

# **Hampshire County Council**

## **Statement of Accounts**

### **2015/16**

## Contents

Page	
3 - 22	Narrative Statement
23 - 25	Summary Statement of Accounts
26 - 27	Movement in Reserves Statement
28 - 29	Comprehensive Income and Expenditure Statement
30 - 31	Balance Sheet
32	Cash Flow Statement
33 - 128	Notes to the Core Financial Statements
129	Pension Fund Accounts
130 - 175	Notes to the Pension Fund Accounts
176	Statement of Responsibilities for the Statement of Accounts
177 - 193	Annual Governance Statement
194	Auditor's Report on the Authority
195	Auditor's Report on the Pension Fund
196	Glossary

## Contact Details

For further information about the accounts please contact:

Post: The Director of Corporate Resources  
Hampshire County Council  
The Castle  
Winchester  
Hampshire  
SO23 8UB

Telephone: 01962 847533

Email: [budget@hants.gov.uk](mailto:budget@hants.gov.uk)

## **Narrative Statement**

The Statement of Accounts has been prepared in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA). It therefore aims to provide information so that members of the public, including electors and residents of Hampshire, Council Members, partners, stakeholders and other interested parties can:

- Understand the overarching financial position of the Council and the outturn position for 2015/16;
- Have confidence that the public money with which the Council has been entrusted has been used and accounted for in an appropriate manner; and
- Be assured that the financial position of the Council is sound and secure.

The style and format of the accounts, complies with CIPFA standards and is similar to that of previous years. The information contained within these accounts is presented as simply and clearly as possible. However, the accounts of such a large and diverse organisation as Hampshire County Council are, by their nature, both technical and complex.

This Narrative Report (a change in requirements for 2015/16 replacing the Explanatory Foreword) has been structured to help enable readers to understand the Council, its operating environment, and to assist in the understanding and interpretation of the Statement of Accounts. The statement provides information about Hampshire, including the key issues affecting the Council and its accounts. It also provides a summary of the financial position at 31 March 2016 and is structured as below:

- Statement from the Leader of Hampshire County Council
- Introduction from the Chief Financial Officer
- An Introduction to Hampshire
- The County Council's Performance
- Financial Performance of the Council 2015/16
- Corporate Risks
- Summary Position
- Where you can get Further Information

This is followed by an explanation of the Financial Statements, including information on changes during 2015/16.

## **Statement from the Leader of Hampshire County Council**

“As Leader of the County Council, I am delighted to be able to present to you the Statement of Accounts for 2015/16. The County Council has always had a strong track record of financial management and stewardship and this continues to be evident as we progress through this period of austerity.”



“The County Council has always been willing to play its part to get the country’s finances back in balance and up to the year 2015/16 we will have reduced spending by over £200m, whilst at the same time being recognised as one of the top performing county councils in the country.”

“This has only been possible due to our scale, capacity, financial resources and strong leadership. We have planned well ahead of time for the grant reductions that we knew would be required to reduce public spending and have used our reserves wisely to support the significant change programme across the Council and to ensure we have adequate time to implement changes properly in order to minimise the impact on residents wherever possible.”

“We are well placed to face the future financial challenges that are forecast to the end of the decade and the financial information contained in this narrative statement and the accounts themselves once again serve to highlight the strength and success of this great County.”

## **Councillor Roy Perry – Leader of Hampshire County Council**

### **Introduction from the Chief Financial Officer**

The Statement of Accounts for 2015/16 draws to a close a further successful financial year for the County Council. Financial performance has been strong across all Departments despite reducing budgets and demand pressures in areas such as Adults’ and Children’s social care.



This Narrative Report is a new requirement for this years accounts and is designed to help readers better understand the Council, its operating environment, and to assist in the understanding and interpretation of the Statement of Accounts themselves.

It contains background information about the County Council and outlines some of the key financial issues in areas such as revenue and capital spending, reserves and treasury management. As Chief Financial Officer to the County Council I also have

## Narrative Statement

responsibility for the Pension Fund and further information is provided to help explain the current position on the Fund and its investments.

The accounts themselves are very complex and technical in nature, but I hope you will take the time to look through them and in particular, read the Narrative Statement which provides an excellent summary of what has happened during the financial year and outlines the financial standing of the County Council as at 31 March 2016. If you would like more information on the accounts or have any questions on the content then contact information is contained within this Narrative Statement.

### **Carolyn Williamson – Director of Corporate Resources**

#### **An Introduction to Hampshire**

Hampshire is notable for housing the birthplaces of the Royal Navy, British Army and the Royal Air Force. It is bordered by Dorset to the west, Wiltshire to the north-west, Berkshire to the north, Surrey to the north-east, and West Sussex to the east. The southern boundary is the coastline of the English Channel and the Solent, facing the Isle of Wight. Hampshire is in the top ten of the largest counties by land area (covering approximately 1,400 square miles).

Hampshire County Council is one of three local authorities in Hampshire (along with Portsmouth City Council and Southampton City Council) that provide 'upper tier' services, such as social care and education to residents of the county. In addition, there are 11 district councils and 261 parish and town councils providing a range of services to businesses and residents.

The county also contains two national parks; the first covering the New Forest, and therefore governance of this area is carried out by a national park authority as well as the New Forest District Council, the second the newer national park for the South Downs which covers the chalk downlands from Winchester eastwards which embraces a large number of local council areas across three counties, Hampshire, West and East Sussex.

#### **Key Facts about Hampshire**

There are a number of factors which affect the Council's services and its finances. Detailed below are some of the key facts and figures having a major impact on the Council's financial position in both the short and medium term and further detail is available on the web describing the environment in which the County Council operates:

<http://www3.hants.gov.uk/factsandfigures/keyfactsandfigures/factsabouthampshire.htm>.

## Narrative Statement

Population 1,346,100 (Office for National Statistics Mid Year Estimates 2014)	545,000 households, of which 71% are owner-occupied (2011 Census)	85% of Hampshire is defined as rural and over a third of the county's area is within National Parks or Areas of Outstanding Natural Beauty
Hampshire (county) has 62,000 businesses and approximately 684,100 people in work, of whom 80,000 work from home, 186,800 work part-time and 97,100 are self-employed (ONS)	The Hampshire (county) economy is worth approximately £33.8 billion; £44.5 billion including Portsmouth and Southampton (ONS)	Tourism is worth almost £3 billion annually to the Hampshire economy and each year Hampshire is visited by 4.6 million staying visitors and a further 48 million day visitors
0.9% of 16 to 64 year-olds in Hampshire (County), claimed unemployment benefit in February 2015 (ONS)	Hampshire has 5,300 miles (8,600 kilometres) of road and 193 miles (310 kilometres) of railway track, incorporating 49 stations	The population aged 65 and over in Hampshire increased by 21% between 2001 and 2011, nearly double the national increase (11%)

Hampshire County Council provides a wide range of services which make a difference to residents' lives on a daily basis, including education, transport, planning, social care, libraries, waste management and trading standards.

The three corporate strategy objectives outline the overarching long-term ambition for Hampshire:

- **Hampshire safer and more secure for all** – this is our overarching objective and is about developing and supporting stronger, safer communities for all by protecting vulnerable people, maximising safety in the places we live, helping young people to live positive lives and helping diverse communities to feel secure.
- **Maximising wellbeing** – this objective is about maintaining and improving residents' health and quality of life and ensuring everyone has the opportunity to support themselves, be active in their community and have access to the services they need, whilst knowing that should things go wrong, we are there to support them.
- **Enhancing our quality of place** – this objective is all about making the county a good place to be by protecting local distinctiveness and diversity, ensuring excellent facilities, respecting Hampshire's heritage and planning proactively for the future.

## **Our strategic plan for 2013-17**

The strategic plan sets out how we will deliver the overarching ambition established by Councillors in the medium-term. For 2013-17, this plan is called [Shaping Hampshire: modern, public services for the future](#) and it focuses on how we will reshape services and become more efficient.

The Plan is organised by four key themes, which cover the broad range of our work:

- [Health and wellbeing](#) – our aim for 2013-17 is to improve health and wellbeing for all
- [Economy](#) – our aim for 2013-17 is to promote economic prosperity and protect the environment
- [Communities](#) – our aim for 2013-17 is to work with communities to enhance local services
- [Efficiency](#) – our aim for 2013-17 is to deliver high quality, cost-effective public services

This strategy helps to shape the services the Council delivers, the next section describes how the Council operates to tackle these aims.

## **Looking towards 2020**

The budget for the current financial year 2016/17 was set in February 2016. The Council operates a two year cycle of savings targets in order to give sufficient time for savings to be planned and implemented effectively and appropriately. 2016/17 is an interim year and therefore no savings targets were set.

The budgets for services were therefore mainly a roll forward of the 2015/16 position and no major service changes were planned for the year. A significant draw from the Grant Equalisation Reserve had always been planned for this year, but options existed for increasing council tax in order to reduce the draw from balances.

However, following the local government finance settlement released in December 2015, the County Council unexpectedly lost an additional £29m of grant in 2016/17 and the Government made the assumption that all Councils would put up council tax by the maximum permissible.

The County Council therefore put up council tax by 3.99%, 2% of which was specifically for social care services, but still needed to draw £53m from reserves to balance the budget. Following representations by County Councils in particular, the Government did provide some transitional funding to those Authorities who lost the most grant and Hampshire received just over £9m extra in 2016/17, reducing the final draw from the Grant Equalisation Reserve to £44m.

The County Council's Medium Term Financial Strategy (MTFS) sets out the financial landscape to 2019/20 and highlights that following the significant unexpected

## Narrative Statement

reduction in Government grant over the next four years that savings of £238m will be required on top of the £232m of savings generated to 2015/16, even after allowing for council tax increases of 3.99% each year.

These forecasts include significant cost pressures within Adults' social care arising from the increased numbers of adults and older people requiring care and complexity of clients needs, both of which increase the cost to the County Council. In addition, the introduction of the National Living Wage is expected to impact on the costs of services that the Council buys from external social care providers as it increases during this period.

The forecasts also allow for pay and inflationary pressures across other services including other key factors such as new highways and increased waste disposal costs as a result of new development and housebuilding across the County.

The key challenge for the County looking forward is to balance the budget over this period, whilst minimising the impact on service users and maintaining the quality of services the County Council provides. The Transformation to 2017 Programme seeks to make savings of £98m of the required savings by April 2017. Delivery of the savings is taking place and an update on the progress of the Programme was reported to [Cabinet on 20 June 2016](#).

Around £18m of savings were generated across Departments from an Enhanced Voluntary Redundancy programme and other key savings are built on the development of new operating models across many key services such as Adults' and Children's Social Care, Family Support Services and Highways. Many of the savings will utilise enhancements in technology through the Council's Digital Programme, which will modernise some services and provide new access routes for citizens to County Council services.

The Council also continues to seek to sell its services where there is suitable capacity and the shared services model created with Hampshire Constabulary and Hampshire Fire and Rescue Service was extended to Oxfordshire County Council last year and has contributed additional income as part of the savings for the Corporate Services Department.

Beyond 2017/18, the Council will need to develop its Transformation to 2019 Programme and as part of the MTFs, sufficient funding has been identified to bridge an anticipated £70m budget deficit in 2018/19 in order to allow the current strategy of 2 year savings targets to continue. This is particularly important for this programme as it becomes successively more difficult to deliver savings on top of what has been generated so far.

## Narrative Statement

Plans for Transformation to 2019 Programme are yet to be developed but are likely to include similar themes to previous years such as:

- Redesigning services and developing new operating models for services consistent with the reducing financial envelope.
- Evaluating the impact of further volunteering, shared ownership and co-design of services with partners.
- Exploiting digital capability
- Reviewing external spend and supply chain management
- Managing demand through effective collaboration with partners, performance and early intervention.
- Evaluating opportunities for further income generation.
- Exploiting our assets
- Using the capital programme to maximise economic impact on our business and our services and reviewing opportunities to bridge the revenue deficit through changes to the programme and its funding.

Capital investment plans over the Medium Term period are dominated by the need to provide additional school places for Secondary School children. The 10 year plan for school places indicated that around £401m of capital investment would be required, some of which would be met by Government grant and developer contributions, leaving a balance of up to £155m to be found from other sources. The County Council is considering a range of options for delivering and funding the school places which will reduce the overall financial burden on the Council.

The Treasury Management Strategy over the period will continue to build on existing policies and practices, in particular protecting investment capital whilst at the same time looking at longer term products to generate a better rate of return. Interest rates are expected to move during this time and the County Council will need to be careful to commence long term borrowing activity at the correct time, following a long period of 'internally borrowing' rather than seeking funds from the market.

### **Key Facts about Hampshire County Council**

All of the factors in the section above help to shape the County Council's priorities and provide a challenging environment for the organisation to operate in. Potentially increasing demand on services and impacting the funding available to meet these demands. Charged with directing the outcomes, priorities and policies of the Council are the Councillors who are elected every four years.

The County Council has 78 Councillors (also known as Members) who decide the budgets and policies for the vital local services provided by Hampshire County Council and the political composition is as follows:

- 46 Conservative

## Narrative Statement

- 16 Liberal Democrats
- 9 UK Independence Party
- 4 Labour Party
- 1 the Community Campaign (Hart)
- 2 Non-affiliated

Under the County Council's Constitution, the Council manages its affairs by way of a Leader with Cabinet model. The Leader is appointed by the County Council and they will appoint the Cabinet.

Supporting the work of the elected members is the Corporate Management Team (CMT) which comprises seven Chief Officers and is led by the Chief Executive. CMT work with, and for, the Leader and Cabinet to maximise the capacity and effectiveness of the organisation in order to protect and build strong, sustainable public services that improve the quality of life for the people of Hampshire. The current make up of CMT is detailed below. Note 23b shows the further detail of people that have been in a strategic post during 2015/16.

- Chief Executive – John Coughlan
- Director of Corporate Resources – Carolyn Williamson
- Director for Transformation and Governance – Paul Archer
- Director for Adults, Health and Care – Graham Allen
- Director for Children's Services – Steve Crocker
- Director of Culture, Communities and Business Services – Karen Murray
- Director of Economy, Transport and Environment – Stuart Jarvis

At 31 March 2016, the County Council employed 37,704 people, making the County 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 24,669 at 31 March 2016, a net increase of 230 since 31 March 2015. This is largely due to an increase of 374 in school-based staff. This is partly offset by reductions in other areas as part of the County Council's efficiency and transformation programme.

<b>Full-time equivalent employees</b>	<b>March 2015</b>	<b>March 2016</b>
School – based	15,126	15,500
Other children's services	2,241	2,080
Adults Health and Care	2,688	2,752
Economy, Environment and Transport	603	588
Culture, Communities and Business Services	2,378	2,361
Corporate services	1,403	1,388
	<b>24,439</b>	<b>24,669</b>

## The County Council's Non-Financial Performance

In Hampshire, we are proud of our strong record of delivering excellent services that provide value for money. Over the last few years we have risen to the challenge of national spending cuts with an ambitious programme of savings and modernisation, while protecting frontline services and reducing the impact on those in most need.

The County Council's Performance Management Framework (PMF) provides the local governance structure for performance management and reporting to Cabinet. The PMF specifies that Cabinet receives an annual report on the County Council's performance against the strategic priorities set out in Shaping Hampshire.

In order to report progress against Shaping Hampshire, departments are asked to rate performance against success measures on a quarterly basis. For each measure, a simple risk-based 'red, amber, green' rating is applied, informed by the most recent data and management information. Departments are also asked to provide an overview of key achievements and risks/issues against agreed priorities.

The County Council is a high performing local authority with high standards as a starting point. Targets set by departments are intentionally ambitious, particularly in view of ongoing spending reductions and service transformation. In this context the County Council has succeeded in maintaining its quality of service provision at good during 2015/16, as evidenced through external inspection and validation, buy-back of services and customer satisfaction results evidencing strong performance in the delivery of core services.

Performance against targets and improvement trend: Based on the most recent data available at the end of 2015/16, 72.4% of measures had either improved against the baseline or met the target set by the department. 55% of all measures reported against showed improvement. Half of all improvement targets, as set by departments, were met.

The majority of measures were rated green, low risk, indicating they were either on track to achieve their performance target or, where performance was not in line with target, performance remains within tolerance levels and has not declined for more than one consecutive period.

Performance highlights for 2015/16 are:

- **Public satisfaction with highway maintenance increased from 52% to 56% between 2014 and 2015.** The National Highways and Transport Public Satisfaction Survey ranked Hampshire County Council top amongst County Councils for satisfaction with highways maintenance, against a backdrop of declining satisfaction nationally.

- **90% of parents were offered a place for their child at a primary school of their choice, compared to 88% nationally.** 98% of parents who applied for a Year 7 school place were offered a place at a secondary school of their choice, with 93.5% getting a place at their school of first preference and every child due to start school in September 2015 was offered a place.
- **A major programme of school building was completed in summer 2015 with a value of £70m and providing more than 1,300 extra school places.** The County Council also agreed a £15.5m investment in educational facilities in Winchester, Gosport and Aldershot. This capacity will help schools to meet the growing demand for school places in the area.
- **The NHS Health Check Programme reached more residents, with 55.5% take up of those eligible in 2015/16 compared to 42.1% in 2014/15.** This is the highest uptake of Health Checks recorded in Hampshire and is above the average of Hampshire County Council's statistical neighbours.
- **The Supporting Troubled Families Programme worked with an additional 1,373 families (as at end February 2016), exceeding early its target to work with 1,223 families in 2015/16.** The programme benefits not only the families concerned but also the communities within which they live.
- **Teenage pregnancy rates across Hampshire have more than halved over the last 16 years.** Overall Hampshire has seen a 55.7% reduction in teenage conception rates between 1998 and 2014. This is above the national reduction of 51.1% and the South East region reduction of 50.3%.
- **Carbon emissions from County Council operations reduced by 23%, exceeding the Five Year Carbon Management Plan (2010 to 2015) target of a 20% reduction.** £3m of savings have been delivered through Hampshire County Council initiatives to reduce carbon emissions.
- **£92m of efficiency savings delivered at 2015/16 against a target of £83.6m (2014/15) under the Transformation to 2015 programme.** This is in addition to £140m savings achieved between 2008 and 2013.

A more extensive list of key performance achievements is included in the [2015/16 Annual Performance Report](#).

## The County Council's Financial Performance

### Revenue Position

The financial year 2015/16 followed the final year of the 2010 Comprehensive Spending Review (CSR) period, which was the start of the major grant reduction programme across the public sector. Further indications from government were that significant grant reductions would continue. The County Council developed a further

## Narrative Statement

programme of savings to take the County Council through to 2017/18 Transformation to 2017 (Tt2017), which built on the £232.5m savings already achieved by April 2015. The County Council's early response to these reductions has placed it in a very strong position for the 2015/16 budget. These savings, together with additional one off income from council tax collection and business rates retention meant that a balanced budget was set without the need to draw from the Grant Equalisation Reserve.

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:

	<b>2014/15</b>	<b>2015/16</b>
	<b>%</b>	<b>%</b>
Council tax	26	27
Business rates	2	2
General Government grants	13	11
Fees, charges and interest	15	13
Specific Government grants	44	47
	<b>100</b>	<b>100</b>

Revenue expenses relate to spending on the day to day operations of the County Council. Due to the nature of the services that the County Council provides, much of the cost of services relate to staffing costs. Other running expenses relate to contracts with external providers for major services such as waste disposal, highways maintenance and social care services, together with other non-staffing costs such as transport, premises costs, supplies and services and the cost of borrowing money for financing capital expenditure. The breakdown of these costs is shown in the following table :

	<b>2014/15</b>	<b>2015/16</b>
	<b>%</b>	<b>%</b>
Staff costs	46	45
Running expenses	48	50
Capital financing	6	5
	<b>100</b>	<b>100</b>

## Narrative Statement

The County Council is responsible for providing a wide range of services, by far the biggest is education and there are over 500 schools within Hampshire, some of which have converted to Academy status and are not shown in the County Council's accounts. In 2015/16 the split of expenditure across key service areas was as follows:

	<b>2014/15</b>	<b>2015/16</b>
	<b>%</b>	<b>%</b>
Children's services and education	59	59
Adult social care	24	24
Highways, roads and transport	7	5
Cultural, environmental and planning services	7	8
Public Health	2	3
Other services	1	1
	<b>100</b>	<b>100</b>

The budget requirement (which is the net budget met by council tax, business rates and Government grant) for 2015/16 was set at £743 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 £5.5 million.

The County Council has continued to demonstrate strong financial stewardship over this extremely challenging period. At the end of 2015/16, service net expenditure was £21.6 million lower than budgeted and in accordance with the financial management policy has been transferred to the designated under spending earmarked reserve to meet investment and restructuring costs associated with the Tt2017 Programme and beyond. Further savings of £21.1 million were achieved largely as a result of treasury management activity and unused contingencies. This has been mainly transferred to the Grant Equalisation Reserve, to ensure that adequate provision is held to support the budget in 2018/19 in line with the County Council's Medium Term Financial Strategy, with £1million set aside to fund the next phase of management and development costs under the workforce and development strategy. Other variations are offset by transfers to and from reserves. This position is probably the best measure we have for demonstrating that the £102.5 million removed from the budget following the Transforming the Council to 2015 (Tt2015) Programme has been successfully delivered and is tangible evidence of the County Council's effective financial management and planning. Further information is included in the [End of Year Financial Report 2015/16](#) considered by the County Council's Cabinet on 20 June 2016.

