0.1% increase in the discount rate assumption for funded liabilities would result in a decrease in the pension liability of £44.1 million. However,

the assumptions interact in complex ways. Further detail on the sensitivity of financial assumptions is provided in note 32g.

4 Accounting standards issued not yet adopted

The Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 (the Code) has introduced several changes in accounting policies which will be required from 1 April 2014 as detailed below.

A number of new and revised standards have been issued addressing the accounting for consolidation, involvements in joint arrangements and disclosure of involvements in other entities. These include:

- IFRS 10 Consolidated Financial Statements – This standard introduces a new definition of control, which is used to determine which entities are consolidated for the purposes of group accounts.
- IFRS 11 Joint Arrangements – This standard addresses the accounting for a 'joint arrangement', which is defined as a contractual arrangement over which two or more parties have joint control. These are classified as either a joint venture or a joint operation. In addition proportionate consolidation can no longer be used for jointly controlled entities.
- IFRS 12 Disclosures of Involvement with Other Entities – This is a consolidated disclosure standard requiring a range of disclosures about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated 'structured entities'.
- IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures – These statements have been amended to conform with the changes in IFRS 10, IFRS 11 and IFRS 12.

The County Council has involvement in a range of other entities including:

- Reading Hampshire Property Partnership Ltd (disclosed in note 1.11)
- Pooled budgets with clinical commissioning groups (disclosed in note 20)
- Trust Funds (disclosed in note 33)
- The following smaller bodies:
    - Project Integra Committee
    - Transport - South Hampshire Committee
    - Sir George Staunton Country Park Joint Management Committee
    - Basingstoke Canal Joint Management Committee
    - Andover Museum Joint Committee
    - Bursledon Windmill Joint Management Committee
    - Eastleigh Museum Joint Management Committee
    - Fareham Museum Joint Management Committee
    - Gosport Museum Joint Management Committee
    - Red House Museum, Christchurch Joint Management Committee

The impact of the accounting changes is under consideration, and is not anticipated to be material.

IAS 32 Financial Instruments Presentation – The Code references to amended application guidance when offsetting a financial asset and a financial liability. The gains and losses are separately identified on the Comprehensive Income and Expenditure Statement and therefore no further disclosure is required.

IAS 1 The changes clarifies the disclosure requirements in respect of comparative information of the preceding period. The Statement of Accounts fully discloses comparative information for the preceding period therefore these changes will not have a material impact on the Statement of Accounts.

5 Events after the Balance Sheet date

The draft Statement of Accounts was authorised by the Chief Financial Officer on 25 September 2014. In the period since 31 March 2014 until the date the accounts were authorised, 3 schools have been granted academy status. The balance sheet at 31 March 2014 included assets and liabilities relating to these schools that transferred during 2014/15. This includes plant, property and equipment valued at £8.7 million at 31 March 2014 and cash backed reserves of £0.3 million. However, the actual value of transfers will be agreed as at the date of transfer.

6 Adjustments between accounting basis and funding basis under regulations

This note details the adjustments that are made to the total Comprehensive Income and Expenditure Statement recognised by the County Council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the County Council to meet future capital and revenue expenditure.

	Usable reserves		
2013/14	General Fund Balance	Capital Receipts Reserve	Unusable Reserves
	£000	£000	£000
Reversal of items included in the Comprehensive Income and Expenditure Statement but required by statute to be excluded when determining the surplus or deficit on the general fund for the year.			
Depreciation and impairment of non-current assets	-183,925		183,925
Movement in the market value of investment property	-968		968
Revenue expenditure funded by capital under statute	-12,790		12,790
Book value of non-current assets sold	-16,364		16,364
Capital grants and contributions applied	95,962		-95,962
Transferred to Capital Adjustment Account	**-118,085**	**-**	**118,085**
Transfer cash proceeds from sale of non-current assets	15,365	-15,365	-
Use of capital receipts to finance capital expenditure		15,365	-15,365
Council tax and business rate income accrual transferred to Collection Fund Adjustment Account	3,120		-3,120
Net charges relating to retirement benefits transferred to the Pensions Reserve	-123,052		123,052
Employee benefits accrual transferred to the Accumulated Absences Account	425		-425
Insertion of items not included in the Comprehensive Income and Expenditure Statement but required by statute to be included when determining the surplus or deficit on the general fund for the year.			
Statutory provision for the repayment of debt	30,414		-30,414
Contribution from other authorities for the repayment of debt	-1,629		1,629
PWLB Premium Annual Charge	139		-139
Capital expenditure funded from the General Fund	6,762		-6,762
Transferred from Capital Adjustment Account	**35,686**	**-**	**-35,686**
Employer's contributions payable to the Pension Fund transferred from the Pension Reserve	69,372		-69,372
Total adjustments	**-117,169**	**-**	**117,169**

2012/13	Usable reserves: General Fund Balance	Usable reserves: Capital Receipts Reserve	Unusable Reserves
	£000	£000	£000
Reversal of items included in the Comprehensive Income and Expenditure Statement but required by statute to be excluded when determining the surplus or deficit on the general fund for the year.			
Depreciation and impairment of non-current assets	-213,088	-	213,088
Movement in the market value of investment property	-6,066	-	6,066
Revenue expenditure funded by capital under statute	-6,671	-	6,671
Book value of non-current assets sold	-33,754	-	33,754
Capital grants and contributions applied	69,188	-	-69,188
Transferred to Capital Adjustment Account	**-190,391**	**-**	**190,391**
Transfer cash proceeds from sale of non-current assets	40,674	-41,790	1,116
Use of capital receipts to finance capital expenditure	-	41,790	-41,790
Council tax income accrual transferred to Collection Fund Adjustment Account	-755		755
Net charges relating to retirement benefits transferred to the Pensions Reserve	-77,106		77,106
Effective interest on PWLB premium transferred to the Financial Instruments Adjustment Account	-3,306		3,306
Employee benefits accrual transferred to the Accumulated Absences Account	808		-808
Insertion of items not included in the Comprehensive Income and Expenditure Statement but required by statute to be included when determining the surplus or deficit on the general fund for the year.			
Statutory provision for the repayment of debt	31,295		-31,295
Contribution from other authorities for the repayment of debt	-1,829		1,829
PWLB Premium Annual Charge	138		-138
Capital expenditure funded from the General Fund	31,015		-31,015
Transferred from Capital Adjustment Account	60,619	-	-60,619
Employer's contributions payable to the pension Fund transferred from the Pension Reserve	66,526		-66,526
Total adjustments	-102,931	-	102,931

7 General Fund

The General Fund Balance is the surplus of revenue income over expenditure. It can be used to supplement income in future years. On the Balance Sheet it is shown separately from reserves that are earmarked for specific purposes.

8 Transfers to/from 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:

	See note	Balance at 1 April 2012 £000	Movement in 2012/13 £000	**Balance at 31 March 2013 £000**	Movement in 2013/14 £000	**Balance at 31 March 2014 £000**
Fully Committed to Existing Spend Programmes						
Capital Grants Unapplied	a	-45,034	-29,933	**-74,967**	3,189	**-71,778**
Revenue Grants Unapplied	b	-13,531	-4,917	**-18,448**	-22,219	**-40,667**
General Capital Reserve	c	-56,397	-32,919	**-89,316**	-39,956	**-129,272**
Street Lighting Reserve	d	-2,422	27	**-2,395**	-1,497	**-3,892**
Other	e	-2,303	753	**-1,550**	-101	**-1,651**
		-119,687	**-66,989**	**-186,676**	**-60,584**	**-247,260**
Departmental / Trading Reserves						
Trading Accounts	f	-14,261	481	**-13,780**	-912	**-14,692**
Departmental Cost of Change	g	-27,702	-2,899	**-30,601**	59	**-30,542**
		-41,963	**-2,418**	**-44,381**	**-853**	**-45,234**
Risk Reserves						
Insurance	h	-17,689	-4,354	**-22,043**	-2,794	**-24,837**
Local Government resource review	i	-6,150	-	**-6,150**	-	**-6,150**
		-23,839	**-4,354**	**-28,193**	**-2,794**	**-30,987**
Corporate Reserves						
Grant Equalisation	j	-32,180	-16,280	**-48,460**	-2,004	**-50,464**
Invest To Save	k	-6,070	-4,084	**-10,154**	81	**-10,073**
Corporate Policy	l	-1,695	-284	**-1,979**	-1,696	**-3,675**
Corporate Efficiency	m	-18,751	9,516	**-9,235**	304	**-8,931**
Organisational Change	n	-8,119	-1,899	**-10,018**	2,164	**-7,854**
		-66,815	**-13,031**	**-79,846**	**-1,151**	**-80,997**
County Council reserves		**-252,304**	**-86,792**	**-339,096**	**-65,382**	**-404,478**
Schools Reserves	o	-37,172	-7,698	**-44,870**	-4,702	**-49,572**
Total Earmarked Reserves and Balances		**-289,476**	**-94,490**	**-383,966**	**-70,084**	**-454,050**
General Fund Balance		-17,897	-16,898	-34,795	7,097	-27,698
Total Reserves and Balances		**-307,373**	**-111,388**	**-418,761**	**-62,987**	**-481,748**

a. The capital grants unapplied reserve holds capital grants that have been received in advance of the matched spending being incurred. They are not available for revenue purposes.

b. The revenue grants unapplied reserve was established to reflect change in accounting practice under IFRS, requiring grants to be accounted for in advance of the matched spending being incurred, where there is no repayment condition.

c. The general capital reserve is to assist in matching the timing of the availability of capital financing resources with the timing of capital payment.

d. The street lighting reserve represents the anticipated surplus generated by the financial model for this PFI scheme that is invested up front and then applied to the contract payments for future years.

e. Other smaller reserves are sums set aside for specific future purposes.

f. The trading accounts reserve enable business units to carry forward planned surpluses to cover future investment or possible losses.

g. The departmental cost of change reserve enables individual services to carry forward underspendings in accordance with the financial management policy.

h. The County Council self insures against certain types of risks and the level of the insurance reserve is based on an independent valuation of past claims experience and the level and nature of current outstanding claims.

i. The Local Government Resource Review reserve was established in 2011/12 to cover the risk of reduced income resulting from business rates appeals and localisation of council tax benefit.

j. The grant equalisation reserve is to assist in managing the impact of future grant loss.

k. The invest-to-save reserve is to provide funding for investment which will generate future cash savings which can be recycled back into the reserve.

l. The corporate policy reserve is used to redirect corporate efficiency and other savings to front line services, as the public spending outlook becomes more constrained.

m. The corporate efficiency reserve was established to earmark any corporate efficiency savings achieved in advance of their being required for budgetary purposes.

n. The organisational change reserve was established in 2010/11 from contributions from the corporate policy and invest to save to fund the additional cost of the voluntary redundancy scheme implemented to facilitate staffing reductions on a voluntary basis, and provide funding for organisational development.

o. The purpose of the Schools reserve is to earmark the balance of unspent delegated budgets. They are not available to other services.

9 Financing and investment income and expenditure

2012/13 Gross Expenditure £000	2012/13 Gross Income £000	**2012/13 Net Expenditure £000**		2013/14 Gross Expenditure £000	2013/14 Gross Income £000	**2013/14 Net Expenditure £000**
32,315	-6,266	**26,049**	Interest	30,090	-6,600	**23,490**
7,549	-1,483	**6,066**	Investment property gains(-) and losses	1,820	-853	**967**
416	-1,045	**-629**	Investment property transactions	505	-1,095	**-590**
109,710	-	**109,710**	Pension interest	112,710	-68,990	**43,720**
-	-86,050	**-86,050**	Expected return on pension assets (note i)	-	-	-
-	-1,278	**-1,278**	Surplus on trading undertakings	-	-1,539	**-1,539**
149,990	**-96,122**	**53,868**	**Total**	**145,125**	**-79,077**	**66,048**

Note i - changes to the accounting requirements for post employment benefits came into effect during 2013/14. More details are included in the pensions disclosure note (note 32).

10a Property, plant and equipment

The movements in property plant and equipment during 2013/14 were as follows:

	Other land and buildings £000	Vehicles, plant and equipment £000	Infra-structure assets £000	Comm-unity assets £000	Surplus assets £000	Assets under const-ruction £000	**Total Property, Plant and Equipment £000**
Cost or valuation at 31 March 2013	**3,323,662**	**136,223**	**790,012**	**14,605**	**9,056**	**43,242**	**4,316,800**
Additions	55,858	10,461	89,571	197	106	35,383	**191,576**
Disposals (inc. components)	-14,216	-14,664	-	-	-608	-	**-29,488**
Transfers to other classes	2,238	3	27,674	556	852	-33,270	**-1,947**
Transfers to foundation schools	-	-	-	-	-	-	**-**
Changes in certified valuations	-57,682	-	-	-	261	-	**-57,421**
Transfer of assets to Academy schools	-54,925	-1,451	-	-	-	-	**-56,376**
Cost or valuation at 31 March 2014	**3,254,935**	**130,572**	**907,257**	**15,358**	**9,667**	**45,355**	**4,363,144**
Accumulated depreciation at 31 March 2013	**-491,771**	**-92,430**	**-185,738**	**-62**	**-1,289**	**-**	**-771,290**
Depreciation for the year	-74,388	-8,275	-29,947	-	-	-	**-112,610**
Impairment losses	-70,883	-	-	-	-202	-	**-71,085**
Disposals- accumulated depreciation	6,171	14,628	-	-	-	-	**20,799**
Depreciation on transfers	55	-	-400	-11	-232	-	**-588**
Deprecation on transfers to foundation schools	-	-	-	-	-	-	**-**
Revaluations- write back depreciation	118,147	-	-	-	57	-	**118,204**
Transfer of assets to Academy schools	6,641	854	-	-	-	-	**7,495**
Accumulated depreciation at 31 March 2014	**-506,028**	**-85,223**	**-216,085**	**-73**	**-1,666**	**-**	**-809,075**
Net book value (NBV) of fixed assets at 31 March 2013	**2,831,891**	**43,793**	**604,274**	**14,543**	**7,767**	**43,242**	**3,545,510**
Net book value at 31 March 2014	**2,748,907**	**45,349**	**691,172**	**15,285**	**8,001**	**45,355**	**3,554,069**
Nature of asset holding							
Owned	2,580,431	45,349	691,172	15,285	8,001	45,355	**3,385,593**
PFI/service concessions (see note 29)	168,476	-	-	-	-	-	**168,476**
	2,748,907	**45,349**	**691,172**	**15,285**	**8,001**	**45,355**	**3,554,069**

The comparative movements in PPE during 2012/13 were as follows:

	Other land and buildings £000	Vehicles, plant and equipment £000	Infra-structure assets £000	Comm-unity assets £000	Surplus Assets £000	Assets under const-ruction £000	**Total Property, Plant and Equipment £000**
Cost or valuation at 31 March 2012	**3,655,175**	**132,381**	**710,020**	**13,666**	**17,146**	**35,619**	**4,564,007**
Additions	55,076	8,030	78,108	172	44	11,922	**153,352**
Disposals (note i)	-91,044	-627	-		-10,033	-	**-101,704**
Transfers to other classes	-17,861	1,127	1,884	767	1,572	-4,299	**-16,810**
Transfers to foundation schools	-33,223	-742	-	-	-	-	**-33,965**
Changes in certified valuations	-78,830	-	-	-	327	-	**-78,503**
Transfer of assets to Academy Schools	-165,631	-3,946	-	-	-	-	**-169,577**
Gross book value (GBV) at 31 March 2013	**3,323,662**	**136,223**	**790,012**	**14,605**	**9,056**	**43,242**	**4,316,800**
Accumulated depreciation and impairment at 31 March 2012	**-632,830**	**-83,708**	**-159,789**	**-4**	**-9,760**	**-**	**-886,091**
Depreciation for the year	-77,597	-12,149	-25,958	-	-	-	**-115,704**
Impairment losses	-96,301	-	-	-	-873	-	**-97,174**
Disposals- accumulated depreciation (note i)	86,141	581	-	-	9,777	-	**96,499**
Depreciation on transfers	3,389	-	9	-58	-433	-	**2,907**
Deprecation on transfers to foundation schools	1,168	471	-	-	-	-	**1,639**
Revaluations- write back depreciation	179,650	-	-	-	-	-	**179,650**
Transfer of assets to Academy schools	44,609	2,375	-	-	-	-	**46,984**
Accumulated depreciation at 31 March 2013	**-491,771**	**-92,430**	**-185,738**	**-62**	**-1,289**	**-**	**-771,290**
Net book value of fixed assets at 31 March 2012	**3,022,345**	**48,673**	**550,231**	**13,662**	**7,386**	**35,619**	**3,677,916**
Net book value of fixed assets at 31 March 2013	**2,831,891**	**43,793**	**604,274**	**14,543**	**7,767**	**43,242**	**3,545,510**
Nature of asset holding							
Owned	2,700,793	43,793	604,274	14,543	7,767	43,242	**3,414,412**
PFI/service concessions (see note 29)	131,098	-	-	-	-	-	**131,098**
	2,831,891	**43,793**	**604,274**	**14,543**	**7,767**	**43,242**	**3,545,510**

Note i - The figure for disposals includes the writing out of gross book value and accumulated depreciation in respect of asset components that have been replaced. This is done when the overall asset is revalued. Following revaluation in 2012/13, gross book value of £20.57 million and accumulated depreciation of £20.57 million was written out. In respect of revaluations in prior years, gross book value of £54.46 million and accumulated depreciation of £54.46 million was written out during 2012/13. There is no impact on the net book value shown in the opening and closing balance sheet.

10b Capital commitments

Commitments for major contracts entered into up to 31 March 2014 are estimated at £42.7 million (£41.9 million in 2012/13). This comprises £1.7 million (£1.9 million in 2012/13) for highways and £41 million (£40 million in 2012/13) for buildings.

10c Valuation of assets

The freehold and leasehold properties of the County Council's property portfolio have been valued under a rolling programme by the County Council's property services staff. Valuations were carried out in accordance with the methodologies and bases of estimation set out in the professional standards of the Royal Institute of Chartered Surveyors.

International Accounting Standard 16 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	Comm-unity assets £000	Surplus assets £000
Valued at historic cost		45,349	691,172	15,285	
Pre 2009/10	833				3
2009/10	293,875				821
2010/11	423,141				1,448
2011/12	489,143				1,989
2012/13	814,528				2,368
2013/14	727,387				1,372
Total	**2,748,907**	**45,349**	**691,172**	**15,285**	**8,001**

10d Impairment losses

During 2013/14, the County Council has recognised impairment losses of £71.3m (£97.4m in 2012/13). Of this, £0.2m relates to assets held for sale reflecting a fall in the anticipated market value, £0.2m relates to land and buildings valued on the basis of existing use, again reflecting changes in market conditions and £70.9m relates to land and buildings that are valued on a depreciated replacement cost (DRC) basis. DRC is based on the instant build of a modern equivalent asset, depreciated to reflect its age and physical deterioration. As such the DRC valuation can be lower than the initial recognition of actual capital expenditure.

10e Foundation and aided school assets

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 2014 there were 13 foundation schools (13 in 2012/13).

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 2014 there were 53 aided schools (52 in 2012/13).

10f Heritage assets

Land/building heritage assets

The County Council owns a number of historical buildings and archaeological sites that are classified as heritage assets. These include several archaeological sites of Iron Age and Roman settlements in Hampshire, such as Silchester Roman town.

Operational heritage assets (held within PPE) include the Great Hall, a 13th century hall built as part of Winchester Castle, with the 5.5m medieval Round Table on the west wall. This is also used for operational meetings, exhibitions and wedding ceremonies.

Access to these assets is permitted to members of the public. Sometimes an entrance charge may be payable – the proceeds of this are used to help run and maintain the site and to provide visitor information. Detailed information about opening hours, entrance fees, access and facilities is available through the County Council's website: http://www.hants.gov.uk/

Records of these assets form part of the Archaeology & Historic Buildings Record, which is available online and supplemented by a computer database linked to a digital mapping system, and by a paper-based archive which includes fieldwork and survey reports, articles, images, and aerial photographs.

There have been no material acquisitions, disposals or impairments of heritage assets in the past two years. It is not practicable to provide information for accounting periods before then.

Museum collections

Archaeology

The archaeology collections consist of excavation and fieldwork archives from around the county. The largest collection is the Danebury collection, which relates to the Danebury Hill Fort and is the main source of exhibits for the Museum of the Iron Age in Andover. Notable pieces in the archaeology collection include the Alton buckle, a decorative Anglo-Saxon belt buckle and the Selbourne cup, a Roman enamelled bronze vessel.

Art and design

The art and design collections comprise more than 100,000 items. Historic dress and textiles are well represented, with embroideries from the 17th century and dress and accessories from the 18th century onwards. A significant display of these items is at the Red House Museum in Christchurch.

The art and design collections also contain many examples from the decorative arts, including around 8,500 ceramic items dating from 1250 onwards, many of which are on display at the Allen Gallery in Alton. There are also printed maps, topographical pictures and many local photographs.

Social and industrial history

The social and industrial history collections contain items that provide material evidence of everyday life and work in Hampshire, from 1500 to the present day. The collection consists of military, social and domestic items, transport, technology and rural life material. The collection forms one of the core elements of the Milestones Museum displays. Material is also on display throughout local Community Museums in Hampshire.

Natural science

The biology collection consists of approximately 125,000 specimens of preserved plants and animals, mainly from the British Isles. These date from 1737 onwards, although most were collected in the past 150 years. They provide important supporting evidence for the biodiversity of the county.

The geology collection consists of over 25,000 Hampshire rocks and fossils (mainly collected in the past 50 years). It also includes numerous rocks, minerals and fossils from elsewhere in the British Isles and a comprehensive library containing books, publications, borehole logs, maps, site plans and photographs. Important geological material is on display in a special gallery at Gosport Discovery Centre.

Records, access and collecting policy

When an item is accepted into a museum collection, it is logged onto the accessions register. The record is entered onto a database, and will contain a detailed physical description, deposit information and collections management details. Some of this information is also accessible through the County Council's website as online searchable databases at http://www3.hants.gov.uk/museum then in search box type 'collections-2' to access webpage.

A significant proportion of the County Council's museum collection is on display at various museums and other community sites across Hampshire. The Museums Service also organises touring exhibitions and may loan items to other museums. Items not currently on display are stored at Chilcomb House in Winchester, and may be viewed for research purposes by appointment.

The collection and disposal policy is available through the Authority's website: http://documents.hants.gov.uk/museums then in the search box type 'HCCAMS' and find link to HCCAMSCollectionsDevelopmentPolicy2013-18.pdf

Archives

The Archives and Local Studies service at Hampshire Record Office in Winchester collects, preserves and makes accessible archives and local studies material relating to Hampshire and Hampshire families, and film and sound archives relating to central southern England. The collections held date from the 12th century to the present and comprise nearly 8 miles of shelving.

The archives have been designated by the Museums, Libraries and Archives Council as an outstanding collection of national and international importance. Their scope and importance is summarised in the following document: http://www3.hants.gov.uk/archives then in the search box type 'designation-

statement.pdf'. The Winchester Bishopric Pipe Rolls are on the UNESCO UK Memory of the World Register. Many of the items in the archives are not owned by the County Council, but have been deposited with the Record Office by a range of public bodies and private institutions and individuals.

Accessions, cataloguing and conservation data about the collections are maintained on a database; public online access to the catalogue is provided via the website. Signed deposit agreement / gift forms are maintained. The deposit agreement form is accessible on the website:
http://www3.hants.gov.uk/archives/hals-deposit-conditions.htm

The County Council takes all reasonable precautions to preserve the assets from loss, theft or damage, but does not insure its archive collection. Insurance for any items deposited in the Record Office is the responsibility of the owner. It is the County Council's policy not to value these items, due to their unique and irreplaceable nature.

Access to the records is available at the Record Office, which is open six days a week: http://www3.hants.gov.uk/archives then in the search box type 'visiting-hals.htm'. Access to particularly fragile, and to sensitive archives is restricted.

Hampshire Record Office's policies, including Collecting, Appraisal, Preservation, and Access and Learning, are accessible via the County Council's website:
http://www3.hants.gov.uk/archives/hro-policies.htm

A list of new accessions is sent annually to The National Archives who publish this on their website. The latest complete list for is for 2012:
http://www.nationalarchives.gov.uk/accessions/.

11 Investment properties

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

	2012/13 £000	2013/14 £000
Rental income from investment property	-1,045	-1,095
Direct operating expenses arising from investment property	416	505
Net (gain)	**-629**	**-590**

There are no restrictions on the County Council's ability to realise the value inherent in its investment property or on the County Council's right to the remittance of income and the proceeds of disposal. The County Council has no contractual obligations to purchase, construct or develop investment property or to carry out repairs, maintenance or enhancement.

The following table summarises the movement in the fair value of investment properties over the year.

	2012/13 £000	2013/14 £000
Balance at start of the year	46,200	27,996
Additions:		
- purchases	-	-
- construction	-	-
- subsequent expenditure	-29	-
Disposals	-23,462	-3,020
Net gains/losses from fair value adjustments	-6,066	-968
Transfers:		
- to/from Inventories	-	-
- to/from Property, Plant and Equipment	11,353	130
Balance at end of the year	**27,996**	**24,138**

12 Financial instruments

The term 'financial instrument' covers both financial assets and liabilities. Financial assets include cash, bank accounts, debtors, loans to other local authorities, fixed term deposits with banks and building societies. Financial liabilities include the County Council's borrowings, creditors and Private Finance Initiative contract liabilities. The financial assets and liabilities disclosed in the Balance Sheet are analysed across the following categories:

		Long term		Current	
		31 March	31 March	31 March	31 March
	see	2013	2014	2013	2014
	note	£000	£000	£000	£000
Loans and receivables at amortised cost:					
Cash & cash equivalents	12a	-	-	55,899	62,606
Debtors	12b12c	2,399	2,293	86,464	94,538
Investments		110,000	95,500	276,843	351,810
Loans and receivables at amortised cost		**112,399**	**97,793**	**419,206**	**508,954**
Financial liabilities at amortised cost:					
Borrowing	12d	-368,658	-358,568	-51,539	-51,987
Developers' contributions	12f	-51,198	-55,034	-	-
Deposits	12h	-	-	-961	-485
Creditors and receipts in advance	12i	-	-	-205,172	-246,223
PFI & finance lease liabilities	29	-127,564	-152,723	-6,274	-7,317
Financial liabilities at amortised cost		**-547,420**	**-566,325**	**-263,946**	**-306,012**

All financial instruments are carried in the Balance Sheet at amortised cost, although the fair value of investments and borrowings are included in disclosure note 12e.