General Balances at 31 March 2016 are £20.6 million, which is in line with the current policy of carrying a general balance that is approximately 2.5% of the County Council's Budget Requirement.

## Narrative Statement

The 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.

	<b>Final budget £million</b>	<b>Actual £million</b>	<b>Variance £million</b>
<b>Cost of services</b>	<b>835.1</b>	<b>858.1</b>	<b>23.0</b>
Gain on disposal of assets	-0.9	-0.9	-
Loss on assets transferred to academies	-	-	-
Net interest payable and investment property income	18.7	18.0	-0.7
Investment property gains	-0.6	-0.6	-
Pension interest cost and expected return on pensions assets	18.1	33.9	15.8
Surplus on trading units	-0.6	-1.4	-0.8
<b>Net operating and financing expenditure</b>	<b>869.8</b>	<b>907.1</b>	<b>37.3</b>
<b>Amount to be met from non-specific Government grant and local taxpayers</b>			
Council tax income	-512.5	-512.5	-
General Government grants	-212.7	-212.7	-
Business rates	-43.7	-43.7	-
Capital grants and contributions	-121.1	-121.1	-
<b>Deficit on the provision of services</b>	<b>-20.2</b>	<b>17.1</b>	<b>37.3</b>
<b>Adjustments between accounting and funding basis under regulations</b>	<b>8.7</b>	<b>-52.2</b>	<b>-60.9</b>
<b>Contribution to/(from) earmarked reserves</b>	<b>11.5</b>	<b>35.1</b>	<b>23.6</b>
<b>Movement in General Fund Balance</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>General Fund Balance</b>			
Brought forward 1 April 2015	-20.6	-20.6	-
<b>Carried forward 31 March 2016</b>	<b>-20.6</b>	<b>-20.6</b>	<b>-</b>

## Capital

In 2015/16 the County Council spent £204.4 million on capital projects, £39.1 million less than the revised budget. Capital receipts of £9.6 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 totaled £148.3 million. In accordance with the agreed criteria for the use of borrowing, £77.3 million was borrowed from internal resources. Adding planned revenue contributions to capital of £17.9 million gave a total of £243.5 million. This has allowed £5.1 million of prudential borrowing to be repaid, £7.0 million of unused resources to be carried forward to 2016/17 to fund future capital expenditure, and a smaller use of the capital reserve in year than planned.

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. Total external debt at 31 March 2016 was lower than the previous year at £521.3 million (£541.5 million at 31 March 2015), and investments increased to £495.6 million (£491.3 million at 31 March 2015).

Further information is provided in the [End of Year Financial Report 2015/16](#).

## Treasury Management and Prudential Indicators

Treasury Management is concerned with managing the Council's long term borrowing and lending activity and managing cash flows on a day to day basis to ensure that sufficient funding exists to pay staff and suppliers throughout the year.

The County Council's treasury management policy requires an annual report to the Cabinet on the exercise of the treasury management function and the Prudential Code for Capital Finance in Local Authorities requires that the County Council reports its actual performance against the Prudential Indicators that were set in its Treasury Management Strategy.

The Treasury Management Strategy is reviewed annually and provides the framework within which authority is delegated to the Director for Corporate Resources to make decisions on the management of the Council's debt and investment of surplus funds.

All treasury activity has complied with the County Council's Treasury Management Strategy and Investment Strategy for 2015/16, and all relevant statute, guidance and accounting standards. In addition the County Council has complied with all of the prudential indicators set in its Treasury Management Strategy.

Further information is provided in the [End of Year Financial Report 2015/16](#).

## **Reserves and Balances**

The County Council maintains a number of useable reserves, as detailed in the Balance Sheet.

The level and use of local authority reserves has been a regular media topic over a number of years often fuelled by comments from Government that these reserves should be used to significantly lessen the impact of the austerity measures that have seen a greater impact on local government than any other sector.

The County Council has continually explained that reserves are kept for many different purposes and that simply trying to bridge the requirement for long term recurring savings through the use of reserves only seeks to use up those reserves very quickly (and mean that they are not available for any other purposes) and merely delays the point at which the recurring savings are required. The County Council's reserves strategy, is now well rehearsed and continues to be one of the key factors that underpins our ability not only to provide funding for transformation of services, but also to give the time for the changes to be properly planned, developed and successfully implemented.

At the end of the 2015/16 financial year the County Council's earmarked reserves together with the general fund balance stand at more than £497.3m an increase of just under £35.2m on the previous year, mainly as a result of the continued strategy of achieving savings early and then using those savings to fund the next phase of savings delivery.

In particular, a key part of the financial strategy is to generate savings on a two yearly cycle, with the budget deficit in the intervening year being met from the Grant Equalisation Reserve (GER). This has increased by nearly £25m during 2015/16, reflecting the fact that a draw of £44m is anticipated to balance the 2016/17 budget prior to savings being implemented in 2017/18.

Following the significant unexpected reduction in Government grant as part of the finance settlement for 2016/17 to 2019/20, the planned draws for the GER over the period will be substantial, a further £70 million will be required in the GER for 2018/19 to allow for delivery of Transformation to 2019 (Tt2019). This is reflected in the Medium Term Financial Strategy approved by Cabinet on 20 June 2016 (see link below).

Departmental reserves have increased by over £11m, representing the early achievement of savings against the Transformation to 2017 Programme. These reserves will be used to help fund the necessary changes and investments required to deliver the savings plans over the course of the current financial year.

## Narrative Statement

The table below summarises by purpose the total level of reserves and balances that the County Council holds and compares this to the position reported at the end of 2014/15:

	<b>Balance 31/03/2015 £000</b>	<b>Balance 31/03/2016 £000</b>	<b>% of Total %</b>
Fully Committed to Existing Spend Programmes	178,145	170,995	34.4
Departmental / Trading Reserves	58,376	69,597	14.0
Risk Reserves	27,308	26,423	5.3
'Available' Reserves	76,892	100,887	20.3
<b>HCC Earmarked Reserves</b>	<b>340,721</b>	<b>367,902</b>	<b>74</b>
Schools Reserves	52,462	55,950	11.3
<b>Total Earmarked Reserves</b>	<b>393,183</b>	<b>423,852</b>	<b>85.3</b>
Capital Grants Unapplied Reserve	48,368	52,844	10.6
General Fund Balance	20,598	20,598	4.1
<b>Total Reserves and Balances</b>	<b>462,149</b>	<b>497,294</b>	<b>100.0</b>

By far the biggest proportion of reserves are those that are fully committed to existing spend programmes. £124m of this funding is required to meet commitments in the approved capital programme.

'Available' reserves relate to those reserves which whilst set aside for a specific purpose could be used to limit the impact of savings in services, which is exactly what the Grant Equalisation Reserve does on a short term basis, to give the County Council the time and capacity to properly implement the savings programmes. Trying to prevent savings by using reserves is not sustainable in the long term as the County Council needs recurring savings in order to close the predicted deficits in the budget.

The County Council has no control over Schools Reserves, but these must be reflected in the final accounts each year, they do not include the reserves of Academy Schools.

The General Fund Balance is not earmarked for any specific purpose, but represents a minimum level of balances recommended by the Chief Financial Officer to provide a buffer against any significant unexpected losses during the year.

Further information is provided in Note 8 and in Appendix 2 to the [Medium Term Financial Strategy to 2020](#) considered by the County Council's Cabinet on 20 June 2016, including in more detail the purpose for which the reserves are held and in particular why the majority of these reserves cannot be used for other reasons.

## **Hampshire Pension Fund**

The Hampshire Pension Fund is part of the Local Government Pension Scheme and is administered by Hampshire County Council on behalf of the 328 other employers in the scheme. As at 31 March 2016 the net assets of the Fund were valued at £5.2bn, the Pension Fund's accounts are included as part of the County Council's accounts on page 129. In line with the Local Government Pension Scheme Regulations 2013, 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. In accordance with the regulations the Actuary's triennial valuation is calculated on a different basis to the calculation of employers' individual pension fund liability for inclusion in their accounts under IAS19.

## **County Council's Pension Fund Liability**

The County Council's net pension liability has decreased from £1,100.6 million at 31 March 2015 to £1,040 million at 31 March 2016. This overall actuarial gain arises because there has been an assumed decrease in future pension liabilities due to a higher discount rate applied. 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.

## **Corporate Risks**

The Council has an embedded process to manage risks and assist the achievement of its objectives, alongside national and local performance targets. The Corporate Risk Register plays an integral role to support production of the Corporate Plan and is subject to annual review by the Audit Committee when it approves the final accounts. There is a Risk Management Board that oversees the management of risk in the Council and Departments are required to continually assess risks as part of their day to day activities and in particular for major projects under their control. Key corporate risks are detailed in the Annual Governance Statement which is set out in full from pages 177 to 193. They include:

- Responding to on-going and future changes to the Council's financial framework;
- Information security and compliance with data protection legislation;
- Delivery of an effective and sustainable social care framework for adults and children;
- Safeguarding vulnerable adults and children,
- Compliance with pensions administration regulations;
- Avoiding fraud exposure as a consequence of the transparency agenda.

The Council currently has a number of significant projects covering a wide range of services, which can involve working in partnership with others, many of which require considerable levels of one-off and recurrent funding from the County Council.

## Narrative Statement

Specific risks relating to partnerships and projects have been incorporated into the Annual Governance statement where appropriate.

The impact of the current economic climate on the County Council is taken into account when the County Council 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. Monitoring of spend against the budget takes place throughout the year and is reported to the Corporate Management Team monthly and to Cabinet on a quarterly basis.

### **Summary Position**

It is clear that the County Council's financial and non financial performance in 2015/16 continues to be good. The revenue outturn with a £21.1m under spend is in line with expectations and allows a contribution to the Grant Equalisation Reserve, to ensure that adequate provision is held to support the budget in 2018/19 in line with the Medium Term Financial Strategy. The capital outturn has been managed to minimise the level of re-profiling required at the year end and the Council has sufficient reserves and balances to provide financial resilience for 2016/17 and future years.

In 2015/16, the Council has faced and dealt successfully with significant change. This trend will continue and indeed accelerate as the devolution agenda takes shape but the Council is well placed to adapt to the challenges and to take advantage of the opportunities offered. There are risks as highlighted above, but there are well established and robust risk management processes in place and, together with robust financial management and reporting, the Council is in a strong position as it moves into 2016/17.

### **Where you can get further information**

You can get more information about the accounts from the Director of Corporate Resources, Hampshire County Council, The Castle, Winchester, SO23 8UB, Telephone: (01962) 847533, e-mail: [budget@hants.gov.uk](mailto:budget@hants.gov.uk).

## Explanation of the Financial Statements

The Financial Statements bring together all the financial activities of the County Council for the year and its financial position as at the 31 March 2016. They detail both revenue and capital elements for the General Fund and separately provide detail for the Pension Fund.

Local authorities are governed by a rigorous structure of controls to provide stakeholders with the confidence that public money has been properly accounted for. As part of this process of accountability, the County Council is required to produce a set of accounts in order to inform stakeholders of the County Council that we have properly accounted for all the public money we have received and spent and that the financial standing of the County Council is on a secure basis.

The accounts for 2015/16 are set out on pages 23 to 176.

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 2016 compared with 31 March 2015
- **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** – Outlines the key responsibilities in respect of the accounts, together with statements from the Chief financial Officer and Chairman of the Audit Committee.
- A glossary of key terms can be found at the end of this document.

## Changes to the Accounts

### Cash and cash equivalents

During 2015/16 the County Council has adjusted its presentation of the bank overdraft on the Balance Sheet. Prior to 2015/16 the balance was included separately under current liabilities, but as this figure actually reflects short term cash fluctuations rather than a longer term agreed overdraft, it has now been moved to become part of the net cash and cash equivalents figure under current assets. Details of this can be found in Note 12a.

### **Local Enterprise Partnership**

At the start of 2015/16 the County Council changed its accounting policy regarding its treatment of the transactions, assets and liabilities of the Enterprise EM3 Local Enterprise Partnership (EM3 LEP). The County Council is the accountable body for the EM3 LEP, which will either grant or loan funds to organisations in the private and public sectors to generate economic growth in the local area.

With the announcement of significant additional funding from 2015/16 for Local Enterprise Partnerships (LEPs) through the Local Growth Deal the Government now expects all LEPs to have an assurance framework in place to clarify the respective roles and responsibilities of the LEP including “putting into place appropriate arrangements for the proper use and administration of funding, building on the existing local government systems and which fall under the annual audit of the local authorities accounts”. The accountable local authority is also deemed to have “responsibility for the decisions of the LEP in approving projects (for example if subjected to legal challenge)”. The County Council has therefore included the EM3 LEP’s income, expenditure, assets and liabilities in its accounts. Prior to 2015/16, and the Local Growth Deal arrangements, the County Council did not include transactions relating to the EM3 LEP in its accounts.

### **Minimum revenue provision**

During 2015, the County Council changed its policy for calculating the minimum revenue provision (MRP) which is the minimum amount (as specified in statute) which must be set aside as a provision for repaying external loans and meeting other credit liabilities. The policy has been reviewed in line with the guidance that stipulates authorities make prudent provision for their MRP. It is believed that it would be a more prudent approach to calculate MRP on a 2% (or 50 years) straight line basis rather than the current 4% of the reducing balance basis. The revised calculation assumes the 50 years would have started in 2008 (the start date of the current regulations) so that the charge to the 2015/16 accounts is based on the remaining 43 years. The impact of this change in 2015/16 is a reduction of £8 million with total MRP being £23 million. The change in policy does mean that future costs of MRP will be higher than current levels from 2033 onwards but it is felt that this is justified given the medium term pressures that the County Council faces to the end of this decade.

## Summary Statement of Accounts 2015/16

### 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 2015/16 and where the money came from to pay for them.

	2015/16 Expenditure £000	2015/16 Income £000	2015/16 Net expenditure £000
<b>Operating income and expenditure</b>			
Cultural, environmental and planning services	<b>148,083</b>	<b>-32,409</b>	<b>115,674</b>
Education and children's services	1,143,397	-844,649	298,748
Highways and transport services	101,645	-14,276	87,369
Adult social care	457,829	-130,903	326,926
Public Health	47,862	-46,932	930
Other services, corporate and non-distributed costs	165,570	-88,014	77,556
Assets transferred to academies for nil consideration	27		27
<b>Total operating income and expenditure</b>	<b>2,064,413</b>	<b>-1,157,183</b>	<b>907,230</b>
<b>Taxation and non-specific grant income</b>			
Non-ringfenced government grants			-212,766
Non domestic rates			-43,673
Council tax income			-512,538
Capital grants and contributions			-121,135
<b>Taxation and non-specific grant income</b>			<b>-890,112</b>
<b>Deficit on the provision of services</b>			<b>17,118</b>

### 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 -£52.3 million. The impact on the General Fund Balance is shown in the Movement in Reserves Statement which is summarised below.

	£000
<b>General Fund Balance at 31 March 2015</b>	<b>-20,598</b>
Deficit on the provision of services	17,118
Net adjustment	-47,787
Balance before transfers to earmarked reserves	-51,267
Transfers to earmarked reserves	30,669
<b>General Fund Balance at 31 March 2016</b>	<b>-20,598</b>

### 3 Financial position of the Council

The Balance Sheet presents the Council's financial position at 31 March 2016 and the value of its assets and liabilities. It shows what the Council owns, owes and is owed.

	2015/16 £000	2015/16 £000
Land, buildings, vehicles, equipment and infrastructure		3,831,080
Money owed to the Council:		
Within 12 months	385,571	
After 12 months	280,783	
Money owed by the Council:		
Within 12 months	-290,978	
After 12 months	-584,990	
Net borrowing		-209,614
Pension fund net liability		-1,040,000
<b>Total net assets</b>		<b>2,581,466</b>
<b>Financed by:</b>		
Cash-backed reserves		-497,294
Non-cash-backed reserves*		-2,084,172
<b>Total net worth</b>		<b>-2,581,466</b>

\* 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.

	2015/16 £000
Adult Services	9,304
Childrens Services	77,672
Environment	87,554
Policy and Resources	29,824
<b>Total</b>	<b>204,354</b>
<b>Financed by:</b>	
Capital receipts	-9,571
Grants and other income	-138,802
Loans	-17,553
Revenue (main contribution)	-29,838
Revenue (reserves)	-8,590
	<b>-204,354</b>

## 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.

	2015/16	
	£000	£000
Pension contributions		252,343
Transfers in from other pension funds		11,543
Benefits paid		-231,411
Payments to and on account of leavers		-11,604
<b>Net additions from dealings with members and employers</b>		<b>20,871</b>
<b>Investment management expenses</b>		<b>-20,430</b>
Profits and losses on disposal of investments and disposal of investments and changes in the market value of investments	-25,412	
Investment income (net of tax)	101,289	
Net return on investments		75,877
Add opening net assets of the Fund		5,137,088
<b>Closing net assets of the Fund</b>		<b>5,213,406</b>

## 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' (ie 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
<b>Balance at 31 March 2014</b>	<b>-27,698</b>	<b>-382,272</b>	<b>-71,778</b>	<b>-481,748</b>	<b>-1,970,884</b>	<b>-2,452,632</b>
Surplus (-) or deficit on provision of services (accounting basis) see note 2 below	33,616	-	-	<b>33,616</b>	-	<b>33,616</b>
Other comprehensive expenditure and income see note 2 below	-	-	-	-	5,840	<b>5,840</b>
<b>Total comprehensive expenditure and income</b>	<b>33,616</b>	<b>-</b>	<b>-</b>	<b>33,616</b>	<b>5,840</b>	<b>39,456</b>
Adjustments between accounting basis & funding basis under regulations (note 6) *	-37,427	-	23,410	<b>-14,017</b>	14,017	-
<b>Net increase (-) / decrease before transfers to earmarked reserves</b>	<b>-3,811</b>	<b>-</b>	<b>23,410</b>	<b>19,599</b>	<b>19,857</b>	<b>39,456</b>
Transfers to (-) / from earmarked reserves (note 8) *	10,911	-10,911	-	-	-	-
<b>Increase (-) / decrease in Year</b>	<b>7,100</b>	<b>-10,911</b>	<b>23,410</b>	<b>19,599</b>	<b>19,857</b>	<b>39,456</b>
<b>Balance at 31 March 2015</b>	<b>-20,598</b>	<b>-393,183</b>	<b>-48,368</b>	<b>-462,149</b>	<b>-1,951,027</b>	<b>-2,413,176</b>

\* The transfer from the capital grants unapplied reserve was previously shown as a transfer to/from earmarked reserves and is now shown as an adjustment between accounting basis and funding basis under regulation in line with the Code of Practice on Local Authority Accounting.

## 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
<b>Balance at 31 March 2015</b>	<b>-20,598</b>	<b>-393,183</b>	<b>-48,368</b>	<b>-462,149</b>	<b>-1,951,027</b>	<b>-2,413,176</b>
Surplus (-) or deficit on provision of services (accounting basis)	17,118	-	-	17,118	-	17,118
Other comprehensive expenditure and income	-	-	-	-	-185,408	-185,408
<b>Total comprehensive expenditure and income</b>	<b>17,118</b>	<b>-</b>	<b>-</b>	<b>17,118</b>	<b>-185,408</b>	<b>-168,290</b>
Adjustments between accounting basis & funding basis under regulations (note 6)	-47,787	-	-4,476	-52,263	52,263	-
<b>Net increase before transfers to earmarked reserves</b>	<b>-30,669</b>	<b>-</b>	<b>-4,476</b>	<b>-35,145</b>	<b>-133,145</b>	<b>-168,290</b>
Transfers to (-) / from earmarked reserves (note 8)	30,669	-30,669	-	-	-	-
<b>Increase (-) / decrease in year</b>	<b>-</b>	<b>-30,669</b>	<b>-4,476</b>	<b>-35,145</b>	<b>-133,145</b>	<b>-168,290</b>
<b>Balance at 31 March 2016</b>	<b>-20,598</b>	<b>-423,852</b>	<b>-52,844</b>	<b>-497,294</b>	<b>-2,084,172</b>	<b>-2,581,466</b>

**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.



**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 2015	See		£000	31 March 2016
£000	note		£000	£000
3,749,695	10a	<b>Property, plant &amp; equipment (PPE)</b>	<b>3,799,413</b>	
31,609	11a	Investment property	31,667	
<b>3,781,304</b>		<b>Total non-current assets</b>	<b>3,831,080</b>	
191,703	12	Long-term investments	247,849	
34,065	12b	Long-term debtors	32,934	
<b>4,007,072</b>		<b>Total long-term assets</b>		<b>4,111,863</b>
		<b>Current assets</b>		
609	14	Current assets held for sale	2,100	
252,899	12	Short-term investments	188,071	
2,731	13	Inventories	2,903	
135,296	12c	Short-term debtors	138,162	
68,235	12a	Cash and cash equivalents	54,335	
<b>459,770</b>		<b>Total current assets</b>	<b>385,571</b>	
		<b>Current liabilities</b>		
-31,497	12a	Bank Overdraft - note i	-	
-207,346	12g	Short-term Creditors	-179,451	
-42,857	12d	Short-term borrowing	-43,347	
-8,300	30	Deferred liability repayable within one year	-6,384	
-36,820	26	Grants receipts in advance - revenue	-30,199	
-19,466	26	Grants receipts in advance - capital	-31,597	
<b>-346,286</b>		<b>Total current liabilities</b>	<b>-290,978</b>	
<b>113,484</b>		<b>Net current assets</b>		<b>94,593</b>
<b>4,120,556</b>		<b>Total assets less current liabilities</b>		<b>4,206,456</b>
-27,038	15	Provisions	-17,691	
-349,751	12d	Long-term borrowing	-333,343	
-171,868	30	Deferred liabilities	-171,328	
-58,103	12f	Developers' contributions	-62,628	
<b>-606,760</b>		<b>Total long term liabilities</b>		<b>-584,990</b>
<b>-1,100,620</b>	32f	Net liability related to defined benefit pension schemes		<b>-1,040,000</b>
<b>2,413,176</b>		<b>Total net assets</b>		<b>2,581,466</b>
		<b>Financed by:</b>		
		<b>Usable reserves</b>		
-20,598	7	General Fund	-20,598	
-393,183	8	Earmarked reserves	-423,852	
-48,368	8	Capital grants unapplied reserve	-52,844	
<b>-462,149</b>		<b>Total usable reserves</b>		<b>-497,294</b>
<b>-1,951,027</b>	16	<b>Unusable reserves</b>		<b>-2,084,172</b>
<b>-2,413,176</b>		<b>Total net worth</b>		<b>-2,581,466</b>

note i - in 2014/15 the bank overdraft was included in short term liabilities, this is now included in cash & cash equivalents under current assets. Details can be found in note 12a.

## 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.

2014/15 £000	See note		2015/16 £000
33,616		Net surplus (-) or deficit (+) on the provision of services	17,118
-203,553	17a	Adjustments to net surplus or deficit on the provision of services for non-cash movements	-209,782
132,880	17a	Adjustment for items included in the net surplus or deficit on the provision of services that are investing and financing activities	130,542
-37,057		Net cash inflow from Operating Activities	-62,122
39,592	17b	Investing Activities	23,729
23,333	17c	Financing Activities	20,796
25,868		Net increase (-) or decrease (+) in cash and cash equivalents	-17,597
-62,606		Cash and cash equivalents at the beginning of the reporting period	-36,738
<b>-36,738</b>		<b>Cash and cash equivalents at the end of the reporting period (note 12a)</b>	<b>-54,335</b>

## Notes to the Core Financial Statements

### Index

Page	Note	
35	1	Accounting Policies
55	2	Critical judgements in applying accounting policies
57	3	Uncertainties relating to assumptions and estimates used
58	4	Accounting standards issued not yet adopted
59	5	Events after the Balance Sheet date
60	6	Adjustments between accounting basis and funding basis under regulations
62	7	General Fund
62	8	Transfers to/from earmarked reserves
64	9	Financing and investment income and expenditure
65	10a	Property, Plant and Equipment (PPE)
67	10b	Capital commitments
67	10c	Valuation of assets
67	10d	Impairment losses
68	10e	Foundation and aided school assets
68	10f	Heritage assets
72	11a	Investment properties
73	11b	Valuation of non financial assets carried at fair value
74	12	Financial instruments
75	12a	Cash and cash equivalents
75	12b	Long-term debtors
76	12c	Debtors
76	12d	Borrowing
77	12e	Fair values
79	12f	Developers' contributions
80	12g	Short-term creditors
81	12h	Nature and extent of risks arising from financial instruments
85	13	Inventories
85	14	Assets held for sale
86	15	Change in provisions
87	16	Unusable reserves
88	16a	Revaluation reserve
89	16b	Capital adjustment account
90	16c	Available for sale financial assets reserve
90	16d	Financial instruments adjustment account
91	16e	Pensions reserve
91	16f	Collection fund adjustment account
92	16g	Accumulated absences account

## Notes to the Core Financial Statements

93	17a	Cash Flow Statement – operating activities
94	17b	Cash Flow Statement – investing activities
94	17c	Cash Flow Statement – financing activities
95	18	Amounts reported for resource allocation decisions
98	19	Internal trading accounts
99	20	Collaborative arrangements
99	20a	Pooled budget
100	20b	Joint working
100	21	Structured entities – Hampshire Cultural Trust
101	22	Members’ allowances
102	23a	Officer remuneration
104	23b	Senior employees’ remuneration
106	23c	Termination agreements
107	24	External Audit fees
107	25	Dedicated Schools Grant
108	26	Grant and contribution income
111	27	Related party transactions
113	28	Capital financing
114	29a	Leases – operating leases – County Council as lessee
114	29b	County Council as lessor
115	29c	Leases – finance leases
115	30	PFI and service concessions
119	31	Contingent liabilities
120	32	Pensions
120	32a	Teachers’ Pension Scheme and NHS Pension Scheme
121	32b	Local Government Pension Scheme
121	32c	Transactions relating to post-employment benefits
123	32d	Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation)
124	32e	Reconciliation of the Movements in the Fair Value of Scheme Assets
124	32f	Pensions Assets and Liabilities Recognised in the Balance Sheet
125	32g	Basis for Estimating Assets and Liabilities
128	33	Trust funds

## **1. Accounting Policies**

### **1.1. General principles**

The Statement of Accounts summarises the County Council's transactions for the 2015/16 financial year and its position at the year-end of 31 March 2016. The County Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015. 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 2015/16 and the Service Reporting Code of Practice 2015/16. 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 2016 is estimated at £2.2 million (£2.6 million at 31 March 2015).
- 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:**
  1. **The return on assets** - excluding amounts included in net interest on the net defined benefit liability – charged as Other Comprehensive Income and Expenditure.
  2. **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 which is disclosed in note 5. 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**

Financial assets are classified into two types:

## Notes to the Core Financial Statements

- loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market;
- available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

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.

Available for sale financial assets are recognised on the Balance Sheet when the County Council becomes a party to the contractual provisions of a financial instrument. These assets are measured and carried at fair value. Where the asset has fixed or determinable payments, 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 amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends)

is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the County Council Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:

- instruments with quoted market prices – the market price;
- other instruments with fixed and determinable payments – net present value.

Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/loss is recognised in the Surplus or Deficit on Revaluation of Available-for-Sale Financial Assets. The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available-for-Sale Reserve. 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 (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, 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. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve.

### **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. Fair Value Measurement**

The County Council measures some of its assets and liabilities at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

## Notes to the Core Financial Statements

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The County Council measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic interest.

When measuring the fair value of a non-financial asset, the County Council takes into account a market participants ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The County Council uses appropriate valuation techniques for each circumstance, maximising the use of relevant known data and minimising the use of estimates or unknowns. This takes into account the three levels of categories for inputs to valuations for fair value assets and liabilities:

- Level 1 – quoted prices in active markets for identical assets or liabilities that the County Council can access at the measurement date
- Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 – unobservable inputs for the asset or liability

### **1.10. 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.

### **1.11. 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.

### **1.12. Collaborative arrangements**

The County Council's interests in companies and other entities are accounted for in accordance with the Code of Practice requirements for group accounts. Inclusion in the group is dependent upon the extent of the County Council's control over the entity demonstrated through ownership, such as shareholding in an entity or representation on an entity's board of directors. The County Council does have a number of interests in companies, other entities and joint arrangements as summarised below. However, none are material and thus the production of group accounts is not required.

The County Council has pooled budget arrangements with NHS bodies and also joint working agreements with Hampshire Constabulary, Hampshire Fire and Rescue Service and Oxfordshire County Council. These 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.

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.

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.

The County Council is the accountable body for the funding of the Enterprise EM3 Local Enterprise Partnership (EM3 LEP). The EM3 LEP will either grant or loan funds to organisations in the private and public sectors to generate economic growth in the local area. With the announcement of significant additional funding from 2015/16 for Local Enterprise Partnerships (LEPs) through the Local Growth Deal the Government now expects all LEPs to have an assurance framework in place to clarify the respective roles and responsibilities of the LEP including “putting into place appropriate arrangements for the proper use and administration of funding, building on the existing local government systems and which fall under the annual audit of the local authorities accounts”. The accountable local authority is also deemed to have “responsibility for the decisions of the LEP in approving projects (for example if subjected to legal challenge)”. The County Council has therefore included the EM3 LEP’s income, expenditure, assets and liabilities in its accounts. Prior to 2015/16, and the Local Growth Deal arrangements, the County Council did not include transactions relating to the EM3 LEP in its accounts.

### **1.13. 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 £1.5 million is valued at the latest buying 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. Other stock is 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.

### **1.14. 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.

### **1.15. 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 de minimus 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:

- Operational Land and Buildings - current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV). Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.
- Surplus Land and Buildings – at fair value in highest and best use, the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date
- Vehicles, Plant and Equipment are measured at depreciated historical cost (as this is not materially different from the current value).
- Infrastructure Assets are measured at depreciated historical cost.
- Community Assets and Assets Under-Construction are measured at historical cost.

## Notes to the Core Financial Statements

PPE assets included in the Balance Sheet at fair value or current 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 trust schools and voluntary aided and voluntary controlled schools**

The property, plant and equipment assets of foundation trust schools are controlled by the Trust 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 owned and controlled by 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. The County Council is required to purchase and surrender allowances 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 Movement in Reserves Statement.

#### **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 2% of supported borrowing from 2008. This policy was implemented in 2015, therefore the actual supported borrowing MRP will be based on 1/43's. Previously, MRP was 4% of the capital financing requirement at the beginning of the year. The change in policy reduces MRP until 2033 when it will be higher than previous calculations but it is felt that this is justified given the medium term pressures that the County Council faces to the end of this current decade. 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. For deferred liabilities relating to PFI and service concessions, minimum revenue provision will match the principal repayment of the associated deferred 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 County Council has transferred to a charitable company, the operational responsibility for its Arts and Museums service with effect from 1 November 2014. The County Council retains ownership of the collections and the land and buildings occupied by the service and makes an annual revenue grant towards the running costs of the service.

## **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.

### **School assets**

The County Council recognises the land and buildings used by schools in line with the consolidation requirements of the Code of Practice. As such the County Council includes on its balance sheet land and buildings that are controlled by the County Council. This includes the assets of all community schools, the majority of voluntary controlled schools and foundation schools that are not controlled by a Trust. The assets of Trust foundation schools and the majority of voluntary aided schools are considered to be controlled by a third party and not included in the County Council's balance sheet.

### **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 funding for investment in a range of efficiency measures to ensure services can continue to be provided at an appropriate level.

### **2.5. Production of group accounts**

An assessment of the County Council's interests in companies and other entities has been carried out in accordance with the Code of Practice to determine any group relationships that exist. Inclusion in the group is dependent upon the extent of the County Council's control over the entity demonstrated through ownership, such as shareholding in an entity or representation on an entity's board of directors. The County Council does have a number of interests in companies and other entities, the main interests are detailed below. However, none are material and thus the production of group accounts is not required.

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.

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.

During 2014/15, the County Council entered into joint working agreements with Hampshire Fire and Rescue Service and Hampshire Constabulary. A joint working partnership was created to provide services across the three organisations, with joint direction, governance, control and senior management. Each organisation will remain distinct and focused on the delivery of their core services, retaining their own corporate identity and brand and accounting for their share of the costs. Further information is disclosed in note 20.

On the 1 November 2014 the County Council's arts and museums services were transferred to the newly created Hampshire Cultural Trust. The County Council provides an annual grant to Hampshire Cultural Trust to enable the delivery of arts and museums services across Hampshire that previously were delivered by the County Council. The County Council does not have a controlling influence over the Trust, and therefore will not consolidate into group accounts. However, Hampshire Cultural Trust requires the use of County Council assets to operate the arts and museums service, and is being accounted for as a structured entity. Further information on the nature and risks of the arrangements between the County Council and the Hampshire Cultural Trust are disclosed in note 21.

### **3. Uncertainties relating to assumptions and estimates used.**

There is one item in the County Council's Balance Sheet at 31 March 2016 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 £51.8 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 (the Code) requires the disclosure of information relating to the expected impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of the following new or amended standards within the 2016/17 Code:

- The CIPFA Code of Practice on Transport Infrastructure Assets (the Infrastructure Code) – This takes effect from 1 April 2016 and confirms that the changes arising do not require retrospective adjustment to the accounts. Under the Infrastructure Code transport infrastructure assets will be recognised as a separate class of Property, Plant and Equipment measured at depreciated replacement cost. This will consist of seven components: carriageways, footways and cycle tracks, structures, street lighting, street furniture, traffic systems management and land. The disclosure will require a transfer of assets between infrastructure and the new highways network asset categories. This is likely to result in a revaluation gain due to the change from depreciated historic cost to depreciated replacement cost basis. Therefore, the new valuation will reflect current cost of replacement rather than the original cost of works, which have been built up over a significant time period. If the changes had been implemented in 2015/16, based on current estimates the value of infrastructure assets would increase from £771 million to around £18.2 billion with an increase in depreciation from £42 million to £137 million.
- IAS 1 Presentation of Financial Statements. This standard provides guidance on the form of the financial statements. The 'Telling the Story' review of the presentation of the Local Authority financial statements as well as the December 2014 changes to IAS 1 under the International Accounting Standards Board (IASB) Disclosure Initiative will result in changes to the format of the accounts in 2016/17. The format of the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement will change and introduce a new Expenditure and Funding Analysis.
- In addition there are a number of minor amendments, including the Annual Improvements to IFRSs, IAS 19 Employee benefits, IFRS 11 Joint arrangements and IFRS 16 Property Plant and Equipment. These changes are minor, principally improving clarification and are not expected to have a material impact on the Statement of Accounts.

The Code requires implementation from 1 April 2016 and there is therefore no impact on the 2015/16 Statement of Accounts.

## **5. Events after the Balance Sheet date**

The Statement of Accounts was authorised by the Chief Financial Officer on 29 September 2016. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2016, the figures in the financial statements and notes would have been adjusted in all material respects to reflect the impact of this information.

There is one event after the balance sheet date that needs to be considered. A referendum to establish if the United Kingdom would remain part of the European Union (EU) took place on the 23rd June 2016. The outcome of the referendum was a decision to leave the EU (Brexit), and this has in the short term increased political and economic uncertainty.

This decision has the potential to impact the Council's finances and the estimates and assumptions which impact on the accounts. As with all councils, this includes, but is not limited to, the extent of EU grant funding and impact on other funding streams, the valuation of the council's investments, the effect on borrowing of a reduction in interest rates, property valuations and valuation of the pension fund liability etc. It is too early to predict the potential impact on the financial statements, as the long term effects are still uncertain, and there is likely to be significant ongoing uncertainty for some time. The Council will continue to review the impact in the coming months, including announcements in the Chancellors Autumn Statement.

For the purposes of these financial statements, the Referendum outcome is considered a non adjusting event.

## 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			
	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Unusable Reserves
2015/16	£000	£000	£000	£000
<b>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.</b>				
Depreciation and impairment of non-current assets	-177,397			177,397
Movement in the market value of investment property	577			-577
Revenue expenditure funded by capital under statute	-11,745			11,745
Book value of non-current assets sold	-8,661			8,661
Book value of assets transferred to academy/foundation trust schools	-27			27
Capital grants and contributions	121,135		-4,476	-116,659
<b>transferred to Capital Adjustment Account</b>	<b>-76,118</b>	<b>-</b>	<b>-4,476</b>	<b>80,594</b>
Transfer cash proceeds from sale of non-current assets	9,571	-9,571		-
Use of capital receipts to finance capital expenditure		9,571		-9,571
Council tax and business rate income accrual transferred to Collection Fund Adjustment Account	-4,827			4,827
Net charges relating to retirement benefits transferred to the Pensions Reserve	-117,401			117,401
Employee benefits accrual transferred to the Accumulated Absences Account	5,600			-5,600
<b>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.</b>				
Statutory provision for the repayment of debt	23,427			-23,427
Contribution from other authorities for the repayment of debt	-1,027			1,027
PWLB Premium Annual Charge	139			-139
Capital expenditure funded from the General Fund	38,428			-38,428
<b>transferred from Capital Adjustment Account</b>	<b>60,967</b>	<b>-</b>	<b>-</b>	<b>-60,967</b>
Employer's contributions payable to the pension Fund transferred from the Pension Reserve	74,421			-74,421
<b>Total adjustments</b>	<b>-47,787</b>	<b>-</b>	<b>-4,476</b>	<b>52,263</b>

Notes to the Core Financial Statements

2014/15	Usable reserves			Unusable Reserves £000
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	
<b>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.</b>				
Depreciation and impairment of non-current assets	-167,892			167,892
Movement in the market value of investment property	5,187			-5,187
Revenue expenditure funded by capital under statute	-16,087			16,087
Book value of non-current assets sold	-6,893			6,893
Book value of assets transferred to academy/foundation trust schools	-15,034			15,034
Capital grants and contributions	120,494		23,410	-143,904
<b>transferred to Capital Adjustment Account</b>	<b>-80,225</b>	<b>-</b>	<b>23,410</b>	<b>56,815</b>
Transfer cash proceeds from sale of non-current assets	12,534	-12,534		-
Use of capital receipts to finance capital expenditure	4,771	12,534		-12,534
Council tax income accrual transferred to Collection Fund Adjustment Account				-4,771
Net charges relating to retirement benefits transferred to the Pensions Reserve	-121,069			121,069
Effective interest on PWLB premium transferred to the Financial Instruments Adjustment Account				
Employee benefits accrual transferred to the Accumulated Absences Account	-911			911
<b>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.</b>				
Statutory provision for the repayment of debt	33,163			-33,163
Contribution from other authorities for the repayment of debt	-1,578			1,578
PWLB Premium Annual Charge	138			-138
Capital expenditure funded from the General Fund	35,181			-35,181
<b>transferred from Capital Adjustment Account</b>	<b>66,904</b>	<b>-</b>	<b>-</b>	<b>-66,904</b>
Employer's contributions payable to the pension Fund transferred from the Pension Reserve	80,569			-80,569
<b>Total adjustments</b>	<b>-37,427</b>	<b>-</b>	<b>23,410</b>	<b>14,017</b>

## 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:

		Balance at 1 April 2014 £000	Movement in 2014/15 £000	Balance at 31 March 2015 £000	Movement in 2015/16 £000	Balance at 31 March 2016 £000
	See note					
<b>Fully Committed to Existing Spend Programmes</b>						
Revenue Grants Unapplied	a	-40,667	4,506	-36,161	631	-35,530
General Capital Reserve	b	-129,272	-4,654	-133,926	9,789	-124,137
Street Lighting Reserve	c	-3,892	-2,371	-6,263	-2,974	-9,237
Other	d	-1,651	-144	-1,795	-296	-2,091
		<b>-175,482</b>	<b>-2,663</b>	<b>-178,145</b>	<b>7,150</b>	<b>-170,995</b>
<b>Departmental / Trading Reserves</b>						
Trading Accounts	e	-14,692	-1,033	-15,725	54	-15,671
Departmental Cost of Change	f	-30,542	-12,109	-42,651	-11,275	-53,926
		<b>-45,234</b>	<b>-13,142</b>	<b>-58,376</b>	<b>-11,221</b>	<b>-69,597</b>
<b>Risk Reserves</b>						
Insurance	g	-24,837	-1,971	-26,808	1,385	-25,423
Investment Risk	h	-	-500	-500	-500	-1,000
Local Government resource review	i	-6,150	6,150	-	-	-
		<b>-30,987</b>	<b>3,679</b>	<b>-27,308</b>	<b>885</b>	<b>-26,423</b>
<b>Corporate Reserves</b>						
Grant Equalisation	j	-50,464	-417	-50,881	-24,325	-75,206
Invest To Save	k	-10,073	612	-9,461	384	-9,077
Corporate Policy	l	-3,675	-301	-3,976	-1,133	-5,109
Corporate Efficiency	m	-8,931	-50	-8,981	1,079	-7,902
Organisational Change	n	-7,854	4,261	-3,593	-	-3,593
		<b>-80,997</b>	<b>4,105</b>	<b>-76,892</b>	<b>-23,995</b>	<b>-100,887</b>
<b>County Council reserves</b>		<b>-332,700</b>	<b>-8,021</b>	<b>-340,721</b>	<b>-27,181</b>	<b>-367,902</b>
Schools Reserves	o	-49,572	-2,890	-52,462	-3,488	-55,950
<b>Total Earmarked Reserves and Balances</b>		<b>-382,272</b>	<b>-10,911</b>	<b>-393,183</b>	<b>-30,669</b>	<b>-423,852</b>
Capital Grants Unapplied	p	-71,778	23,410	-48,368	-4,476	-52,844
General Fund Balance		-27,698	7,100	-20,598	-	-20,598
<b>Total Reserves and Balances</b>		<b>-481,748</b>	<b>19,599</b>	<b>-462,149</b>	<b>-35,145</b>	<b>-497,294</b>

## Notes to the Core Financial Statements

- a 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.
- b The general capital reserve is to assist in matching the timing of the availability of capital financing resources with the timing of capital payment.
- c 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.
- d Other smaller reserves are sums set aside for specific future purposes.
- e The trading accounts reserve enable business units to carry forward planned surpluses to cover future investment or possible losses.
- f The departmental cost of change reserve enables individual services to carry forward underspendings in accordance with the financial management policy.
- g 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.
- h The Investment Risk reserve was established in 2014/15 to mitigate the slight additional risk associated with the revised approved investment strategy.
- 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.
- p 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.