12a Cash and cash equivalents

Cash comprises cash in hand and call accounts.

Balances classified as 'Cash Equivalents' fit the definition of being short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

The balance of Cash and Cash Equivalents is made up of the following elements at the Balance Sheet date:

	31 March	31 March
	2013	2014
	£000	£000
Cash in hand	3,323	2,721
Call accounts (same day access funds)	62,452	76,024
Total cash and cash equivalents	**65,775**	**78,745**
Bank overdraft	-9,876	-16,139
Net cash and cash equivalents	**55,899**	**62,606**

12b Long-term debtors

	31 March 2013 £000	31 March 2014 £000
Car loans to staff	1,079	1,175
Other	1,320	1,118
	2,399	**2,293**
Transferred debt	34,515	32,886
	36,914	**35,179**

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. £30.4 million remains to be repaid by the cities of Portsmouth and Southampton, £1.3 million by the Office of the Police and Crime Commissioner for Hampshire and, £1.2 million by colleges of further education and magistrates' courts.

The other long-term debtors figure of £2.3 million (£2.4 million in 2012/13) is classified as a loans and receivables financial instrument.

By value, the majority of these loans are for a period of less than five years and attract a market rate of interest. Their amortised cost in the Balance Sheet is a reasonable assessment of fair value. All loans are expected to be repaid in full, so a reduction for impairment is not considered necessary.

12c Debtors

Debtors are shown net of the provision for doubtful debts detailed in note 12j.

	31 March 2013 £000	31 March 2014 £000
Government departments	11,713	13,694
Other local authorities	18,319	21,786
NHS bodies	66	153
Sundry debtors	56,366	58,905
	86,464	**94,538**
Payments in advance	7,207	12,674
Total debtors and prepayments	**93,671**	**107,212**

12d Borrowing

The financial liabilities disclosed in the Balance Sheet are analysed across the following categories:

	Long term		Short term	
	31 March 2013	31 March 2014	31 March 2013	31 March 2014
	£000	£000	£000	£000
Loans at amortised cost:				
-Public Works Loan Board (PWLB) principal	-295,595	-281,056	-11,571	-17,016
-Market loans	-73,063	-77,512	-2,673	-1,094
-Other short-term borrowing	-	-	-37,295	-33,877
	-368,658	**-358,568**	**-51,539**	**-51,987**

12e Fair values

Financial assets classified as loans and receivables and all non-derivative financial liabilities are carried in the Balance Sheet at amortised cost. Their fair values have been estimated by calculating the net present value of the remaining contractual cash flows at the Balance Sheet date, using the following assumptions:

- PWLB loans have been discounted at the published interest rates for new certainty rate loans arranged on 31st March.
- No early repayment or impairment is recognised.
- The fair value of short-term instruments, including trade payables and receivables is assumed to approximate to the carrying amount and therefore is not shown below. This is because the amounts are due within one year, without interest.

	31 March 2013		31 March 2014	
	Amortised Cost	Fair Value	Amortised Cost	Fair Value
Financial Liabilities	£000	£000	£000	£000
PWLB loans - principal	-306,135	-389,246	-295,595	-319,559
PWLB loans - interest	-1,032		-1,031	
Market loans - principal	-73,188	-100,185	-77,575	-93,531
Market loans - interest	-2,548		-2,476	
PFI arrangements	-133,838	-177,035	-160,040	-200,556
Total	**-516,741**	**-666,466**	**-536,717**	**-613,646**
Financial Assets				
Long-term investments - principal	110,000	111,584	95,500	96,128
Long-term investments - interest	922		803	
Total	**110,922**	**111,584**	**96,303**	**96,128**

The fair value of long-term liabilities is higher than the carrying amount because the County Council's portfolio of loans includes a number of loans where the interest rate payable is higher than the current rates available for similar loans as at the Balance Sheet date.

PWLB loans have been discounted at the published interest rates for new certainty rate loans arranged on 31st March for the year ending 31 March 2014 (for 31 March 2013 fair values were calculated based on the early repayment rate). The use of the new certainty rate loan reflects the most likely scenario for the County Council based on current circumstances, which is that it will hold these loans to maturity.

The fair value for long term assets at the Balance Sheet date is lower than the carrying amount because the interest rate on similar investments is now higher than that obtained when the investment was originally made (the opposite was true at 31 March 2013).

12f Developers' contributions

Developers' contributions arise mainly as a result of agreements under Section 106 of the Town and Country Planning Act 1990 and also 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 liability.

	2012/13			2013/14		
	Highways	Other	Total	Highways	Other	Total
	£000	£000	£000	£000	£000	£000
Balance at 1 April	-41,363	-4,821	-46,184	-45,998	-5,200	-51,198
Income	-10,961	-4,515	-15,476	-12,465	-9,859	-22,324
Contributions applied	6,326	4,136	10,462	10,763	7,725	18,488
Balance at 31 March	**-45,998**	**-5,200**	**-51,198**	**-47,700**	**-7,334**	**-55,034**

12g Short-term creditors

Short-term creditors includes deposits, creditors and receipts in advance as detailed below.

12h Deposits

	31 March 2013 £000	31 March 2014 £000
Capital deposits and unapplied contributions	-834	-358
Other	-127	-127
	-961	**-485**

12i Creditors and receipts in advance

	31 March 2013 £000	31 March 2014 £000
HM Revenue and Customs and Government departments	-58,015	-62,250
NHS Bodies	-9,845	-14,366
Other local authorities	-17,261	-16,486
Sundry creditors	-120,051	-153,121
	-205,172	**-246,223**
Total short term creditors (12h + 12i)	**-206,133**	**-246,708**

12j Nature and extent of risks arising from financial instruments

The County Council has adopted CIPFA's Code of Practice on Treasury Management (and subsequent amendments) and complies with The Prudential Code for Capital Finance in Local Authorities (both revised in November 2011).

As part of the adoption of the Treasury Management Code, the County Council approves a Treasury Management Strategy before the commencement of each financial year. The Strategy sets out the parameters for the management of risks associated with Financial Instruments. The County Council also produces Treasury Management Practices specifying the practical arrangements to be followed to manage these risks.

The Treasury Management Strategy includes an Annual Investment Strategy in compliance with the Government's Investment Guidance for local authorities. This Guidance emphasises that priority is to be given to security and liquidity, rather than yield. The County Council's Treasury Strategy, together with its Treasury

Management Practices are based on seeking the highest rate of return consistent with the proper levels of security and liquidity.

The main risks covered are:

Credit risk: the possibility that banks and financial institutions will fail to meet their contractual obligations, causing a loss to the County Council.

Liquidity risk: Liquidity risk is the possibility that the County Council might not have the cash available to make contracted payments on time.

Market risk: The possibility financial loss will materialise because of changes in market variables such as interest rates or equity prices.

Credit risk

The County Council manages credit risk by ensuring that investments are only placed with organisations of high credit quality as set out in the Treasury Management Strategy. These include commercial entities with a minimum long-term credit rating of A-, and other local authorities without credit ratings. Recognising that credit ratings are imperfect predictors of default, the County Council has regard to other measures including credit default swaps and equity prices when selecting commercial organisations for investment.

A limit of £80m of the total portfolio is placed on the amount of money that can be invested with a single counterparty. No more than £250m in total can be invested for a period longer than one year.

The County Council's maximum exposure to credit risk in relation to its investments in banks and building societies of £331 million cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the County Council's deposits, but there was no evidence at the 31 March 2014 that this was likely to crystallise.

The table below summarises the value of the Council's investment portfolio at 31 March 2014, and confirms that all investments were made in line with the Council's approved credit rating criteria:

Counterparty	Credit rating criteria met when investment placed? Yes/ No	Credit rating criteria met on 31 March 2014? Yes/ No	Balance invested as at 31 March 2014 Call Accounts	Up to 1 month	> 1 month and < 6 months	> 6 months and < 12 months	> 12 months	Total
			£000	£000	£000	£000	£000	£000
Banks - UK	Yes	Yes	-	20,036	145,345	40,025	-	205,406
Banks - Overseas	Yes	Yes	50,042	-	-	-	-	50,042
Building Societies - UK	Yes	Yes	-	-	20,095	30,053	-	50,148
Money Market Funds	Yes	Yes	25,982	-	-	-	-	25,982
Other local authorities	Yes	Yes	-	-	85,429	10,024	96,303	191,756
Total			**76,024**	**20,036**	**250,869**	**80,102**	**96,303**	**523,334**

Invoiced debtors risk

The invoiced debtors have been reviewed by age to determine an appropriate provision for debts that are likely to be uncollectable. Debts of £11.2 million secured on property are considered low risk and have been excluded. A provision of £3.2 million (£3.8 million in 2012/13) has been estimated.

Outstanding debt raised in	Outstanding balance due at 31 March 2014	Individually assessed impairment	Collectively assessed impairment	Total provision
	£000	£000	£000	£000
2013/14	24,085	-	559	559
2011/12 & 2012/13	1,928	831	927	1,758
before 2011/12	921	233	627	860
	26,934	**1,064**	**2,113**	**3,177**

Liquidity risk

The County Council has ready access to borrowing from the Public Works Loan Board, other local authorities, and from banks and building societies. There is no perceived risk that the County Council will be unable to raise finance to meet its commitments. It is however exposed to the risk that it will need to refinance a significant proportion of its borrowing at a time of unfavourably high interest rates.

This risk is managed by maintaining a spread of fixed rate loans, limiting the amount of the County Council's borrowing that matures in any one financial year.
The maturity analysis of the principal sums borrowed at 31 March 2014 was as follows:

	Outstanding 31 March 2013 £000	Outstanding 31 March 2014 £000
Not over one year	-10,665	-14,602
Between one and two years	-14,602	-11,540
Between two and five years	-37,619	-33,905
Between five and 10 years	-43,437	-43,611
Between 10 and 15 years	-49,000	-53,000
Between 15 and 20 years	-67,000	-77,000
Between 20 and 25 years	-105,000	-85,000
More than 25 years	-52,000	-50,000
Total	**-379,323**	**-368,658**

The Council has £73.0m of "Lender's option, borrower's option" (LOBO) loans where the lender has the option to propose an increase in the rate payable; the Council will then have the option to accept the new rate or repay the loan without penalty. Due to current low interest rates it is unlikely that the lenders will exercise their options and therefore these loans are included in the analysis above at their maturity date.

Market risk

Interest rate risk

The County Council is exposed to risks arising from movements in interest rates. The Treasury Management Strategy aims to mitigate these risks by setting upper limits on its net exposures to fixed and variable interest rates. At 31 March 2014, £455.6 million of principal borrowed was at fixed rates and £109.4 million in variable rates. The County Councils investments with less than one year to maturity (£427 million at 31 March 2014) are classed as being held at variable rates and exposed to interest rate risk.

Investments are also subject to movements in interest rates. As investments are made at fixed rates, but for shorter periods of time, there is a greater exposure to interest rate movements. This risk has to be balanced against actions taken to mitigate credit risk.

If all interest rates had been 1% higher (with all other variables held constant) the financial effect would be:

	£000
Increase in interest payable on variable rate borrowing	1,094
Increase in interest receivable on variable rate investments	-4,270
Net cost/(saving)	**-3,176**

The impact of a 1% fall in interest rates would be as above but with the movements being reversed.

Price risk

The County Council does not invest in any other equity shares. It therefore is not subject to equity price risk.

Foreign exchange risk

The County Council has no financial assets or liabilities denominated in a foreign currency. It therefore has no exposure to loss arising as a result of adverse movements in exchange rates.

13 Inventories

	31 March 2013	Purchases	Expense in the year	Written off balances	31 March 2014
	£000	£000	£000	£000	£000
Stocks					
Catering stock	505	8,919	-8,838	-9	577
County Supplies general	1,329	7,440	-7,282	-18	1,469
Retail stock at County Council visitor attractions	227	666	-627	-14	252
Salt stock	207	-	-	-3	204
Other (including landfill allowances)	417	2,444	-2,460	-23	378
	2,685	**19,469**	**-19,207**	**-67**	**2,880**

Construction contracts	Work not recharged at	Value of new work done		Income received in	Value of work not recharged
	2013	2013/14		2013/14	2014
	£000	£000		£000	£000
Highway rechargeable works	385	566		-783	168
Other	5	-		-	5
	390	**566**		**-783**	**173**
Total stocks and work in progress	**3,075**	**20,035**	**-19,207**	**-850**	**3,053**

Closing stock valuations have been assessed using the latest purchase price. This does not accord with the International Accounting Standard 2 which 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.

14 Assets held for sale

	2012/13 £000	2013/14 £000
Balance outstanding at start of year	10,611	5,748
Assets newly classified as held for sale:		
- property, plant and equipment	896	792
- other assets/liabilities in disposal groups	-	-
Revaluation gains and losses	-462	-346
Impairment losses	-210	-230
Assets declassified as held for sale	-	-700
Assets sold	-5,087	-4,655
Balance outstanding at year-end	**5,748**	**609**

15 Change in provisions

		31 March 2013 £000	Use of Provision In Year £000	Increase or decrease in 2013/14 Central Provision £000	 Service Provision £000	 Taxation Provision £000	31 March 2014 £000
Insurance claims	a	-6,830	4,461	2,794	-6,815	-	-6,390
Contract terminations	b	-249	-	-	-	-	-249
Non school employee related expenditure	c	-7,438	232	-	-3,301	-	-10,507
School employee related expenditure	c	-6,752	32	-	-50	-	-6,770
Tax liabilities	d	-3,577	18	-	-	-	-3,559
Other	e	-1,003	1,003	-	-1,105	-	-1,105
Business rates appeals	f	-	-	-	-	-3,764	-3,764
Provisions identified in the Balance Sheet		**-25,849**	**5,746**	**2,794**	**-11,271**	**-3,764**	**-32,344**
Provision for doubtful debts		-3,752	575	-	-	-	-3,177
Net change included in the Comprehensive Income and Expenditure Statement				**2,794**	**-11,271**	**-3,764**	

a. The insurance provision represents an assessment of the likely cost of liability claims known to the County Council at 31 March 2013. The risks covered are as follows:

Liabilities

Employer's liability, public liability and professional indemnity up to a total 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 Council and those leased to it where the lease allows.

Contents owned by the 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

b. 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.

c. As a result of its efficiency and transformation programme, and historic conclusions regarding prior reviews, the Council has made provision for likely payments due to individual employees.

d. Linked to the provision for employee related costs, the Council has provided for the probable resulting tax liability.

e. This provision covers other liabilities, including that relating to the need to purchase allowances to offset the Council’s carbon dioxide emissions through its use of energy.

f. This is the County Council's share of the provision made by billing authorities for refunding ratepayers who are successful in appealing against the rateable value of their properties on the rating list. This includes amounts relating to non-domestic rates charged to businesses in 2012/13 and earlier financial years.

16 Unusable reserves

Movements in the County Council's reserves are summarised in the Movement in Reserves Statement. Unusable reserves are detailed in the table below.

	See note	Balance 1 April 2013 £000	Net Movement in the year £000	Balance 31 March 2014 £000
Reserve				
Revaluation reserve	16a	-824,132	-7,347	-831,479
Capital adjustment account	16b	-2,084,651	62,964	-2,021,687
Financial instrument adjustment account	16c	3,168	-139	3,029
Pensions reserve	16d	1,040,600	-54,510	986,090
Deferred capital receipts reserve	16e	-	-	-
Collection fund adjustment account	16f	-7,252	-3,120	-10,372
Accumulated absences account	16g	13,187	-425	12,762
		-1,859,080	**-2,577**	**-1,861,657**

16a Revaluation reserve

The Revaluation Reserve contains the gains made by the County Council arising from increases in the value of its Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised.

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

	2012/13 £000		2013/14 £000
Balance at 1 April	-797,424		-824,132
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	-100,685		-60,438
Difference between fair value depreciation and historical cost depreciation	23,014	22,530	
Adjustments to prior year	-1,650	-	
Write off net gains for assets transferred to Academy/Foundation schools	46,283	21,703	
Accumulated gains on assets sold, scrapped or transferred to/from current assets	6,330	8,858	
Amount written off to the Capital Adjustment Account	**73,977**		**53,091**
Balance at 31 March	**-824,132**		**-831,479**

16b Capital adjustment account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. 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:

	2012/13 £000	2013/14 £000
Balance brought forward 1 April	**-2,253,713**	**-2,084,651**
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
Charges for depreciation and impairment of noncurrent assets	213,088	183,925
Revenue expenditure funded from capital under statute	6,671	12,790
Assets disposals current value	33,754	16,364
Assets transferred to Academy/Foundation schools current value	154,919	48,882
	-1,845,281	**-1,822,690**
Adjusting amounts written out of Revaluation Reserve:		
Excess of current value depreciation over historic cost depreciation	-23,014	-22,530
Adjustments to prior year	1,650	-
Write off net gains for assets transferred to Academy/Foundation Schools	-46,283	-21,703
Write out revaluations on asset disposals and transfers to/from current assets	-6,330	-8,858
	-73,977	**-53,091**
Net amount written out of the cost of assets consumed in the year	**-1,919,258**	**-1,875,781**
Capital financing applied in the year		
Capital receipts applied	-41,790	-15,365
Statutory minimum revenue provision for capital financing	-31,295	-30,414
Debt outstanding on transferred services	-	-
External contribution to minimum revenue provision	1,829	1,629
Revenue contributions to capital expenditure	-31,015	-6,762
Capital grants and contributions applied	-69,188	-95,962
	-171,459	**-146,874**
Movement in the market value of investment properties	6,066	968
Balance as at 31 March	**-2,084,651**	**-2,021,687**

16c Financial instruments adjustment account

The balance on the financial instruments adjustment account at the end of the financial year represents the amount that would have been charged to the Comprehensive Income and Expenditure Statement in accordance with proper accounting practice, but which statutory provisions allow or require to be deferred over future years. During 2012/13 the County Council moved the balance of a premium that was paid relating to the early repayment of a Public Works Loans Board (PWLB) loan to this account. The premium is being charged to the Comprehensive Income and Expenditure Statement (CI&ES) over the life of the replacement loans. There are 22 years remaining.

	2012/13 £000	2013/14 £000
Balance brought forward 1 April	-	3,168
PWLB premium	3,306	-
PWLB Premium charged to CIES	-138	-139
Balance at 31 March	**3,168**	**3,029**

16d Pensions reserve

The pensions reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The County Council accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs.

However, statutory arrangements require benefits earned to be financed as the County Council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

Pensions reserve	2012/13 £000	2013/14 £000
Balance at 1 April	978,250	1,040,600
Actuarial losses on pensions assets and liabilities	51,770	-108,190
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	77,106	123,052
Employer's pensions contributions and direct payments to pensioners payable in the year	-66,526	-69,372
Balance at 31 March	**1,040,600**	**986,090**

16e Deferred capital receipts reserve

The deferred capital receipts reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. When the deferred cash settlement eventually takes place, amounts are transferred to the capital receipts reserve.

	2012/13 £000	2013/14 £000
Balance at 1 April	-1,116	-
Capital receipts agreed, not yet received	-	-
Transfer to the capital receipts reserve upon receipt of cash	1,116	-
Balance at 31 March	-	-

16f Collection fund adjustment account

The collection fund adjustment account manages the differences arising from the recognition of council tax and business rate income in the Comprehensive Income and Expenditure Statement as it falls due from council tax and rate payers compared with the statutory arrangements for paying across amounts to the General Fund from the District Council's Collection Funds.

	2012/13 £000	2013/14 £000
Balance at 1 April	-8,007	-7,252
Accrued income in the Comprehensive Income and Expenditure account	-533,607	-497,466
Amount calculated in accordance with statutory requirements	534,362	494,346
Balance at 31 March	**-7,252**	**-10,372**

16g Accumulated absences account

The accumulated absences account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the account.

	2012/13	2013/14	
	£000	£000	£000
Balance at 1 April	13,995		13,187
Settlement or cancellation of accrual made at the end of the preceding year	-13,995	-13,187	
Amounts accrued at the end of the current year	13,187	12,762	
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	-808		-425
Balance at 31 March	**13,187**		**12,762**

17a Cash Flow Statement – operating activities

The cash flows for operating activities includes the following items:

	2012/13 £000	2013/14 £000
Interest paid	32,604	30,163
Interest received	-6,744	-6,703
	25,860	**23,460**
Adjustments to net surplus or deficit on the provision of services for non-cash movements		
Depreciation	-115,704	-112,610
Impairments and downward revaluations	-97,384	-71,315
Increase/decrease in impairment for provision of bad debt	1,118	575
Increase/decrease in creditors	11,739	-32,993
Increase in debtors	5,818	12,557
Decrease in inventory	-459	-22
Pension Liability	-10,580	-53,680
Carrying amount of non-current assets sold	-33,754	-16,364
Adjustment for provisions	348	-6,495
Movement in the value of investment properties	-6,066	-968
PPE written off as REFCUS	-1,654	-2,313
Amortisation of loan redemption premium	-3,306	-
Non-cash movement	**-249,884**	**-283,628**
Adjustment for items included in the net surplus or deficit on the provision of services that are investing and financing activities		
Proceeds from the sale of PPE etc.	40,674	15,365
Capital grants and contributions	99,122	92,772
Interest on developer contributions	-117	-135
Investing/financing cash flows	**139,679**	**108,002**

17b Cash Flow Statement – investing activities

	2012/13	2013/14
	£000	£000
Cash outflows		
Purchase of property, plant and equipment	119,130	155,202
Purchase of short-term and long-term investments	929,960	525,500
Cash inflows		
Proceeds from the sale of property, plant and equipment	-42,712	-14,620
Proceeds from the sale of short-term and long-term investments	-802,460	-465,000
Capital grants	-96,011	-100,133
Other income	-	-
Net cash outflow from investing activities	**107,907**	**100,949**

17c Cash Flow Statement – financing activities

	2012/13	2013/14
	£000	£000
Cash outflows		
Cash payments for the reduction of the outstanding liabilities relating to PFIs	5,010	5,835
Repayments of short- and long-term borrowing	132,265	188,566
Other payments for financing activities	-	-
Cash inflows		
Cash receipts of short- and long-term borrowing	-125,156	-178,984
Other receipts from financing activities	-1,829	-1,629
Net cash outflow from financing activities	**10,290**	**13,788**

18 Amounts reported for resource allocation decisions

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the CIPFA Service Reporting Code of Practice. However, decisions about resource allocation are taken by the County Council's Cabinet on the basis of budget reports analysed across services. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- no charges are made in relation to capital expenditure (whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisations are charged to services in the Comprehensive Income and Expenditure Statement)
- the cost of retirement benefits is based on cash flows (payment of employer's pensions contributions) rather than current service cost of benefits accrued in the year
- specific grants are not included in service income

Service income and expenditure

	Total 2012/13	Children's Services Schools block	Children's Services Non Schools	Adult Services	Environment	Policy and Resources	Total 2013/14
	£000	£000	£000	£000	£000	£000	£000
Expenditure							
Employee costs	824,723	525,301	66,905	88,987	33,750	102,459	817,402
Premises Related Expenditure	68,492	40,171	1,374	3,155	7,603	14,575	66,878
Transport Related Expenditure	38,333	3,618	25,861	5,213	1,588	2,185	38,465
Supplies & Services	220,190	87,920	12,488	11,023	64,297	61,596	237,324
Third Party Payments	438,395	68,465	62,344	285,308	38,662	30,321	485,100
Transfer Payments	21,612	138	2,349	21,471	338	114	24,410
Support Services	53,485	38,952	9,600	1,553	968	4,452	55,525
Income							
Other Grants Reimbursements and Contributions	-68,654	-15,605	-11,090	-29,065	-3,908	-7,976	-67,644
Sales	-17,553	-16,085	-	-23	-595	-1,731	-18,434
Fees and Charges	-151,289	-24,904	-2,881	-64,565	-10,172	-34,010	-136,532
Rents	-4,679	-935	-292	-51	-1,620	-2,426	-5,324
Interest	-19	-42	30	-1	-3	-8	-24
Hampshire schools	-	620	229	-	-	-	849
Other misc	-	-3,754	-1,426	2,008	-1,488	-1,208	-5,868
Other							
Transfer to/ from business unit reserves	-33	-	-	-	-	-	-
Recharges between departments	-63,585	-1,902	-3,897	-1,815	-11,599	-38,803	-58,016
Service analysis total	**1,359,418**	**701,958**	**161,594**	**323,198**	**117,821**	**129,540**	**1,434,111**

Reconciliation between the service analysis and the cost of services 2013/14

This reconciliation shows how the figures in the analysis of service income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement.