**9. Financing and investment income and expenditure**

2014/15				2015/16		
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure
£000	£000	£000		£000	£000	£000
30,580	-8,070	<b>22,510</b>	Interest	27,506	-8,871	<b>18,635</b>
-	-5,187	<b>-5,187</b>	Investment property gains(-) and losses	-	-577	<b>-577</b>
466	-1,107	<b>-641</b>	Investment property transactions	464	-1,108	<b>-644</b>
111,320	-70,510	<b>40,810</b>	Pension interest	94,120	-60,210	<b>33,910</b>
-	-1,971	<b>-1,971</b>	Surplus on trading undertakings	-	-1,380	<b>-1,380</b>
<b>142,366</b>	<b>-86,845</b>	<b>55,521</b>	<b>Total within other operating expenditure</b>	<b>122,090</b>	<b>-72,146</b>	<b>49,944</b>

**10a Property, Plant and Equipment (PPE)**

The movements in property plant and equipment during 2015/16 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 <b>Property, Plant and Equipment £000</b>
<b>Cost or valuation at 31 March 2015</b>	<b>3,419,434</b>	<b>142,841</b>	<b>1,001,493</b>	<b>16,204</b>	<b>12,197</b>	<b>52,878</b>	<b>4,645,047</b>
Additions	53,987	9,182	51,623	1,281	34	47,466	<b>163,573</b>
Disposals (inc. components)	-23,986	-389	-210	-645	-1,401	-	<b>-26,631</b>
Transfers to other classes	30,220	1,322	11,662	1,307	1,003	57,747	<b>-12,233</b>
Changes in certified valuations	-42,044	-	-	-	-1,305	-	<b>-43,349</b>
Transfer of assets to Academy schools	-66	-	-	-	-	-	<b>-66</b>
<b>Cost or valuation at 31 March 2016</b>	<b>3,437,545</b>	<b>152,956</b>	<b>1,064,568</b>	<b>18,147</b>	<b>10,528</b>	<b>42,597</b>	<b>4,726,341</b>
<b>Accumulated depreciation at 31 March 2015</b>	<b>-549,369</b>	<b>-92,942</b>	<b>-250,976</b>	<b>-75</b>	<b>-1,990</b>	<b>-</b>	<b>-895,352</b>
Depreciation for the year	-78,096	-8,998	-42,193	-	-133	-	<b>-129,420</b>
Impairment losses	-27,117	-	-	-1	-680	-	<b>-27,798</b>
Disposals- accumulated depreciation	18,800	347	16	1	385	-	<b>19,549</b>
Depreciation on transfers	565	-	-	-133	226	-	<b>658</b>
Revaluations- write back depreciation	103,822	-	-	-	1,574	-	<b>105,396</b>
Transfer of assets to Academy schools	39	-	-	-	-	-	<b>39</b>
<b>Accumulated depreciation at 31 March 2016</b>	<b>-531,356</b>	<b>-101,593</b>	<b>-293,153</b>	<b>-208</b>	<b>-618</b>	<b>-</b>	<b>-926,928</b>
<b>Net book value (NBV) of PPE at 31 March 2015</b>	<b>2,870,065</b>	<b>49,899</b>	<b>750,517</b>	<b>16,129</b>	<b>10,207</b>	<b>52,878</b>	<b>3,749,695</b>
<b>Net book value (NBV) of PPE at 31 March 2016</b>	<b>2,906,189</b>	<b>51,363</b>	<b>771,415</b>	<b>17,939</b>	<b>9,910</b>	<b>42,597</b>	<b>3,799,413</b>
<b>Nature of asset holding</b>							
Owned	2,725,383	51,363	771,415	17,939	9,910	42,597	<b>3,618,607</b>
PFI/service concessions (see note 30)	180,806	-	-	-	-	-	<b>180,806</b>
	<b>2,906,189</b>	<b>51,363</b>	<b>771,415</b>	<b>17,939</b>	<b>9,910</b>	<b>42,597</b>	<b>3,799,413</b>

## Notes to the Core Financial Statements

The comparative movements in PPE during 2014/15 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
<b>Cost or valuation at 31 March 2014</b>	<b>3,364,162</b>	<b>130,572</b>	<b>907,257</b>	<b>15,358</b>	<b>9,667</b>	<b>45,355</b>	<b>4,472,371</b>
Additions	71,638	12,353	88,627	569	1	43,047	216,235
Disposals (inc. components)	-12,070	-823	-	-217	-27	-	-13,137
Transfers to other classes	17,826	1,284	5,609	494	1,166	35,524	-9,145
Changes in certified valuations	-6,001	-	-	-	1,390	-	-4,611
Transfer of assets to Academy Schools	-16,121	-545	-	-	-	-	-16,666
<b>Gross book value (GBV) at 31 March 2015</b>	<b>3,419,434</b>	<b>142,841</b>	<b>1,001,493</b>	<b>16,204</b>	<b>12,197</b>	<b>52,878</b>	<b>4,645,047</b>
<b>Accumulated depreciation at 31 March 2014</b>	<b>-506,028</b>	<b>-85,223</b>	<b>-216,085</b>	<b>-73</b>	<b>-1,666</b>	<b>-</b>	<b>-809,075</b>
Depreciation for the year	-75,915	-8,745	-34,891	-	-140	-	-119,691
Impairment losses	-41,397	-	-	-	-16	-	-41,413
Disposals- accumulated depreciation	7,846	624	-	-	14	-	8,484
Depreciation on transfers	255	-	-	-2	-219	-	34
Revaluations- write back depreciation	64,640	-	-	-	37	-	64,677
Transfer of assets to Academy schools	1,230	402	-	-	-	-	1,632
<b>Accumulated depreciation at 31 March 2014</b>	<b>-549,369</b>	<b>-92,942</b>	<b>-250,976</b>	<b>-75</b>	<b>-1,990</b>	<b>-</b>	<b>-895,352</b>
Net book value of PPE at 31 March 2014	2,858,134	45,349	691,172	15,285	8,001	45,355	3,663,296
Net book value of PPE at 31 March 2015	2,870,065	49,899	750,517	16,129	10,207	52,878	3,749,695
Nature of asset holding							
Owned	2,684,530	49,899	750,517	16,129	10,207	52,878	3,564,160
PFI/service concessions (see note 30)	185,535	-	-	-	-	-	185,535
	<b>2,870,065</b>	<b>49,899</b>	<b>750,517</b>	<b>16,129</b>	<b>10,207</b>	<b>52,878</b>	<b>3,749,695</b>

## 10b Capital commitments

Commitments for major contracts entered into up to 31 March 2016 are estimated at £50.2 million (£59.6 million in 2014/15). This comprises £15.8 million (£9.8 million in 2014/15) for highways and £18.0 million (£28.8 million in 2014/15) for buildings and £16.5 million (£21.0 million in 2014/15) for Superfast Broadband contracts.

## 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.

<b>Valuation</b>	Other land and buildings £000	Vehicles, plant and equipment £000	Infra- structure £000	Comm- unity assets £000	Surplus assets £000
Valued at historic cost		51,363	771,415	17,939	
Pre 2011/12	1,716				
2011/12	378,364				
2012/13	589,200				
2013/14	562,178				
2014/15	524,601				
2015/16	850,130				9,910
<b>Total</b>	<b>2,906,189</b>	<b>51,363</b>	<b>771,415</b>	<b>17,939</b>	<b>9,910</b>

## 10d Impairment losses

During 2015/16, the County Council has recognised impairment losses of £27.8m (£41.4m in 2014/15). Of this £0.7m relates to surplus properties reflecting a fall in the fair value for the properties and £27.1m 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**

On 31 March 2016 there were 12 foundation schools (12 in 2014/15), the assets of which are included on the Balance sheet.

On 31 March 2016 there was also 1 foundation trust school, that will remain off the County Council's Balance Sheet, as the fixed assets are controlled by the Trust. (1 in 2014/15)

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

On 31 March 2016 there were 53 aided schools (53 in 2014/15).

### **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 5.5 meter wide 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 five years.

## **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.

### **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 the 17th century onwards, many of which are on display at the Allen Gallery in Alton. There are also clocks and watches displaying decorative metalwork.

### **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 printed maps, pictures and photographs, 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 Hampshire Cultural Trust's website as online searchable databases at <http://http://hampshireculturaltrust.org.uk/content/collections-online>.

Since 1 November 2014, the County Council's museum collection is managed by the Hampshire Cultural Trust. A significant proportion of the collection is on display at various museums and other community sites across Hampshire. The Hampshire Cultural Trust 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 following website: <http://www.hampshireculturaltrust.org.uk/content/explore-our-collections>

## **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/hals-collections.htm>. 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/deposits.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.

## Notes to the Core Financial Statements

Access to the records is available at the Record Office, which is open six days a week: <http://www3.hants.gov.uk/archives/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 is for 2014:

<http://www.nationalarchives.gov.uk/accessions/>.

### 11a 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.

	2014/15 £000	2015/16 £000
Rental income from investment property	-1,107	-1,108
Direct operating expenses arising from investment property	466	464
<b>Net gain</b>	<b>-641</b>	<b>-644</b>

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

	2014/15 £000	2015/16 £000
Balance at start of the year	24,138	31,609
Additions:		
- purchases	4,590	-
- construction	-	-
- subsequent expenditure	1	7
Disposals	-2,240	-1,521
Net gains/losses from fair value adjustments	5,187	577
Transfers:		
- to/from Inventories	-	-
- to/from Property, Plant and Equipment	-67	995
<b>Balance at end of the year</b>	<b>31,609</b>	<b>31,667</b>

## 11b Valuation of non financial assets carried at fair value

### Fair Value Hierarchy

Information about the fair value hierarchy levels for investment and surplus properties are as follows:

Values at 31 March 2016	Quoted market price Level 1 £000	Using observable inputs Level 2 £000	With significant unobservable inputs Level 3 £000	Total £000
Investment Assets	550	28,435	2,682	31,667
Surplus Assets		7,623	2,287	9,910
<b>Total</b>	<b>550</b>	<b>36,058</b>	<b>4,969</b>	<b>41,577</b>

### Valuation Techniques used to Determine Level 2 and 3 Fair Values

#### Significant Observable Inputs - Level 2

The fair value for the properties within level 2 has been based on the market approach using current market conditions and recent sales prices and other relevant information for similar assets in the local authority area. Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs are significant, leading to the properties being categorised at Level 2 in the fair value hierarchy.

#### Significant Unobservable Inputs - Level 3

The fair value for the properties within level 3 has been based on the market approach using current market conditions and recent sales prices and other relevant information for similar assets, but with a level of valuer judgement as the recent sales prices and other relevant information are not as significant as with Level 2. This results in more significant unobservable inputs being used in order to determine the fair value. The assets are therefore categorised as Level 3 in the fair value hierarchy as the measurement technique uses significant unobservable inputs to determine the fair value measurements (and there is no reasonably available information that indicates that market participants would use different assumptions).

## 12 Financial instruments

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Non exchange transactions, such as those relating to taxes and government grants do not give rise to financial instruments.

The County Council's financial assets held during the year comprised of loans and receivables held on the Balance Sheet at amortised cost and available for sale financial assets held on the Balance Sheet at fair value. Loans and receivables comprise of cash, debtors, bank accounts, fixed term deposits with banks and building societies and loans to other local authorities. Available for sale financial assets comprise of money market funds, collective investment schemes, certificates of deposit and covered bonds issued by banks and building societies and bonds issued by UK companies.

The County Council's non derivative financial liabilities held during the year are held on the Balance Sheet at amortised cost and comprised of long term loans from the Public Works loans Board and commercial lenders and Private Finance Initiative contracts detailed in note 30.

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

		Long term		Current	
		31 March 2015 £000	31 March 2016 £000	31 March 2015 £000	31 March 2016 £000
Financial assets:	see note				
Loans & receivables - Investments		157,500	133,500	160,647	109,720
Available for sale - investments		34,203	114,349	92,252	78,351
<b>Total investments</b>		<b>191,703</b>	<b>247,849</b>	<b>252,899</b>	<b>188,071</b>
Loans & receivables - cash and cash equivalents	12a	-	-	-11,057	-11,823
Available for sale cash & cash equivalents	12a	-	-	47,795	66,158
<b>Total cash &amp; cash equivalents</b>		<b>-</b>	<b>-</b>	<b>36,738</b>	<b>54,335</b>
Loans & receivables - Debtors	12b 12c	2,757	2,653	95,643	98,367
<b>Total debtors</b>		<b>2,757</b>	<b>2,653</b>	<b>95,643</b>	<b>98,367</b>
<b>Total Financial Instrument Assets</b>		<b>194,460</b>	<b>250,502</b>	<b>385,280</b>	<b>340,773</b>
Financial liabilities at amortised cost:					
Borrowing	12d	-349,751	-333,343	-42,857	-43,347
Developers' contributions	12f	-58,103	-62,628	-	-
Creditors and receipts in advance	12g	-	-	-189,432	-155,789
PFI & finance lease liabilities	30	-171,868	-171,328	-8,300	-6,384
<b>Financial liabilities at amortised cost</b>		<b>-579,722</b>	<b>-567,299</b>	<b>-240,589</b>	<b>-205,520</b>

The fair value of long term loans and receivables 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 2015 £000	31 March 2016 £000
Cash in hand	3,334	1,949
Call accounts (instant access bank accounts)	17,106	681
Available for sale financial assets (instant access money market funds)	47,795	66,158
Bank overdraft (note i)	-31,497	-14,453
<b>Total cash and cash equivalents</b>	<b>36,738</b>	<b>54,335</b>

note i - in 2014/15 the bank overdraft was included in short term liabilities, as this represents very short term fluctuations (for example uncleared BACS transactions), not a longer term cash flow management agreement, this is now included as part of the cash and cash equivalents value under current assets from 2015/16.

## 12b Long-term debtors

	31 March 2015 £000	31 March 2016 £000
Car loans to staff	1,075	915
Other	1,682	1,738
	<b>2,757</b>	<b>2,653</b>
Transferred debt	31,308	30,281
<b>Total long-term debtors</b>	<b>34,065</b>	<b>32,934</b>

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. £28.5 million remains to be repaid by the cities of Portsmouth and Southampton, £0.8 million by the Office of the Police and Crime Commissioner for Hampshire and, £0.9 million by colleges of further education and magistrates' courts.

The other long-term debtors figure of £2.7 million (£2.8 million in 2014/15) is classified as a loans and receivables financial instrument.

## Notes to the Core Financial Statements

By value, the majority of these loans are for a period of less than five years. 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 Short-term debtors

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

	31 March 2015 £000	31 March 2016 £000
<b>Financial instrument debtors</b>		
Government departments	892	1,156
Other local authorities	9,217	12,090
NHS bodies	455	3,347
Sundry debtors	85,079	81,774
<b>Total Financial Instrument debtors</b>	<b>95,643</b>	<b>98,367</b>
<b>Non-financial instrument debtors</b>		
Government departments	8,801	8,045
Other local authorities	16,169	12,441
Payments in advance	14,683	19,309
<b>Total debtors and prepayments</b>	<b>135,296</b>	<b>138,162</b>

### 12d Borrowing

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

	Long term		Short term	
	31 March 2015 £000	31 March 2016 £000	31 March 2015 £000	31 March 2016 £000
Loans at amortised cost:				
-Public Works Loan Board (PWLB)	-269,516	-256,976	-13,966	-14,862
-Market loans	-80,235	-76,367	-1,033	-1,058
-Other short-term borrowing	-	-	-27,858	-27,427
<b>Total borrowing</b>	<b>-349,751</b>	<b>-333,343</b>	<b>-42,857</b>	<b>-43,347</b>

## 12e Fair values

Financial assets classified as available for sale and all derivative financial liabilities are carried in the Balance Sheet at fair value. For most assets, including bonds and shared in money market funds and other pooled funds, the fair value is taken from market price. The fair values of other instruments have been estimated by calculating the net present value of the remaining contractual cash flows at the Balance Sheet date, using the following methods and assumptions:

- Certificates of deposit have been discounted at market interest rates for instruments of similar credit quality and remaining term to maturity.

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:

- Loans borrowed by Hampshire County Council have been valued by discounting the contractual cash flows over the whole life of the instrument at the appropriate market rate for local authority loans. In previous years, the County Council estimated the fair value of its loans from the Public Works Loans Board by discounting future contractual cash flows at the interest rates available for borrowing new loans of the same remaining term to maturity. The County Council now uses a discount rate that reflects the estimated rate available for local authority loans in the wider money market, in order to disclose an estimated transfer price in accordance with IFRS 13.
- The value of 'Lender's Option Borrower's Option' (LOBO) loans have been increased by the value of the embedded options. Lenders' options to propose an increase to the interest rate on the loan have been valued according to a proprietary model for Bermudan cancellable swaps. Borrower's contingent options to accept the increased rate or repay the loan have been valued at zero, on the assumption that lenders will only exercise their options when market rates have risen above the contractual loan rate.
- The fair values of other long term loans and investments have been discounted at the market rates for similar instruments with similar remaining term to maturity on 31st March.
- PFI scheme liabilities have been calculated by discounting the contractual cash flows (excluding service charge elements) at the appropriate AA rated corporate bond yield.
- no early repayment or impairment is recognised for any financial instrument.

## Notes to the Core Financial Statements

- 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.

Fair values are shown in the tables below, split by their level in the fair value hierarchy:

Level 1 - fair value is only derived from quoted prices in active markets for identical assets or liabilities e.g. bond prices

Level 2 - fair value is calculated from inputs other than quoted prices that are observable for the asset or liability, e.g. interest rates or yields for similar instruments

Level 3 - fair value is determined using unobservable inputs, e.g. non-market data such as cash flow forecasts or estimated creditworthiness

	Fair Value Level	31 March 2015		31 March 2016	
		Balance Sheet	Fair Value	Balance Sheet	Fair Value
		£000	£000	£000	£000
<b>Financial Assets held at fair value:</b>					
Available for sale - bond investments	2	44,220	44,220	117,200	117,200
Available for sale - other investments	1	82,235	82,235	75,500	75,500
Available for sale - money market funds	1	47,795	47,795	66,158	66,158
<b>Total</b>		<b>174,250</b>	<b>174,250</b>	<b>258,858</b>	<b>258,858</b>
<b>Financial Assets held at amortised cost:</b>					
Long-term investments - principal	2	157,500	167,066	133,500	141,433
Long-term investments - interest		1,941		1,885	
<b>Total</b>		<b>159,441</b>	<b>167,066</b>	<b>135,385</b>	<b>141,433</b>
Assets for which fair value is not disclosed - note i		246,049		197,032	
<b>Total financial instrument assets</b>		<b>579,740</b>	<b>341,316</b>	<b>591,275</b>	<b>400,291</b>
Recorded on balance sheet as:					
Long-term investments		191,703		247,849	
Long-term debtors		2,757		2,653	
Short-term investments		252,899		188,071	
Short-term debtors		95,643		98,367	
Cash and cash equivalents		36,738		54,335	
<b>Total financial instrument assets</b>		<b>579,740</b>		<b>591,275</b>	

note i - The fair value of short-term financial assets including trade receivables is assumed to approximate to the carrying amount.

The fair value of financial assets held at amortised cost is higher than their balance sheet carrying amount because the interest rate on similar investments is now lower than that obtained when the investment was originally made (the same was true at 31 March 2015).

## Notes to the Core Financial Statements

	Fair Value Level	31 March 2015		31 March 2016	
		Amortised Cost £000	Fair Value £000	Amortised Cost £000	Fair Value £000
<b>Financial Liabilities</b>					
PWLB loans - principal	2	-281,056	-339,667	-269,516	-329,525
PWLB loans - interest		-2,426		-2,322	
Market loans - principal	2	-80,235	-109,568	-76,381	-102,537
Market loans - interest		-1,033		-1,044	
PFI arrangements (deferred liability)	3	-180,168	-242,709	-177,712	-223,856
<b>Total</b>		<b>-544,918</b>	<b>-691,944</b>	<b>-526,975</b>	<b>-655,918</b>
Liabilities for which fair value is not disclosed (note i)		-275,393		-245,844	
<b>Total financial instrument liabilities</b>		<b>-820,311</b>		<b>-772,819</b>	
<b>Recorded on balance sheet as:</b>					
Short-term creditors		-189,432		-155,789	
Short-term borrowing		-42,857		-43,347	
Deferred liability repayable within one year		-8,300		-6,384	
Long-term borrowing		-349,751		-333,343	
Deferred liabilities		-171,868		-171,328	
Developers' contributions		-58,103		-62,628	
<b>Total financial instrument liabilities</b>		<b>-820,311</b>		<b>-772,819</b>	

note i - The fair value of short-term financial liabilities including trade payables and developers contributions is assumed to approximate to the carrying amount.