	2012/13	2013/14	2013/14
	£000	£000	£000
Service analysis total	1,359,418		1,434,111
Net expenditure of services and support service not included in the service analysis			
Winter Maintenance (included in service analysis in 2013/14)	5,179	0	
Flood Levy	552	603	
Coroners	1,065	1,284	
	6,796		1,887
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the service analysis			
Specific Grants	-809,116	-780,144	
Current pension cost adjustment	8,937	21,275	
Past pension cost adjustment	-8,592	1,965	
Depreciation and impairment of assets	218,997	195,684	
Landfill Allowances Trading Scheme Income	-241	0	
School catering support	-91	539	
Transfer to/ from provisions	-4,505	-2,794	
Employee benefit accrual	-808	-425	
	-595,419		-563,900
Amounts in the analysis not included in the Comprehensive Income and Expenditure Statement cost of services			
Income on investment properties	1,045		1,095
Expenditure on investment properties	-416		-505
Cost of Services in Comprehensive Income and Expenditure Statement	**771,424**		**872,688**

Reconciliation between service analysis and surplus (-) / deficit on the provision of services 2013/14

	Total 2012/13	Service Analysis	Services not in Analysis	Not reported to mgmt	Not included in net cost of services	Net Cost of Services	Amounts reported below net cost of services	Total
		£000	£000	£000	£000	£000	£000	£000
Fees, charges & other service income	-173,805	-165,308	-1,336	0	1,095	-165,549	-1095	-166,644
Interest and investment income (including pension)	-93,614	-23	0	0	0	-23	-77,129	-77,152
Income from council tax	-533,607	0	0	0	0	0	-497,466	-497,466
Government grants and contributions	-1,171,010	-67,644	0	-780,144	0	-847,788	-388,128	-1,235,916
Net investment property gains and losses	5,437	0	0	0	0	0	967	967
Gain on Disposal of Fixed Assets	-6,901	0	0	0	0		1,040	1,040
Total Income	**-1,973,500**	**-232,975**	**-1,336**	**-780,144**	**1,095**	**-1,013,360**	**-961,811**	**-1,975,171**
Employee expenses	824,812	817,402	615	22,815	0	840,832	0	840,832
Other service expenses	793,844	852,176	2,608	539	-505	854,818	505	855,323
Support Service recharges	-10,098	-2,492	0	0	0	-2,492	0	-2,492
Depreciation and impairment of assets	218,997	0	0	195,684	0	195,684		195,684
Interest Payments	142,025	0	0	0	0		142,800	142,800
Total operating expenses	**1,969,580**	**1,667,086**	**3,223**	**219,038**	**-505**	**1,888,842**	**143,305**	**2,032,147**
Transfers to/ from reserves and provisions	**-4,537**	**0**	**0**	**-2,794**	**0**	**-2,794**	**0**	**-2,794**
Surplus (-) / deficit on the provision of services	**-8,457**	**1,434,111**	**1,887**	**-563,900**	**590**	**872,688**	**-818,506**	**54,182**

19 Internal trading accounts

Trading operations support the delivery of services and the expenditure of trading units is charged to services as part of the net cost of services in the Comprehensive Income and Expenditure Statement. The residual amount of the net surplus on trading operations is shown as Financing and Investment Income and Expenditure.

The trading units had an overall surplus of £1,539,000 (2012/13 overall surplus of £1,278,000) as follows:

		2012/13 £000	2013/14 £000
Former Direct Services Organisation			
- provides catering and cleaning services	Turnover	-29,298	-31,159
to schools and some non-educational	Expenditure	28,964	31,054
sites in Hampshire and supplies vehicles	**Deficit/Surplus(-)**	**-334**	**-105**
to departments of the County Council.			
Education Business Units			
- provide support services principally	Turnover	-19,272	-19,088
to schools but also to other	Expenditure	19,305	18,522
departments and other local authorities.	**Deficit/Surplus(-)**	**33**	**-566**
County Supplies			
- operate the central purchasing	Turnover	-11,548	-12,191
warehouse and arrange direct delivery	Expenditure	11,232	11,900
and other contracts for County	**Deficit/Surplus(-)**	**-316**	**-291**
Council departments, other local authorities and voluntary organisations.			
Eight other smaller trading units			
- including a surplus of £21,000	Turnover	-7,502	-7,505
(£53,000 surplus in 2012/13) on the	Expenditure	6,841	6,928
management of the River Hamble.	**Deficit/Surplus(-)**	**-661**	**-577**
	Total Deficit/Surplus(-)	**-1,278**	**-1,539**

20 Pooled budgets

The County Council is a partner in the following pooled budget arrangements.

20a The County Council is a partner in Hampshire's CAMHS and other child health joint Commissioning Partnership. The Partnership's purpose is to develop integrated commissioning of Child and Adolescent Mental Health Services in Hampshire.

The partner bodies are:
Hampshire County Council (host partner) and NHS Fareham And Gosport Clinical Commissioning Group (CCG), NHS North East Hampshire and Farnham CCG, NHS North Hampshire CCG, NHS South Eastern Hampshire CCG, and NHS West Hampshire CCG.

	2012/13		2013/14
	£000		£000
Gross income			
Hampshire County Council	-1,682	-1,708	
NHS Hampshire Primary Care Trust	-8,585	-	
NHS Fareham and Gosport CCG	-	-1,287	
NHS North East Hampshire & Fareham CCG	-	-1,057	
NHS North Hampshire CCG	-	-1,413	
NHS South Eastern Hampshire CCG	-	-1,401	
NHS West Hampshire CCG	-	-3,559	
	-10,267		-10,425
Expenditure	10,109		10,008
Surplus	**-158**		**-417**
Council's share of the net surplus arising on the pooled budget	-26		-68

20b The County Council is a partner in the Hampshire Equipment Service pooled budget which started on 1st April 2013. The Partnership's purpose is to provide an integrated community equipment service, supporting home care through the loan of specific equipment to users and their carers following a health and/or social care assessment.

The partner bodies are:
Hampshire County Council (host partner) and NHS Fareham and Gosport Clinical Commissioning Group (CCG), NHS North East Hampshire and Fareham CCG, NHS North Hampshire CCG, NHS South Eastern Hampshire CCG, and NHS West Hampshire CCG.

Hampshire Equipment Service	2013/14 £000	
Gross income		
Hampshire County Council	-2376	
NHS Fareham and Gosport CCG	-356	
NHS North East Hampshire & Fareham CCG	-285	
NHS North Hampshire CCG	-380	
NHS South Eastern Hampshire CCG	-380	
NHS West Hampshire CCG	-974	-4,751
Expenditure		4,541
Surplus		-210
Council's share of the net surplus arising on the pooled budget		-105

20c The County Council was previously a partner in the Mid Hampshire Mental Health Services pooled budget. The purpose of this was to commission the 5 Mental Health Wellbeing centres, these went live in September 2012. Consequently the pooled budget arrangement ended in 2012/13.

The partner bodies were:
Hampshire County Council (host partner) and Hampshire Primary Care Trust (PCT)

		2012/13 £000	2013/14 £000
Gross income			
Hampshire County Council	-87		-
Hampshire Primary Care Trust	-790	-877	-
Expenditure		677	-
Surplus		**-200**	**-**
Council's share of the net surplus arising on the pooled budget		-24	-

21 Members' allowances

The Authority paid the following amounts to members of the council during the year.

	2012/13 £000	2013/14 £000
Allowances	1,316	1,352
Expenses	80	78
Total	**1,396**	**1,430**

22a Officer remuneration

The number of employees whose remuneration was £50,000 or more, in bands of £5,000, is shown below, excluding those that are senior employees at 31 March 2014 (see note 22b). Remuneration includes all amounts paid to an employee, including the taxable value of expenses.

Including termination payments	Number of employees					
	2012/13			2013/14		
	Schools	Other	**Total**	Schools	Other	**Total**
£50,000 - £54,999	195	73	**268**	177	84	**261**
£55,000 - £59,999	183	127	**310**	175	124	**299**
£60,000 - £64,999	112	36	**148**	131	33	**164**
£65,000 - £69,999	51	31	**82**	57	10	**67**
£70,000 - £74,999	34	47	**81**	32	57	**89**
£75,000 - £79,999	17	5	**22**	22	10	**32**
£80,000 - £84,999	8	14	**22**	5	17	**22**
£85,000 - £89,999	7	4	**11**	6	5	**11**
£90,000 - £94,999	6	-	**6**	6	4	**10**
£95,000 - £99,999	3	5	**8**	5	7	**12**
£100,000 - £104,999	1	5	**6**	1	3	**4**
£105,000 - £109,999	-	1	**1**	-	3	**3**
£110,000 - £114,999	1	-	**1**	-	1	**1**
£115,000 - £119,999	-	1	**1**	-	-	**-**
£120,000 - £124,999	-	2	**2**	-	1	**1**
£125,000 - £129,999	-	-	**-**	-	-	**-**
£130,000 - £134,999	-	-	**-**	-	2	**2**
£135,000 - £139,999	-	-	**-**	-	-	**-**
£140,000 - £144,999	-	-	**-**	-	-	**-**
£145,000 - £149,999	-	-	**-**	-	2	**2**
	618	351	**969**	617	363	**980**

Excluding termination payments	Number of employees 2012/13			2013/14		
	Schools	Other	**Total**	Schools	Other	**Total**
£50,000 - £54,999	194	68	**262**	176	77	**253**
£55,000 - £59,999	182	123	**305**	174	123	**297**
£60,000 - £64,999	112	31	**143**	130	33	**163**
£65,000 - £69,999	51	28	**79**	56	10	**66**
£70,000 - £74,999	33	41	**74**	30	57	**87**
£75,000 - £79,999	16	3	**19**	22	7	**29**
£80,000 - £84,999	8	13	**21**	5	17	**22**
£85,000 - £89,999	7	2	**9**	6	2	**8**
£90,000 - £94,999	6	-	**6**	6	4	**10**
£95,000 - £99,999	3	5	**8**	5	6	**11**
£100,000 - £104,999	1	4	**5**	1	3	**4**
£105,000 - £109,999	-	1	**1**	-	3	**3**
£110,000 - £114,999	1	-	**1**	-	1	**1**
£115,000 - £119,999	-	1	**1**	-	-	**-**
£120,000 - £124,999	-	2	**2**	-	1	**1**
£125,000 - £129,999	-	-	**-**	-	-	**-**
£130,000 - £134,999	-	-	**-**	-	1	**1**
	614	322	**936**	611	345	**956**

22b Senior employees' remuneration

This statement covers the remuneration of Chief Officers.

Senior Employees 2012/13	Salary, (Including fees and allowances)	Expense Allowances	Benefits in Kind	Compensation for Loss of Office	Pension contribution	Total remuneration including pension contributions
	£	£	£	£	£	£
Chief Executive						
Andrew Smith	207,372	-	-	-	27,166	234,538
Director of Children's Services and Deputy Chief Executive						
John Coughlan	167,734	-	-	-	21,973	189,707
Director of Corporate Resources						
Carolyn Williamson	164,167	-	-	-	21,506	185,673
Director of Economy, Transport and Environment	138,876	-	-	-	18,193	157,069
Director of Community, Culture and Business Services	138,876	-	-	-	18,193	157,069
Director of Adult Services	134,910	-	-	-	17,673	152,583
Director of Policy and Governance (from 1 August 2012)	73,333	-	-	-	9,607	82,940

Senior employees 2013/14	Salary, (Including fees and allowances)	Expense Allowances	Benefits in Kind	Compensation for Loss of Office	Pension contribution	Total remuneration including pension contributions
	£	£	£	£	£	£
Chief Executive						
Andrew Smith	207,372	-	-	-	27,166	234,538
Director of Children's Services and Deputy Chief Executive						
John Coughlan	167,734	-	-	-	21,973	189,707
Director of Corporate Resources						
Carolyn Williamson	165,000	-	-	-	21,615	186,615
Director of Economy, Transport and Environment	138,876	-	-	-	18,193	157,069
Director of Community, Culture and Business Services	138,876	-	-	-	18,193	157,069
Director of Public Health	136,761	261	-	-	16,371	153,393
Director of Adult Services	134,910	-	-	-	17,673	152,583
Director of Policy and Governance	110,300	-	-	-	14,410	124,710

22c Termination agreements

The number of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the tables below:

Schools 2012/13

Exit package cost band	Number of Compulsory Redundancies	Number of other departures agreed	Total number of exit packages by cost band	Total redundancy costs in each band
				£
£0 - £20,000	108	1	109	656,212
£20,001 - £40,000	3	1	4	121,137
£40,001 +	-	-	-	-
	111	2	113	777,349

Non schools 2012/13

Exit package cost band	Number of Compulsory Redundancies	Number of other departures agreed	Total number of exit packages by cost band	Total redundancy costs in each band
				£
£0 - £20,000	63	125	188	1,227,775
£20,001 - £40,000	10	25	35	898,857
£40,001 +	-	6	6	283,116
	73	156	229	2,409,748

Schools 2013/14

Exit package cost band	Number of Compulsory Redundancies	Number of other departures	Total number of exit packages by cost band	Total redundancy costs in each band
				£
£0 - £20,000	125	22	147	829,825
£20,001 +	5	5	10	301,541
	130	27	157	1,131,366

Non schools 2013/14

Exit package cost band	Number of Compulsory Redundancies	Number of other departures agreed	Total number of exit packages by cost band	Total redundancy costs in each band
				£
£0 - £20,000	30	176	206	1,578,233
£20,001 - £40,000	-	74	74	2,052,489
£40,001 - £60,000	-	11	11	575,476
£60,001 +	1	3	4	269,033
	31	264	295	4,475,231

23 External audit fees

Fees charged by the County Council's external auditor can be analysed as follows:

	2012/13 £000	2013/14 £000
Code of Audit Practice	141	134
Grant Claims	2	8
National Fraud Initiative	4	-
	147	**142**

24 Dedicated Schools Grant

The Council's expenditure on schools is funded primarily by grant monies provided by the Department for Education, the Dedicated Schools Grant (DSG). An element of DSG is recouped by the Department to fund academy schools in the Council's area.

DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2011. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2013/14 are as follows:

	Central expenditure £000	Individual Schools Budget £000	Total £000
Final DSG for 2013/14 before Academy recoupment			-843,434
Academy figure recouped for 2013/14			153,512
Total DSG after Academy recoupment for 2013/14			-689,922
Brought forward from 2012/13			-17,482
Carry forward to 2014/15 agreed in advance			19,741
Agreed initial budgeted distribution in 2013/14	-69,828	-617,835	-687,663
In year adjustments	-31	281	250
Final budgeted distribution in 2013/14	**-69,859**	**-617,554**	**-687,413**
Less Actual central expenditure	69,859		69,859
Less Actual ISB deployed to schools		617,554	617,554
Plus Local authority contribution for 2013/14	-	-	-
Carry forward to 2014/15	-	-	-19,741

25 Grant and contribution income

The County Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement. Changes to the Local Government finance system during 2013/14 have meant that a number of specific grants have been rolled into new unringfenced funding streams.

	2012/13 £000	2013/14 £000
Credited to Taxation and Non Specific Grant Income		
Capital Grants and Contributions:		
Common Assessment Framework	-687	-
Community Capacity Building	-1,212	-857
Community Grant - LD Transformation	-	-845
Local Sustainable Transport Fund Grant	-1,296	-1,224
Local Transport Capital Block Funding Grant	-31,427	-34,532
Sustainable Transport Grant	-122	-
Better Bus Area Fund	-14	-857
Pinchpoint Funding	-	-660
Department for Environment, Food and Rural Affairs Grant	-	-589
Other Highways, Roads and Transport Grants	-	-12
Bordon Eco Town Grant	-5	-
Standards Fund	-10,259	-4,998
Capital Maintenance Grant	-19,762	-18,663
Basic Needs Grant	-24,661	-18,602
2 Year Old Entitlement Grant	-1,652	-
Aiming High for Disabled Children	-400	-425
Havant Academy	-3,192	-44
New Deal for Schools Maintenance	-	-1,932
Other Children's Services and Education Grants	-998	-47
Co-Location Funding	-	-74
Solent Business Forum	-176	-
Other cultural services funding	-	-
Developer's contributions	-9,323	-15,807
Other contributions	-621	-954
Contributions from other Local Authorities	-2,502	-1,810
Less: Capital income used to fund revenue expenditure under statute	**9,187**	**10,160**
	-99,122	-92,772
Non-ringfenced Government grants	-20,237	-256,393
Total	**-119,359**	**-349,165**

Credited to services	2012/13	2013/14
	£000	£000
Community Safety / HIV Grant	-476	-
Learning Disability / Health Reform Grant	-42,939	-
Warm Homes Healthy People Grant	-346	-76
Drug Interventions Programmes	-196	-
Local Welfare Assistance Grant	-	-1,596
Local Reform & Community Voices	-	-833
Zero Based Review funding	-	-210
Common Assessments Framework	-	-166
Other Adult Services Grants	-33	-27
PFI Street Lighting Grant	-9,373	-9,373
Bikeability Training Grant	-260	-348
Local Sustainable Transport Funds	-1,078	-1,918
Flood & Water Management Grant	-361	-168
Eco Town funding	-141	-11
Department for Energy & Climate Change Grant	-15	-261
Severe Weather Grant	-	-7,286
Bus Service Operators Grant	-	-271
Local Services Support Grant	-1,274	-985
School Meals Grant	-989	-
Dedicated School's Grant	-689,938	-687,413
Pathfinder Grant	-165	-150
PE & Sport Grant	-	-2,837
PE Teacher Release Funding	-	-219
Additional Schools Grant	-317	-53
Early Intervention Grant	-42,020	-
Social Worker Grants	-140	-459
Adoption Reform Grant	-	-718
New Remand Framework	-	-192
Unaccompanied Asylum Seeking Children Grant	-615	-637
Isle of Wight Strategic Partnership Grant	-	-500
Supporting Troubles Families Grant	-1,589	-1,831
Transformation Challenge Award	-	-500
HPSN2 Grant	-	-298
Public Health Grant	-	-36,753
Other Public Health Grants	-348	-197
Other P&R grants	-34	-197
Pupil Premium grant	-17,749	-26,742
Education Funding Agency Grant	-7,669	-4,848
Music Education Grant	-1,462	-1,290
Other Children's Services and Education Grants	-149	-170
Heritage Lottery Fund	-120	-113
Arts Council Funding	-629	-413
Other Cultural Grants	-275	-335
Other Countryside Grants	-466	-761
Developers Contributions	-620	-1,867
Add: Capital income used to fund revenue expenditure under statute	**-9,187**	**-10,160**
Total	**-830,973**	**-803,182**

The County Council has received a number of grants and contributions that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the giver if the condition is not met. The balances at year end are as follows:

	31 March 2013 £000	31 March 2014 £000
Capital grants receipts in advance		
Department of Health Community Capacity Grant	-1,270	-2,125
Common Assessment Framework Grant	-677	-
Standards Fund	-2,803	-68
Short Breaks for Disabled Children	-425	-
Hampshire Partnerships Panel (MOD)	-11	-
Bordon Eco Town Grant	-209	-209
Transport Support Grant	-12	-
Other countryside grants (Lepe)	-21	-21
Other CCBS grants	-	-302
Devolved Formula Capital	-7,504	-6,686
Department for Transport Grant	-3,072	-1,566
Pot Hole Grant	-	-4,224
Targeted Basic Need Grant	-	-2,041
Department for Transport Pinchpoint Grant	-	-2,293
Sport England Grant	-	-58
LSTF Grant	-	-71
Total	**-16,004**	**-19,664**
Revenue grants receipts in advance		
Dedicated Schools Grant	-17,482	-19,741
Pupil Premium	-75	-42
Adoption Improvement Grant	-60	-
Children's Workforce Development Council	-1,169	-
Children's Improvement Board Development Programme	-65	-
Other Children's Services and Education Grants	-56	-23
Warm Homes Health People Fund	-76	-
Common Assessment Framework Adults Grant	-	-511
Flood management	-312	-489
Single Farm Payments European Grant	-544	-453
Eco Towns - project funding	-558	-563
Department of Energy and Climate Change Grant	-369	-185
Skills Funding Agency	-1,461	-1,338
Cass Foundation	-	-90
Rural Payments Agency	-100	-66
Other Countryside Grants	-130	-83
Arts Council Funding	-172	-64
Gypsies & Travellers Grants	-5	-
Other Cultural Grants	-119	-60
Total	**-22,753**	**-23,708**

26 Related party transactions

The Council is required to disclose material transactions with related parties. Related parties are bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosing these shows the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

Central Government

Central Government has effective control over the general operations of the Council - it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties. Grants received from government departments are set out in the subjective analysis in note 18. Grant receipts are shown in note 25.

Members

Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2013/14 is shown in note 21. Before every decision making meeting, members are required to disclose any conflicts of interest. There were 21 related party transactions totalling £19,092.10 arising from disbursements from members' devolved budgets. All such payments were counter signed by a member other than the budget-holding member.

Officers

There were no related-party transactions involving chief officers of the Council. Details of senior officer remuneration are given in note 22b.

Other Public Bodies

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 289 other contributing scheduled, admitted, community admission, transferee admission, and resolution bodies (259 in 2012/13).

The Chief Financial Officer of the County Council is also the Chief Financial Officer of the Office of the Police and Crime Commissioner for Hampshire (from 22 November 2012, previously the Hampshire Police Authority) and Hampshire Fire and Rescue Authority.

The Hampshire Fire and Rescue Authority's surplus cash balances have been separately invested from those of the County Council, except for a small working cash balance. This balance is pooled with the County Council's and is paid interest at the prevailing base rate.

Transactions with these related parties are shown below:

	2012/13	2013/14
	£000	£000
Pension Fund		
Administration charge	-2,665	-2,800
Hampshire Fire and Rescue Authority		
Interest (received)/paid	29	5
Temporary investments/borrowing 31 March	-2,848	-62

27 Capital financing

The total amount of capital expenditure incurred in the year is shown in the table (including the value of assets acquired under finance leases), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed in the second part of this note.

	2012/13 £000	2013/14 £000
Opening capital financing requirement	720,015	705,067
Capital spending on fixed assets	153,323	191,576
Revenue expenditure funded by capital under statute	14,204	20,636
	887,542	917,279
Funded by:		
Capital receipts	-41,790	-15,365
Grants and other income	-78,375	-106,122
Revenue		
- main contribution	-17,087	-4,346
- reserves	-13,928	-2,416
Minimum revenue provision	-31,295	-30,414
Closing capital financing requirement	**705,067**	**758,616**
Explanation of movements in year		
Increase/decrease (-) in borrowing (supported by government financial assistance)	-23,184	13,362
Increase/decrease (-) in borrowing (unsupported by government financial assistance)	-22,400	13,985
Increase/decrease (-) in borrowing related to PFI contracts	30,636	26,202
Increase/decrease (-) in Capital Financing Requirement	**-14,948**	**53,549**

28a Leases – operating leases – County Council as lessee

Some vehicles, items of equipment and property are obtained by entering into operating leases.

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

	2012/13			2013/14		
	Other land and buildings	Vehicles, plant and equipment	Total	Other land and buildings	Vehicles, plant and equipment	Total
	£000	£000	£000	£000	£000	£000
Not later than one year	3,209	1,611	4,820	2,705	2,135	4,840
Later than one year and not later than five years	7,585	1,573	9,158	6,614	2,489	9,103
Later than five years	12,224	3	12,227	10,218	1	10,219
Total payments	**23,018**	**3,187**	**26,205**	**19,537**	**4,625**	**24,162**

The expenditure charged to the Comprehensive Income and Expenditure Statement during the year in relation to these leases was:

	2012/13	2013/14
	£000	£000
Minimum lease payments	5,405	4,934
Contingent rents	0	0
(Sublease payments receivable)	-302	-173
Total net expenditure	5,103	**4,761**

28b County Council as lessor

The County Council leases out property under operating leases for the provision of community services, such as community centres and for economic development purposes to provide suitable affordable accommodation for local businesses.

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

	2012/13	2013/14
	£000	£000
Not later than one year	3,583	3,573
Later than one year and not later than five years	7,139	7,019
Later than five years	45,529	50,828
	56,251	**61,420**

28c Leases – finance leases

At 31 March 2014 the County Council has not taken or granted any material finance leases.

29 PFI and service concessions

29a Project Integra

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 contract includes a provision allowing the County Council to extend the contract by a period of up to 10 years from 2024/25.

Through a side agreement, Southampton and Portsmouth City Councils commit to paying a proportion of the costs of the scheme, which is broadly based on the proportion of waste contributed by each of the partner Councils.

The contract has three phases. During phases 1 and 2 the contractor planned, financed and constructed the three Energy Recovery Facilities, two Material Reprocessing Facilities and two composting sites. The contract is currently in Phase 3 covering the provision of waste disposal services in relation to the newly constructed facilities ending in 2024/25. The contract price mechanism is structured with an annual re-pricing each January linked to the retail price index in the previous October and a step-change increase in the contract price midway through the contract. There have been no major variations to the contract or additional investment in facilities during the 2013/14 financial year.

For sites built on County Council land the contract requires their transfer to the County Council at the end of the contract. Other sites on land contributed by Portsmouth or Southampton Councils will transfer to them at contract end. Contractor or third party owned sites may be acquired at contract end through assignment of leases, or options to purchase as negotiated at the time.

The County Council's share of the waste disposal assets constructed under the contract are included in the balance sheet together with a deferred liability to pay for the assets over the life of the contract. During 2013/14 the assets were revalued as part of the ongoing Hampshire County Council valuation programme.

The movement in the asset values during the year were as follows:

	2012/13	2013/14
Gross book value	£000	£000
At 1 April	95,227	95,227
Additions	-	-
Disposals	-	-
Revaluations	-	-15,050
Gross book value at 31 March	95,227	80,177
Depreciation		
At 1 April	-22,552	-28,190
Depreciation for the year	-5,638	-5,638
Impairments	-	-
Revaluations	-	28,190
Depreciation at 31 March	-28,190	-5,638
Net book value at 1 April	72,675	67,037
Net book value at 31 March	**67,037**	**74,539**

The movement in the deferred liability was:

	31 March 2013	31 March 2014
	£000	£000
Balance brought forward 1 April	-78,341	-74,316
Principal repayment in the year	4,025	4,350
Balance at 31 March	**-74,316**	**-69,966**
Finance lease repayable in one year	-4,350	-4,698
Deferred liability	-69,966	-65,268
Balance at 31 March	**-74,316**	**-69,966**

The waste management contract has 12 years to run. The expected payments are shown below.

	Principal repayment	Interest	Service Charge	Total
	£000	£000	£000	£000
Next year	4,698	5,597	40,734	51,029
Years two to five	22,865	18,315	183,760	224,940
Years six to 10	36,818	10,977	258,170	305,965
Years 11 to 13	5,585	391	37,030	43,006
	69,966	**35,280**	**519,695**	**624,941**

29b The South Coast Street Lighting PFI

The County Council has one PFI contract which is for street lighting. This came into effect from the financial year 2010/11. 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 service provider, Tay Valley Lighting. Each council has its own separate contract to deliver individualised lighting requirements under a standard contractual framework.

Through the contract, Hampshire County Council is replacing some 78,000 of its 132,000 street lighting columns and modernising the remaining 54,000 lanterns in order to improve energy efficiency. In addition, other items of illuminated street furniture such as signs are being replaced or upgraded 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 until 2035/36.

Built into the contract is the agreement that, upon the conclusion of the 25 year term, the new and enhanced street lights are expected to be in a good state of repair which would reasonably see them lasting for 5 years after the end of the contract, at that time the risks relating to the apparatus then pass back to the County Council.

As part of the PFI contract a Remote Monitoring System (RMS) will be incorporated into every lantern which allows the street lighting levels to be controlled centrally. As lanterns are replaced during the 5 year investment period at the beginning of the contract, the necessary devices for using the RMS are placed within the new lanterns. It is anticipated that this will allow the Council to make efficiencies on electricity costs and vary light outputs as necessary.

An annual re-pricing review is undertaken on the anniversary of the start of the contract, 1 April, and this is linked to retail price index. Over the first 5 years of the contract (the investment period) the annual cost of the contract reflects the investment programme which steadily rises until it reaches a peak at year 6 and then stabilises. From year 6 to year 25 the annual cost is determined by inflation and amendments to the inventory. No major changes to the contract occurred during the 2013/14 financial year.

Termination clauses are built into the contract documents under clauses 40 to 45 of the project agreement, there are no options for contract renewal.

The movement in the asset values were as follows:

	2012/13	2013/14
Gross book value	£000	£000
At 1 April	29,845	65,491
Additions	35,646	32,037
Disposals	-	-
Revaluations	-	-
Gross book value at 31 March	65,491	97,528
Depreciation		
At 1 April	-491	-1,430
Depreciation for the year	-939	-2,161
Impairments	-	-
Depreciation at 31 March	-1,430	-3,591
Net book value at 1 April	29,354	64,061
Net book value at 31 March	**64,061**	**93,937**

The movement in the deferred liability was:

	31 March 2013	31 March 2014
	£000	£000
Balance brought forward 1 April	-24,861	-59,522
Principal repayment in the year	985	1,485
Capital expenditure incurred in the year	-35,646	-32,037
Balance at 31 March	**-59,522**	**-90,074**
Finance lease repayable in one year	-1,924	-2,619
deferred liability	-57,598	-87,455
Balance at 31 March	**-59,522**	**-90,074**

The street lighting contract has 21 years to run. The expected payments are shown below:

	Principal repayment £000	Interest £000	Service Charge £000	Total £000
Next year	2,619	7,438	5,925	15,982
Years two to five	14,095	27,890	26,503	68,488
Years six to 10	23,018	29,463	39,730	92,211
Years 11 to 15	30,935	21,546	47,547	100,028
Year 16 to 20	41,574	10,907	55,915	108,396
Year 21	9,894	602	12,238	22,734
	122,135	97,846	187,858	407,839

A PFI grant of £9 million was received from the Department of Transport to the County Council in 2013/14 with a balance of £197 million due to be received over the remainder of the contract. This grant is expected to be applied to cover the capital and financing costs built into the annual fee.

Energy for street lighting is provided through a separate contract. Estimated costs over the remainder of the contract are expected to be £93 million.

30 Undischarged obligations

Hampshire Public Service Network

A contract for Hampshire Public Service Network2 (HPSN2) was entered into with NTL Telewest, building on the foundation of the existing HPSN service. HPSN2 offers improved data, voice and service networks for major partners and affordable solutions for town and parish councils and up to 800 schools. The contract is due to end in 2015. At 31 March 2014 the payments remaining under the contract are estimated to be £2.4m.

31 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 £6.4 million at 31 March 2014 (see note 15) and a reserve earmarked for potential future claims, £24.8m at 31 March 2014 (see note 8).

The County Council has received claims under part 1 of the Land Compensation Act 1973 following the first anniversary of the opening of the Bus Rapid Transit route in Gosport. It is unlikely that these claims will be resolved until later in 2014/15 so it is not possible to quantify reliably the potential liability associated with them.

32 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 IAS 19) the County Council must account for the commitments at the time that employees earn their future entitlement.

The Council participates in three pension schemes:
a) Pension schemes accounted for as defined contribution schemes:
- The Teachers' Pension Scheme for teachers
- The NHS Pension Scheme
b) The Local Government Pension Scheme (LGPS) for other employees.

32a Pensions Schemes Accounted for as Defined Contribution Schemes

Teachers' Pension Scheme

This is a defined benefit scheme administered by the Department for Education (DfE). The scheme provides teachers with specified benefits upon their retirement, and the County Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries. The scheme is unfunded so the pensions of past employees are paid from current revenues. The DfE uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. However, the County Council is not able to identify its share of the underlying financial position and performance of the scheme with sufficient reliability for accounting purposes. So for the purposes of this Statement of Accounts it is accounted for on the same basis as a defined contribution scheme.

In 2013/14 total employer's contributions were £39.55 million representing 14.1% of pensionable pay (£40.30 million representing 14.1% of pensionable pay in 2012/13).

NHS Pension Scheme

On 1 April 2013, Public Health staff transferred from the NHS to the County Council. These staff have maintained their membership in the NHS Pension Scheme. The Scheme provides these staff with specified benefits upon their retirement and the

County Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The scheme is an unfunded defined benefit scheme. However, the County Council is not able to identify its share of the underlying financial position and performance of the scheme with sufficient reliability for accounting purposes. So for the purposes of this Statement of Accounts it is accounted for on the same basis as a defined contribution scheme.

In 2013/14 total employer's contributions were £0.2 million representing 14.1% of pensionable pay.

32b Local Government Pension Scheme

Participation in Pension Schemes

As part of the terms and conditions of employment of its officers, the County Council makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the County Council has a commitment to make the payments (for those benefits) and to disclose them when employees earn their future entitlement.

The County Council participates in and administers the Local Government Pension Scheme (LGPS). This is a funded defined benefit final salary scheme, meaning that the County Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

Enhanced pensions awarded by the County Council are described as unfunded benefits. This is because they are not funded by the assets of the Pension Fund but by the County Council when they are paid. The liabilities are recognised when awards are made, however, there are no investment assets built up to meet these pensions liabilities. Cash has to be generated to meet actual pension payments as they eventually fall due.

In 2013/14 Pension Fund assets and liabilities have been included in the Balance Sheet based on a formal actuarial valuation at 31 March 2013.

Changes to accounting requirements from 2013/14

Revised accounting requirements as detailed in IAS19 came into effect for accounting periods commencing on or after 1 January 2013. The changes affected the classification and recognition of pensions costs within the Comprehensive Income and Expenditure Statement (CIES), but did not effect the total charge to the

CIES and therefore did not change the Balance Sheet. The disclosure notes have been prepared to meet the new requirements. Restated 2012/13 values have been disclosed alongside 2012/13 published values and 2013/14 values where it is felt this may be helpful.

32c Transactions relating to post-employment benefits

The cost of retirement benefits is recognised in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge that is required to be made against council tax is based on the cash payable in the year, so the real cost of post employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

	Published 2012/13 £000	Restated 2012/13 £000	2013/14 £000
Included in the Comprehensive Income and Expenditure Statement:			
Current service cost of funded LAPS pensions	56,250	58,940	70,290
Charge to non-distributed costs for early retirement in the year (note i)	1,816	1,816	3,122
Settlement costs	-4,620	-4,620	-
Net increase in liabilities from acquisistions			5,920
Interest cost on pension liabilities			
LGPS funded liabilities	106,870	-	-
LGPS unfunded liabilities	1,190	-	-
Teachers' unfunded liabilities	1,650	-	-
	109,710	-	-
Expected return on Pension Fund assets	-86,050	-	-
Interest on net defined liability / (asset)	-	43,960	43,720
Total post employment benefits charges to the surplus/deficit on the provision of services	**77,106**	**100,096**	**123,052**
Remeasurements in Other Comprehensive Income:			
Actuarial (gains)/losses	51,770		
Return on plan assets (excluding that recognised in net interest)	-	-140,850	7,600
Actuarial (gains) / losses due to change in financial assumptions	-	169,080	-40,510
Actuarial (gains) / losses due to change in demographic assumptions	-	-	-29,870
Actuarial (gains) / losses due to liability experience	-	550	-45,410
Total amount recognised in Other Comprehensive Income and Expenditure	**51,770**	**28,780**	**-108,190**
Total post employment benefits charges to the Comprehensive Income and Expenditure Statement	**128,876**	**128,876**	**14,862**

Movement in reserves statement	2012/13	2013/14
Reversal of net changes made to the surplus/deficit for the provision of services for post employment benefits in accordance with IAS19	-62,350	54,510
Actual amount charged against the General Fund Balance for pensions in the year		
Employer's contributions payable to the fund	-60,528	-62,065
Added years and early retirement cash flows in the year:		
LGPS	-3,099	-4,318
Teachers	-2,899	-2,989
	-128,876	**-14,862**

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to the 31 March 2014 is a gain of £108.2 million.

32d Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation)

Period ended 31 March 2014	LGPS funded £000	LGPS Unfunded £000	Teachers' Unfunded £000	Total £000
Opening present value of liabilities	-2,535,240	-28,250	-40,340	**-2,603,830**
Current service cost	-70,290	-	-	**-70,290**
Interest expense on defined benefit obligation	-109,990	-1,120	-1,600	**-112,710**
Contributions by participants	-20,490	-	-	**-20,490**
Actuarial gains/(losses) on liabilities:				
- financial asssumptions	38,960	630	920	**40,510**
- demographic assumptions	32,100	-890	-1,340	**29,870**
- liability experience	45,090	210	110	**45,410**
Net benefits paid out (note i)	77,080	1,990	2,850	**81,920**
Past service cost	-1,420	-	-	**-1,420**
Net increase in liabilities from acquisitions (note ii)	-12,830	-	-	**-12,830**
Closing present value of liabilities	-2,557,030	-27,430	-39,400	**-2,623,860**

Period ended 31 March 2013	LGPS funded £000	LGPS Unfunded £000	Teachers' Unfunded £000	Total £000
Opening present value of liabilities	-2,271,900	-26,810	-37,310	**-2,336,020**
Current service cost	-56,250	-	-	**-56,250**
Interest cost	-106,870	-1,190	-1,650	**-109,710**
Contributions by participants	-19,660	-	-	**-19,660**
Actuarial gains/(losses) on liabilities	-163,180	-2,240	-4,220	**-169,640**
Net benefits paid out (note i)	75,880	1,990	2,840	**80,710**
Past service cost	-3,860	-	-	**-3,860**
Settlements (note iii)	10,600	-	-	**10,600**
Closing present value of liabilities	-2,535,240	-28,250	-40,340	**-2,603,830**

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.

note ii - This relates to the transfer of liabilities resulting from the TUPE transfer of staff from Hampshire Constabulary that took effect from 1 February 2014. This is a notional asset transfer for accounting purposes only, as both employers are part of the Hampshire Pension Fund.

note iii - Settlements relate to the liabilities transferred to schools that have converted to academy status.

32e Reconciliation of the Movements in the Fair Value of Scheme Assets

	Published 31 March 2013 £000	Restated 31 March 2013 £000	31 March 2014 £000
Opening fair value of assets	**1,357,770**	**1,357,770**	**1,563,230**
Expected return on assets	86,050	-	-
Interest income on assets	-	63,970	68,990
Remeasurement gains/(losses) on assets	117,870	140,850	-7,600
Contributions by employer	68,570	68,570	67,670
Contributions by participants	19,660	19,660	20,490
Net benefits paid out (note i)	-80,710	-81,610	-81,920
Net increase in assets from acquisitions (note ii)	-	-	6,910
Settlements (note iii)	-5,980	-5,980	-
Closing fair value of assets	**1,563,230**	**1,563,230**	**1,637,770**

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.

note ii - This relates to the transfer of assets resulting from the TUPE transfer of staff from Hampshire Constabulary that took effect from 1 February 2014. This is a notional asset transfer for accounting purposes only, as both employers are part of the Hampshire Pension Fund.

note iii - Settlements relate to the assets transferred to schools that have converted to academy status.

32f Pensions Assets and Liabilities Recognised in the Balance Sheet

The Pension Fund'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 LGPS members and teachers. The actuary estimated that the following overall asset and liabilities for pension costs should be included in the balance sheet.

	31 March 2013 £000	31 March 2014 £000
Present value of the defined benefit obligation:		
LGPS funded	-2,535,240	-2,557,030
Unfunded Liabilities:		
LGPS	-28,250	-27,430
Teachers	-40,340	-39,400
	-2,603,830	**-2,623,860**
Fair value of assets in the scheme	1,563,230	1,637,770
Net liability arising from defined benefit obligation	**-1,040,600**	**-986,090**

The liabilities show the underlying commitments that the authority has in the long run to pay post employment (retirement) benefits. The net deficit reduces the net worth of the authority as recorded on the balance sheet. However, statutory arrangements for funding the deficit mean that the financial position of the authority remains healthy:

- the deficit will be made good by increased contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme actuary.
- finance is only required to be raised to cover discretionary (unfunded) benefits when the pensions are actually paid.

The total contributions expected to be made to the LGPS by the County Council in the year to 31 March 2015 is £68.59 million. Additional contributions may also become due in respect of any employer discretions to enhance members' benefits in the Fund over the next accounting period.

The proportion of assets by category is shown below:

	31 March 2013 %	31 March 2014 Quoted %	31 March 2014 Unquoted %	31 March 2014 Total %
Equities	57.6	57.6	3.2	60.8
Government bonds	24.9	23.5	0.1	23.6
Property	7.8	7.5	-	7.5
Corporate bonds	1.3	1.4	0.2	1.6
Cash	2.3	3.8	-	3.8
Other (hedge funds, currency holdings, futures, private equities)	6.1	0.2	2.5	2.7
	100.0	**94.0**	**6.0**	**100.0**

32g Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using an estimate of the pensions that will be payable in future years, dependent on assumptions about mortality rates, salary levels etc.

The significant assumptions used by the actuary have been:

	2012/13 % per year	2013/14 % per year
Rate of discount for scheme liabilities - funded pensions	4.4	4.3
Rate of discount for scheme liabilities - unfunded pensions	4.1	4.2
Rate of increase in salaries	4.4	3.9
Rate of increase in pensions in payment - funded pensions	2.5	2.4
Rate of increase in pensions in payment -unfunded pensions	2.35	2.2
Rate of increase in deferred pensions	2.5	2.4
Proportion of employees opting to take a commuted lump sum:		
for pre 1 April 2010 service	25	-
for post 31 March 2010 service	75	-
for all service	-	70
RPI inflation - funded pensions	3.4	3.4
RPI inflation - unfunded pensions	3.25	3.2
CPI inflation - funded pensions	2.5	2.4
CPI inflation - unfunded pensions	2.35	2.2

Principal demographic assumptions

Post retirement mortality	2012/13	2013/14
Men		
Base table	Standard SAPS Normal Health Light Amounts	Standard SAPS Normal Health Light Amounts
Scaling to above base table rates	100%	100%
Improvements to base table rates	CMI_2009 with a longterm rate of improvement of 1.25% p.a.	CMI_2012 with a longterm rate of improvement of 1.5% p.a.
Future lifetime from age 65 (currently aged 65)	24	24.4
Future lifetime from age 65 (currently aged 45)	25.7	26.5

Women		
Base table	Standard SAPS Normal Health Light Amounts	Standard SAPS Normal Health Light Amounts
Scaling to above base table rates	100%	95%
Improvements to base table rates	CMI_2009 with a longterm rate of improvement of 1.25% p.a.	CMI_2012 with a longterm rate of improvement of 1.5% p.a.
Future lifetime from age 65 (currently aged 65)	25	26.2
Future lifetime from age 65 (currently aged 45)	26.9	28.5

Sensitivity analysis of financial assumptions

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the preceding table. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all other assumptions remain constant. The assumptions in longevity, for example, assumes that life expectancy increases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The method and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous method. A sensitivity analysis has not been undertaken on unfunded benefits as it is not material.

Impact on the present value of the defined benefit obligation at 31 March 2014 from changes in assumptions

	Increase in assumption		Decrease in assumption	
	£000	%	£000	%
Discount rate (increase / decrease 0.1% per annum)	-44,110	-1.7	44,910	1.8
Salary increase rate (increase / decrease 0.1% per annum)	7,970	0.3	-7,890	-0.3
Pension increase rate (increase / decrease 0.1% per annum)	36,620	1.4	-35,790	-1.4
Longevity (increase / decrease by 1 year)	58,810	2.3	-58,810	-2.3

Impact on the County Council's Cash Flows

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The County Council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 22 years. Funding levels are monitored on an annual basis. The next triennial valuation is due to be completed on 31 March 2016.

The scheme will need to take account of the national changes to the scheme under the Public Pensions Services Act 2013. Under the Act, the Local Government Pension Scheme in England and Wales and the other main existing public services schemes may not provide benefits in relation to service after 31 March 2014 (or service after 31 March 2015 for other main existing public service pension schemes in England and Wales). The Act provides for scheme regulations to be made within a common framework, to establish new career average revalued earnings schemes to pay pensions and other benefits to certain public servants.

The County Council anticipates paying £68.59 million in expected contributions to the scheme in 2014/2015.

The weighted average duration of the defined benefit obligation for scheme members is 18.1 years (17.5 years in 2012/13).

33 Trust funds

The Council has acted as sole trustee for 22 trust funds (23 in 2012/13) and as administrator for 12 other trust funds (12 in 2012/13). 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 2013 £000	Balance at 31 March 2014 £000
Sole trustee funds		
Educational trusts		
Dayas Music Scholarship	-102	-106
Michael Austin Harlick Memorial	-261	-256
Mace Educational Trust	-109	-107
Other	-16	-17
Total	**-488**	**-486**
Social Care trusts		
Hampshire Mentally Ill Persons Holiday Organisation	-43	-
Hampshire Old Industrial and Reformatory Schools	-75	-73
Green Meadows Older Persons Home	-18	-19
Total	**-136**	**-92**
Museums trusts		
Allen Curtis Museum Trust	-23	-23
Red House Museum Trust	-50	-50
Total	**-73**	**-73**
Libraries trust		
Julian Davies Foundation	-2	-2
Other		
Hillier Arboretum trust	-444	-550
Total - sole trustee trusts	**-1,143**	**-1,203**
Administrator funds		
The Eggars Grammar School Alton Site Foundation	-2,114	-2,198
Hampshire Foundation for Young Musicians	-69	-69
Other	-27	-28
Social care trusts	-6	-6
Total administrator trusts	**-2,216**	**-2,301**
Total trust funds	**-3,359**	**-3,504**

Pension Fund Accounts

Fund Account	See note	**2012/13 £000**	**2013/14 £000**
Dealings with members, employers and others directly involved in the Fund			
Contributions	7	216,739	223,101
Transfers in from other pension funds	8	14,138	10,668
		230,877	**233,769**
Benefits	9	-197,429	-203,468
Payments to and on account of leavers	10	-20,037	-9,836
Administration expenses	11	-2,782	-2,972
		-220,248	**-216,276**
Net additions from dealings with members		**10,629**	**17,493**
Returns on investments			
Investment income	12	88,742	91,249
Taxes on income	13	-954	-1,299
Profits and losses on disposal of investments and changes in the market value of investments	15a	474,193	98,399
Investment management expenses	14	-9,233	-10,742
Net return on investments		**552,748**	**177,607**
Net increase in the net assets available for benefits during the year		**563,377**	**195,100**

Net Assets Statement	See Note	**31 March 2013 £000**	**31 March 2014 £000**
Investment assets		4,180,476	4,317,821
Cash deposits		17,090	52,345
	15	**4,197,566**	**4,370,166**
Long term debtors	22	10,649	10,649
Investment liabilities	15	-5,660	-1,162
Current assets	20	151,474	168,878
Current liabilities	21	-13,411	-12,814
Net assets of the Scheme available to fund Benefits at the period end		**4,340,618**	**4,535,717**

Notes to the Pension Fund Accounts

1 Description of Fund

The Hampshire Pension Fund (the 'Fund') is part of the Local Government Pension Scheme and is administered by Hampshire County Council. The County Council is the reporting entity for this Pension Fund.

The following description of the Fund is a summary only. For more detail, reference should be made to the Hampshire Pension Fund Annual Report 2013/14 and the underlying statutory powers underpinning the Scheme, namely the Superannuation Act 1972 and the Local Government Pension Scheme (LGPS) Regulations.

a) General

The Fund is governed by the Superannuation Act 1972. The Fund is administered in accordance with the following secondary legislation:

- the LGPS (Benefits, Membership and Contributions) Regulations 2007 (as amended)
- the LGPS (Administration) Regulations 2008 (as amended)
- the LGPS (Management and Investment of Funds) Regulations 2009.

It is a contributory defined benefit pension scheme to provide pensions and other benefits for pensionable employees of Hampshire County Council, Portsmouth and Southampton City Councils, the 11 district councils in Hampshire, and a range of other scheduled and admitted bodies within the county area. Teachers, police officers and firefighters are not included as they come within other national pension schemes.

The Fund is overseen by the Pension Fund Panel, which is a committee of Hampshire County Council.

b) Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the Scheme, remain in the Scheme or make their own personal arrangements outside the Scheme.

Organisations participating in the Hampshire Pension Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the Fund
- Admitted bodies, which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

There are 303 employer organisations within the Hampshire Pension Fund including the County Council itself, as detailed below:

Hampshire Pension Fund	**31 March 2013**	**31 March 2014**
Number of employers with active members	273	303
Number of employees in Scheme		
County Council	21,279	22,395
Other employers	25,040	28,156
Total	**46,319**	**50,551**
Number of pensioners		
County Council	14,668	14,363
Other employers	18,781	18,923
Total	**33,449**	**33,286**
Deferred pensioners		
County Council	24,398	26,126
Other employers	24,572	26,291
Total	**48,970**	**52,417**

The increase in employer organisations is partially a result of additional state schools converting to academy status during 2013/14, which are subsequently treated as separate employers to the three Local Education Authorities (the County Council and Portsmouth and Southampton City Councils).

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2007 and range from 5.5% to 7.5% of pensionable pay for the financial year ending 31 March 2014. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. During 2013/14, employer contribution rates for most employers ranged from 19.1% to 20.6% of pensionable pay.

d) Benefits

Pension benefits under the LGPS are based on final pensionable pay and length of pensionable service, summarised below.

The Government has published regulations to change the LGPS with effect from 1 April 2014.

	Service pre 1 April 2008	Service post 31 March 2008	Service post 31 March 2014
Basis	Final salary	Final salary	Career average revalued earnings (CARE)
Pension	Each year worked is worth 1/80 x final pensionable salary.	Each year worked is worth 1/60 x final pensionable salary.	Each year worked is worth 1/49 x CARE.
Lump sum	Automatic lump sum of 3 x salary. In addition, part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

There are a range of other benefits provided under the Scheme including early retirement, disability pensions and death benefits. For more details, please refer to the Hampshire Pension Fund's website:
http://www3.hants.gov.uk/pensions

2 Basis of preparation

The Statement of Accounts summarises the Fund's transactions for the 2013/14 financial year and its position at year-end at 31 March 2014. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2013/14* which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed in Note 19 of these accounts.

3 Summary of significant accounting policies

Fund Account – revenue recognition

a) Contribution income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the Fund actuary in the payroll period to which they relate.

Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets.

b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations (see Notes 8 and 10).

Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions (see section n below) to purchase Scheme benefits are accounted for on a receipts basis and are included in Transfers In (see Note 8).

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

c) Investment income

i) Interest income
Interest income is recognised in the Fund Account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition. Income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

ii) Dividend income
Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a current financial asset.

iii) Distributions from pooled funds
Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a current financial asset.

iv) Property-related income
Property-related income consists primarily of rental income.
Properties held in the UK property portfolio are generally subject to leases with upward-only rent reviews every five years.
Rental income from operating leases on properties owned by the Fund is recognised on a straight-line basis over the term of the lease. Any lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease. Contingent rents based on the future amount of a factor that changes other than with the passage of time, such as turnover rents, are only recognised when contractually due.

v) Movement in the net market value of investments
Changes in the net market value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during the year.

Fund Account – expense items

d) Benefits payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities.

e) Taxation

The Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a Fund expense as it arises. Income and expenditure excludes VAT, as all VAT collected is payable to HM Revenue and Customs (HMRC), and all VAT paid is recoverable from HMRC.

f) Administration expenses

All administration expenses are accounted for on an accruals basis. All staff costs of the pensions administration team are charged direct to the Fund. Management, accommodation and other overheads are apportioned to the Fund in accordance with Council policy.

g) Investment management expenses

All investment management expenses are accounted for on an accruals basis.

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

The cost of obtaining investment advice from external consultants is included in investment management charges.

Net Assets Statement

h) Financial assets

Financial assets are included in the Net Assets Statement on a fair value basis as at the reporting date. A financial asset is recognised in the Net Assets Statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date, any gains or losses arising from changes in the fair value of the asset are recognised by the Fund.

The values of investments as shown in the Net Assets Statement have been determined as follows:

i) Market-quoted investments
The value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.

ii) Fixed interest securities
Fixed interest securities are recorded at net market value based on their current yields.

iii) Unquoted investments

The fair value of investments for which market quotations are not readily available is determined as follows:

- Valuations of delisted securities are based on the last sale price prior to delisting, or where subject to liquidation, the amount the Fund expects to receive on wind-up, less estimated realisation costs
- Securities subject to takeover offer – the value of the consideration offered under the offer, less estimated realisation costs
- Directly held investments include investments in limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pools or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement
- Investments in unquoted property and infrastructure pooled funds are valued at the net asset value or a single price advised by the fund manager
- Investments in private equity funds and unquoted limited partnerships are valued based on the Fund's share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund managers in accordance with standardised methods developed by the British Venture Capital Association and European Venture Capital Association (who have subsequently harmonised their valuation guidelines into the International Private Equity and Venture Capital Valuation (IPEV) guidelines).

iv) Limited partnerships

Fair value is based on the net asset value ascertained from periodic valuations provided by those controlling the partnership.

v) Pooled investment vehicles

Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the fund, net of applicable withholding tax.

vi) Freehold and leasehold properties

The properties were valued on 31 March 2014 by an external valuer, Paul Willis, BSc MRICS of Colliers International. The valuations were in accordance with the requirements of the Royal Institute of Chartered Surveyors' Valuation – Professional Standards and the International Valuation Standards. The valuation of each property was on the basis of fair value, as defined by the International Accounting Standards Board. All the properties are held for investment purposes and were valued on the assumption that the properties would be sold subject to any existing leases. The valuer's opinion of fair value was primarily derived using comparable recent market transactions on arm's length terms.

i) Foreign currency transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

j) Derivatives

The Fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes.

Derivative contract assets are fair valued at bid prices and liabilities are fair valued at offer prices. Changes in the fair value of derivative contracts are included in the change in market value.