The fair value of financial liabilities held at amortised cost is higher than their balance sheet carrying amount because the County Council's portfolio 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.

### 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.

	2014/15			2015/16		
	Highways £000	Other £000	Total £000	Highways £000	Other £000	Total £000
Balance at 1 April	-47,700	-7,334	-55,034	-53,410	-4,693	-58,103
Income	-13,842	-10,336	-24,178	-15,790	-16,295	-32,085
Contributions applied	8,132	12,977	21,109	17,994	9,566	27,560
<b>Balance at 31 March</b>	<b>-53,410</b>	<b>-4,693</b>	<b>-58,103</b>	<b>-51,206</b>	<b>-11,422</b>	<b>-62,628</b>

**12g Short-term creditors**

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

	31 March 2015 £000	31 March 2016 £000
<b>Financial instrument creditors</b>		
Deposits	-532	-545
Government departments	-1,151	-906
NHS Bodies	-16,800	-28,278
Public corporations and trading funds	-131	-19
Other local authorities	-7,619	-12,609
Sundry creditors	-163,199	-113,432
<b>Total Financial Instrument creditors</b>	<b>-189,432</b>	<b>-155,789</b>
<b>Non-financial instrument creditors</b>		
HM Revenue and Customs and Government departments	-16,045	-20,427
Other local authorities	-1,869	-3,235
<b>Total short term creditors</b>	<b>-207,346</b>	<b>-179,451</b>

## 12h 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 one party to a financial instrument 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 BBB, 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 £70 million of the total portfolio is placed on the amount of money that can be invested with a single counterparty. No more than £285 million 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, building societies and money market funds of £150.8 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 2016 that this was likely to crystallise.

## Notes to the Core Financial Statements

The credit quality of £95.1 million of the County Council's investments is enhanced by collateral held in the form of covered bonds collateralised by UK residential mortgages. The collateral significantly reduces the likelihood of the County Council suffering a credit loss on those investments.

The table below summarises the credit risk exposures of the County Council's investment portfolio at 31 March 2016 by type of counterparty:

Credit Rating	Long term		Short term	
	31 March 2015	31 March 2016	31 March 2015	31 March 2016
	£000	£000	£000	£000
AAA		66,771		28,280
AA+	-	-	15,237	-
AA	12,366	12,139	-	-
AA-	-	-	47,122	25,706
A+	-	-	45,331	10,031
A	-	-	99,021	30,052
A-	-	-	33,302	-
AAA Money market funds	-	-	47,795	66,158
Unrated local authorities	159,440	135,385	28,051	92,797
Unrated pooled funds	21,837	35,439	-	-
<b>Total</b>	<b>193,643</b>	<b>249,734</b>	<b>315,859</b>	<b>253,024</b>

### Invoiced debtors risk

The invoiced debtors have been reviewed by age to determine an appropriate provision for debts that are likely to be uncollectable. This excludes debts of £26.3 million considered to be low risk as they were either paid in early 2016/17, secured on property or have agreed repayment plans.

A provision of £5.9 million (£4.8 million in 2014/15) has been estimated.

Outstanding debt raised in	Outstanding balance due at 31 March 2016	Individually assessed impairment	Collectively assessed impairment	Total provision
	£000	£000	£000	£000
2015/16	31,300	89	825	914
2013/14 & 2014/15 before 2013/14	4,314	1,270	2,459	3,729
		313	934	
	1,247			1,247
<b>Total</b>	<b>36,861</b>	<b>1,672</b>	<b>4,218</b>	<b>5,890</b>

## 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 2016 was as follows:

	Outstanding 31 March 2015 £000	Outstanding 31 March 2016 £000
Not over one year	-11,540	-12,554
Between one and two years	-12,540	-13,553
Between two and five years	-32,626	-30,290
Between five and 10 years	-49,585	-43,500
Between 10 and 15 years	-52,000	-55,000
Between 15 and 20 years	-90,000	-100,000
Between 20 and 25 years	-65,000	-51,000
More than 25 years	-48,000	-40,000
<b>Total</b>	<b>-361,291</b>	<b>-345,897</b>

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 County 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 interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the County Council. For instance a rise in interest rates would have the following effects:

- borrowings at variable rates - the interest rate expense will rise
- borrowings at fixed rates - the fair value of the liabilities will fall
- investments at variable rates - the interest income will rise
- investments at fixed rates - the fair value of the assets will fall

## Notes to the Core Financial Statements

Investments classed as loans and receivables and loans borrowed are not carried at fair value, so changes in their fair value will have no impact on Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or deficit on the Provision of Services. Movements in the fair value of fixed rate investments classed as 'available for sale' will be reflected in Other Comprehensive Income and Expenditure.

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 2016, £447.3 million of principal borrowed was at fixed rates and £92.4 million at variable rates. The value of the County Councils investments (excluding accrued interest) held at variable rates (including investments with less than one year to maturity) was £338 million at 31 March 2016 and fixed rates was £162.4 million.

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	968
Increase in interest receivable on variable rate investments	-3,026
<b>Impact on Surplus or Deficit on the Provision of Services</b>	<b>-2,058</b>
Decrease in fair value of available for sale financial assets	1,738
<b>Impact on Comprehensive Income and Expenditure</b>	<b>-320</b>

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

### Price risk

The market prices of the County Council's fixed rate bond investments are governed by prevailing interest rates and the market risk associated with these instruments is managed alongside interest rate risk.

The County Council's investment in pooled property funds are subject to the risk of falling commercial property prices. This risk is limited by the County Council's investment strategy. A fall in commercial property prices would result in a charge to Other Comprehensive Income and Expenditure - this would have no impact on the General Fund until the investment was sold.

### 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 2015	Purchases	Expense in the year	Written off balances	31 March 2016
	£000	£000	£000	£000	£000
<b>Stocks</b>					
Catering stock	555	12,829	-12,757	-7	620
County Supplies general	1,386	7,683	-7,543	-36	1,490
Retail stock at County Council visitor attractions	114	148	-173	0	89
Salt stock	105	-	0	-33	72
Other	269	2,553	-2415	-103	304
	<b>2,429</b>	<b>23,213</b>	<b>-22,888</b>	<b>-179</b>	<b>2,575</b>
<b>Construction contracts</b>	Work not recharged at 31 March 2015	Value of new work done 2015/16		Income Received in 2015/16	Value of work not recharged 2016
	£000	£000		£000	£000
Highway rechargeable works	285	227		-190	322
Other	17	721		-732	6
	<b>302</b>	<b>948</b>		<b>-922</b>	<b>328</b>
<b>Total stocks and work in progress</b>	<b>2,731</b>	<b>24,161</b>	<b>-22,888</b>	<b>-1,101</b>	<b>2,903</b>

**14 Assets held for sale**

	2014/15 £000	2015/16 £000
Balance outstanding at start of year	609	609
Assets newly classified as held for sale:		
- property, plant and equipment	-	2,466
- other assets/liabilities in disposal groups	-	-
Revaluation gains and losses (-)	-	-917
Impairment losses	-	-
Assets declassified as held for sale	-	-
Assets sold	-	-58
<b>Balance outstanding at year end</b>	<b>609</b>	<b>2,100</b>

**15 Change in provisions**

		31 March 2015 £000	Use of Provision In Year £000	Increase or decrease in			31 March 2016 £000
				Central Provision £000	Service Provision £000	Taxation Provision £000	
Insurance claims	a	-6,569	3,483	-1,386	-6,895	-	-11,367
Contract terminations	b	-249	-	-	249	-	-
Non school employee related expenditure	c	-14,676	14,330	-	-	-	-346
School employee related expenditure	c	-28	28	-	-	-	-
Tax liabilities	d	-34	6	-	-	-	-28
Other	e	-890	890	-	-594	-	-594
Business rates appeals	f	-4,592	1,016	-	-	-1,780	-5,356
<b>Provisions identified in the Balance Sheet</b>		<b>-27,038</b>	<b>19,753</b>	<b>-1,386</b>	<b>-7,240</b>	<b>-1,780</b>	<b>-17,691</b>
Provision for doubtful debts		-4,767	317	-1,440	-	-	-5,890
Further details in note 12h							
<b>Net change included in the Comprehensive Income and Expenditure Statement</b>				<b>-2,826</b>	<b>-7,240</b>	<b>-1,780</b>	

a. The insurance provision represents an assessment of the likely cost of liability claims known to the County Council at 31 March 2016. The risks covered are as follows:

**Liabilities**

Employer's liability, public liability and officials indemnity up to a total loss of £12.5 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

## Notes to the Core Financial Statements

**b.** Experience over many years has confirmed that this provision is not required since a more flexible approach to workforce planning is in place to manage the impact of contract variations and terminations.

**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 Councils 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.

		Balance 1 April 2015 £000	Net Movement in the year £000	Balance 31 March 2016 £000
<b>Reserve</b>	see note			
Revaluation reserve	16a	-871,956	-51,641	-923,597
Capital adjustment account	16b	-2,179,776	-19,474	-2,199,250
Available for sale Financial assets	16c	-1,336	-498	-1,834
Financial instrument adjustment account	16d	2,891	-139	2,752
Pensions reserve	16e	1,100,620	-60,620	1,040,000
Collection fund adjustment account	16f	-15,143	4,827	-10,316
Accumulated absences account	16g	13,673	-5,600	8,073
<b>Total</b>		<b>-1,951,027</b>	<b>-133,145</b>	<b>-2,084,172</b>

### 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.

	2014/15 £000	2015/16 £000
Balance at 1 April	-831,479	-871,956
Surplus(-) or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	-66,854	-81,310
Difference between fair value depreciation and historical cost depreciation	23,793	25,768
Adjustments to prior year	-	-
Write off net gains for assets transferred to Academy/Foundation schools	2,103	3
Accumulated gains on assets sold, scrapped or transferred to/from current assets	481	<u>3,898</u>
<b>Amount written off to the Capital Adjustment Account</b>	<b>26,377</b>	<b>29,669</b>
<b>Balance at 31 March</b>	<b>-871,956</b>	<b>-923,597</b>

**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:

	2014/15 £000	2015/16 £000
Balance brought forward 1 April	<b>-2,130,914</b>	<b>-2,179,776</b>
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	167,892	177,397
Revenue expenditure funded from capital under statute	16,087	11,745
Assets disposals current value	6,893	8,661
Assets transferred to Academy/Foundation schools current value	15,034	27
	<b>-1,925,008</b>	<b>-1,981,946</b>
Adjusting amounts written out of Revaluation Reserve:		
Excess of current value depreciation over historic cost depreciation	-23,793	-25,768
Adjustments to prior year	-	-
Write off net gains for assets transferred to Academy/Foundation Schools	-2,103	-3
Write out revaluations on asset disposals and transfers to/from current assets	-481	-3,898
	<b>-26,377</b>	<b>-29,669</b>
<b>Net amount written out of the cost of assets consumed in the year</b>	<b>-1,951,385</b>	<b>-2,011,615</b>

## Notes to the Core Financial Statements

	2014/15 £000	2015/16 £000
<b>Capital financing applied in the year</b>		
Capital receipts applied	-12,534	-9,571
Statutory minimum revenue provision for capital financing	-33,163	-23,427
Debt outstanding on transferred services	-	-
External contribution to minimum revenue provision	1,578	1,027
Revenue contributions to capital expenditure	-35,181	-38,428
Capital grants and contributions applied	-143,904	-116,659
	<b>-223,204</b>	<b>-187,058</b>
Movement in the market value of investment properties	-5,187	-577
<b>Balance as at 31 March</b>	<b>-2,179,776</b>	<b>-2,199,250</b>

### 16c Available for sale financial assets reserve

The available for sale financial asset reserve contains the gains made by the County Council arising from increases in the value of its available for sale financial assets.

	2014/15 £000	2015/16 £000
Balance brought forward 1 April	-	-1,336
Gains on revaluation	-2,041	-799
Losses on revaluation	705	301
<b>Balance at 31 March</b>	<b>-1,336</b>	<b>-1,834</b>

### 16d 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 20 years remaining.

	2014/15 £000	2015/16 £000
Balance brought forward 1 April	3,029	2,891
PWLB Premium charged to CIES	-138	-139
<b>Balance at 31 March</b>	<b>2,891</b>	<b>2,752</b>

**16e 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.

<b>Pensions Reserve</b>	2014/15 £000	2015/16 £000
Balance at 1 April	986,090	1,100,620
Actuarial losses / gains (-) on pensions assets and liabilities	74,030	-103,600
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	121,069	117,401
Employer's pensions contributions and direct payments to pensioners payable in the year	-80,569	-74,421
<b>Balance at 31 March</b>	<b>1,100,620</b>	<b>1,040,000</b>

**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.

	2014/15 £000	2015/16 £000
Balance at 1 April	-10,372	-15,143
Accrued income in the Comprehensive Income and Expenditure account	-549,158	-556,211
Amount calculated in accordance with statutory requirements	544,387	561,038
<b>Balance at 31 March</b>	<b>-15,143</b>	<b>-10,316</b>

**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.

	2014/15	2015/16	
	£000	£000	£000
Balance at 1 April	12,762		13,673
Settlement or cancellation of accrual made at the end of the preceding year	-12,762	-13,673	
Amounts accrued at the end of the current year	13,673	8,073	
<hr/>			
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	911		-5,600
<hr/>			
<b>Balance at 31 March</b>	<b>13,673</b>		<b>8,073</b>

**17a Cash flow statement - operating activities**

The cash flows for operating activities include the following items:

	2014/15	2015/16
	£000	£000
Interest paid	30,628	27,599
Interest received	-6,863	-9,528
	<b>23,765</b>	<b>18,071</b>
Adjustments to net surplus or deficit on the provision of services for non-cash movements		
Depreciation	-119,691	-129,420
Impairments and downward revaluations	-48,201	-47,977
Increase/decrease in impairment for provision of bad debt	-1,590	-1,123
Increase in creditors	-1,351	16,480
Increase in debtors	28,714	1,944
Decrease in inventory	-322	172
Pension Liability	-40,500	-42,980
Carrying amount of non-current assets sold	-6,893	-8,661
Carrying amount of assets transferred to academy / foundation Trust schools	-15,034	-27
Adjustment for provisions	5,306	9,347
Movement in the value of investment properties	5,187	577
PPE written off as REFCUS	-9,178	-8,114
<b>Non-cash movement</b>	<b>-203,553</b>	<b>-209,782</b>
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	12,534	9,571
Capital grants and contributions	120,494	121,135
Interest on developer contributions	-148	-164
<b>Investing/financing cash flows</b>	<b>132,880</b>	<b>130,542</b>

**17b Cash Flow Statement - investing activities**

	2014/15 £000	2015/16 £000
<b>Cash outflows</b>		
Purchase of property, plant and equipment	191,768	164,537
Purchase of short-term and long-term investments	416,856	519,604
<b>Cash inflows</b>		
Proceeds from the sale of property, plant and equipment	-11,816	-6,419
Proceeds from the sale of short-term and long-term investments	-434,000	-516,366
Capital grants	-123,216	-137,627
Other income	-	-
<b>Net cash outflow from investing activities</b>	<b>39,592</b>	<b>23,729</b>

**17c Cash Flow Statement - financing activities**

	2014/15 £000	2015/16 £000
<b>Cash outflows</b>		
Cash payments for the reduction of the outstanding liabilities relating to PFIs	7,013	5,998
Repayments of short- and long-term borrowing	154,336	111,457
Other payments for financing activities	-	-
<b>Cash inflows</b>		
Cash receipts of short- and long-term borrowing	-136,438	-95,632
Other receipts from financing activities	-1,578	-1,027
<b>Net cash outflow from financing activities</b>	<b>23,333</b>	<b>20,796</b>

**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

	Total 2014/15	Children's Services Schools block	Children's Services Non Schools	Adult Services	Economy Transport and Environment	Policy and Resources	Total 2015/16
	£000	£000	£000	£000	£000	£000	£000
<b>Expenditure</b>							
Employee costs	830,807	549,384	67,386	95,900	31,641	100,491	844,802
Premises Related Expenditure	62,959	41,012	1,100	3,140	4,734	29,771	79,757
Transport Related Expenditure	39,755	3,327	27,607	4,859	1,298	2,095	39,186
Supplies & Services	181,003	79,549	20,347	10,741	14,378	59,689	184,704
Third Party Payments	562,797	82,488	64,263	272,328	134,323	44,272	597,674
Transfer Payments	28,518	321	2,142	40,428	-	118	43,009
Support Services	69,849	59,465	8,351	1,712	2,564	6,603	78,695
<b>Income</b>							
Other Grants Reimbursements and Contributions	-68,762	-18,990	-9,637	-53,417	-49,422	-5,811	-137,277
Sales	-16,049	-12,669	-73	-95	-36	-1,459	-14,332
Fees and Charges	-135,865	-27,368	-4,107	-65,196	-6,849	-27,518	-131,038
Rents	-5,458	-921	-321	-18	-1,135	-2,527	-4,922
Interest	-47	-47	38	-2	-120	-	-131
Hampshire schools	-78	-2,115	-213	-	-	-	-2,328
Other misc	-6,997	-3,604	-1,486	-110	-7,652	-4,197	-17,049
<b>Other</b>							
Transfer to/ from business unit reserves	-	-	-	-	-	-	-
Recharges between departments	-74,451	-2,629	-4,534	-3,262	-14,371	-52,954	-77,750
<b>Service analysis total</b>	<b>1,467,981</b>	<b>747,203</b>	<b>170,863</b>	<b>307,008</b>	<b>109,353</b>	<b>148,573</b>	<b>1,483,000</b>

**Reconciliation between the service analysis and the cost of services 2015/16**

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.

	2014/15 £000	2015/16 £000	2015/16 £000
<b>Service analysis total</b>	1,467,981		1,483,000
<b>Net expenditure of services and support service not included in the service analysis</b>			
Flood Levy	603	609	
Coroners	1,366	1,562	
	1,969		2,171
<b>Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the service analysis</b>			
Specific Grants	-792,875	-837,154	
Current pension cost adjustment	17,454	28,321	
Past pension cost adjustment	-3,372	-3,517	
Depreciation and impairment of assets	182,938	187,460	
Other Service Expenditure	-	6	
School catering support	-	-13	
Transfer to/ from provisions	139	2,826	
Employee benefit accrual	911	-5,600	
	-594,805		-627,671
<b>Amounts in the analysis not included in the Comprehensive Income and Expenditure Statement cost of services</b>			
Income on investment properties	1,107		1,108
Expenditure on investment properties	-466		-464
<b>Cost of Services in Comprehensive Income and Expenditure Statement</b>	<b>875,786</b>		<b>858,144</b>

**Reconciliation between service analysis and surplus (-) / deficit on the provision of services 2015/16**

	Total 2014/15	Service Analysis £000	Services not in Analysis £000	Not reported to mgmt £000	Not included in net cost of services £000	Net Cost of Services £000	Amounts reported below net cost of services £000	Total £000
Fees, charges & other service income	-165,448	-169,669	-550	-	1,108	-169,111	-1,108	-170,219
Interest and investment income (including pension)	-80,598	-131	-	-	-	-131	-70,461	-70,592
Income from council tax	-506,212	-	-	-	-	-	-512,538	-512,538
Government grants and contributions	-1,262,555	-137,277	-	-837,154	-	-974,431	-377,575	-1,352,006
Net investment property gains and losses	-5,187	-	-	-	-	-	-577	-577
Gain on Disposal of Fixed Assets	-5,595	-	-	-	-	-	-885	-885
<b>Total Income</b>	<b>-2,025,595</b>	<b>-307,077</b>	<b>-550</b>	<b>-837,154</b>	<b>1,108</b>	<b>-1,143,673</b>	<b>-963,144</b>	<b>-2,106,817</b>
Employee expenses	846,339	844,802	465	19,204	-	864,471	-	864,471
Other service expenses	877,445	944,330	2,242	-6	-464	946,102	464	946,566
Support Service recharges	-4,584	945	14	-	-	959	-	959
Depreciation and impairment of assets	182,938	-	-	187,460	-	187,460	-	187,460
Loss on transfer of assets to academy / foundation trust schools *	15,034	-	-	-	-	-	27	27
Interest Payments	141,900	-	-	-	-	-	121,626	121,626
<b>Total operating expenses</b>	<b>2,059,072</b>	<b>1,790,077</b>	<b>2,721</b>	<b>206,658</b>	<b>-464</b>	<b>1,998,992</b>	<b>122,117</b>	<b>2,121,109</b>
<b>Transfers to/ from reserves and provisions</b>	<b>139</b>	<b>-</b>	<b>-</b>	<b>2,826</b>	<b>-</b>	<b>2,826</b>	<b>-</b>	<b>2,826</b>
<b>Surplus (-) / deficit on the provision of services</b>	<b>33,616</b>	<b>1,483,000</b>	<b>2,171</b>	<b>-627,670</b>	<b>644</b>	<b>858,145</b>	<b>-841,027</b>	<b>17,118</b>

**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 £1,380,000 (2014/15 overall surplus of £1,971,000) as follows:

		2014/15 £000	2015/16 £000
<b>Former Direct Services Organisation</b>			
- provides catering and cleaning services to schools and some non-educational sites in Hampshire and supplies vehicles to departments of the County Council.	Turnover	-37,361	-39,696
	Expenditure	36,571	39,286
	<b>Deficit/Surplus(-)</b>	<b>-790</b>	<b>-410</b>
<b>Education Business Units</b>			
- provide support services principally to schools but also to other departments and other local authorities.	Turnover	-19,348	-18,888
	Expenditure	18,751	18,550
	<b>Deficit/Surplus(-)</b>	<b>-597</b>	<b>-338</b>
<b>Corporate Procurement &amp; County Supplies</b>			
- operate the central purchasing warehouse and arrange direct delivery and other contracts for County Council departments, other local authorities and voluntary organisations.	Turnover	-12,801	-12,823
	Expenditure	12,470	12,481
	<b>Deficit/Surplus(-)</b>	<b>-331</b>	<b>-342</b>
<b>Eight other smaller trading units</b>			
- including a deficit of £127,000 (£21,000 surplus in 2014/15) on the management of the River Hamble.	Turnover	-7,748	-8,423
	Expenditure	7,495	8,133
	<b>Deficit/Surplus(-)</b>	<b>-253</b>	<b>-290</b>
<b>Total Deficit/Surplus(-)</b>		<b>-1,971</b>	<b>-1,380</b>

## 20 Collaborative Arrangements

### 20a Pooled Budgets

The County Council is a partner in two pooled budget arrangements established under Section 75 of the National Health Service Act 2006:- which are described below. A separate pooled budget for child and adolescent mental health (CAMHS) joint commissioning ended on 31 March 2015.