The value of futures contracts is determined using exchange prices at the reporting date. Amounts due from or owed to the broker are the amounts outstanding in respect of the initial margin and variation margin.

The value of exchange traded options is determined using the exchange price for closing out the option at the reporting date. The value of over-the-counter contract options is based on quotations from an independent broker. Where this is not available, the value is provided by the investment manager using generally accepted option-pricing models with independent market data.

The future value of forward currency contracts is based on market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year-end with an equal and opposite contract.

k) Cash and cash equivalents

Cash comprises cash in hand and demand deposits.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

l) Financial liabilities

The Fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the Net Assets Statement on the date the Fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

m) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the Scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards.

As permitted under IAS 26, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (Note 19).

n) Additional voluntary contributions

Hampshire Pension Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the Pension Fund. The Fund has appointed Prudential and Zurich as its AVC providers. 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.

AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

AVCs are not included in the accounts in accordance with section 4(2)(b) of the LGPS (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only (Note 23).

o) Events after the balance sheet date

Events after the balance sheet date (disclosed in Note 6) are those events that occur (both favourable and non-favourable) between the date of the Balance Sheet (31 March) and the date the accounts are authorised for issue (30 September). There are two types of event:

- Adjusting events - those that provide evidence of a condition that existed at the Balance Sheet date – for this type of event the accounts are adjusted to reflect such events.

- Non-adjusting events - those that are indicative of conditions that arose after the Balance Sheet date – for this type of event the accounts are not adjusted to reflect such events. However, where the event would have a material effect, disclosure is made in the notes to the accounts of the nature and estimated effect of the event.

Events taking place after the date authorised for issue are not reflected in the Statement of Accounts

4 Critical judgements in applying accounting policies

Unquoted private equity investments

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward-looking estimates and judgements involving many factors. The convention for valuing unquoted private equities uses standardised methods developed by the British Venture Capital Association and European Venture Capital Association (who have subsequently harmonised their valuation guidelines into the International Private Equity and Venture Capital Valuation (IPEV) guidelines). The value of unquoted private equity investments at 31 March 2014 was £175 million (£152 million at 31 March 2013).

Pension fund liability

The pension fund liability is calculated every three years by the appointed actuary. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 19. This estimate is subject to significant variances based on changes to the underlying assumptions.

5 Assumptions made about the future and other major sources of estimation uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be different from the assumptions and estimates.

The items in the Net Assets Statement at 31 March 2014 for which there is a significant risk of adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of approximately £580 million. A 0.25% increase in assumed earnings inflation would increase the value of liabilities by approximately £70 million, and a one-year increase in assumed life expectancy would increase the liability by approximately £120 million.
Debtors	At 31 March 2014, the Fund had a balance of debtors and prepayments of £51 million. A review of debtor balances suggested that an impairment of £0.004 million was appropriate. However, in the current economic climate, it is not certain that such an allowance would be sufficient.	If collection rates were to deteriorate, a doubling of the amount of the impairment of doubtful debts would require an additional £0.004 million to be set aside as an allowance.
Private equity	Private equity investments are valued at fair value in accordance with the International Private Equity and Venture Capital Valuation (IPEV) guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statements are £175 million. There is a risk that this investment may be under- or overstated in the accounts.
Hedge funds	Hedge funds are valued at the sum of the fair values provided by the administrators of the funds plus adjustments that the funds' directors or independent administrators judge necessary. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total hedge fund value in the financial statements is £136 million. There is a risk that this investment may be under or overstated in the accounts. The custodian reports a tolerance of +/- 5% around the net asset values on which the hedge fund valuation is based. This equates to a tolerance of +/- £6.8 million.

6 Events after the Balance Sheet date

As part of the Ministry of Justice's Transforming Rehabilitation Programme the employees and pensioners of the Hampshire Probation Trust will be transferring out of the Hampshire Pension Fund on 1 June 2014. As this event has taken place after the balance sheet date the Fund's financial statements have not been amended. There will be a bulk transfer out of the Fund to be paid in the financial year 2014/15, which the Government Actuary's Department's initial estimate is £70m. There will also be associated reductions in the Fund's contributions received and benefits paid in relation to the Probation Trust staff and pensioners that have left the Fund.

7 Contributions receivable

By category

	2012/13 £000	2013/14 £000
Employers	163,962	168,102
Members	52,777	54,999
Total	**216,739**	**223,101**

By type of employer

	2012/13 £000	2013/14 £000
Scheduled bodies	207,826	212,861
Admitted bodies	4,126	4,189
Community admission bodies	1,248	1,046
Transferee admission bodies	2,568	3,914
Resolution bodies	971	1,091
Total	**216,739**	**223,101**

8 Transfers in from other pension funds

	2012/13 £000	2013/14 £000
Group transfers	2,181	0
Individual transfers	11,957	10,668
Total	**14,138**	**10,668**

9 Benefits payable

By category

	2012/13 £000	2013/14 £000
Pensions	159,213	166,231
Commutation and lump sum retirement benefits	34,530	32,526
Lump sum death benefits	3,686	4,711
Total	**197,429**	**203,468**

By type of employer

	2012/13 £000	2013/14 £000
Scheduled bodies	188,418	194,815
Admitted bodies	5,196	5,045
Community admission bodies	1,584	1,322
Transferee admission bodies	1,577	1,613
Resolution bodies	654	673
Total	**197,429**	**203,468**

10 Payments to and on account of leavers

	2012/13 £000	2013/14 £000
Refunds to members leaving service	16	18
Payments for members joining State scheme	-5	-7
Group transfers	8,475	0
Individual transfers	11,551	9,825
Total	**20,037**	**9,836**

11 Administration expenses

	2012/13 £000	2013/14 £000
Pension administration costs	2,640	2,764
External audit fees	29	28
Internal audit fees	25	36
Actuarial fees	45	98
Other	43	46
Total	**2,782**	**2,972**

12 Investment income

	2012/13 £000	2013/14 £000
Fixed interest securities	6,079	6,820
Equity dividends	52,893	55,973
Pooled property investments	3,278	2,132
Pooled investments – unit trusts and other managed funds	904	452
Property (see note 12a)	15,439	17,622
Interest on cash deposits	952	608
Alternative investment income	8,268	7,409
Stock lending	281	204
Other	648	29
Total	**88,742**	**91,249**

12a) Property income

	2012/13 £000	2013/14 £000
Rental income	15,439	17,622
Direct operating expenses	-1,562	-2,422
Net income	**13,877**	**15,200**

13 Taxes on income

	2012/13 £000	2013/14 £000
Withholding tax – equities	954	1,299
Total	**954**	**1,299**

14 Investment management expenses

	2012/13 £000	2013/14 £000
Management fees	6,811	7,611
Property managers' expenses	1,762	2,574
Custodian fees	310	86
Investment consultancy	0	32
Other	350	439
Total	**9,233**	**10,742**

15 Investments

	Market value 31 March 2013 £000	Market value 31 March 2014 £000
Investment assets		
Fixed interest securities	211,893	212,592
Equities	1,747,732	1,853,541
Pooled investments	1,597,401	1,617,743
Pooled property investments	61,504	46,860
Alternative investments	297,819	281,507
Property	259,160	302,845
Derivative contracts:		
- Futures	322	90
- Forward currency contracts	2,978	2,567
- Purchased/written options	459	74
- Spot foreign exchange contracts	1	2
- Adjustment to variation margins	1,207	0
Cash deposits	17,090	52,345
Total investment assets	**4,197,566**	**4,370,166**
Investment liabilities		
Derivative contracts:		
- Futures	-1,529	-435
- Forward currency contracts	-3,898	-367
- Purchased/written options	-233	-351
- Spot foreign exchange contracts	0	-9
- Adjustment to variation margins	0	0
Total investment liabilities	**-5,660**	**-1,162**
Net investment assets	**4,191,906**	**4,369,004**

15a) Reconciliation of movements in investments and derivatives

	Market value 1 April 2013	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Market value 31 March 2014
	£000	£000	£000	£000	£000
Fixed interest securities	211,893	644,890	-625,392	-18,799	212,592
Equities	1,747,732	516,204	-472,134	61,739	1,853,541
Pooled investments	1,597,401	77,311	-73,928	16,959	1,617,743
Pooled property investments	61,504	3,558	-17,081	-1,121	46,860
Alternative investments	297,819	62,079	-73,221	-5,170	281,507
Property	259,160	20,351	-5,340	28,674	302,845
	4,175,509	**1,324,393**	**-1,267,096**	**82,282**	**4,315,088**
Derivative contracts:					
- Futures	-1,207	4,170	-3,808	500	-345
- Forward currency contracts	-920	34,400	-44,908	13,628	2,200
- Purchased/written options	226	-673	-1,819	1,989	-277
	-1,901	**37,897**	**-50,535**	**16,117**	**1,578**
Other investment balances:					
- Cash deposits	17,090				52,345
- Spot foreign exchange contracts	1				-7
- Adjustment to variation margin	1,207				0
Net investment assets	**4,191,906**			**98,399**	**4,369,004**

	Market value 1 April 2012	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Market value 31 March 2013
	£000	£000	£000	£000	£000
Fixed interest securities	175,963	489,474	-466,718	13,174	211,893
Equities	1,736,856	316,461	-565,371	259,786	1,747,732
Pooled investments	1,180,216	435,259	-205,692	187,618	1,597,401
Pooled property investments	69,152	1,779	-3,956	-5,471	61,504
Alternative investments	206,874	96,306	-46,553	41,192	297,819
Property	208,790	71,091	-5,424	-15,297	259,160
	3,577,851	**1,410,370**	**-1,293,714**	**481,002**	**4,175,509**
Derivative contracts:					
- Futures	26	61	-1,459	165	-1,207
- Forward currency contracts	2,864	34,167	-30,588	-7,363	-920
- Purchased/written options	-241	5,904	-5,826	389	226
	2,649	**40,132**	**-37,873**	**-6,809**	**-1,901**
Other investment balances:					
- Cash deposits	60,421				17,090
- Spot foreign exchange contracts	-19				1
- Adjustment to variation margin	-26				1,207
Net investment assets	**3,640,876**			**474,193**	**4,191,906**

Transaction costs are included in the cost of purchases and in sale proceeds. These include costs charged directly to the Fund, such as commissions, stamp duty and other fees.

15b) Analysis of investments (excluding derivative contracts)

	31 March 2013 £000	31 March 2014 £000
Fixed interest securities		
UK		
Public sector quoted	5,777	16,367
Corporate quoted	8,964	6,213
Corporate unquoted	0	528
Overseas		
Public sector quoted	152,309	140,966
Public sector unquoted	0	7,422
Corporate quoted	44,843	41,096
	211,893	**212,592**
Equities		
UK		
Quoted	744,859	795,735
Overseas		
Quoted	1,002,873	1,057,806
	1,747,732	**1,853,541**
Pooled funds – additional analysis		
UK		
Fixed income unit trusts	928,598	923,340
Unit trusts	545,613	440,050
Overseas		
Fixed income unit trusts	0	7,934
Unit trusts	123,190	246,419
	1,597,401	**1,617,743**
Pooled property investments	61,504	46,860
Alternative investments	297,819	281,507
Property	259,160	302,845
	618,483	**631,212**
	4,175,509	**4,315,088**

Analysis of derivatives

Objectives and policies for holding derivatives

The Fund's investments in derivatives are to hedge liabilities or exposures to reduce risk in the Fund. Derivatives may be used to gain exposure to an asset more efficiently than holding the underlying asset. The use of derivatives is managed in line with the investment management agreements agreed between the Fund and the various investment managers.

All the derivative future and option contracts are exchange traded, in other words, none are 'over the counter' (OTC). The forward foreign currency contracts are all OTC contracts whereby two parties agree to exchange two currencies on a specified future date at an agreed rate of exchange.

i) Futures

The economic exposure represents the notional value of stock purchased under futures contracts and is therefore subject to market movements.

ii) Forward foreign currency

In order to maintain appropriate diversification and to take advantage of overseas investment returns, a significant proportion of the Fund's portfolio is in foreign currency. To reduce the volatility associated with fluctuating currency rates, derivative contracts are used in some instances.

iii) Options

The Fund wants to benefit from the returns available from investing in fixed interest securities but wishes to minimise the risk of loss of value through adverse price movements.

i) Futures

Outstanding exchange traded futures contracts are as follows:

Type	Expires	Economic exposure	Market value 31 March 2013	Economic exposure	Market value 31 March 2014
		£000	£000	£000	£000
Assets					
UK Fixed Income Futures	Less than one year	10,809	104	1,200	4
Overseas fixed income futures	Less than one year	27,389	127	33,833	86
Overseas cash futures	Less than one year	18,051	91	0	0
Total assets			**322**		**90**
Liabilities					
Overseas fixed income futures	Less than one year	-117,233	-1,529	-31,544	-435
Total liabilities			**-1,529**		**-435**
Net futures			**-1,207**		**-345**

ii) Open forward currency contracts

At 31 March 2014, the Fund had open forward currency contracts in place with a net unrealised profit of £2.2 million.

Settlements	Currency bought	Local value	Currency sold*	Local value	Asset value	Liability value
		000		000	£000	£000
Up to one month	BRL	2,307	USD	-965	30	0
Up to one month	CNY	19,730	USD	-3,238	30	-56
Up to one month	INR	166,190	USD	-2,645	66	0
Up to one month	JPY	126,217	GBP	-743	0	-8
Up to one month	JPY	476,632	GBP	-2,774	2	0
Up to one month	ZAR	9,138	GBP	-517	4	0
One to six months	AUD	2,560	GBP	-1,397	23	0
One to six months	CAD	734	GBP	-403	0	-5
One to six months	EUR	1,000	USD	-1,395	0	-10
One to six months	GBP	4,021	AUD	-7,412	0	-89
One to six months	GBP	4,048	CAD	-7,335	65	0
One to six months	GBP	67,205	EUR	-80,793	401	-4
One to six months	GBP	28,397	JPY	-4,745,623	742	0
One to six months	GBP	2,329	PLN	-11,797	0	-7
One to six months	GBP	74,695	USD	-122,507	1,189	0
One to six months	GBP	3,080	ZAR	-56,465	0	-120
One to six months	JPY	70,070	USD	-685	0	-3
One to six months	MXN	6,680	GBP	-304	2	0
One to six months	USD	1,727	BRL	-4,040	3	-33
One to six months	USD	3,395	EUR	-2,480	7	-20
One to six months	USD	1,727	MXN	-22,820	3	-12
Open forward currency contracts at 31 March 2014					**2,567**	**-367**
Net forward currency contracts at 31 March 2014						**2,200**
Prior year comparative:						
Open forward currency contracts at 31 March 2013					**2,978**	**-3,898**
Net forward currency contracts at 31 March 2013						**-920**

* List of currencies

AUD = Australian Dollar	BRL = Brazilian Real	CAD = Canadian Dollar
CNY = Chinese Yuan	EUR = Euro	GBP = British Pound
INR = Indian Rupee	JPY = Japanese Yen	MXN = Mexican Peso
PLN = Polish Zloty	USD = United States Dollar	ZAR = S Africa Rand

iii) Purchased/written options

Investment underlying option contract	Expires	Put/call	Notional holding	Market value 31 March 2013	Notional holding	Market value 31 March 2014
			£000	£000	£000	£000
Assets						
Overseas fixed interest purchased	One to three months	Call	1	159	0	62
Overseas cash purchased	One to three months	Put	11,949	40	0	0
Overseas cash purchased	One to three months	Call	15,430	260	0	0
Overseas cash purchased	More than three months	Put	0	0	4,133	7
Overseas cash purchased	More than three months	Call	0	0	4,079	5
Total assets				**459**		**74**
Liabilities						
Overseas fixed interest written	One to three months	Put	-0	-14	-0	-129
Overseas fixed interest written	One to three months	Call	-0	-34	-1	-193
Overseas cash written	One to three months	Put	0	0	-4,133	-29
Overseas cash written	One to three months	Call	-14,250	-185	0	0
Total liabilities				**-233**		**-351**
Net purchased/written options				**226**		**-277**

Investments analysed by fund manager

	Market value 31 March 2013 £000	%	Market value 31 March 2014 £000	%
Aberdeen	702,072	16.2	695,956	15.3
Schroders	641,853	14.8	715,884	15.8
Newton	564,354	13.0	601,267	13.2
Legal & General	491,272	11.3	469,822	10.3
State Street	1,096,817	25.3	1,116,362	24.6
Western	200,199	4.6	207,208	4.6
CBRE Global Investors	271,547	6.2	315,680	7.0
	3,968,114		4,122,179	
Other investments	255,925	5.9	311,237	6.9
Other net assets	116,579	2.7	102,301	2.3
Total	**4,340,618**	**100.0**	**4,535,717**	**100.0**

All the companies named above are registered in the United Kingdom.

Concentration of investments

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

The following investment was more than 5% of the total of its asset class:

Asset class	Security	Market value 31 March 2013 £000	% of asset class	Market value 31 March 2014 £000	% of asset class
Fixed interest securities	Treasury bonds 5% 09/07/2014	0	0	12,362	5.8
Property	Property x*	22,950	8.9	23,850	7.9

*The Pension Fund does not disclose the individual valuations of its property assets to protect the commercial sensitivity of this information.

15c) Stock lending

The LGPS (Management & Investment of Funds) Regulations 2009 allow the Fund to lend stock provided that the total value of the stock to be transferred does not exceed 25% of the total market value of the stock held within the Fund at any time.

The Fund lends stock to third parties under a stock-lending agreement with its custodian, JP Morgan. The total amount of stock on loan at the year-end was £111

million, and this value is included in the Net Assets Statement to reflect the Fund's continuing economic interest in the stock on loan. The table below summarises the value of stock lent out by the Fund:

	31 March 2013 £000	31 March 2014 £000
Equities – UK	38,431	77,071
Equities – overseas	45,937	31,444
Fixed interest – UK	1,423	2,786
Fixed interest – overseas	46,934	0
Total	**132,725**	**111,301**

As security for the stock on loan, the Fund received collateral at 31 March 2014 valued at £126 million. This represented 113% of the value of stock on loan and comprised 82% equities and 18% government fixed interest bonds.

The income received from stock-lending activities was £0.204 million net of administrative fees for the year ending 31 March 2014 and is included in the 'Investment income' figure in the Pension Fund Account. This is a slightly lower income figure than the £0.281 million net of administrative fees generated in 2012/13.

15d) Property holdings

	Year ending 31 March 2013 £000	Year ending 31 March 2014 £000
Opening balance	208,790	259,160
Additions	71,091	20,351
Disposals	-5,424	-5,340
Net change in market value	-15,297	28,674
Closing Balance	**259,160**	**302,845**

There are no restrictions on the realisability of the property or the remittance of income or proceeds on disposal and the Fund is not under any contractual obligations to purchase or sell, construct or develop any of these properties. The Pension Fund is required to meet the cost of repairs, maintenance or enhancements necessary to maintain the investment income of its property assets. These costs are shown in Note 12a under direct operating costs.

16 Financial instruments

16a) Classification of financial instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities (excluding cash) by category and Net Assets Statement heading. No financial assets were reclassified during the accounting period.

31 March 2013				31 March 2014		
Designated as fair value through profit and loss	**Loans and receivables**	**Financial liabilities at amortised cost**		**Designated as fair value through profit and loss**	**Loans and receivables**	**Financial liabilities at amortised cost**
£000	**£000**	**£000**		**£000**	**£000**	**£000**
			Financial assets			
211,893	-	-	Fixed interest securities	212,592	-	-
1,747,732	-	-	Equities	1,853,541	-	-
1,597,401	-	-	Pooled investments	1,617,743	-	-
61,504	-	-	Pooled property investments	46,860	-	-
297,819	-	-	Private equity/infrastructure	281,507	-	-
259,160	-	-	Property	302,845	-	-
4,967	-	-	Derivative contracts	2,733	-	-
-	113,593	-	Cash	-	180,442	-
-	65,620	-	Debtors	-	51,430	-
4,180,476	**179,213**	**0**		**4,317,821**	**231,872**	**0**
			Financial Liabilities			
-5,660	-	-	Derivative contracts	-1,162	-	-
-	-	-13,411	Creditors	-	-	-12,814
-5,660	**0**	**-13,411**		**-1,162**	**0**	**-12,814**
4,174,816	**179,213**	**-13,411**		**4,316,659**	**231,872**	**-12,814**

16b) Net gains and losses on financial instruments

31 March 2013 £000		31 March 2014 £000
	Financial assets	
481,002	Fair value through profit and loss	82,282
	Financial liabilities	
-6,809	Fair value through profit and loss	16,117
474,193	**Total**	**98,399**

16c) Fair value of financial instruments and liabilities

The following table summarises the carrying values of the financial assets and financial liabilities by class of instrument compared with their fair values.

31 March 2013			31 March 2014	
Carrying value £000	**Fair value £000**		**Carrying value £000**	**Fair value £000**
		Financial assets		
4,180,476	4,180,476	Fair value through profit and loss	4,317,821	4,317,821
179,213	179,213	Loans and receivables	231,872	231,872
4,359,689	**4,359,689**	**Total financial assets**	**4,549,693**	**4,549,693**
		Financial liabilities		
-5,660	-5,660	Fair value through profit and loss	-1,162	-1,162
-13,411	-13,411	Financial liabilities at amortised cost	-12,814	-12,814
-19,071	**-19,071**	**Total financial liabilities**	**-13,976**	**-13,976**

The Fund has not entered into any financial guarantees that are required to be accounted for as financial instruments.

16d) Valuation of financial instruments carried at fair value

The valuation of financial instruments had been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as Level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2

Financial instruments at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data, such as for property investments.

Level 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

Such instruments would include unquoted equity investments and hedge funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into Levels 1 to 3, based on the level at which the fair value is observable.

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2014	**Level 1**	**Level 2**	**Level 3**	**Total**
	£000	**£000**	**£000**	**£000**
Financial assets				
Financial assets at fair value through profit and loss	3,675,925	360,389	281,507	4,317,821
Loans and receivables	231,872	-	-	231,872
Total financial assets	**3,907,797**	**360,389**	**281,507**	**4,549,693**
Financial liabilities				
Financial liabilities at fair value through profit and loss	-	-1,162	-	-1,162
Financial liabilities at amortised cost	-12,814	-	-	-12,814
Total financial liabilities	**-12,814**	**-1,162**	**0**	**-13,976**
Net financial assets	**3,894,983**	**359,227**	**281,507**	**4,535,717**

Values at 31 March 2013	Quoted market price Level 1 £000	Using observable inputs Level 2 £000	With significant unobservable inputs Level 3 £000	Total £000
Financial assets				
Financial assets at fair value through profit and loss	3,557,026	325,631	297,819	4,180,476
Loans and receivables	179,213	-	-	179,213
Total financial assets	**3,736,239**	**325,631**	**297,819**	**4,359,689**
Financial liabilities				
Financial liabilities at fair value through profit and loss	-	-5,660	-	-5,660
Financial liabilities at amortised cost	-13,411	-	-	-13,411
Total financial liabilities	**-13,411**	**-5,660**	**0**	**-19,071**
Net financial assets	**3,722,828**	**319,971**	**297,819**	**4,340,618**

17 Nature and extent of risks arising from financial instruments

Risk and risk management

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The Pension Fund manages these investment risks as part of its overall pension fund risk management programme.

Responsibility for the Fund's risk management strategy rests with the Pension Fund Panel. Risk management policies are established to identify and analyse the risks faced by the Pension Fund's operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

17a) Market risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Pension Fund and its investment advisers undertake appropriate monitoring of market conditions and benchmark analysis.

The Fund manages these risks in two ways:

- the exposure of the Fund to market risk is monitored through a factor risk analysis, to ensure that risk remains within tolerable levels
- specific risk exposure is limited by applying risk-weighted maximum exposures to individual investments.

Equity futures contracts and exchange traded option contracts on individual securities may also be used to manage market risk on equity investments. It is possible for over-the-counter equity derivative contracts to be used in exceptional circumstances to manage specific aspects of market risk.

Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The Fund is exposed to share and derivative price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from shares sold short is unlimited.

The Fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the Pension Fund to ensure it is within limits specified in the Fund investment strategy.

Other price risk – sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with WM Company plc, the Pension Fund has determined that the following movements in market price risk are reasonably possible for the 2014/15 reporting period:

Asset type	Potential market movements (+/-)
UK equities	12.3%
Overseas equities	11.2%
UK index-linked gilts	8.8%
UK fixed interest bonds	5.5%
Overseas index-linked gilts	4.6%
Overseas fixed interest bonds	2.5%
Property	2.7%
Alternative investments	3.8%
Cash	0.0%

The potential price changes disclosed above are broadly consistent with a one standard deviation movement in the value of the assets. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

Had the market price of the Fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market price would have been as follows:

Asset type	Value at 31 March 2014	Percentage change	Value on increase	Value on decrease
	£000	%	£000	£000
UK Equities	1,235,784	12.3	1,387,293	1,084,278
Global Equities	1,304,226	11.2	1,450,560	1,157,892
UK index-linked gilts	887,941	8.8	966,435	809,447
UK fixed interest bonds	58,508	5.5	61,708	55,307
Overseas index-linked gilts	5,055	4.6	5,287	4,824
Overseas fixed interest bonds	193,933	2.5	198,839	189,026
Property	349,705	2.7	359,287	340,124
Alternatives	281,507	3.8	292,288	270,725
Cash	52,345	0.0	52,355	52,334
Total assets	**4,369,004**		**4,774,052**	**3,963,957**

Asset type	Value at 31 March 2013	Percentage change	Value on increase	Value on decrease
	£000	%	£000	£000
UK Equities	1,290,472	12.3	1,448,684	1,132,260
Global Equities	1,126,063	11.2	1,252,407	999,719
UK index-linked gilts	928,598	8.8	1,010,686	846,510
UK fixed interest bonds	14,741	5.5	15,547	13,935
Overseas index-linked gilts	4,562	4.6	4,771	4,353
Overseas fixed interest bonds	192,590	2.5	197,463	187,717
Property	320,664	2.7	329,450	311,878
Alternatives	297,126	3.8	308,506	285,746
Cash	17,090	0.0	17,093	17,087
Total assets	**4,191,906**		**4,584,607**	**3,799,205**

Interest rate risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's interest rate risk is routinely monitored by the Pension Fund in accordance with the Fund's risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks.