The Better Care Fund (BCF) was established by the Government, intended as a nationally agreed single pooled budget shared between the NHS and local government to strengthen joint working in support of the drive towards local integration. It requires NHS Clinical Commissioning Groups (CCGs) and local authorities in England to pool budgets based on a nationally determined value and to agree an integrated spending plan. In Hampshire, the agreed fund for 2015/16 was £80.765 million in total.

The partner bodies comprising the Hampshire BCF are Hampshire County Council, NHS Fareham and Gosport CCG, NHS North East Hampshire and Farnham CCG, NHS North Hampshire CCG, NHS South Eastern Hampshire CCG and NHS West Hampshire CCG. Overall strategic oversight of partnership working is vested in the Health and Wellbeing Board for Hampshire, and a Health and Wellbeing Executive Group acts as the designated Partnership Group overseeing the implementation of the BCF Plan.

Different governance arrangements apply to different elements of the overall BCF. Two elements operate under joint control of the partners: the Hampshire Equipment Service and the Social Care Capital Grant. Both these are hosted by the County Council but decisions are made jointly and risks are shared. They are accounted for as joint operations with each organisation accounting for its share of income and expenditure as set out below. For the remaining elements of the BCF, each partner individually has control and the transactions are included in full in the relevant organisation's accounts.

Child & Adolescent Mental Health Services	Hampshire Equipment Service		Hampshire Equipment Service	Social Care Capital Grant
2014/15 £000	2014/15 £000		2015/16 £000	2015/16 £000
		Funding contributions:		
-1,750	-2,641	Hampshire County Council	-2,317	-2,647
-1,319	-397	NHS Fareham and Gosport CCG	-342	-
-1,083	-309	NHS North East Hampshire & Farnham CCG	-281	-
-1,448	-425	NHS North Hampshire CCG	-430	-
-1,436	-424	NHS South Eastern Hampshire CCG	-372	-
-3,648	-1,087	NHS West Hampshire CCG	-1,000	-
<b>-10,684</b>	<b>-5,283</b>	<b>Total</b>	<b>-4,742</b>	<b>-2,647</b>
10,427	5,283	Expenditure	4,742	186
-257	-	Surplus	-	-2,461
<b>-42</b>	-	County Council's share of surplus		<b>-2,461</b>

The Hampshire Equipment Store was a separate s75 agreement in 2014/15 that was included under the Better Care Fund arrangements in 2015/16. The pooled funds are used to provide equipment to people who are eligible for equipment either from the NHS or the County Council.

## **20b Joint Working**

During 2014/15, the County Council entered into a number of joint working agreements with Hampshire Fire and Rescue Service and Hampshire Constabulary for a range of corporate services including finance, HR, IT, facilities management and procurement across the three organisations. The services are hosted but not controlled by Hampshire County Council as they are delivered with joint direction, governance, control and senior management with each organisation accounting for its share of cost in accordance with the individual agreements. The total cost of these services in 2015/16 was £27 million (£30 million in 2014/15) of which the County Council's share was £18.5 million (£22 million in 2014/15).

## **21 Structured entities - Hampshire Cultural Trust**

From November 2014 the Executive Member for Culture, Recreation and Countryside and the Executive Member for Policy and Resources approved the transfer of the Arts and Museums Service from the County Council to an independent charitable trust, the Hampshire Cultural Trust. The relevant service staff became employees of the Trust and the County Council provides an annual revenue grant to the Trust to enable it to deliver the arts and museums service across Hampshire. The County Council retains freehold responsibility for key assets including relevant properties and collections and these are managed by the Hampshire Cultural Trust in accordance with its agreement with the County Council.

As at 31 March 2016, the County Council had one representative on the Trustee Board of 11 members.

Hampshire Cultural Trust is an independent charity providing arts and museums services for local people and visitors to Hampshire. It has been funded by grants from Hampshire County Council, local district and borough councils, central government bodies such as the Arts Council and by individual donations.

The County Council has agreed a level of funding with the trust for the first 5 years of its operation, based on the funding that would have been required if the service had remained part of the County Council. The total expected payments remaining amount to £10.773 million with £2.895 million grant due to be paid in 2016/17.

<b>Hampshire Cultural Trust Nature of risks</b>	2015/16
	£000
Operational land and buildings retained by the County Council and used by the Trust	46,658
Community assets retained by the County Council and used by the Trust	2,310
Collections of heritage assets retained by the County Council and managed by the Trust (not valued as explained in note 10f)	-
Annual County Council revenue grant provided to the Trust	-2,793
Other unrestricted income received by the Trust - note i	-4,047
Expenditure by the Trust - note i	6,678
Trusts' General Reserve - note i	-851

The maximum exposure to loss from the Trust is the annual grant paid to the Trust for services not yet delivered. At 31 March 2016 the exposure to risk was nil as the service had been received. Future risk is minimised by the terms within the Management and Funding Agreement between the County Council and the Trust.

note i - These are draft figures, subject to audit of the Trust's accounts

## 22 Members' allowances

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

	2014/15	2015/16
	£000	£000
Allowances	1,328	1,341
Expenses	75	73
<b>Total</b>	<b>1,403</b>	<b>1,414</b>

**23a 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 2016 (see note 23b). Remuneration includes all amounts paid to an employee, including the taxable value of expenses.

Including termination payments	Number of employees					
	2014/15			2015/16		
	Schools	Other	Total	Schools	Other	Total
£50,000 - £54,999	207	121	<b>328</b>	209	122	<b>331</b>
£55,000 - £59,999	177	118	<b>295</b>	163	144	<b>307</b>
£60,000 - £64,999	123	51	<b>174</b>	139	52	<b>191</b>
£65,000 - £69,999	63	23	<b>86</b>	66	40	<b>106</b>
£70,000 - £74,999	27	46	<b>73</b>	31	34	<b>65</b>
£75,000 - £79,999	21	17	<b>38</b>	20	23	<b>43</b>
£80,000 - £84,999	12	23	<b>35</b>	13	15	<b>28</b>
£85,000 - £89,999	6	6	<b>12</b>	9	19	<b>28</b>
£90,000 - £94,999	4	4	<b>8</b>	5	9	<b>14</b>
£95,000 - £99,999	7	5	<b>12</b>	5	8	<b>13</b>
£100,000 - £104,999	1	7	<b>8</b>	5	1	<b>6</b>
£105,000 - £109,999	1	2	<b>3</b>	1	2	<b>3</b>
£110,000 - £114,999	-	1	<b>1</b>	-	1	<b>1</b>
£115,000 - £119,999	-	-	<b>-</b>	-	1	<b>1</b>
£120,000 - £124,999	-	3	<b>3</b>	-	1	<b>1</b>
£125,000 - £129,999	-	1	<b>1</b>	-	-	<b>-</b>
£130,000 - £134,999	-	-	<b>-</b>	-	2	<b>2</b>
£145,000 - £149,999	-	-	<b>-</b>	-	1	<b>1</b>
£150,000 - £154,999	-	1	<b>1</b>	-	-	<b>-</b>
£175,000 - £179,999	-	1	<b>1</b>	-	-	<b>-</b>
£180,000 - £184,999	-	-	<b>-</b>	-	1	<b>1</b>
£220,000 - £224,999	-	-	<b>-</b>	-	1	<b>1</b>
<b>Total employees</b>	<b>649</b>	<b>430</b>	<b>1,079</b>	<b>666</b>	<b>477</b>	<b>1,143</b>

## Notes to the Core Financial Statements

Excluding termination payments	Number of employees					
	2014/15			2015/16		
	Schools	Other	<b>Total</b>	Schools	Other	<b>Total</b>
£50,000 - £54,999	207	108	<b>315</b>	208	108	<b>316</b>
£55,000 - £59,999	178	113	<b>291</b>	163	130	<b>293</b>
£60,000 - £64,999	123	42	<b>165</b>	138	35	<b>173</b>
£65,000 - £69,999	62	22	<b>84</b>	65	33	<b>98</b>
£70,000 - £74,999	26	41	<b>67</b>	29	32	<b>61</b>
£75,000 - £79,999	21	12	<b>33</b>	20	14	<b>34</b>
£80,000 - £84,999	9	22	<b>31</b>	13	13	<b>26</b>
£85,000 - £89,999	6	5	<b>11</b>	9	14	<b>23</b>
£90,000 - £94,999	4	2	<b>6</b>	5	5	<b>10</b>
£95,000 - £99,999	7	4	<b>11</b>	5	6	<b>11</b>
£100,000 - £104,999	1	7	<b>8</b>	4	-	<b>4</b>
£105,000 - £109,999	1	1	<b>2</b>	1	2	<b>3</b>
£110,000 - £114,999	-	-	<b>-</b>	-	1	<b>1</b>
£120,000 - £124,999	-	3	<b>3</b>	-	1	<b>1</b>
£125,000 - £129,999	-	-	<b>-</b>	-	1	<b>1</b>
<b>Total employees</b>	<b>645</b>	<b>382</b>	<b>1,027</b>	<b>660</b>	<b>395</b>	<b>1,055</b>

Notes to the Core Financial Statements

**23b Senior employees' remuneration**

This statement covers the remuneration of Chief Officers.

<b>Senior Employees 2014/15</b>	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	208,513	-	-	-	24,340	232,853
Director of Children's Services and Deputy Chief Executive John Coughlan	168,656	-	-	-	22,094	190,750
Director of Corporate Resources Carolyn Williamson	165,908	-	-	-	240	166,148
Director of Economy, Transport and Environment	139,640	-	-	-	18,293	157,933
Director of Community, Culture and Business Services	139,640	-	-	-	18,293	157,933
Director of Public Health	144,451	191	-	-	17,291	161,933
Director of Adult Services	135,652	-	-	-	17,770	153,422
Director of Policy and Governance	122,306	-	-	-	16,022	138,328

## Notes to the Core Financial Statements

<b>Senior Employees 2015/16</b>	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 (to 31 October 2015)	123,629	-	-	-	-	123,629
John Coughlan (from 1 November 2015)	88,306	-	-	-	11,568	99,874
Director of Children's Services and Deputy Chief Executive						
John Coughlan (to 31 October 2015)	99,997	-	-	-	13,099	113,096
Interim Director of Children's Services						
Steve Crocker (from 11 January 2016)	31,237	-	-	-	4,092	35,329
Director of Corporate Resources						
Carolyn Williamson	168,630	-	-	-	-	168,630
Director of Economy, Transport and Environment						
	141,930	-	-	-	18,593	160,523
Director of Community, Culture and Business Services						
	141,930	-	-	-	18,593	160,523
Director of Public Health (to 30 November 2015)						
	97,532	88	-	-	11,925	109,545
Director of Adult Services (to 31 October 2015)						
	80,428	-	-	87,264	168,181	335,873
Interim Director of Adults, Health & Care (from 1 November 2015)						
	52,083	-	-	-	6,823	58,906
Director of Transformation and Governance						
	128,772	-	-	-	16,869	145,641

note: The Director of Children's Services and Director of Corporate Resources provide services to other organisations for which the County Council receives income as part of wider joint working arrangements

**23c 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 2014/15**

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	105	75	180	1,020,416
£20,001 +	4	2	6	165,450
<b>Total number of packages</b>	<b>109</b>	<b>77</b>	<b>186</b>	<b>1,185,866</b>

**Non schools 2014/15**

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	23	411	434	4,395,892
£20,001 - £40,000	12	220	232	6,009,997
£40,001 - £60,000	2	18	20	931,414
£60,001 - £80,000	-	5	5	336,180
£80,001 - £100,000	-	2	2	181,834
<b>Total number of packages</b>	<b>37</b>	<b>656</b>	<b>693</b>	<b>11,855,317</b>

**Schools 2015/16**

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	88	59	147	884,253
£20,001 +	4	2	6	171,480
<b>Total number of packages</b>	<b>92</b>	<b>61</b>	<b>153</b>	<b>1,055,733</b>

**Non schools 2015/16**

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	26	3	29	226,384
£20,001 - £40,000	9	2	11	322,663
£40,001 - £60,000	-	2	2	85,462
£60,001 +	1	2	3	267,676
<b>Total number of packages</b>	<b>36</b>	<b>9</b>	<b>45</b>	<b>902,185</b>

**24 External Audit fees**

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

	2014/15 £000	2015/16 £000
Code of Audit Practice	139	116
Grant Claims	3	-2
<b>Total</b>	<b>142</b>	<b>114</b>

**25 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 2015/16 are as follows:

	Central expenditure £000	Individual Schools Budget £000	Total £000
Final DSG for 2015/16 before Academy recoupment			-854,200
Academy figure recouped for 2015/16			162,212
<b>Total DSG after Academy recoupment for 2015/16</b>			<b>-691,988</b>
Brought forward from 2014/15			-31,363
Carry forward to 2016/17 agreed in advance			19,498
Agreed initial budgeted distribution in 2015/16	-87,021	-616,832	-703,853
In year adjustments		-1,127	-1,127
<b>Final budgeted distribution in 2015/16</b>	<b>-87,021</b>	<b>-617,959</b>	<b>-704,980</b>
Less Actual central expenditure	87,021		87,021
Less Actual ISB deployed to schools		617,959	617,959
Plus Local authority contribution for 2015/16	-	-	-
<b>Carry forward to 2016/17</b>	<b>-</b>	<b>-</b>	<b>-19,498</b>

**26 Grant and contribution income**

The County Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement:

	2014/15 £000	2015/16 £000
<b>Credited to Taxation and Non Specific Grant Income</b>		
Capital Grants and Contributions:		
Community Capacity Building	-4,529	-204
Autism Grant	-19	-
Community Grant - LD Transformation	-	-800
Local Sustainable Transport Fund Grant	-2,791	-29
Local Transport Capital Block Funding Grant	-39,397	-30,079
Better Bus Area Fund	-7	-
Broadband Delivery UK Grant	-4,946	-1,042
Rural Broadband	-421	421
Pinchpoint Funding	-8,265	-687
Environment Agency	-690	-1,237
Disabled Facilities Grant	-	-5,296
Social Care Capital Grant	-	-186
Standards Fund	-3,498	-3,919
Capital Maintenance Grant	-18,473	-25,598
Basic Needs Grant	-23,137	-26,793
Other ETE Grants	-	-21
New Deal for Schools Maintenance	-68	-
Universal Infant Free School Meals	-3,036	-419
Other Children's Services and Education Grants	-42	-100
Developer's contributions	-21,374	-25,736
Other contributions	-3,702	-18,911
Contributions from other Local Authorities	-2,929	-2,642
<b>Less: Capital income used to fund revenue expenditure under statute</b>	<b>16,830</b>	<b>22,143</b>
	-120,494	-121,135
Non-ringfenced Government grants	-237,478	-212,766
<b>Total</b>	<b>-357,972</b>	<b>-333,901</b>

Notes to the Core Financial Statements

<b>Credited to services</b>	2014/15 £000	2015/16 £000
Carers & Care Act Implementation	-	-1,099
Adults Social Care Implementation	-	-6,536
Local Reform & Community Voices	-859	-640
Independent Living Fund	-	-3,550
Common Assessments Framework	-319	-35
Syrian Resettlement Programme	-	-48
EM3 LEP Local Growth Fund	-	-28,659
PFI Street Lighting Grant	-9,373	-9,373
Bikeability Training Grant	-350	-390
Local Sustainable Transport Funds	-1,958	-1,486
Flood & Water Management Grant	-433	-230
Eco Town funding	-330	-81
Care Bill Implementation Grant	-125	-
Department for Energy & Climate Change Grant	-514	-
Severe Weather Grant	-3,612	-
Bus Service Operators Grant	-1,068	-1,106
Local Services Support Grant	-666	-617
Sustainable Drainage Systems Grant	-135	-82
Other ETE Grants	-	-82
Dedicated School's Grant	-679,071	-704,980
Universal Infant Free School Meals	-9,255	-14,039
SEND Pathfinder	-912	-722
PE & Sport Grant	-3,749	-3,851
Deprivation of Liberty Safeguards	-	-507
Additional Schools Grant	-49	-60
Social Work Grants	-262	-181
Adoption Reform Grant	-1,069	-
Staying Put Grant	-137	-274
SEN Reform Grant	-1,544	-
New Remand Framework Funding Grant	-140	-157
Unaccompanied Asylum Seeking Children Grant	-514	-587
Delayed Transfers of Care	-	-170
Supporting Troubles Families Grant	-2,427	-1,967
Early Years Pupil Premium Implementation	-	-43
Children's Social Care Innovation Programme	-	-1,833
Public Health Grant	-40,428	-46,160
Digitalisation Grant	-	-1,253
Social Care in Prisons Grant	-	-104
Other P&R grants	-166	-125
Pupil Premium grant	-35,413	-34,918
Education Funding Agency Grant	-2,882	-2,966
Skills Funding Agency Grant	-2,200	-2,040
Music Grant	-1,346	-1,613
Other Children's Services and Education Grants	-2,250	-1,409
Heritage Lottery Fund	-54	-43
Arts Council Funding	-	-41
Other Cultural Grants	-265	-237
Other Countryside Grants	-402	-439
Developers Contributions	-1,208	-1,371
<b>Add: Capital income used to fund revenue expenditure under statute</b>	<b>-16,830</b>	<b>-22,143</b>
<b>Total</b>	<b>-822,315</b>	<b>-898,247</b>

## Notes to the Core Financial Statements

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 2015	31 March 2016
	£000	£000
<b>Capital grants receipts in advance</b>		
Department of Health Community Capacity Grant	-204	-
Department of Health Transformation Grant	-800	-
Department of Health Social Care Capital Grant	-	-2,461
Local Enterprise Partnership (LEP)	-	-15,098
Bordon Eco Town Grant	-209	-209
Other countryside grants (Lepe)	-21	-
Other CCBS grants	-303	-56
Devolved Formula Capital	-6,391	-5,814
Department for Transport Grant	-5,206	-7,247
Shipwrights Way at Bordon	-	-200
Targeted Basic Need Grant	-3,014	-
Universal Infant Free School Meals	-419	-
Whitehill & Bordon	-400	-329
Other Children's Services Grants	-5	-78
Department for Transport Pinchpoint Grant	-687	-
Sport England Grant	-15	-15
Environment Agency Grants	-198	-78
Homes & Communities Agency	-1,592	-
Other ETE grants	-2	-12
<b>Total</b>	<b>-19,466</b>	<b>-31,597</b>

<b>Revenue grants receipts in advance</b>		
Dedicated Schools Grant	-31,363	-19,497
Pupil Premium	-20	-16
Early Years Pupil Premium & Integrated Review Readiness Grant	-43	-
Children's Social Care Innovation Funding	-1,480	-2,131
Other Children's Services and Education Grants	-20	-151
Common Assessment Framework Adults Grant	-192	-157
Local Enterprise Partnership (LEP)	-	-2,015
Local Welfare Assistance Grant	-1,302	-1,016
Flood management	-489	-489
Single Farm Payments European Grant	-598	-947
Eco Towns - project funding	-483	-402
Supporting Troubled Families	-	-358
One Public Sector Estate 3	-	-350
Skills Funding Agency	-406	-360
Sustainable Drainage System Grant	-82	-
Music Grant	-	-106
Cass Foundation	-78	-41
Rural Payments Agency	-114	-164
Other Countryside Grants	-114	-113
Transformation Fund	-	-1,847
Arts Council Funding	-	-10
Other Cultural Grants	-36	-29
<b>Total</b>	<b>-36,820</b>	<b>-30,199</b>

## 27 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 26.

### Members

Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2015/16 is shown in note 22. Before every decision making meeting, members are required to disclose any conflicts of

interest. There were 16 related party transactions totalling £14,692.28 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 23b.

### Limited Companies

Hampshire County Council owns a 51% share in the Reading Hampshire Property Partnership Ltd (RHPP), which commenced operations on 1 April 2014. This is a public to public venture, based on the Teckal principal, to provide property services to Reading Borough Council. The Board of Directors is made up of two Assistant Directors from Hampshire County Council and two from Reading Borough Council. The turnover during 2015/16 was £2.2 million (£3.5million 2014/15).

### 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 315 other contributing scheduled, admitted, community admission, transferee admission, and resolution bodies (309 in 2014/15).

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. The governance arrangements of both organisations and the Chief Financial Officer's independence and professional status ensure that this relationship is not compromised.

Transactions with these related parties are shown below:

	2014/15 £000	2015/16 £000
<b>Pension Fund</b>		
Administration charge	-2,743	-2,219
<b>Police and Crime Commissioner</b>		
Charge for Chief Finance Officer	-21	-21

**28 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.

	2014/15 £000	2015/16 £000
Opening capital financing requirement	758,616	761,569
Capital spending on property, plant and equipment	220,826	163,580
Revenue expenditure funded by capital under statute	23,739	25,774
Pooled Investment Property Fund	-	15,000
	<hr/> 1,003,181	<hr/> 965,923
Funded by:		
Capital receipts	-12,534	-9,571
Grants and other income	-160,734	-138,802
Revenue		
- main contribution	-21,235	-29,838
- reserves	-13,946	-8,590
Minimum revenue provision	-33,163	-23,427
<b>Closing capital financing requirement</b>	<hr/> <b>761,569</b>	<hr/> <b>755,695</b>
Explanation of movements in year		
Increase/decrease (-) in borrowing (supported by government financial assistance)	-21,364	-13,191
Increase/decrease (-) in borrowing (unsupported by government financial assistance)	4,189	9,773
Increase/decrease (-) in borrowing related to PFI contracts	20,128	-2,456
<b>Increase/decrease (-) in Capital Financing Requirement</b>	<hr/> <b>2,953</b>	<hr/> <b>-5,874</b>

**29a 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:

	2014/15			2015/16		
	Other land and buildings £000	Vehicles, plant and equipment £000	Total £000	Other land and buildings £000	Vehicles, plant and equipment £000	Total £000
Not later than one year	2,153	1,873	4,026	2,457	1,112	3,569
Later than one year and not later than five years	5,311	1,994	7,305	7,162	1,261	8,423
Later than five years	9,989	-	9,989	12,947	-	12,947
<b>Total payments</b>	<b>17,453</b>	<b>3,867</b>	<b>21,320</b>	<b>22,566</b>	<b>2,373</b>	<b>24,939</b>

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

	2014/15 £000	2015/16 £000
Minimum lease payments	4,758	3,836
Contingent rents	-	-
(Sublease payments receivable)	-82	-18
<b>Total net expenditure</b>	<b>4,676</b>	<b>3,818</b>

**29b 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:

	2014/15 £000	2015/16 £000
Not later than one year	3,384	3,787
Later than one year and not later than five years	6,695	8,094
Later than five years	46,384	48,852
<b>Total future minimum lease payments</b>	<b>56,463</b>	<b>60,733</b>

### **29c Leases – finance leases**

At 31 March 2016 the County Council has not taken or granted any finance leases over the de minimus level of £500,000.

### **30 PFI and service concessions**

#### **30a Project Integra**

An existing contract for waste management meets the definition of a service concession. The contract with Hampshire Waste Services Ltd (a wholly owned subsidiary of Veolia UK) is jointly administered by the County Council and Portsmouth and Southampton unitary authorities. The contract began in January 1996 and runs until 2030/31.

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 2030/31. The contract price mechanism is structured with an annual re-pricing each January linked to the retail price index in the previous October. During 15/16 a Deed of Variation to the contract was completed which has delivered savings of £2.4 million per year from 2015, increasing to savings of £4.7 million per year from 2018.

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

Notes to the Core Financial Statements

	2014/15	2015/16
	£000	£000
<b>Gross book value</b>		
At 1 April	80,177	80,177
Additions	-	-
Disposals	-	-
Revaluations	-	-
Gross book value at 31 March	80,177	80,177
<b>Depreciation</b>		
At 1 April	-5,638	-12,487
Depreciation for the year	-6,849	-4,120
Impairments	-	-
Revaluations	-	-
Depreciation at 31 March	-12,487	-16,607
Net book value at 1 April	74,539	67,690
<b>Net book value at 31 March</b>	<b>67,690</b>	<b>63,570</b>

The movement in the deferred liability was:

	31 March	31 March
	2015	2016
	£000	£000
Balance brought forward 1 April	-69,966	-65,268
Principal repayment in the year	4,698	2,854
<b>Balance at 31 March</b>	<b>-65,268</b>	<b>-62,414</b>
Finance lease repayable in one year	-5,074	-2,993
deferred liability	-60,194	-59,421
<b>Balance at 31 March</b>	<b>-65,268</b>	<b>-62,414</b>

The waste management contract has 15 years to run. The expected payments are shown below.

	Principal repayment	Interest	Service Charge	Total
	£000	£000	£000	£000
Next year	2,993	3,036	38,110	44,139
Years two to five	13,500	10,616	147,966	172,082
Years six to 10	20,913	9,232	189,596	219,741
Years 11 to 15	25,008	3,623	198,910	227,541
	<b>62,414</b>	<b>26,507</b>	<b>574,582</b>	<b>663,503</b>

### **30b 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 has replaced some 90,000 of its 144,000 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 2034/35.

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. Beyond this time the risks relating to the apparatus then reverts to the County Council.

As part of the PFI contract a Remote Monitoring System (RMS) has been incorporated into every lantern which allows the street lighting levels to be controlled centrally. As lanterns are replaced or installed, the necessary RMS devices are fitted to the new lanterns. This has allowed the County Council to make efficiencies on electricity costs and vary light outputs as necessary.

An annual re-pricing review linked to retail price index is undertaken on the anniversary of the start of the contract, 1 April. 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, reflecting the progress of the investment programme. 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 2015/16 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.

## Notes to the Core Financial Statements

The movement in the asset values were as follows:

	2014/15	2015/16
	£000	£000
<b>Gross book value</b>		
At 1 April	97,528	124,669
Additions	27,141	3,542
Disposals	-	-
Revaluations	-	-
<b>Gross book value at 31 March</b>	<b>124,669</b>	<b>128,211</b>
Depreciation		
At 1 April	-3,591	-6,824
Depreciation for the year	-3,233	-4,151
Impairments	-	-
<b>Depreciation at 31 March</b>	<b>-6,824</b>	<b>-10,975</b>
Net book value at 1 April	93,937	117,845
<b>Net book value at 31 March</b>	<b>117,845</b>	<b>117,236</b>

The movement in the deferred liability was:

	31 March	31 March
	2015	2016
	£000	£000
Balance brought forward 1 April	-90,074	-114,900
Principal repayment in the year	2,315	3,144
Capital expenditure incurred in the year	-27,141	-3,542
<b>Balance at 31 March</b>	<b>-114,900</b>	<b>-115,298</b>
Finance lease repayable in one year	-3,226	-3,391
deferred liability	-111,674	-111,907
<b>Balance at 31 March</b>	<b>-114,900</b>	<b>-115,298</b>

## Notes to the Core Financial Statements

The street lighting contract has 19 years to run. The expected payments are shown below:

	Principal repayment £000	Interest £000	Service Charge £000	Total £000
Next year	3,391	7,037	6,417	16,845
Years two to five	15,761	25,951	28,234	69,946
Years six to 10	25,739	26,401	41,331	93,471
Years 11 to 15	34,592	17,549	48,483	100,624
Year 16 to 19	36,060	5,652	44,274	85,986
	<b>115,543</b>	<b>82,590</b>	<b>168,739</b>	<b>366,872</b>

A PFI grant of £9 million from the Department of Transport was received by the County Council in 2015/16 with a balance of £178 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 £109 million.

### 31 Contingent Liabilities

The County Council self-insures and therefore funds its own liability claims. The liabilities are uncertain but to cover them a provision is maintained for known liability claims, assessed at £11.4 million at 31 March 2016 (see note 15) and a reserve earmarked for potential future claims, £25m at 31 March 2016 (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 in the near future, so it is not possible to quantify reliably the potential liability associated with them.

During 2014/15, developments in employment law took place which may have a financial impact on the County Council. These concern legal challenges in respect of payments for overtime and allowances. In particular, there was an Employment Appeal Tribunal ruling on the treatment of regular overtime in payments for holiday pay purposes. At the date of publication of these unaudited accounts there was insufficient information to estimate any amounts that may be due to be paid and there are further uncertainties regarding the timing of such payments. Consequently, this is shown as a contingent liability rather than as a provision in these accounts.

## 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) Pensions 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 2015/16 total employer's contributions were £43.6 million representing 14.1% of pensionable pay until August 2015, then, due to an increase in contribution rate 16.48% from September 2015 (£39.6 million representing 14.1% of pensionable pay in 2014/15).

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and detailed in note 32c.

#### 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 and not included in the net pension liability on the balance sheet.

In 2015/16 total employer's contributions were £0.15 million representing 14.3% of pensionable pay (£0.15 million representing 14.1% of pensionable pay in 2014/15).

### **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 Hampshire Local Government Pension Scheme (LGPS). This is a funded defined benefit plan with benefits earned up to 31 March 2014 being linked to final salary. Benefits after 31 March 2014 are based on a Career Average Revalued Earnings scheme. Details of the benefits earned over the period covered by this disclosure are set out in 'The Local Government Pension Scheme Regulations 2013' and 'The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014'. The funded nature of the LGPS requires that Hampshire County Council and employees pay contributions into the fund, calculated at a level intended to balance the pensions liabilities with investment assets. Information on the framework for calculating contributions to be paid is set out in the LGPS Regulations 2013 and the Fund's Funding Strategy Statement.

The unfunded benefits relate to discretionary post retirement benefits awarded by the County Council upon early retirement of members of the LGPS under the Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations. 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 2015/16 Pension Fund assets and liabilities have been included in the Balance Sheet based on a formal actuarial valuation at 31 March 2013. The contributions to be paid until 31 March 2017 resulting from that valuation are set out in the Funds Rates and Adjustment Certificate. An actuarial valuation of the Fund was carried out at 31 March 2016 and as part of that valuation a new Rates and Adjustment Certificate will be produced for the three year period from 1 April 2017.

#### **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:

	2014/15 £000	2015/16 £000
<b>Included in the Comprehensive Income and Expenditure Statement:</b>		
Current service cost of funded LGPS pensions	70,000	82,490
Charge to non-distributed costs for early retirement in the year	10,259	1,001
Settlement costs	-	-
Net increase in liabilities from acquisitions	-	-
Interest on net defined liability / (asset)	40,810	33,910
<b>Total post employment benefits charges to the surplus/deficit on the provision of services</b>	<b>121,069</b>	<b>117,401</b>
<b>Remeasurements in Other Comprehensive Income:</b>		
Actuarial (gains)/losses		
Return on plan assets (excluding that recognised in net interest)	-164,920	33,610
Actuarial (gains) / losses due to change in financial assumptions	256,460	-107,730
Actuarial (gains) / losses due to change in demographic assumptions	-	-
Actuarial (gains) / losses due to liability experience	-17,510	-29,480
<b>Total amount recognised in Other Comprehensive Income and Expenditure</b>	<b>74,030</b>	<b>-103,600</b>
Total post employment benefits charges to the Comprehensive Income and Expenditure Statement	<b>195,099</b>	<b>13,801</b>
<b>Movement in reserves statement</b>		
	2014/15 £000	2015/16 £000
Reversal of net changes made to the surplus/deficit for the provision of services for post employment benefits in accordance with IAS19	-114,530	56,225
Actual amount charged against the General Fund Balance for pensions in the year		
Employer's contributions payable to the fund	-66,938	-69,904
Added years and early retirement cash flows in the year:		
LGPS	-10,526	-
Teachers	-3,105	-122
	<b>-195,099</b>	<b>-13,801</b>

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to the 31 March 2016 is a gain of £103.6 million.

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

Period ended 31 March 2016	LGPS funded £000	LGPS Unfunded £000	Teachers' Unfunded £000	Total £000
<b>Opening present value of liabilities</b>	-2,909,370	-27,700	-39,750	<b>-2,976,820</b>
Current service cost	-82,490	-	-	<b>-82,490</b>
Interest expense on defined benefit obligation	-92,030	-860	-1,230	<b>-94,120</b>
Contributions by participants	-22,580	-	-	<b>-22,580</b>
Actuarial gains/(losses) on liabilities:				
- financial assumptions	106,600	470	660	<b>107,730</b>
- demographic assumptions	-	-	-	-
- liability experience	28,340	470	670	<b>29,480</b>
Net benefits paid out (note i)	90,160	1,960	2,820	<b>94,940</b>
Past service cost	-8,540	-	-	<b>-8,540</b>
Net increase in liabilities from acquisitions	-	-	-	-
<b>Closing present value of liabilities</b>	<b>-2,889,910</b>	<b>-25,660</b>	<b>-36,830</b>	<b>-2,952,400</b>
Period ended 31 March 2015	LGPS funded £000	LGPS Unfunded £000	Teachers' Unfunded £000	Total £000
<b>Opening present value of liabilities</b>	-2,557,030	-27,430	-39,400	<b>-2,623,860</b>
Current service cost	-70,000	-	-	<b>-70,000</b>
Interest expense on defined benefit obligation	-108,610	-1,110	-1,600	<b>-111,320</b>
Contributions by participants	-21,980	-	-	<b>-21,980</b>
Actuarial gains/(losses) on liabilities:				
- financial assumptions	-253,060	-1,400	-2,000	<b>-256,460</b>
- demographic assumptions	-	-	-	-
- liability experience	16,880	260	370	<b>17,510</b>
Net benefits paid out (note i)	86,020	1,980	2,880	<b>90,880</b>
Past service cost	-1,590	-	-	<b>-1,590</b>
<b>Closing present value of liabilities</b>	<b>-2,909,370</b>	<b>-27,700</b>	<b>-39,750</b>	<b>-2,976,820</b>

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.

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

	31 March 2015 £000	31 March 2016 £000
<b>Opening fair value of assets</b>	<b>1,637,770</b>	<b>1,876,200</b>
Interest income on assets	70,510	60,210
Remeasurement gains/(losses) on assets	164,920	-33,610
Contributions by employer	71,900	81,960
Contributions by participants	21,980	22,580
Net benefits paid out (note i)	-90,880	-94,940
Net increase in assets from acquisitions	-	-
<b>Closing fair value of assets</b>	<b>1,876,200</b>	<b>1,912,400</b>

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.

**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 2015 £000	31 March 2016 £000
Present value of the defined benefit obligation:		
LGPS funded	-2,909,370	-2,889,910
Unfunded Liabilities:		
LGPS	-27,700	-25,660
Teachers	-39,750	-36,830
	<b>-2,976,820</b>	<b>-2,952,400</b>
Fair value of assets in the scheme	1,876,200	1,912,400
<b>Net liability arising from defined benefit obligation</b>	<b>-1,100,620</b>	<b>-1,040,000</b>

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.

## Notes to the Core Financial Statements

The total contributions expected to be made to the Hampshire LGPS by the County Council in the year to 31 March 2016 is £72.15 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 2015 %	31 March 2016 Quoted %	31 March 2016 Unquoted %	31 March 2016 Total %
Equities	57.8	52.9	3.4	56.3
Government bonds	25.4	25.7	-	25.7
Property	8.0	0.9	7.3	8.2
Corporate bonds	1.6	2.0	0.1	2.1
Cash	3.7	4.7	-	4.7
Other (hedge funds, currency holdings, futures, private equities) (note i)	3.5	-0.2	3.2	3.0
	100.0	86.0	14.0	100.0

note i - the -0.2% relates to derivative contracts, which can have a negative value at any given time.

### 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:

	2014/15 % per year	2015/16 % per year
Rate of discount for scheme liabilities - funded pensions	3.2	3.4
Rate of discount for scheme liabilities - unfunded pensions	3.2	3.4
Rate of increase in salaries	3.3	3.3
Rate of increase in pensions in payment - funded pensions	1.8	1.8
Rate of increase in pensions in payment -unfunded pensions	1.8	1.8
Proportion of employees opting to take a commuted lump sum for all service:	70	70
RPI inflation - funded pensions	2.9	2.9
RPI inflation - unfunded pensions	2.9	2.9
CPI inflation - funded pensions	1.8	1.8
CPI inflation - unfunded pensions	1.8	1.8

**Principal demographic assumptions**

Post retirement mortality

2014/15

2015/16

<b>Men</b>		
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_2012 with a longterm rate of improvement of 1.5% p.a.	CMI_2012 with a longterm rate of improvement of 1.5% p.a.
Future lifetime from age 65 (currently aged 65)	24.5	24.6
Future lifetime from age 65 (currently aged 45)	26.6	26.7

<b>Women</b>		
Base table	Standard SAPS Normal Health Light Amounts	Standard SAPS Normal Health Light Amounts
Scaling to above base table rates	95%	95%
Improvements to base table rates	CMI_2012 with a longterm rate of improvement of 1.5% p.a.	CMI_2012 with a longterm rate of improvement of 1.5% p.a.
Future lifetime from age 65 (currently aged 65)	26.3	26.4
Future lifetime from age 65 (currently aged 45)	28.6	28.7

**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 2016 from changes in assumptions**

	Increase in assumption		Decrease in assumption	
	£000	%	£000	%
Discount rate (increase / decrease 0.1% per annum)	-51,810	1.8	52,760	1.8
Salary increase rate (increase / decrease 0.1% per annum)	10,060	0.3	-9,970	-0.3
Pension increase rate (increase / decrease 0.1% per annum)	42,600	1.5	41,930	-1.5
Longevity (increase / decrease by 1 year)	73,430	2.5	73,690	-2.5

**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 22 years from the 2013 valuation. Funding levels are monitored on an annual basis. The next triennial valuation was due to be completed on 31 March 2016, and will be reflected in the 2016/17 financial statements.

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, based on a member's final salary, 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 £72.15 million in expected contributions to the scheme in 2016/17.

The weighted average duration of the defined benefit obligation for scheme members is 18.1 years (18.1 years in 2014/15).

**33 Trust Funds**

The Council has acted as sole trustee for 22 trust funds (22 in 2014/15) and as administrator for 12 other trust funds (12 in 2014/15). 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 2015 £000	Balance at 31 March 2016 £000
<b>Sole trustee funds</b>		
<b>Educational trusts</b>		
Dayas Music Scholarship	-109	-111
Michael Austin Harlick Memorial	-255	-253
Mace Educational Trust	-107	-106
Other	-17	-18
<b>Total</b>	<b>-488</b>	<b>-488</b>
<b>Social Care trusts</b>		
Hampshire Old Industrial and Reformatory Schools	-73	-73
Green Meadows Older Persons Home	-19	-20
<b>Total</b>	<b>-92</b>	<b>-93</b>
<b>Museums trusts</b>		
Allen Curtis Museum Trust	-23	-23
Red House Museum Trust	-50	-50
<b>Total</b>	<b>-73</b>	<b>-73</b>
<b>Libraries trust</b>		
Julian Davies Foundation	-2	-2
<b>Other</b>		
Hillier Arboretum Trust	-645	-1,555
<b>Total - sole trustee trusts</b>	<b>-1,300</b>	<b>-2,211</b>
<b>Administrator funds</b>		
The Eggars Grammar School Alton Site Foundation	-2,270	-2,348
Hampshire Foundation for Young Musicians	-69	-69
Other	-28	-29
Social Care trusts	-6	-6
<b>Total administrator trusts</b>	<b>-2,373</b>	<b>-2,452</b>
<b>Total trust funds</b>	<b>-3,673</b>	<b>-4,663</b>

## Pension Fund Accounts

Fund Account	See note	2014/15 £'000	2015/16 £'000
<b>Dealings with members, employers and others directly involved in the Fund</b>			
Contributions	7	237,542	252,343
Transfers in from other pension funds	8	6,794	11,543
		<b>244,336</b>	<b>263,886</b>
Benefits	9	-216,547	-231,411
Payments to and on account of leavers	10	-85,264	-11,604
		<b>-301,811</b>	<b>-243,015</b>
<b>Net additions from dealings with members</b>		<b>-57,475</b>	<b>20,871</b>
<b>Management expenses</b>	<b>11</b>	<b>-20,461</b>	<b>-20,430</b>
<b>Returns on investments</b>			
Investment income	12	95,757	101,984
Taxes on income	13	-1,454	-695
Profits and losses on disposal of investments and changes in the market value of investments	14a	585,004	-25,412
<b>Net return on investments</b>		<b>679,307</b>	<b>75,877</b>
<b>Net increase in the net assets available for benefits during the year</b>		<b>601,371</b>	<b>76,318</b>
Opening net assets of the scheme		4,535,717	5,137,088
Closing net assets of the scheme		5,137,088	5,213,406
<b>Net Assets Statement for the year ending 31 March 2016</b>			
	See note	31 March 2015 £'000	31 March 2016 £'000
Investment assets	14	4,951,328	4,907,387
Cash deposits	14	49,765	36,451
		<b>5,001,093</b>	<b>4,943,838</b>
Long term debtors	22	9,128	7,607
Investment liabilities	14	-5,706	-7,246
Current assets	20	146,873	286,680
Current liabilities	21	-14,300	-17,473
<b>Net assets of the Fund available to fund benefits at the period end</b>		<b>5,137,088</b>	<b>5,213,406</b>

## 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 2015/16 and the underlying statutory powers underpinning the Scheme, namely the Public Service Pensions Act 2013 and the Local Government Pension Scheme (LGPS) Regulations.