The Fund's direct exposure to interest rate movements as at the financial year end is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

	31 March 2013 £000	31 March 2014 £000
Cash and cash equivalents	96,503	128,097
Cash deposits	17,090	52,345
Fixed interest securities	1,140,491	1,143,865
Total	**1,254,084**	**1,324,307**

Interest rate risk sensitivity analysis

The Pension Fund recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits. A 1% movement in interest rates is consistent with the level of sensitivity applied as part of the Fund's risk management strategy.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a 1% change in interest rates:

Asset type	Carrying amount as at 31 March 2014	Change in year in the net assets available to pay benefits	
		+1%	-1%
	£000	£000	£000
Cash & cash equivalents	128,097	1,281	-1,281
Cash deposits	52,345	523	-523
Fixed interest securities	1,143,865	11,439	-11,439
Total change in assets available	**1,324,307**	**13,243**	**-13,243**

Asset type	Carrying amount as at 31 March 2013	Change in year in the net assets available to pay benefits	
		+1%	-1%
	£'000	£'000	£'000
Cash & cash equivalents	96,503	965	-965
Cash deposits	17,090	171	-171
Fixed interest securities	1,140,491	11,405	-11,405
Total change in assets available	**1,254,084**	**12,541**	**-12,541**

Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund (GB pounds). The Fund holds both monetary and non-monetary assets denominated in currencies other than GB pounds.

The Fund's currency rate risk is routinely monitored by the Pension Fund in accordance with the Fund's risk management strategy, including monitoring the range of exposure to currency fluctuations.

The following table summarises the Fund's currency exposure as at 31 March 2014 and as at the previous period end:

	Asset value at 31 March 2013 £000	Asset value at 31 March 2014 £000
Overseas quoted securities	1,002,873	1,057,806
Overseas unit trusts	123,190	175,215
Alternative investments	266,349	281,507
Overseas pooled property investments	46,900	34,025
Overseas public sector bonds	152,309	149,959
Overseas corporate bonds	44,843	41,096
Total overseas assets	**1,636,464**	**1,739,608**

In consultation with WM Company plc, the Pension Fund considers the likely volatility associated with foreign exchange rate movements to be 5.67%.

This analysis assumes that all other variables, in particular interest rates, remain constant.

A 5.67% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

	Asset value as at 31 March 2014	Change to net assets available to pay benefits	
		+5.67%	-5.67%
	£000	£000	£000
Total change in assets available	1,739,608	98,636	-98,636

	Asset value as at 31 March 2013	Change to net assets available to pay benefits	
		+5.67%	-5.67%
	£000	£000	£000
Total change in assets available	1,636,464	92,788	-92,788

17b) Credit risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities.

In essence, the Fund's entire investment portfolio is exposed to some form of credit risk, with the exception of the derivatives positions, where the risk equates to the net market value of a positive derivative position. However, the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

Contractual credit risk is represented by the net payment or receipt that remains outstanding, and the cost of replacing the derivative position in the event of a counterparty default. The residual risk is minimal due to the various insurance policies held by the exchanges to cover defaulting counterparties.

Credit risk on over-the-counter derivative contracts is minimised as counterparties are recognised financial intermediaries with acceptable credit ratings determined by a recognised rating agency.

Deposits are not made with banks and financial institutions unless they are rated independently and meet the Pension Fund's credit criteria. The Pension Fund has also set limits as to the maximum percentage of the deposits placed with any one

class of financial institution. In addition, the Pension Fund invests an agreed percentage of its funds in the money markets to provide diversification. The money market funds chosen all have AAA rating from a leading ratings agency.

The Pension Fund has managed its exposure to credit risk, and has had no experience of default or uncollectable deposits. The Fund's cash holding under its treasury management arrangements at 31 March 2014 was £89.320 million (31 March 2013: £51.230 million). This was held with the following institutions:

	Rating as at 31 March 2014	Balances as at 31 March 2013 £000	Balances as at 31 March 2014 £000
Money market funds			
Ignis	AAA	4,800	9,000
Federated Investors UK	AAA	4,800	8,740
Insight	AAA	4,800	9,000
Deutsche	AAA	4,800	9,000
Goldman Sachs	AAA	3,000	3,080
Bank deposit accounts			
NatWest	A-	7,500	0
HSBC	AA-	7,030	5,000
Lloyds	A	7,500	7,000
Santander UK	A	0	7,000
Barclays	A	7,000	9,000
Nationwide Building Society	A	0	8,500
Svenska Handelsbanken	AA-	0	9,000
Close Brothers	A-	0	5,000
Total		**51,230**	**89,320**

17c) Liquidity risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Pension Fund therefore takes steps to ensure that it has adequate cash resources to meet its commitments.

Periodic cash flow forecasts are prepared to understand and manage the timing of the Fund's cash flows.

All financial liabilities at 31 March 2014 are due within one year.

Refinancing risk

The key risk is that the Pension Fund could be bound to replace on maturity a significant proportion of its financial instruments at a time of unfavourable interest rates. However, the Pension Fund does not have any financial instruments that have a refinancing risk as part of its treasury management and investment strategies.

18 Funding arrangements

In line with the LGPS (Administration) Regulations 2008, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place at 31 March 2013. The next valuation will take place at 31 March 2016.

The key elements of the funding policy are:

- to ensure the long-term solvency of the Fund, i.e. that sufficient funds are available to meet all pension liabilities as they fall due for payment
- to ensure that employer contribution rates are as stable as possible
- to minimise the long-term cost of the Scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return
- to reflect the different characteristics of employing bodies in determining contribution rates where the administering authority considers it reasonable to do so
- to use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer defaulting on its pension obligations.

The aim is to achieve 100% solvency over a period of 22 years from 1 April 2014 and to provide stability in employer contribution rates by spreading any increases in rates over a period of time. Solvency is achieved when the value of assets held are equal to 100% of the Solvency Target as defined in the Funding Strategy Statement.

At the 2013 actuarial valuation, the Fund was assessed as 80% funded (72% at the March 2010 valuation). This corresponded to a deficit of £1,087 million (2010 valuation: £1,256 million) at that time.

Contribution schedules have been agreed for the two groups of employers. Generally, employers in the Scheduled Body Group are required to pay 13.1% of Pensionable Pay. In addition, most Scheduled Body employers will continue to pay shortfall contributions based on the amounts being paid over in 2013/14, but increasing at 8.8% p.a. with effect from 1 April 2014 for 6 years and increasing by 3.9% p.a. thereafter. Employers in the Admission Body Group are required to pay 15.6% of Pensionable Pay. In addition, most Admission Body employers will continue to pay shortfall contributions based on the amounts being paid over in 2013/14, but increasing at 20.0% p.a. with effect from 1 April 2014 for 4 years and increasing by 3.9% p.a. thereafter.

Contribution schedules have also been agreed for the remaining employers who are not grouped. The contributions for those employers reflect the profiles of their membership, the approach taken to value the liabilities on exit and take into account the recovery of any surplus or deficiency relating to their participation over an appropriate period.

The valuation of the Fund has been undertaken using the projected unit method for most employers, under which the salary increase for each member is assumed to increase until they leave active service by death, retirement or withdrawal from service.

The main actuarial assumptions used for the March 2013 actuarial valuation were as follows:

Discount rate for periods	
In service	
Scheduled and subsumption bodies	5.50% a year
Orphan bodies	5.20% a year
After leaving service	
Scheduled and subsumption bodies	5.50% a year
Orphan bodies	3.90% a year
Rate of price inflation (RPI)	3.30% a year
Rate of price inflation (CPI)	2.40% a year
Rate of general pay increases	3.90% a year
Rate of revaluation of pension accounts	2.40% a year
Rate of increase to pensions in payment	2.40% a year
Rate of deferred pension increases	2.40% a year
Valuation of assets	market value

A 65 year old male pensioner in normal health is now assumed on average to live to 89.3 (rather than 88.7 at the previous valuation). And a 65 year old female pensioner in normal health is assumed on average to live to 91.0 (rather than 89.7).

Commutation assumption:
Each member was assumed to surrender pension on retirement, such that the total cash received (including any accrued lump sum from pre 2008 service) is 70% of the permitted maximum.

19 Actuarial present value of promised retirement benefits

In addition to the triennial funding valuation, the Fund's actuary also undertakes a valuation of the Pension Fund's liabilities, on an IAS 19 basis, using the same base data as the funding valuation.

In order to assess the value of the benefits on this basis, the actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see Note 18). The actuary has also valued ill health and death benefits in line with IAS 19.

The actuarial present value of promised retirement benefits at 31 March 2013 was £6,565 million (31 March 2010: £5,827 million). The Fund Accounts do not take account of liabilities to pay pensions and other benefits in the future.

The liabilities above are calculated on an IAS 19 basis and therefore differ from the results of the 2013 triennial funding valuation (see Note 18) because IAS 19 stipulates a discount rate rather than a rate which reflects market rates.

The principal financial assumptions used by the Fund's actuary for the March 2013 IAS 19 calculation were:

Discount rate	4.4%
RPI inflation	3.4%
CPI inflation/pension increase rate assumption	2.4%
Salary increase rate	3.9%

20 Current assets

	31 March 2013 £000	31 March 2014 £000
Debtors:		
- Contributions due	20,969	23,196
- Sundry debtors	21,724	17,585
	42,693	**40,781**
Prepayments	12,278	0
Cash balances	96,503	128,097
Total	**151,474**	**168,878**

Analysis of debtors	31 March 2013 £000	31 March 2014 £000
Central government bodies	2,339	2,465
Other local authorities	19,921	20,595
NHS bodies	1	8
Public corporations and trading funds	3,284	3,741
Other entities and individuals	17,148	13,972
Total	**42,693**	**40,781**

21 Current liabilities

	31 March 2013 £000	31 March 2014 £000
Sundry creditors	13,411	12,814
Total	**13,411**	**12,814**

Analysis of creditors	31 March 2013 £000	31 March 2014 £000
Central government bodies	302	234
Other local authorities	8,597	9,792
NHS bodies	11	0
Other entities and individuals	4,501	2,788
Total	**13,411**	**12,814**

22 Long term debtors

With effect from 1 April 2005, the Magistrates Courts Service (a body participating in the Hampshire Pension Fund) became part of the Civil Service. Terms have been agreed for the transfer of liabilities from all Local Government Pension Schemes (LGPS) to the Principal Civil Service Pension Scheme (PCSPS). Each affected LGPS fund's actuary has determined the value of the pensioner and deferred liabilities remaining with the LGPS and calculated the requirement for sufficient retained assets to match these liabilities.

The actuary determined that as insufficient assets remain to cover the remaining liabilities, a balancing payment of £15.213 million was required to the Fund by the Civil Service (Her Majesty's Courts Service) to be spread over ten instalments commencing April 2012. The total amount of the remaining debt is £12.170 million, of this the following year's instalment (£1.521 million) is classified as a debt repayable in one year, and the remaining balance £10.649 million is a long term debtor.

	31 March 2013 £000	31 March 2014 £000
Magistrates Courts - agreed liability settlement due from central government body	10,649	10,649
Total	**10,649**	**10,649**

23 Additional voluntary contributions

	Market value 31 March 2013 £000	Market value 31 March 2014 £000
Prudential	1,499	2,586
Zurich	7,785	7,686
Equitable Life	1,409	1,375
Total	**10,693**	**11,647**

During the year, AVC contributions of £1.550 million were paid directly to Prudential (2012/13: £1.366 million), £0.844 million to Zurich (2012/13: £0.907 million), and £0.015 million to Equitable Life (2012/13: £0.014 million).

24 Related party transactions

The Hampshire Pension Fund is administered by Hampshire County Council. Consequently, there is a strong relationship between the County Council and the Pension Fund.

The County Council incurred costs of £2.800 million (2012/13: £2.665 million) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses. The County Council is also the single largest employer of members of the Pension Fund and contributed £82.108 million to the Fund in 2013/14 (2012/13 £81.420 million).

The role of Treasurer to the Pension Fund is provided by Director of Corporate Resources of Hampshire County Council whose remuneration package is disclosed by the County Council. The charge for the Treasurer by the County Council to the Pension Fund is included in the figure for the County Council's administration costs above.

25 Contingent liabilities and contractual commitments

Outstanding capital commitments (investments) at 31 March 2014 totalled £97.926 million (31 March 2013: £66.978 million). These commitments relate to outstanding call payments due on unquoted private equity limited partnership funds (£85.260 million) and hedge funds (£12.666 million) both held in the alternative investments part of the Fund.

The amounts 'called' by private equity funds are irregular in both size and timing over a period of between four and six years from the date of each original commitment. The amounts relating to hedge funds commitments to add to existing hedge fund investments that were made in March 2014 but did not take place until April 2014.

The Fund had no contingent liabilities on 31 March 2014.

26 Contingent assets

The Fund had no contingent assets on 31 March 2014.

27 Impairment losses

During 2013/14, the Fund has recognised an impairment loss for bad and doubtful debt of £0.004 million (2012/13: £0.005 million) for possible non-recovery of pensioner death overpayments, and there were no potential non-payment of cessation values where the employer is not backed up by a guarantee on 31 March 2014.

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 Chief Financial Officer
- Manage its affairs so as to use resources economically, efficiently and effectively and safeguard its assets
- Approve the Statement of Accounts.

2 The Chief Financial Officer's responsibilities

1. The Chief Financial Officer 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 Chief Financial Officer 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 Chief Financial Officer has also:

- Kept proper accounting records which are up to date
- Taken reasonable steps to prevent fraud and other irregularities.

3 The Chief Financial Officer'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 2014 and its income and expenditure for the year ended 31 March 2014.

Carolyn Williamson
Chief Financial Officer and Section 151 Officer
25 September 2014

4 The Chairman's statement

I certify that the Statement of Accounts for 2013/14 was considered and approved by the Audit Committee on 25 September 2014.

Councillor Andrew Gibson
Vice-Chairman of Audit Committee
25 September 2014

Annual Governance Statement for Hampshire County Council and Hampshire Pension Fund

1 Scope of Responsibility

Hampshire County Council is responsible for ensuring that:

- its business is conducted in accordance with the law and to proper standards.
- public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.
- pursuant to the Local Government Act 1999 it secures continuous improvements in the way in which its functions are exercised, having regard to a combination of efficiency, effectiveness and economy.
- there is a sound system of internal control which facilitates the effective exercise of the County Council's functions and which include arrangements for the management of risk.

These responsibilities also extend to the administration of the Hampshire Pension Fund, which is undertaken by the Pension Fund Panel. The Panel, which meets regularly, is comprised of County Councillors, representatives of Unitary and District Councils, pensioners and pension contributor's representatives. The Panel is also advised by an external independent adviser.

This Statement explains how the County Council has complied with the Code and meets with the requirements of the Accounts and Audit (England) Regulations 2011 in relation to the publication of an Annual Governance Statement during 2013-2014.

2 The purpose of Corporate Governance

The governance framework comprises the systems and processes, and cultures and values, by which the County Council is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the County Council to monitor the achievements of the County Council's strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.

The system of internal control is a significant part of the framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risk to the achievement of the County Council's policies aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at Hampshire County Council for the year ending 31 March 2014 and up to the date of approval of the annual report and the statement of accounts.

During 2013-2014 the County Council approved and adopted a revised Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government'. A copy of the Code is available on the County Council's Web site.

One of the key elements of the Corporate Governance regime and the production of the Annual Governance Statement is the methodology applied to obtain the necessary assurance. This has included:

- a detailed self assessment questionnaire being sent every year to all Departments
- consultation with other relevant Officers throughout the County Council.

The questionnaires, which were revised during 2013-14, cover a wide range of Corporate Governance and performance issues. They refer to the existence, knowledge and application within departments of governance policies generally, but also concentrate on specific issues which have been identified as having greater significance to the County Council.

In line with the Internal Audit Charter adopted by the County Council in December 2013 and which is available on the County Council's website, the key elements of the Corporate Governance framework are risk assessed and reviewed periodically by Internal Audit.

The Internal Audit Team's work forms the basis of a report to the relevant Chief Officer or Key Corporate Manager for any follow up work necessary, and feeds into this Annual Governance Statement.

Departmental Corporate Governance and self assessment questionnaires were sent out to Departments in 2013.

3 Establishing principal statutory obligations and organisational objectives

3.1 Mechanism established to identify principal statutory obligations

The County Council's Constitution sets out the processes by which the County Council's policies are made and decisions taken. It sets out clearly the role of:

- the County Council
- the Leader
- Cabinet

- arrangements for the performance of regulatory functions
- arrangements for scrutiny
- the Conduct Advisory Panel
- the role of the Audit Committee
- key roles of the Chief Officers and Statutory Officers

The Constitution also contains arrangements for the delegation of decision making to the above bodies and also to Chief Officers and others.

In addition, Appendices to the Constitution contain a range of Codes and Protocols including

- rules on Financial Regulations
- rules on Contract Standing Orders
- Codes of Conduct for Members and Officers
- Protocol for Member/Officer relations
- Planning Code of Conduct

In order to ensure compliance with policies, procedures and statutory requirements the County Council has a range of controls and processes in place, as set out and reviewed below. These processes also help the County Council ensure the efficient, effective and economical use of resources, to secure continuous improvement in the exercise of its functions, and to provide effective performance management and reporting.

The Audit Committee receives regular reports from both external and internal audit, and the minutes of the Audit Committee demonstrate that effective action is taken where issues of non-compliance have been identified.

All County Council decisions are made in accordance with the County Council's Constitution and Decision Making Protocol. The Protocol requires all reports for decisions, whether by the Executive or by Committee to be submitted in advance for both legal and financial consideration.

All reports are considered by appropriately qualified legal and finance staff with expertise in the particular function area. Legal staff have direct access to a well equipped library on site, and through the internet to the Lexis Nexis electronic legal information system. Processes and policies within Legal Services have also been quality assured through the award of Lexcel which is the Law Society's quality accreditation scheme, annually reviewed by external independent assessors.

All legal staff have access to training courses, and regular internal sessions are organised for the whole of Legal Services on topics of specific and general relevance to their roles and responsibilities. Senior lawyers within the service have regular

meetings with Chief Officers and senior clients to assess performance, review future demands, and identify new legislative demands.

An Officer group comprising the Head of Governance and representatives from Democratic and Member Services, Legal Services and the Policy and Performance Unit has been established to specifically monitor new legislation. The Legislation Implementation and Review Group meets quarterly and provides an effective mechanism for tracking new legislation and ensuring that the County Council is taking appropriate steps to implement it.

A revised Planning Code of Conduct was adopted by the County Council in February 2012. The revised Code takes into account changes in the common law concepts of predetermination and predisposition codified in the Localism Act 2011.

Hampshire Children's Services Department is formed in strict compliance with the Children Act 2004 and revised Statutory Guidance on the Role of the Director of Children's Services and the Lead Member. This encompasses the lead role of the Local Authority as the principal agency in ensuring and coordinating services for the protection of the most vulnerable children and the safeguarding of a broader group of children in need. This is conducted through internal operational activities especially with regard to Section 47 of the Children Act 1989.

Hampshire County Council Adult Services approach to safeguarding is defined by the 'No Secrets' guidance (Department of Health 2000), which is issued under Section 7 of the Local Authority and Social Services Act 1970. Through this legislation, statutory health and social care organisations have a duty of partnership to work together to put in place services which act to prevent abuse of vulnerable adults, provide assessment and investigation of abuse and ensure people are given an opportunity to access justice.

The 'No Secrets' guidance gives the Local Authority a leadership and co-ordination role to ensure that all those who provide services for our citizens work together to address the safeguarding agenda in Hampshire and this is fully recognised as a corporate responsibility.

Adult Services are working closely with external partners through the Safeguarding Adults Board, which is chaired by the Director of Adult Services. In addition, work to focus all internal Hampshire County Council departments in relation to the broader safeguarding agenda, is being delivered through the Cross Departmental Safeguarding Group chaired by the Deputy Director of Children's Services.

The County Council operates a system of Devolved Finance Units, each with a Finance Business Partner working closely with the relevant Chief Officer and reporting to the Head of Finance. The Director of Corporate Resources, Head of

Finance and Finance Business Partners work together to ensure that both corporate and departmental financial perspectives are taken into account in all papers for decision, and attend meetings to advise further as appropriate. A clear process of escalation for major issues that arise is in place within the Department ensuring that strategic issues are dealt with at the appropriate level.

3.2 Mechanism in place to identify principal organisational obligations

The County Council remains committed to the three overall priorities set out in the corporate strategy; Hampshire safer and more secure for all, Maximising wellbeing and Enhancing our quality of place. Priorities are clearly communicated on the County Council website and through various communications.

In 2010, Cabinet agreed that a strategic narrative was needed to signal the intention to continue to develop and refocus services, while meeting the challenges of significant grant reductions. This narrative was based around a theme of *Open for Business*, which provided an operating model for business planning and a framework for reporting progress to Cabinet. A similar approach has been agreed to 2015 and beyond, using the narrative *Shaping Hampshire: modern, public services for the future*. The *Shaping Hampshire* Plan signals the Authority's intent to further transform and shape services for the future, in line with our evolving financial strategy.

The *Shaping Hampshire* Plan brings together key priorities for the Council into a coherent shared strategy. In addition to the *Transformation to 2015* work streams and the main departmental priorities (e.g. safeguarding), it also integrates priorities of the Health and Wellbeing Strategy; Children and Young People's Plan; Workforce Development Strategy; and other key policy areas.

To complement the strategic narrative and business planning, a new Performance Management Framework was launched in 2011. Service planning and performance management were reviewed by Internal Audit in 2012-13 (reported to the Audit Committee in 2013-14), providing the County Council with 'substantial assurance' that policies and procedures are operating effectively.

Activities, key performance measures and targets are drawn from work stream plans and Department Level Business Plans; and cascaded through service plans and Individual Performance Plans. The *Shaping Hampshire* Plan 2013-17 was approved by both the Corporate Management Team (CMT) and Cabinet in 2013-14. Progress against the Plan is monitored on a quarterly basis, with an annual report providing a full evaluation of performance.

The *Open for Business* Plan links to the following partnership plans, outlining the County Council's contribution to these cross-cutting areas of work:

- Hampshire's Children and Young People's Plan, which is the overarching strategy for services for children and young people in the county.
- The draft Joint Health and Well-being Strategy, the strategy of Hampshire's Health and Well-being Board.

Shaping Hampshire has been informed by analysis of Census data (2011); the Joint Strategic Needs Assessment (2013 refresh); and the Hampshire Economic Assessment (2011). Within the Plan, areas of work are organised by four coherent themes, reflecting the breadth of the County Council's responsibilities: health and wellbeing; communities; economy; and efficiencies.

Priorities are communicated internally and externally through full integration with all communications activity.

Business and Financial Planning take into account the service and budgetary impact of working with external partners. The County Council has recognised that this is an area of increasing risk for the future as partnerships expand and as greater reliance is placed on securing and maintaining partner contributions to support service provision. One of the most significant areas is the work with the newly created Clinical Commissioning Groups to progress the Better Care Fund (BCF) initiative which looks to transform the way that Health and Adult Social Care work together to improve outcomes for individuals and to improve the use of resources across the sectors. Whilst this has been flagged as the biggest single risk in the "Transforming the Council to 2015" (TtC 2015) programme, it also represents a significant opportunity for all organisations to make changes in the way that health and social care is provided.

Joint working with Hampshire Constabulary and Hampshire Fire and Rescue Service was formalised in the early part of 2014 and is underpinned by robust governance arrangements and cost and benefit sharing methodologies which have been tailored to the support service areas to which they relate. Sensible protections around liabilities and assets have been incorporated into the overall agreement and individual accession agreements drawn up by the three authorities.

3.3 Effective Corporate Governance arrangements are embedded within the County Council

The County Council adopted a revised Code of Corporate Governance during 2013-14 that complies with the Chartered institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives and Senior managers (SOLACE) guidance.

The Head of Governance (Monitoring Officer) and the Chief Internal Auditor (for the Section 151 Officer) have close working relationships both between themselves, and with the Conduct Advisory Panel, and the Audit Committee.

The Conduct Advisory Panel was established in May 2012, following the implementation of the Localism Act 2011 to recommend a new Code of Conduct to the County Council and to establish new arrangements for dealing with complaints about Member conduct. The Panel now has responsibility for maintaining high standards of probity amongst Members through the provision of advice and training and by carrying out investigations of complaints received.

The Audit Committee has audit focused terms of reference and in accordance with CIPFA/SOLACE guidance the Chairman of the Audit Committee is not a member of the Executive. In addition no other members of the Audit Committee are members of the Executive.

Responsibility for overseeing Corporate Governance is formally delegated and documented through the Constitution to the Audit Committee. The terms of reference for the Audit Committee are contained within the Constitution.

At its meeting of 22 March 2012 the Audit Committee agreed a recommendation for a sub-group of members to assess the Audit Committee's operations against the relevant standards detailed in the CIPFA publication 'A toolkit for Local Authority Audit Committee's' as a contribution to the overall effectiveness of the role of internal audit.

The Audit Committee received the results of the assessment at its meeting in September 2012 reporting full compliance against in excess of 90% of the standards. For areas of partial compliance an action plan was put in place to stimulate improvement

During 2013-14 Internal Audit were required to comply with the Public Sector Internal Audit Standards. Assurance that these Standards are met is provided through the annual review of the 'Effectiveness of the System of Internal Audit' and ISO quality accreditation.

The Audit Committee approved the Internal Audit Charter and Plan for 2013-14 (June 2013). The internal audit plan is aligned to the County Council's three key priorities, as such ensuring assurance work adds maximum value in the effective delivery of its planned outcomes.

The Audit Committee continues to monitor performance and the progress of significant issues, including the implementation of management actions.

The Chief Internal Auditor submitted an Annual Audit Report and Opinion to the June 2014 Audit Committee on the effectiveness of the control framework

3.4 Performance management arrangements are in place

As outlined above, a new Performance Management Framework was launched in 2011 providing a robust and coherent way of managing and improving services across the County Council. It is based on a cycle of continuous improvement.

Key components are as follows:

(a) Planning:
- County Council priorities (the three corporate aims, as described above).

(b) Doing:
- Department Business Plans (as described above).

(c) Monitoring:
- Quarterly reporting on performance against the *Shaping Hampshire* Plan to CMT
- Half yearly reporting on performance against the *Shaping Hampshire* Plan, to Cabinet
- Annual Departmental Self-Assessment Reports
- County Council's Annual Performance Report.

Transparent processes are in place for regular reporting to CMT and Cabinet. CMT are responsible for providing support and challenge, in order to manage performance against the *Shaping Hampshire* Plan.

In addition, departments have robust mechanisms for performance management. Performance management arrangements are enhanced by a thorough and fully embedded system of budget forecasting and monitoring which focuses on:
- Annually updated three year budget projections and a three year capital programme
- Quarterly budget monitoring reports on revenue and capital with the relevant executive Member
- additional capital investment of £33 million as part of the 2014/15 budget process targeting key priorities
- A risk based approach to budget monitoring ensuring that reduced resources within the Finance Department are targeted to high risk areas
- Overall budget monitoring report concentrating on key corporate financial issues to Cabinet on a quarterly basis
- Robust monitoring of the Transforming the Council to 2015 programme to CMT including performance against key milestones in delivering the savings programme.

Performance information is published online and easily accessible for staff, partners and the public, together with transparency data which is compliant with the Government's guidance.

Children's Services Department activities are governed by the operational structures and the Scheme of Delegations. They are controlled through a range of supervisory and quality assurance arrangements. They are validated through a range of performance data and particularly by the external inspection from Ofsted. The external responsibilities are governed through the oversight of the Hampshire Safeguarding Children Board (HSCB) which is independently chaired whose role is to hold to account all partners in regard to safeguarding children, reporting back to the Children's Trust Board, the Corporate Management Team, the Lead Member and the respective executive arrangements of other statutory partners. The independent chair is accountable to the Chief Executive, whilst maintaining a direct link to the Director of Children's Services.

The Adult Services Department activities are also governed through an operational Scheme of Delegations, supported by quality control systems. The departmental management team has oversight of key performance indicators, with performance scorecards providing integrated reporting mechanisms and facilitating continuous improvement. The quality of care is validated externally by the Care Quality Commission, and data returns by the Health and Social Care Information Centre. External statutory responsibilities are governed through the Hampshire Safeguarding Adults Board (HSAB) and through the joint responsibilities of the Health and Wellbeing Board. Both of which report to Cabinet, the Corporate Management Team, the Lead Member for Adult Services and Public Health, and the respective executive arrangements of other statutory partners.

The budget for 2014-15 was set in February 2014, taking account of further grant reductions which were announced in December last year. The *Transformation to 2015* programme began in June 2013 and is the principal means by which the County Council is addressing grant reductions and making operational efficiencies. The County Council has, or is expecting to achieve £230 million savings by 2015. Separate detailed monitoring and reporting arrangements to CMT and Cabinet were put in place in 2011-2012, with these arrangements continuing with the Transformation programme to ensure high levels of focus and commitment to securing the savings that had been proposed.

The first phase of the programme ends in 2014-15 the final year of the 2010 Comprehensive Spending Review period. During this time, savings of around £140M have been made in response to Government grant reductions and inflationary and growth pressures.

4.1 Focusing on the purpose of the County Council and on outcomes for the community and creating and implementing a vision for the local area

The County Council has a clear vision and purpose, articulated through the three corporate priorities and the *Shaping Hampshire* Plan. The Plan (described above) provides a coherent, shared vision for the County Council. Implementation of these ambitions is through department business plans and efficiency/transformation work streams.

The County Council develops its understanding of local needs through established strategic and tactical approaches, including: Equality Impact Assessments, Joint Strategic Needs Assessment, Child Poverty Needs Assessment, and regular engagement with stakeholders and partners through established forums, such as the Children's Trust and the Health and Wellbeing Board.

Partnerships are underpinned by a common vision, which is understood and agreed by all partners. Clear governance structures are also in place. For example, The Hampshire Partnership brings together all key partners in Hampshire to continue to build on the successes of voluntary collaborative and co-operative working that is already taking place in many areas. The Hampshire Partnership aims to promote and facilitate better cross-agency working and find greater ways for them to work together in a more efficient, targeted and rationalised way to deliver better outcomes at lower costs for Hampshire taxpayers.

Other examples include the:

- Health and Well-being Board
- Children's Trust
- Local Safeguarding Children Board
- Hampshire Safeguarding Adults Board.

The Performance Management Framework establishes how the quality of services for users is to be measured and reviewed on a regular basis. This includes quarterly reporting of progress against the *Shaping Hampshire* Plan and an annual self-assessment, to be completed by departments. The County Council's Annual Performance Report is published on the website and performance achievements publicised through targeted communications activities. The report includes key achievements and a summary of performance.

The County Council has an effective and comprehensive department and corporate complaints system which allows for any failures in service delivery to be properly dealt with; and lessons learnt. Areas for improvement identified through service user feedback and complaints are addressed through the department and service planning processes.

The County Council considers that the achievement of value for money in the delivery of its services is fundamental. The County Council's performance against this criteria can be demonstrated by the following factors:

- benchmarking of spend compared with service quality i.e. lower quartile council tax;
- broad achievement of meeting four years worth of CSR 2010 savings within 2 years
- the use of the Grant Equalisation Reserve to balance the budget in 2014/15 in line with the agreed financial strategy, to give the time and capacity to make planned savings in spend
- integrated planning which links corporate priorities and areas for improvement to the budget setting decision process;
- high levels of capital investment which shows that short term gains are not pursued at the expense of long term value for money and investment in 'invest to save projects' such as extra care and the development of an energy strategy;

The Audit Results Report - ISA 260 (2012-13 Conclusion) presented to the September 2013 Audit Committee concluded 'that the County Council had made proper arrangements to secure economy, efficiency and effectiveness in its use of resources'. The County Council's external Auditor stated:

- We concluded that the Council has established a robust Medium Term Financial Strategy to support a sustainable budget. There are effective monitoring arrangements and budgets are being delivered;
- Looking forward the level of financial challenge is increasing and the Council has identified that significant additional savings will be required in the medium term. There are arrangements in place to develop sustainable solutions for the required savings and the Council has sound levels of reserves to mitigate changes in the financial environment and to facilitate the continued implementation of the transformation agenda;
- The Council continues to be able to demonstrate that it is low cost and performing well against its own corporate priorities, as well as comparatively against other local authorities;
- Corporate planning is supported by a robust system of risk management. Resources and savings targets are linked to corporate priorities. Performance monitoring is effective and there is a sustained culture of challenging how the Council operates and delivers services in order to secure efficiencies and deliver improvements; and
- The Council has delivered the challenging savings target and continues to deliver on its phased transformation agenda to ensure it can effectively deliver services within an increasingly challenging financial environment and greater demand for services.
- The County Council continues to meet the expected standards, delivering good outcomes for local people.

The County Council is also keen to ensure that it measures the environmental impact of policies, plans and decisions. The standard template for all decision reports examines the wider impacts of decisions on a range of issues, and where

appropriate the County Council commissions specific environmental impact studies to inform the decision making process.

4.2 Members and Officers working together to achieve a common purpose with clearly defined functions and roles

The County Council has a comprehensive Constitution, accessible on its website, which sets out the roles of the Council, Cabinet, Executive Members, Committees, the Chief Executive who is allocated the role of Head of Paid Service, Chief Officers and other senior Officers.

The Constitution also allocates the statutory roles of Section 151 Officer to the Director of Corporate Resources and that of the Monitoring Officer to the Head of Governance. Details and descriptions of both roles and their responsibilities are contained within the Constitution.

In 2010 the Chartered Institute of Public Finance and Accountancy issued a Statement on the Role of the Chief Financial Officer in Local Government, outlining the principles that define the core activities and behaviours that belong to the role of the Chief Financial Officer and the governance requirements needed to support them. A self-assessment confirms that the County Council's financial management arrangements conform with the governance requirements of the CIPFA Statement as outlined below:

- the Director of Corporate Resources is a key member of the Corporate Management Team, helping it to develop and implement strategy and to resource and deliver the County Council's strategic objectives sustainably and in the public interest
- the Director of Corporate Resources is actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered, and alignment with the Medium Term Financial Strategy
- the Director of Corporate Resources leads the promotion and delivery by the County Council of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively
- the Director of Corporate Resources leads and directs a finance function that is adequately resourced to be fit for purpose
- the Director of Corporate Resources is professionally qualified and suitably experienced.

The relationship between Members and Officers is enforced by an established Member/Officer Protocol.

The County Council has appointed and maintains an Independent Remuneration Panel (IRP) pursuant to the requirements of the Local Authorities (Member

Allowances) (England) Regulations 2003 which meets in open session and carries out an annual review of the Member's Allowance Scheme. The IRP makes recommendations to the Employment in Hampshire County Council (EHCC) Committee who, having considered the IRP's recommendations, make recommendations to the County Council. Should any amendments be required to the Council's adopted Scheme throughout the year, the same consideration/approval process is followed.

The IRPs four-year term of office expired in February 2014 and a recruitment process was undertaken between October 2013 and January 2014 with appointments for a further term made by the full Council at its meeting in February 2014.

Advice and support is provided to the IRP as required by the Head of Democratic & Member Services and the Head of Governance. The Members' Allowances Scheme is managed by the Head of Democratic & Member Services.

The IRP met in September 2013 to formulate their recommendations. This meeting was open to the press and public and an invitation was extended to all Members of the Council to either attend the meeting or to submit any comments or views in writing for the IRP to take into consideration. The IRPs recommendations were considered by the Employment in Hampshire County Council (EHCC) Committee in November 2013 who in turn made their recommendations to the full Council in February 2014 at which an amendment to the current Scheme was approved together with a Scheme for the years 2014/15, 2015/16, 2016/17 and 2017/18.

For Officers, all issues relating to remuneration and terms and conditions are managed by the Council's Employment in Hampshire County Council Committee (EHCC) which is advised by the Chief Executive and the Director of Corporate Resources.

Performance management arrangements and the respective roles of officers and Members in monitoring service delivery are described above.

4.3 Promoting values for the County Council and demonstrating the values of good Governance through upholding high standards of conduct and behaviour

The County Council's Constitution is founded on it operating in an open and transparent way, and for the Leader of the County Council and the Chief Executive to set the tone for the organisation by creating a climate and culture of openness, support, and respect.

The County Council is committed to the highest ethical standards and has adopted a wide range of policies to re-enforce this philosophy as well as procedures to investigate them should the need arise. These policies and procedures include:

- Members and Officers Codes of Conduct
- Planning Code of Conduct
- Member/Officer Protocol
- Anti Bribery Policy
- Conduct Advisory Panel
- Complaints Procedures
- Anti Fraud and Corruption Policy
- Standing Orders governing the conduct of Council business
- Contract Standing Orders
- Financial Regulations
- Performance Management system
- A system of individual performance plan appraisal.

An effective Conduct Advisory Panel is in place, which is responsible for the initial assessment (and where appropriate investigation and determination) of complaints against Members of the County Council. The Panel also recommended a new Code of Conduct to the County Council following the implementation of the new standards regime in the Localism Act 2011.

The new Code of Conduct was adopted by the County Council in July 2012. The Code contains provisions in respect of the mandatory registration and disclosure of Disclosable Pecuniary Interests, required by law, together with provisions for voluntary registration and disclosure of non pecuniary interests and gifts and hospitality.

Major corporate partnerships have terms of reference and receive regular performance updates. The partnership guidance as detailed above provides information and protocols for officers and members when working in partnership.

Taking informed and transparent decisions which are subject to effective scrutiny and managing risk

The County Council's Constitution together with its Decision Making Protocol ensures that appropriate legal and financial advice is given and also that decisions made are open and transparent. The County Council determined several years ago that openness in the individual Executive Members decision making would go beyond minimum statutory requirements by ensuring that, subject to confidential items, all such decisions would be made in public.

A Report Writing Guide is available on the intranet which informs those preparing reports. All decision reports whether to the Executive or to a committee are submitted in advance for both legal and financial consideration. A decision making

record clearly documents the decision(s) made together with other considerations in accordance with legislative requirements. All decision reports and decision records are published on dedicated pages on the web in accordance with well established business practices. Arrangements were put in place during 2012/13 for the recording and publication of Executive Decisions made by Officers in accordance with new statutory requirements. Exemptions from publication in the case of confidential or exempt reports are approved by the Head of Governance.

All decisions are made in accordance with the County Council's Decision Making Protocol. A corporate decision making report template is available to download to ensure that a consistent approach is taken across all departments in terms of report preparation together with the inclusion of timely and relevant information/evidence to inform the decision maker. All reports go through a robust QA process. Within portfolios/areas of service responsibility, Executive Members, Committee Chairmen and Vice-Chairman, Minority Group Spokespersons and local members are routinely briefed in relation to pending business.

Advice is available to Members from the Head of Governance and Deputy Head of Governance on any aspects of the Members Code of Conduct or conflicts of interest that may arise either before or at the point where a decision is to be made.

Within their own areas of responsibility, Executive Members, Committee Chairmen and Vice Chairmen, Minority Group Spokespersons and Local Members are routinely briefed in relation to pending business.

After County Council elections, all Members take part in a comprehensive New Member Induction Programme, both generic and specific, to support them in the exercise of their duties as County Councillors. The Members' Induction Programme includes a module on decision making. Ongoing training is additionally available through the County Council's own established monthly Briefing Programme, and via external seminars and briefings.

Executive decisions are recorded in accordance with the requirements of the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012. Internal protocols govern legal and financial requirements by way of consultation internally (as indicated above) with the Head of Legal Services and the Director of Corporate Resources. Internal protocols also govern the preparation and publication of the County Council's Key Decisions, and the publication of all County Council, Cabinet, Executive Member and Committee Agendas, Reports, Decision Records and Minutes.

The maintenance of an effective scrutiny function is supported by a dedicated resource for scrutiny by designated officers located in the Democratic and Member Services Unit. Reviews are regularly shared with Executive Members and partner

agencies as appropriate and resulting action monitored. Working arrangements with District Authorities are in place as are wider networks for health overview and scrutiny. Scrutiny of the safeguarding work of the Hampshire Safeguarding Adults Board and the Adult Services Department is provided through the Safe and Healthy Select Committee.

There is a well established Reporting Concerns at Work (whistle blowing) Policy in place which is published on the County Council's Web site.

The role of the Head of Governance, as Monitoring Officer, supported by members of Legal Services, is also critical in ensuring that all decisions made are legally and soundly based.

There is a comprehensive risk management framework in place with effective processes for managing risk. The Risk Management Board, chaired by the Director of Policy and Governance, reviews arrangements for managing risk in accordance with the Council's Risk Management Strategy. Risk is considered and presented to Members as part of the reports that authorise significant projects/activity and included in progress reports on the Council's major change programmes.

4.4 Developing the capacity and capabilities of Members and Officers to be effective

All new Officers and Members joining the County Council undergo an Induction Programme.

The Performance Management Framework was updated in 2013-14 following the approval of the *Shaping Hampshire* Plan.

The County Council's *Transforming through you* (workforce development strategy) is a key enabler to achieve the County Council's 'Transformation to 2015' programme that was approved by Cabinet on 24 June 2013. Transforming the Council *through you* is sharply focused on implementing the County Council's Workforce Development Strategy, which aims to ensure that officers have the necessary skills, behaviours and competencies to deliver the County Council's priorities now and through the changing future landscape. It is a significant investment in staff to deliver the County Council's priorities to 2015 and beyond. The strategy comprises four clearly defined change levers, which are:

- **People Development** - establishing absolute clarity on the core skills, behaviours, aptitude and attitude that are required from all officers;
- **Performance Management** - developing clear performance standards, linked to measures and rewards that are managed well;
- **Managing Change** - strengthening the County Council's ability to lead and deliver change through its people; and,

- **Talent Management** - establishing a fair and transparent approach to identifying the County Council's most talented people for career progression

The priority focus for implementation has been the development of the competency framework; an accompanying appraisal system to strengthen the County Council's grip on Talent and Performance management; and, defining the qualities the County Council requires from its leaders and managers to most effectively deliver the County Council's strategic priorities. This has included defining the attributes required from Great Managers and ensuring that these are rolled out and embedded across the organisation during 2014. They are:

- lead change
- support the pace of change
- foster a culture of high performance
- adopt a business like approach
- maintain a relentless focus on improving outcomes
- hold accountability for share outcomes.

The programme of current learning and development programmes have been updated to reflect the new competency framework and the Great Manager attributes. Staff are able to identify their own learning and development needs through the performance planning cycle where goals / objectives are set for the year ahead along with the development of their own personal development and wellbeing plan. There is a blend of on line learning materials available and the advertisement of development programmes through Learning Zone. In addition staff are encouraged to proactively look for ways of developing themselves beyond traditional classroom environment, for example through coaching / mentoring; job shadowing; webinars and on line development tools.

CMT and EHCC have highlighted the talent and succession management challenges, in particular, the reduction in size of the management cohort and restructures in services place a high priority on putting in place flexible, business appropriate approaches to succession management.

Work is on-going to establish clear parameters as to what is meant by the term 'talent' so that assessment, identification, investment and effort is targeted appropriately. At a philosophical level the principle that the County Council would seek to apply is that every single person working has inherent talent that the County Council needs to ensure is realised to full potential. This should in part be achieved through a focus on great managers, the new performance management approach, real conversations and development and wellbeing plans.

The focus on the County Council's Workforce Health, Wellbeing and Resilience through this strategy will strengthen HCC's capabilities to better lead and manage

change through people, and build the County Council's resilience and capacity. CMT agreed in January 2014 that:

- Workforce health, wellbeing and resilience be integrated within the Transforming the Council Through You programme
- All activities and interventions reach across the depth and breadth of the County Council's workforce, as well as across the depth and breadth of the county
- the strategic Workplace Health, Wellbeing and Resilience Steering Group continues and takes over the formal governance

The steering group is now established with representatives from all departments. An operational wellbeing group has been established to undertake some detailed work on a Wellbeing Strategy. The five broad domains of workforce health and wellbeing have been defined as physical, mental, emotional, social / team and financial. A dashboard of KPI's is being created from which to measure achievements and recent progress includes:

- Defining which Wellbeing 'domains' are in/out of scope to provide a sufficiently broad and pragmatic wellbeing programme
- Establishing clarity on the County Council's existing offer, i.e. what formal and informal wellbeing interventions *already* exist and can be built upon.
- Developing solutions to meet any identified gaps
- Scoping and defining a range of Wellbeing MI 'Dashboard' and KPI's
- Wellbeing branding and staff engagement and communications

The induction programme for Members was overhauled for the 2013 elections and there are on going member briefings to ensure continuous development. Member induction has been significantly strengthened and there are also now Member briefings which address generic development needs. Lessons learnt and Member feedback after the Induction Programme in 2009 helped to shape the 2013 induction Programme.

Training for committee members is undertaken as part of the broader member development agenda which is co-ordinated by a cross party Member Development Group which has also overseen the County Council's successful application for charter status for Member development. This is a clear demonstration of the County Council's commitment and strength of approach in this area.

Skills identification for Members is undertaken via the Member Development Group and the respective leads of each political party. Career structures for Members are largely dealt with within the individual political parties.

A detailed programme of induction for new Members following the County Council elections in May 2013 was implemented and was informed by a the Members Development Group. This included a main induction event and detailed workshops to provide information and support to ensure new Members can be up and running in

their role as soon as possible. These events were also open to returning Members to provide a refresher opportunity.

The Member's briefing programme is aimed at supporting Members in their continuing professional development. It runs on a monthly basis covering a wide range of issues, emerging legislation and policy matters, service department updates and updates on key organisational developments. This is a well embedded programme with the topics and attendance monitored by the Member Development Group and well received by the Members

There are also topical briefings which are held on an ad hoc basis to ensure Members are kept up-to-date with current developments. Two examples are a public health event held on 17 July 2013 briefing Members on changes taking place with the Health Service and the emerging role of the County Council in regard to its Public Health responsibilities, and an event on Flooding "From Planning to Delivery: Collaborative Flood Risk Management in Hampshire held on 9 December 2013.

The Member Induction Programme will continue to evolve to reflect the changing landscape in which Local Authorities are operating and to provide effective support to Members in the discharge of their responsibilities. The Member Induction Programme will be thoroughly reviewed in early 2016 in preparation for the County Council's next Elections in 2017.

The Members Development Group changed its membership completely after the Elections in 2013 and now comprises six Members to reflect the current political composition. The new membership is settling into it role, has recently refreshed the Member Skills Assessment form and will be focussing on the development of a Member Development Plan going forward.

A Corporate Governance e-learning module was developed and launched in July 2010. The e-learning module is available to all County Council staff and forms part of the mandatory corporate induction programme.

The Hampshire Pension Fund Governance Policy Statement confirms that Members of the Pension Fund Panel have opportunities to attend training courses and seminars on pension fund matters when necessary and appropriate. A training plan for Members of the Panel has been prepared and training logs for individual Members are maintained.

4.5 Engaging with local people and other stakeholders to ensure robust public accountability

The County Council undertakes a programme of consultation with residents, business and other key organisations on a wide range of issues. The findings are

disseminated across the whole organisation, influencing policy and the decision-making process.

For both consultation and communications, the County Council draws on a number of strategies and documents:

- Hantsweb (the County Council's website) and other online media
- *Hampshire Now* publication
- Public meetings and events (where applicable)
- Targeted communications plans and strategies, including press activity
- Best practice consultation standards
- E-consultation database

Advance notice of public engagement opportunities in service decisions are provided in the 'Shaping services for the future' engagement schedules, published in the 'Have your say' area of the County Council's website.

Public accountability is further enhanced by the system of publicly accessible overview and scrutiny committees and through the work of the Health and Wellbeing Board.

A wide range of documents are published to ensure that the County Council can be held to account:

- County Council and partnership strategies and plans
- *Shaping Hampshire* Plan (previously *Open for Business* Plan) performance updates and annual performance report
- Financial statements and accounts
- Select Committee reports

Annual updates on the County Council's budget and related performance information is published in the Council's magazine *Hampshire Now.*

The County Council has made a public commitment to openness, accountability and transparency through its Transparency Policy Statement, which it publishes on its website. It has published a wide range of information in accessible formats as "open data", including details of salaries, spending and contracts.

5 Identify principal risks to achievement of objectives

5.1 The County Council has robust systems and processes in place for the identification and management of strategic and operational risk

The County Council has a comprehensive risk management framework in place that includes consideration of risk within partnership arrangements. The County Council's Risk Management Strategy was reviewed and updated in 2012.

A network of risk registers focusing on strategic and operational risk is in place, stored in a risk management information system, which is used to provide reporting to senior management at both corporate and departmental levels. Business continuity arrangements are in place for all critical services.

Performance standards are used to improve the delivery and effectiveness of risk management. The County Council has developed and uses a performance management framework that measures the maturity of its risk management arrangements. The latest assessment in January 2014 provides assurance that:

- there is top down commitment to embedding and integrating risk management as routine business practice
- risk policies and strategies are communicated effectively and made to work through a framework of processes
- a core group of people have the skills and knowledge to manage risk effectively
- risk with partners is managed consistently for all key areas and across organisational boundaries
- there is clear evidence that risk management is being effective and leading to the production of good results.

The County Council benchmarks the performance of its risk management arrangements with other public sector organisations through participation in the Cipfa/Alarm benchmarking club.

The Council's corporate risk management process was reviewed and updated in 2013, with revised guidance and e-learning developed and implemented.

The County Council largely self-insures against risk, subject to the availability of catastrophic insurance. There is good evidence that the management of claims within Legal Services is in accordance with the Civil Procedure Rules and that appropriate reserves are placed on claims. The claims management arrangements are subject to external audit by insurers. Significant claims are regularly reviewed by the Head of Governance with the Head of Litigation. The budget for dealing with these claims, and the contributions to be made to that budget by Departments reflects the sums identified within the reserve figures placed on all claims. There is evidence of monitoring the incidence of successful and unsuccessful claims and of feeding that information into the policy for risk financing accordingly. The system of self insurance is subject to internal audit, review by external insurers and oversight by the Risk Management Board.

Performance risks are considered within the Performance Management Framework. In addition, the Performance Management Framework establishes a transparent cycle of reporting, including quarterly reporting of progress against the *Shaping Hampshire* Plan and an annual self-assessment, completed by departments.

6 Identify key controls to manage risk

6.1 The Authority has robust systems of internal control which includes systems and procedures to mitigate principal risks

The financial management of the County Council is led by the Director of Corporate Resources, and is integrated with and influenced by the processes set out above. It includes processes for forward planning and expenditure, consultation on budget proposals, setting and monitoring income and budgets, and completion of final accounts. All are intended to be accurate, informative, timely and within statutory requirements.

The Cabinet and County Council approve the annual Treasury Management and Investment Strategy together with the mid year review and outturn report and Arlingclose Limited, the County Council's Treasury Management advisors have confirmed that the County Council fully complies with the Prudential Code. The Audit Committee is responsible for challenging and scrutinising treasury management activity and practices.

Financial Regulations and Contract Standing Orders are regularly reviewed and a full review was undertaken during 2012 but no significant changes were deemed necessary as a result of the review. A further review was also undertaken as part of the implementation of proposals for the Integrated Business Centre that aligns and standardises HR, financial and procurement authorisation limits across the organisational structure which reflects the new processes that have been introduced. The changes that have been introduced seek to reduce the burden of authorisation processes but at the same time ensure that trust and personal accountability are highlighted as key principles within the new systems.

Financial Procedure Rules were also refreshed in the early part of 2013 and a separate training module for budget holders and other relevant staff was undertaken during 2013 which sought to raise awareness of key issues and responsibilities in undertaking the financial elements of their roles.

As indicated, there is a Reporting Concerns at Work (whistle-blowing) Policy and Anti-fraud and Corruption Policy embedded into the County Council and fully accessible on the County Council's website.

The dedicated Governance section headed by the Head of Governance (Monitoring Officer) brings together the County Council's functions relating to the Monitoring Officer and Corporate Law, Corporate Compliance, Member Support and Scrutiny and Emergency Planning and Business Continuity. The Section has facilitated a more integrated approach to Corporate Governance across the County Council.

Registers of gifts and hospitality for both Members and Officers are maintained and the Member's register is available for public inspection and on the County Council's web site. The Head of Governance will provide any advice required on whether specific gifts or offers of hospitality should be accepted or politely declined. Any acceptance of hospitality by a member of staff must be subject to discussion and the agreement of that person's Line Manager. The processes in place for maintaining these Registers are monitored.

A revised Members Code of Conduct was adopted by the County Council in 2012. Training sessions on the new Code were offered by the Monitoring Officer to all Members including co-opted Members.

A high level scheme of delegation is contained within the Constitution, and this is supplemented within each Department whereby the Chief Officer authorises other senior Officers to carry out allocated functions on their behalf.

The County Council's current corporate procurement strategy (CPS) was formally approved by Cabinet in November 2009 and published in January 2010. A further iteration of the CPS was planned in 2012, but has been deferred so that developments associated with the new National Procurement Strategy for Local Government and the formal collaboration between Hampshire Constabulary (HC), Hampshire Fire and Rescue Service (HFRS) and Hampshire County Council (HCC) can be incorporated into the document. An internal Best Practice Guide for procurement is maintained and is regularly updated. The County Council has completed implementation of its original Procurement Improvement Plan (PIP) and has continued a formal programme of training and development that is intended to improve capacity and performance (the Licensed Procurement Practitioner programme). A further procurement conference for staff was held in July 2013 and was addressed by the Council's Chief Executive. The agenda again featured an update on procurement regulations and best practice. The Council has made a further investment in its capacity for procurement improvement (category management and supplier relationship management) and preparations to provide staff with in-house training on the new public procurement directives are currently being made.

Relevant information on policy and practice is maintained on both the County Council's internal and external websites at:
http://intranet.hants.gov.uk/corporateprocurement.htm
http://www3.hants.gov.uk/procurement

The Corporate Procurement Network includes representation from the Council's Legal Services team and continues to provide an effective forum for advice and support across departmental procurement teams. Progress on the corporate

procurement agenda and key issues continue to be considered by Members on the Buildings, Land & Procurement Panel.

The County Council continues to give significant support to collaborative procurement with local, regional and national partners. A formal shared procurement service between the County Council, Hampshire Constabulary (HC) and Hampshire Fire and Rescue Service (HFRS) is now in place as part of a wider programme of joint working that has received formal approval from all three organisations. Work previously undertaken by the County Council on a draft National Procurement Strategy is being taken forward by the LGA and the Council awaits publication of the final document. Other collaboration includes construction (a 'cluster' of neighbouring authorities) and commodity goods and services (through the Central Buying Consortium (CBC) and the Hampshire & Isle of Wight Procurement Partnership). CBC is engaged with the Crown Commercial Service (previously the Government Procurement Service) on a number of contracts and the County Council's procurement team has made a direct contribution to this work.

Business continuity arrangements have been embedded into the County Council. Potential critical service areas have been identified and prioritised across the County Council's services against guideline criteria described in the Civil Contingencies Act 2004. Business impact analysis within the critical services has been undertaken and appropriate department and service plans developed as appropriate. A suite of business continuity plans consisting of corporate and incident management plans, together with template department incident and service recovery plans have been prepared and are stored within a robust system. Key plans have been tested, including recovery arrangements for key IT systems. Corporate and Departmental risk registers include control measures, which are reviewed and monitored on a regular basis.

The Corporate Risk Register is reviewed and reassessed on a quarterly basis by the Risk Management Board. Departmental risks are subject to an annual reassessment.

The Corporate Health and Safety Policy is regularly reviewed and signed off by both the Leader and the Chief Executive. Partnership health and safety is covered by specific policy arrangements. The Corporate Health and Safety Policy is available electronically on the intranet and is supported by departmental policies and guidance. The Corporate Health and Safety policy and supporting policies are covered in health and safety induction and other relevant training courses. A suite of training courses for health and safety is in place.

There have been no HSE interventions such as Prohibition or Improvement Notices or prosecutions since 2005.

The Risk and Safety Executive Group and the Risk Management Board receive reports on health and safety performance including incidents and positive indicators.

The County Council has an established Complaints Policy and Procedure. The procedure is compliant with all relevant statutory requirements, and details of the operation of the complaints regime can be found on the County Council's website. The County Council's leaflets and posters, which highlight complaints procedures, are published and available. A digital route for the public to make complaints is available on the Council's website. All complaints files are kept in locked and secure cabinets with restricted access.

Information risk and governance arrangements are in place to ensure the appropriate balance between openness and confidentiality in the management and use of information. An information governance policy was adopted in 2013. The County Council has a nominated Senior Information Risk Officer (SIRO), with a framework for information governance in place, reporting to the Information Management Board. The County Councils IT service holds ISO27001 compliance for its information security management system. The County Councils Information Governance Toolkit self-assessment for 2012-13 in respect of the Public Health function showed an overall satisfactory score under Department of Health ratings.

Data Sharing Agreements are in place for major partnership arrangements that involve the sharing of personal information. For example the joint working between Hampshire County Council, Hampshire Constabulary and Hampshire Fire and Rescue is supported through an Overarching Data Sharing Protocol, which in term is supported by Operational Agreements and Privacy Impact Assessments, in accordance with Information Commissioner's Office guidance.

Performance risks are considered within the Performance Management Framework. In addition, the Performance Management Framework establishes a transparent cycle of reporting, including quarterly reporting of progress against the County Council Business Plan and an annual self-assessment, to be completed by Departments.

It is a management responsibility to develop and maintain the internal control framework, and to ensure that the County Council's resources are properly applied. Internal audit is an assurance function that primarily provides an independent and objective opinion to the County Council on the control environment by evaluating its effectiveness in achieving the County Council's objectives. Within the County Council, internal audit assists managers by evaluating and reporting to them the effectiveness of the controls for which they are responsible.

The internal audit charter and terms of reference for internal audit, approved by the Audit Committee, require the regular assessment and review of risks, controls and

governance processes and also the provision of an annual report and opinion from the Chief Internal Auditor. This is a key element of the assurance available to the Monitoring Officer in drafting the Annual Governance Statement.

In February 2012 a new shared internal audit service commenced with Southampton City Council. Its early success has led to Havant Borough Council, East Hampshire District Council and Winchester City Council joining the Partnership, as well as interest from other councils. The Partnership provides for the delivery of an innovative and collaborative internal audit service, benefiting from strengthened resilience, efficient use of resources across participating authority's and economies of scale in service delivery.

The Anti Fraud and Corruption Policy and Strategy have been revised and endorsed by the Chief Executive and Leader of the County Council. The Audit Committee approved the revised procedures in December 2013 which are available on the website and form part of the 'Corporate Governance' e-learning tool.

The Chief Internal Auditor's Annual Report and opinion for the Hampshire Pension Fund states that " Based on internal audit work completed 'Substantial Assurance' can be placed on Hampshire County Council (Pension Services) framework of governance, risk management and management control and audit testing has demonstrated controls to be working in practice".

7 Obtain assurances on the effectiveness of key controls

7.1 Appropriate assurance statements are received from designated internal and external assurance providers

Key controls relating to risks, internal control (including financial management), and governance processes are identified by managers as part of the governance framework and recorded on regular returns. These are consolidated into the risk registers at corporate and departmental level. Internal Audit, as part of its planned review of internal controls regularly evaluates the key controls to determine their adequacy and also carries out tests to confirm the level of compliance. Together the results of each review enable an audit opinion on effectiveness to be provided to management, and any actions for improvement to be agreed. This assurance is given to each manager in respect of the controls they are responsible for in the form of an audit report and regular summaries are provided for Chief Officers and the Audit Committee to ensure each level of the County Council's management is kept informed of findings and opinions.

External sources of assurance include the annual opinion and value for money conclusion by external auditors, and statutory inspections of adults social care services, and children's services. These reports are subject to consideration by

senior management and Members of the County Council, and appropriate response to any recommendations for improvements are agreed. These reports and responses are normally approved in public and published.

8 Evaluate assurances and identify gaps in control/assurance

8.1 The County Council has made adequate arrangements to identify, receive and evaluate reports from the defined internal and external assurance providers to identify weaknesses in controls.

The County Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the officers within the County Council who have responsibility for the development and maintenance of the governance environment, the Chief Internal Auditor's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

The Head of Governance and the Chief Internal Auditor have evaluated the reports from the internal and external assurance providers which have also been reported to the Audit Committee. This Annual Governance Statement sets out the County Council's arrangements for receiving reports and identifying weaknesses in Internal control.

9 Action plan to address weaknesses and ensure continuous improvement of the system of corporate governance

- The Joint Working arrangement with Hampshire Constabulary and the Hampshire Fire and Rescue Service are now in place, but a review of the overall governance and financial arrangements will be necessary to ensure that these are operating effectively and that future partners can join the arrangement simply and efficiently

- A review will be undertaken of the County Council's Risk Management Strategy

- The County Council will publish further open data in line with any changes arising from the Code of Recommended Practice for Local Authorities on Data Transparency published by the Department for Communities and Local Government

- Further consideration of the Council's Complaints process will be undertaken

- In order to face the challenging corporate environment and further financial pressure, the County Council has established a *Transforming the Council (TtC) programme*, which includes work to review the Council's spend with external bodies and further improve procurement practice. Additional resources have

been put in place to deliver the programme and delivery of the plans is monitored through a corporate group chaired by the Director of Corporate Resources.

- Customer access and digital strategy development. Plans include: the re-writing of selected corporate policies relating to consultation and resident engagement; the potential re-design of Hantsweb; learning from Hantsdirect and Hantsdirect Local Services to inform customer experiences of using the Council's services; and exploring the potential of social media to enhance public engagement and customer service delivery. Plans for regular research-based engagement are also being developed for potential roll-out in 2014-15.

- A new appraisal process is being piloted during 2014-15 which will enable better assessment of performance against the requirements of the role, together with the ability to identify development areas and measure against competencies. This is part of the Council's OD strategy during 2014-15 and into 2016.

- The 'Test Flight' piloting new approaches to performance management and a new behavioural competency framework will run from April to September 2014, with organisational roll-out planned for January 2015.The new performance management system introduces a five point rating scale that requires staff to be assessed not only 'what' they do, but 'how' they do it by introducing a new behavioural competency framework comprises of four key competency areas
    - Delivering Quality Services
    - Being effective
    - Building Professional Excellence
    - Improving and Transforming

  All supported by a new IT enabler, these improvements will enable more objective, transparent assessment, calibration, moderation and evaluation of organisation wide performance.

- A refreshed staff development programme is being designed and developed in readiness for roll-out in September 2014 that will focus on the following, and best enable people to deliver the County Council's operating model with confidence and credibility.
    - Digital leadership, digital by default, digital confidence and capability
    - Customer ethos, experience and customer intelligence
    - Demand management, channels and channel shifts
    - Commercial acumen
    - Partnership Working
    - Shared services, providing, selling and delivering

- A Council wide Development Needs Analysis (DNA) is being conducted during June 2014 to establish demand levels, volumes and areas for priority focus to inform the detailed programme roll-out and ensure that officers are increasingly confident, capable and well prepared to meet future internal and external challenges, and opportunities. This will involve initial presentations to DMT's during June and July 2014 to gather strategic insight and input on requirements; engagement with HRBP's, workforce development colleagues and triangulating this information in the context of the County Council's transformation agenda.

- The Member's Code of Conduct will be amended to incorporate 'Pan Hampshire' provisions relating to the registration and disclosure of personal interests so that a consistent approach is taken to the issue by all Hampshire authorities.

10 There is a robust mechanism to ensure than an appropriate action plan is agreed to address identified control weaknesses and is implemented and monitored.

In response to the Action Plan identified in the 2011-2012 Annual Governance Statement;-

- A review of the County Council's Complaints Processes was undertaken during 2013-14 by the Hantsdirect and Customer Access Board, further work recommended by that review will be undertaken in 2014-15.
- The County Council's Anti Fraud and Corruption Policy has been reviewed and the update policy has been approved by the Audit Committee.
- Reports on procurement matters and forthcoming contracts are made to elected Members and this approach will be continued in 2014-15.
- The actions to be taken forward on External Spend are subject to the governance and monitoring arrangements established for the Council's *Transformation to 2015* programme. Priorities and direction of travel are reviewed in the light of corporate developments around shared services and strategic procurement. The joint working arrangements, including procurement, are reviewed and monitored on behalf of the partner organisations by the Joint Working Board to ensure that business needs are met. The implementation of agreed actions relating to procurement that are identified in Internal Audit reports is monitored and key corporate resources, such as the Best Practice guidance on procurement, will be maintained.
- A further review for Financial Regulations was also undertaken as part of the implementation of proposals for the Integrated Business Centre that aligns and standardises HR, financial and procurement authorisation limits across the organisational structure which reflects the new processes that have been introduced. The changes that have been introduced seek to reduce the burden of authorisation processes but at the same time ensure that trust and personal accountability are highlighted as key principles within the new systems.
- The County Council's Code of Corporate Governance has been updated and the revised Code was approved by the Audit Committee on 2013. The review of the Officer's Code of Conduct is ongoing.
- The Equality Impact Assessment process has been reviewed and a new process implemented. An Action Plan is also being implemented to enhance the County Council's equality practices.
- The County Council's suite of Governance documents were reviewed as part of the review of the Code of Corporate Governance and have been updated where necessary.

Declaration

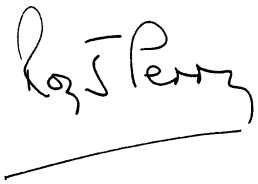
We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit Committee and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework. The areas already addressed and those to be specifically addressed with new actions planned are set out in this Statement.

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed:

Date: 5 August 2014
Chief Executive

Signed:



Date: 11 August 2014
Leader of the County Council

Glossary

Academies
Publicly funded independent schools, free from local authority and national government control. Freedoms held by academies include the ability to set their own pay and conditions for staff, freedoms around the delivery of the curriculum, and the ability to change the lengths of terms and school days. The income, expenditure and assets of academies within Hampshire do not form part of the Council's accounts.

Accruals basis
Accounting for income and expenditure during the financial year in which they are earned or incurred, not when money is received or paid.

Actuary
A person or firm who analyses the assets and future liabilities of a pension fund and calculates the level of employers' contributions needed to keep it solvent.

Admitted bodies
These are employers who have been allowed into the Hampshire Pension Fund at the County Council's discretion.

Alternative investments
These are less traditional investments where risks can be greater but potential returns higher over the long term, for example investments in private equity partnerships, hedge funds, commodities, foreign currency and futures.

Amortisation
The process of writing down the cost of an asset or liability through depreciation or repayment of principle over a suitable period of time.

Assets held for sale
Assets that the Council intends to sell within the next year and are actively marketed as such.

Additional voluntary contributions (AVCs)
Additional voluntary contributions are paid by a contributor who decides to supplement his or her pension by paying extra contributions to the Scheme's AVC providers (Zurich and Equitable Life).

Best Value Accounting Code of Practice (BVACOP)
The code of practice containing a standard definition of services and total cost so that spending comparisons can be consistent between local authorities.

Budget requirement
Planned spending to be met from council tax, general Government grant and national business rates.

Capital adjustment account
An account that reflects the difference between the cost of fixed assets consumed and the capital financing set aside to pay for them.

Capital expenditure
Expenditure on the acquisition or creation of a fixed asset or expenditure that adds to and does not merely maintain the value of an existing fixed asset.

Capital receipt
Proceeds from the sale of capital assets (e.g. land, buildings and equipment).

Chartered Institute of Public Finance and Accountancy (CIPFA)
The professional accountancy body for public services which recommends accounting practice for the preparation of local authority accounts.

Community asset
An asset that the Council intends to hold forever, that has no determinable useful life, and that may have restrictions on its disposal. An example of a community asset is parkland.

Comprehensive Income and Expenditure Statement (CIES)
Statement that shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices.

Contingent asset
A potential asset that is uncertain because it depends on the outcome of a future event.

Contingent liability
A potential liability that is uncertain because it depends on the outcome of a future event.

Continuing services
Services that the Council will continue to provide in the following financial year.

Corporate and democratic core
Activities that local authorities carry out specifically because they are elected, multi-purpose authorities. The cost of these activities is not split between services.

Council tax
A domestic property tax based on capital values with a personal element (a 25% discount for single-adult households). Each property is allocated to one of eight tax bands according to its capital value.

Creditor
An individual or body to which the Council owes money at the Balance Sheet date.

Current asset
An asset that is realisable or disposable within less than one year without disruption to services.

Current liability
A liability that is due to be settled within one year.

Current service costs
The increase in the present value of pension liabilities expected to arise from employee service in the current period.

Custodian
A bank that looks after Pension Fund investments, implements investment transactions as instructed by the Fund's managers and provides reporting, performance and administrative services to the Fund.

Debtor
An individual or body that owes money to the Council at the Balance Sheet date.

Dedicated Schools Grant (DSG)
A Government grant that can only be used to fund expenditure within the schools' budget.

Deferred liability
An amount owed by the Council that will be repaid over a significant period of time. For example, the Council holds a deferred liability to pay for assets constructed as part of the waste and street lighting PFI contracts, which will reduce over the life of the assets.

Defined benefit pension scheme
A pension scheme in which a pensioner's benefits are specified, usually relating to their length of service and final salary.

Deposit
Receipt held that is repayable in prescribed circumstances.

Depreciated historical cost
The valuation of fixed assets at their original cost less depreciation charged to date.

Depreciated replacement cost
Relating to fixed assets, the current replacement costs adjusted for depreciation. This method of valuation is used when it is not practical to estimate the open market value for the existing use of a specialised property.

Depreciation
The measure of the wearing out, consumption, or other reduction in the useful economic life of a fixed asset, whether arising from use, the passage of time or obsolescence through technological or other changes.

Developers' contribution
If a development derives special benefit from highway works, developers can be required to contribute towards the costs. They arise mainly as a result of agreements under section 278 of the Highways Act 1980.

Discretionary increase in pension payments
This increase arises when an employer agrees to the early retirement of an employee other than for reasons of ill health and agrees to pay pension benefits based on more years than he or she actually worked.

Dividends
Income to the Pension Fund on its holdings of UK and overseas shares.

Doubtful debt
A debt that the Council is unlikely to recover because something has happened since the debt was raised. An assessment of the reduction in recoverable debt is made both individually (for individually significant debts) and collectively. This reduction is charged to the Income and Expenditure Account.

Earmarked reserve
See Reserve.

Emoluments
Sums paid to employees, including any expenses or non-monetary benefits, which are taxable, but excluding pension contributions made by the employee.

Equities
Shares in UK and overseas companies.

Exceptional item
An item identified separately in the accounts because of its exceptional nature to make sure the presentation of the accounts is fair.

Fair value
The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's-length transaction.

Finance lease
Under this type of lease, the risks and rewards of ownership of the leased goods transfer to the lessee.

Financial instruments
Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another.

Fixed asset
An asset that yields benefits to the local authority and the services it provides for a period of more than one year.

Foundation schools
A category of school that receives its funding from the County Council, but are run by their own governing body, which employs the staff and sets the admissions criteria. Land and buildings are usually owned by the governing body or a charitable foundation

General Fund
The accumulated credit balance on the General Fund. It is the excess of income over expenditure in the Income and Expenditure Account after adjusting for movements to and from reserves and other non-cash items. This balance is needed as a cushion against unforeseen expenditure.

Gross book value (GBV)
The original or revalued cost of an asset before the deduction of depreciation.

Gross expenditure
The total cost of providing the Council's services before deducting income from Government grants, or fees and charges for services.

Hedge fund
A specialist fund that seeks to generate consistent returns in all market conditions by exploiting opportunities resulting from inefficient markets.

Heritage assets
Assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are maintained principally for their contribution to knowledge and culture. The principal heritage assets owned by the Authority are its museum collections, archives collection and a small number of historic buildings and archaeological sites.

Historical cost
The amount originally paid for a fixed asset.

Impairment loss
A loss arising from an event that significantly reduces an asset's value. An example is physical damage or a fall in market value.

Infrastructure assets
Fixed assets that cannot be taken away or transferred, and whose benefits can only be obtained by continued use of the asset created. Examples of infrastructure assets are highways and footpaths.

Intangible assets
Assets that do not have physical substance but are identifiable and controlled by the Council and bring benefits to the Council for more than one year. Typical examples include software licences, internally developed software and websites developed to deliver services rather than information about services.

Internal trading account
A service within the Council that operates on a trading basis with other parts of the Council.

International Financial Reporting Standards (IFRS)
International accounting standards that govern the treatment and reporting of income and expenditure in an organisation's accounts, which came fully into effect from 1 April 2010.

Inventories
Goods that are acquired in advance of their use in the provision of services or their resale. At the year-end inventories are a current asset in the balance sheet and they will be charged to the CIES in the year they are consumed or sold.

Investment property
Property (land or buildings) that are held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both.

Landfill Allowances Trading Scheme (LATS)
The LATS allocates tradable landfill allowances to each of the waste disposal authorities (WDA). These allowances can be used for disposal of biodegradable waste or sold to other WDAs.

Lessee
The party that leases an asset that is owned by another party.

Lessor
The owner of an asset which is leased to another party.

Local Government Pension Scheme (LGPS)
The LGPS is a nationwide scheme for employees working in local government or working for other employers participating in the Scheme and for councillors.

Long-term asset
An asset that may be held indefinitely for the provision of services or is realisable over a longer period than one year.

Long-term borrowing
A loan repayable in more than one year from the Balance Sheet date.

Long-term debtor
An individual or body that owes money to the Council that is not due for payment within one year from the Balance Sheet date.

Minimum revenue provision (MRP)
The minimum amount (as specified in statute) which must be charged to the CIES each year and set aside as a provision for repaying external loans and meeting other credit liabilities.

(National) Non-domestic rates (NNDR)
Charges collected by district councils from non-domestic properties, at a national rate in the £ set by the Government.

Net assets
The amount by which assets exceed liabilities (same as net worth).

Net assets statement
A statement showing the net assets of the Pension Fund.

Net book value (NBV)
The value of an asset as recorded in the accounts. This usually equates to the net current replacement or original cost less any depreciation charged against the asset over its life to date.

Net current liabilities
The amount by which current liabilities exceed current assets.

Net worth
The amount by which assets exceed liabilities (same as net assets).

Non-distributed costs
Overheads for which no direct user now benefits and which are therefore not split between services.

Non-ringfenced government grants
Amounts received from central Government towards funding the Council's activities that are not required to be spent on a particular service.

Operating lease
Under this type of lease, the risks and rewards of ownership of the leased goods remain with the lessor.

Operational asset
A fixed asset held and occupied, used or consumed by the Council in the direct delivery of services.

Past service cost
For a defined benefit pension scheme, the increase in the present value of the scheme's liabilities related to employee service prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

Payment in advance
A payment for a service due to be received in a future financial year.

Pooled budget
Partners contribute a set amount of money to form a separate budget. The purpose and scope of the budget is agreed at the outset and then used to pay for relevant services and activities.

Precept
The demand made by the County Council on the collection funds maintained by the district councils for council taxpayers' contribution to its services.

Private equity
Mainly specialist pooled partnerships that invest in private companies not normally traded on public stock markets – these are often illiquid (i.e. not easily turned into cash) and higher-risk investments that should provide high returns over the long term.

Private finance initiative (PFI)
Contracts typically involving a private sector entity (the operator) constructing or enhancing property used in the provision of a public service, and operating and maintaining that property for a specified period of time. The operator is paid for its services over the period of the arrangement.

Projected unit method
One of the common methods used by actuaries to calculate a contribution rate to the LGPS, which is usually expressed as a percentage of the members' pensionable pay.

Provisions
An estimated figure within the accounts for liabilities that are known to exist but cannot be measured accurately.

Public Works Loan Board (PWLB)
A central government agency that provides loans to local authorities at a slightly higher rate than the Government is able to borrow. In most cases, the interest rates offered are lower than local authorities can achieve in the open market. The amounts and purposes for which PWLB loans can be obtained are tightly controlled by the Government.

Receipt in advance
A receipt that is attributable to a future financial year.

Related party
An organisation, body or individual that has the potential to control or significantly influence the Council, or to be controlled or influenced by the Council.

Reserve
The Council's reserves fall into two categories. The 'unearmarked' reserve is the balance on the General Fund. An 'earmarked' reserve is an amount set aside in the Council's accounts for specific purposes.

Revaluation reserve
Records unrealised net gains from asset revaluations made after 1 April 2007.

Revenue contributions to capital
The use of revenue funds to finance capital expenditure.

Revenue expenditure
The operating costs incurred by the Council during the financial year in providing its day-today services. It is distinct from capital expenditure on projects that benefit the Council over a period of more than one financial year.

Revenue expenditure funded from capital under statute (REFCUS)
Expenditure that is classified as capital expenditure under statutory provisions, but does not result in the creation or enhancement of fixed assets owned by the County Council. Such expenditure incurred during the year is treated as revenue expenditure and charged to the relevant service in the CIES.

Scheduled bodies
These are organisations that have a right to be in the LGPS.

Service concession
Contracts typically involving a private sector entity (the operator) constructing or enhancing property used in the provision of a public service, and operating and maintaining that property for a specified period of time. The operator is paid for its services over the period of the arrangement.

SETS
Stock Exchange Trading Service – a service provided by the Stock Exchange, enabling shares to be bought and sold electronically.

Short-term investments
An investment that is readily realisable within one year.

Specific grants
Central Government grants to finance a particular service.

Straight-line basis
Dividing a sum equally between several years.

Surplus assets
Fixed assets held by the Council but not directly occupied, used or consumed in the delivery of services. These are assets that do not meet the criteria to be classified as either investment property or assets held for sale.

Transfer value
The value of an employee's pension rights, which can be transferred from one pension scheme to another.

Transferred debt
Debt serviced by bodies that are independent of the Council following the transfer of services formerly provided by the Council.

Trust fund
A fund set up under a trust deed in which the Council is a trustee.

Useful life
The period over which the Council will benefit from the use of a fixed asset.

Voluntary aided schools (VA schools)
Mainly religious or 'faith' schools, although anyone can apply for a place. As with foundation schools, the governing body employs the staff and sets the admissions criteria

Voluntary controlled schools (VC schools)
Similar to voluntary aided schools, but are run by the local authority. As with community schools, the local authority employs the school's staff and sets the admissions criteria

Write-off
Elimination of an asset or liability over a defined period, usually by means of charging or crediting the CIES.