#### a) General

The Fund is governed by the Public Service Pensions Act 2013. The Fund is administered in accordance with the following secondary legislation:

- The Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended).

It is a contributory defined benefit pension scheme administered by Hampshire County Council 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 and Board, 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

## Notes to the Pension Fund Accounts

- 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 329 employer organisations within the Hampshire Pension Fund including the County Council itself, as detailed below:

<b>Hampshire Pension Fund</b>	<b>31 March 2015</b>	<b>31 March 2016</b>
Number of employers with active members	323	329
<b>Number of employees in Scheme</b>		
County Council	24,521	26,747
Other employers	30,158	31,068
<b>Total</b>	<b>54,679</b>	<b>57,815</b>
<b>Number of pensioners</b>		
County Council	15,085	16,043
Other employers	19,279	20,476
<b>Total</b>	<b>34,364</b>	<b>36,519</b>
<b>Deferred pensioners</b>		
County Council	28,193	29,701
Other employers	27,594	30,156
<b>Total</b>	<b>55,787</b>	<b>59,857</b>

### c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with The LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2016. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last valuation was at 31 March 2013. Currently, employer contribution rates for most employers range from 13.1% to 15.6% of pensionable pay plus a past service deficit contribution.

**d) Benefits**

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service, summarised below.

	<b>Service pre 1 April 2008</b>	<b>Service post 31 March 2008</b>
<b>Pension</b>	Each year worked is worth 1/80 x final pensionable salary.	Each year worked is worth 1/60 x final pensionable salary.
<b>Lump sum</b>	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.

From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49<sup>th</sup>. Accrued pension is uprated annually in line with the Consumer Price Index.

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 2015/16 financial year and its position at year-end at 31 March 2016. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2015/16* 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.

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date.

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) Management expenses**

The Code does not require any breakdown of pension fund administrative expenses. However in the interest of greater transparency, the Council discloses its Pension Fund management expenses in accordance with the CIPFA guidance *Accounting for Local Government Pension Scheme Management Costs*.

#### **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. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

#### **Oversight and governance costs**

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

#### **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 management and therefore increase or reduce as the value of these investments change.

Where an investment manager's fee note has not been received by the balance sheet date, an estimate based upon market value of their mandate at the end of the year is used for inclusion in the Fund account. In 2015/16, £0.1m of fees is based on such estimates (2014/15 £0.5m).

## Net Assets Statement

### g) 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 in the Fund Account.

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 the International Private

Equity and Venture Capital Valuation Guidelines 2012.

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 2016 by an external valuer, Paul Willis, BSc MRICS of Colliers International in accordance with the Royal Institute of Chartered Surveyors' *Valuation Professional Standards (January 2014)*. The valuer's opinion of market value and existing use value was primarily derived using comparable recent market transactions on arm's-length terms.

**h) 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.

**i) 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.

**j) Cash and cash equivalents**

Cash comprises cash in hand and demand deposits and includes amounts held by the Fund's external managers.

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.

**k) 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.

**l) 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 the Code, 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).

**m) 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 Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only (Note 23).

#### **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. Unquoted private equities are valued by the investment managers using guidelines set out by the *International Private Equity and Venture Capital Valuation Guidelines 2012*. The value of unquoted private equity investments at 31 March 2016 was £170 million (£182 million at 31 March 2015).

##### **Pension fund liability**

The pension fund liability is calculated every three years by the appointed actuary, with updates in the intervening years. 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 18. 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 preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the balance sheet date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates.

The items in the Net Assets Statement at 31 March 2016 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
<b>Actuarial present value of promised retirement benefits</b>	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.
<b>Debtors</b>	At 31 March 2016, the Fund had a balance of debtors and prepayments of £52 million. A review of debtor balances suggested that an impairment of £0.062 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 £0.062 million to be set aside as an allowance.
<b>Private equity</b>	Private equity investments are valued at fair value in accordance with the <i>International Private Equity Venture Capital Valuation Guidelines 2012</i> . 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 £170 million. There is a risk that this investment may be under- or overstated in the accounts.

Item	Uncertainties	Effect if actual results differ from assumptions
<b>Hedge funds</b>	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 £166 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 +/- £8.3 million.

## 6. Events after the reporting date

On 24 June 2016 the outcome of the EU referendum was announced, with voters having chosen to leave the European Union. There has been a significant corresponding impact on world stock and currency markets.

The initial net impact on the Pension Fund's investments has been positive as a result of the Fund's significant unhedged exposure to non-Sterling investments (see Note 17a) and the Fund's diversified asset allocation that includes UK index linked gilts, which have increased in value following the referendum outcome.

As the referendum outcome took place after the Pension Fund's accounting date of 31 March 2016 no adjustments to the accounts have been made.

**7. Contributions receivable****By category**

	<b>2014/15</b>	<b>2015/16</b>
	<b>£'000</b>	<b>£'000</b>
Employees' contributions	58,132	59,535
Employers' contributions		
Normal contributions	121,619	132,494
Deficit recovery contributions	57,568	60,314
Augmentation contributions	223	0
Total employer's contributions	179,410	192,808
<b>Total</b>	<b>237,542</b>	<b>252,343</b>

**By authority**

	<b>2014/15</b>	<b>2015/16</b>
	<b>£'000</b>	<b>£'000</b>
Scheduled bodies	226,527	241,934
Admitted bodies	6,305	5,623
Community admission bodies	843	847
Transferee admission bodies	2,709	2,716
Resolution bodies	1,158	1,223
<b>Total</b>	<b>237,542</b>	<b>252,343</b>

**8. Transfers in from other pension funds**

	<b>2014/15</b>	<b>2015/16</b>
	<b>£'000</b>	<b>£'000</b>
Group transfers	304	41
Individual transfers	6,490	11,502
<b>Total</b>	<b>6,794</b>	<b>11,543</b>

**9. Benefits payable****By category**

	<b>2014/15</b>	<b>2015/16</b>
	<b>£'000</b>	<b>£'000</b>
Pensions	173,670	182,116
Commutation and lump sum retirement benefits	38,783	43,067
Lump sum death benefits	4,094	6,228
<b>Total</b>	<b>216,547</b>	<b>231,411</b>

**By authority**

	<b>2014/15</b>	<b>2015/16</b>
	<b>£'000</b>	<b>£'000</b>
Scheduled bodies	207,439	220,954
Admitted bodies	5,310	5,279
Community admission bodies	1,311	1,664
Transferee admission bodies	1,601	2,544
Resolution bodies	886	970
<b>Total</b>	<b>216,547</b>	<b>231,411</b>

**10. Payments to and on account of leavers**

	<b>2014/15</b>	<b>2015/16</b>
	<b>£'000</b>	<b>£'000</b>
Refunds to members leaving service	260	779
Payments for members joining State scheme	43	369
Group transfers	77,488	2,371
Individual transfers	7,473	8,085
<b>Total</b>	<b>85,264</b>	<b>11,604</b>

The 2014/15 figure for Group Transfers includes £74.652m paid on account of a bulk transfer to the Great Manchester Pension Fund for the transfer of pension scheme members from the Probation Service following the centralisation of the Probation Service pensions to the Greater Manchester Fund.

**11. Management expenses**

	<b>2014/15</b>	<b>2015/16</b>
	<b>£'000</b>	<b>£'000</b>
Administrative costs	2,342	1,800
Investment management expenses	17,566	17,855
Oversight and governance costs	553	775
<b>Total</b>	<b>20,461</b>	<b>20,430</b>

This analysis of the costs of managing the Hampshire Pension Fund during the period has been prepared in accordance with CIPFA guidance.

In addition to these costs, indirect costs are incurred through the bid-offer spread on investments sales and purchases. These are reflected in the cost of investment acquisitions and in the proceeds from the sales of investments (see Note 14a).

In accordance with CIPFA's guidance on accounting for Scheme Management Costs the transactional costs of commission, stamp duty and other transaction fees incurred in the sale of equities and bonds (£1.417m in 2015/16) is included in Investment management expenses above. Due to the Pension Fund's custodian's accounting systems broker commissions incurred in 2014/15 (£1.837m) were included in the cost of purchases and proceeds of sales shown in table 14a.

**12. Investment income**

	<b>2014/15</b>	<b>2015/16</b>
	<b>£'000</b>	<b>£'000</b>
Fixed interest securities	6,722	7,343
Equity dividends	56,077	58,365
Pooled property investments	1,992	2,448
Pooled investments – unit trusts and other managed funds	1,051	591
Property (see note 12a)	18,547	21,711
Interest on cash deposits	639	660
Alternative investment income	10,384	10,451
Stock lending	298	391
Other	47	24
<b>Total</b>	<b>95,757</b>	<b>101,984</b>

**12a) Property income**

	<b>2014/15</b>	<b>2015/16</b>
	<b>£'000</b>	<b>£'000</b>
Rental income	18,547	21,711
Direct operating expenses	-1,956	-2,113
<b>Net income</b>	<b>16,591</b>	<b>19,598</b>

The direct operating expenses are included in the Fund's investment management expenses shown in Note 11.

**13. Taxes on income**

	<b>2014/15</b>	<b>2015/16</b>
	<b>£'000</b>	<b>£'000</b>
Withholding tax – equities	1,454	695
<b>Total</b>	<b>1,454</b>	<b>695</b>

**14. Investments**

	<b>Market value 31 March 2015 £'000</b>	<b>Market value 31 March 2016 £'000</b>
<b>Investment assets</b>		
Fixed interest securities	237,162	246,436
Equities	1,922,482	1,909,250
Pooled investments	2,030,638	2,039,243
Pooled property investments	53,568	36,480
Alternative investments	350,519	298,727
Property (see Note 14(e))	354,075	375,280
Derivative contracts:		
- Futures	293	393
- Forward currency contracts	2,585	1,541
- Purchased/written options	5	37
- Spot foreign exchange contracts	1	0
Cash deposits	49,765	36,451
<b>Total investment assets</b>	<b>5,001,093</b>	<b>4,943,838</b>
<b>Investment liabilities</b>		
Derivative contracts:		
- Futures	-563	-305
- Forward currency contracts	-4,616	-6,898
- Purchased/written options	-520	-34
- Spot foreign exchange contracts	-7	-9
<b>Total investment liabilities</b>	<b>-5,706</b>	<b>-7,246</b>
<b>Net investment assets</b>	<b>4,995,387</b>	<b>4,936,592</b>

**14a) Reconciliation of movements in investments and derivatives**

	<b>Market value 1 April 2015</b>	<b>Purchases during the year and derivative payments</b>	<b>Sales during the year and derivative receipts</b>	<b>Change in market value during the year</b>	<b>Market value 31 March 2016</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Fixed interest securities</b>	237,162	627,545	-627,677	9,406	246,436
<b>Equities</b>	1,922,482	537,658	-481,012	-69,878	1,909,250
<b>Pooled investments</b>	2,030,638	5,716	-6,050	8,939	2,039,243
<b>Pooled property investments</b>	53,568	80	-22,616	5,448	36,480
<b>Alternative investments</b>	350,519	41,427	-112,944	19,725	298,727
<b>Property</b>	354,075	13,414	-5,805	13,596	375,280
	<b>4,948,444</b>	<b>1,225,840</b>	<b>-1,256,104</b>	<b>-12,764</b>	<b>4,905,416</b>
<b>Derivative contracts:</b>					
- Futures	-270	11,319	-7,997	-2,964	88
- Forward currency contracts	-2,031	48,328	-39,331	-12,323	-5,357
- Purchased/written options	-515	-1,751	-21	2,290	3
	<b>-2,816</b>	<b>57,896</b>	<b>-47,349</b>	<b>-12,997</b>	<b>-5,266</b>
<b>Other investment balances:</b>					
- Cash deposits	49,765			349	36,451
- Spot foreign exchange contracts	-6				-9
<b>Net investment assets</b>	<b>4,995,387</b>			<b>-25,412</b>	<b>4,936,592</b>

Notes to the Pension Fund Accounts

	Market value 1 April 2014	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 2015
	£'000	£'000	£'000	£'000	£'000
<b>Fixed interest securities</b>	212,592	715,425	-722,658	31,803	237,162
<b>Equities</b>	1,853,541	484,760	-605,240	189,421	1,922,482
<b>Pooled investments</b>	1,617,743	671,670	-552,576	293,801	2,030,638
<b>Pooled property investments</b>	46,860	7,679	-3,488	2,517	53,568
<b>Alternative investments</b>	281,507	58,950	-44,793	54,855	350,519
<b>Property</b>	302,845	30,905	-1,849	22,174	354,075
	<b>4,315,088</b>	<b>1,969,389</b>	<b>-1,930,604</b>	<b>594,571</b>	<b>4,948,444</b>
<b>Derivative contracts:</b>					
- Futures	-345	15,117	-6,684	-8,358	-270
- Forward currency contracts	2,200	27,929	-27,793	-4,367	-2,031
- Purchased/written options	-277	-2,004	-218	1,984	-515
	<b>1,578</b>	<b>41,042</b>	<b>-34,695</b>	<b>-10,741</b>	<b>-2,816</b>
<b>Other investment balances:</b>					
- Cash deposits	<b>52,345</b>			1,174	49,765
- Spot foreign exchange contracts	-7			0	-6
<b>Net investment assets</b>	<b>4,369,004</b>			<b>585,004</b>	<b>4,995,387</b>

Transaction costs, such as commission, stamp duty and other transaction fees, are included in the cost of purchases and in sale proceeds in 2014/15 (£1.837m).

Transaction costs incurred during 2015/16 total £1.417m and are included as an Investment management expense, shown in Note 11, in accordance with CIPFA's guidance.

**14b) Analysis of investments (excluding derivative contracts)**

	31 March 2015 £'000	31 March 2016 £'000
<b>Fixed interest securities</b>		
<b>UK</b>		
Public sector quoted	4,627	1,457
Corporate quoted	9,820	11,458
Corporate unquoted	0	0
<b>Overseas</b>		
Public sector quoted	163,154	151,633
Public sector unquoted	5,563	10,855
Corporate quoted	53,416	70,472
Corporate unquoted	582	561
	<b>237,162</b>	<b>246,436</b>
<b>Equities</b>		
<b>UK</b>		
Quoted	782,746	785,188
<b>Overseas</b>		
Quoted	1,139,736	1,124,062
	<b>1,922,482</b>	<b>1,909,250</b>
<b>Pooled funds – additional analysis</b>		
<b>UK</b>		
Fixed income unit trusts	1,147,686	1,170,187
Unit trusts	313,275	299,598
<b>Overseas</b>		
Fixed income unit trusts	10,357	14,088
Unit trusts	559,320	555,370
	<b>2,030,638</b>	<b>2,039,243</b>
Pooled property investments	53,568	36,480
Alternative investments	350,519	298,727
Property	354,075	375,280
Derivatives	2,884	1,971
	<b>761,046</b>	<b>712,458</b>
Cash deposits	49,765	36,451
<b>Total investment assets</b>	<b>5,001,093</b>	<b>4,943,838</b>
<b>Investment liabilities</b>		
Derivatives	-5,706	-7,246
<b>Net investment assets</b>	<b>4,995,387</b>	<b>4,936,592</b>

**14c) Investments analysed by fund manager**

	<b>Market value 31 March 2015</b>		<b>Market value 31 March 2016</b>	
	<b>£'000</b>	<b>%</b>	<b>£'000</b>	<b>%</b>
Aberdeen	723,985	14.1	695,651	13.3
Schroders	695,297	13.5	664,553	12.8
Newton	658,837	12.8	710,483	13.6
Legal & General	569,825	11.1	581,153	11.2
State Street	1,419,594	27.6	1,416,997	27.2
Western	253,430	4.9	255,926	4.9
CBRE Global Investors	376,807	7.4	399,601	7.7
	<b>4,697,775</b>		<b>4,724,364</b>	
Other investments	362,077	7.1	336,322	6.4
Other net assets	77,236	1.5	152,720	2.9
<b>Total</b>	<b>5,137,088</b>	<b>100.0</b>	<b>5,213,406</b>	<b>100.0</b>

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 investments were more than 5% of an individual asset class:

<b>Asset class</b>	<b>Security</b>	<b>Market value 31 March 2015 £'000</b>	<b>% of asset class</b>	<b>Market value 31 March 2016 £'000</b>	<b>% of asset class</b>
Fixed interest securities	USA Bill 07/05/2015	23,577	8.3	0	0
Fixed interest securities	USA Bill 30/07/2015	21,150	7.5	0	0
Fixed interest securities	USA notes fixed 0.25%	18,104	6.4	0	0

## Notes to the Pension Fund Accounts

<b>Asset class</b>	<b>Security</b>	<b>Market value 31 March 2015 £'000</b>	<b>% of asset class</b>	<b>Market value 31 March 2016 £'000</b>	<b>% of asset class</b>
Fixed interest securities	USA Bill 28/04/2016	0	0	32,348	11.1
Alternative Investments	Private Equity y*	11,822	3.6	17,277	6.2
Property	Property x*	24,575	6.0	23,645	5.7

\*The individual valuations of property or private equity assets are not disclosed to protect the commercial sensitivity of this information.

### 14d) Stock lending

The Fund's Statement of Investment Principles sets the parameters for the Fund's stock lending programme. At the year-end, the value of quoted stock on loan was £89.9m (£152.2m 2014/15). These stocks continue to be recognised in the Fund's financial statements.

Counterparty risk is managed through holding collateral at the Fund's custodian bank, JP Morgan. As at 31 March 2016, the custodian bank held collateral at fair value of £97m (£170m 2015/16). Collateral consists of acceptable securities and government debt.

Stock lending commissions are remitted to the Fund via the Custodian. During the period the stock is on loan the voting rights of the loaned stock pass to the borrower.

There are no liabilities associated with the loaned assets.

**14e) Property holdings**

The Fund's investment property portfolio comprises investments in pooled property funds and a number of directly owned properties which are leased commercially to various tenants. Details of these directly owned properties are as follows.

	<b>Year ending 31 March 2015 £'000</b>	<b>Year ending 31 March 2016 £'000</b>
Opening balance	302,845	354,075
Additions	30,905	12,502
Disposals	-1,849	-4,893
Net change in market value	22,174	13,596
<b>Closing balance</b>	<b>354,075</b>	<b>375,280</b>

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 expenses.

The future minimum lease payments receivable by the Fund are as follows.

	<b>Year ending 31 March 2015 £'000</b>	<b>Year ending 31 March 2016 £'000</b>
Within one year	20,782	21,094
Between one and five years	69,502	67,198
Later than five years	70,473	61,350
<b>Total</b>	<b>160,757</b>	<b>149,642</b>

**15. Analysis of derivatives****Objectives and policies for holding derivatives**

The Fund's investments in derivatives are to hedge liabilities or hedge 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.

**Futures**

Outstanding exchange traded futures contracts are as follows:

Type	Expires	Economic exposure	Market value 31 March 2015	Economic exposure	Market value 31 March 2016
		£'000	£'000	£'000	£'000
<b>Assets</b>					
UK Fixed Income Futures	Less than one year	1,552	18	0	0
Overseas fixed income futures	Less than one year	59,401	275	55,252	393
<b>Total assets</b>			<b>293</b>		<b>393</b>
<b>Liabilities</b>					
UK Fixed Income Futures	Less than one year	0	0	1,580	-4
Overseas fixed income futures	Less than one year	-53,347	-563	-87,498	-301
<b>Total liabilities</b>			<b>-563</b>		<b>-305</b>
<b>Net futures</b>			<b>-270</b>		<b>88</b>

**Open forward currency contracts**

At 31 March 2016, the Fund had open forward currency contracts in place with a net unrealised loss of £5.357 million.

Settlements	Currency bought	Local value '000	Currency sold*	Local value '000	Asset value £'000	Liability value £'000
Up to 1 month	GBP	240	JPY	-38,976		-1
Up to 1 month	USD	10,755	KRW	-	4	-492
				13,072,549		
Up to 1 month	USD	9,092	BRL	-35,747	16	-702
Up to 1 month	BRL	35,747	USD	-9,712	262	-7
Up to 1 month	KRW	13,072,549	USD	-11,261	172	-35
1 to 6 months	GBP	9,132	AUD	-18,718		-867
1 to 6 months	GBP	4,230	CAD	-8,484		-333
1 to 6 months	GBP	5,213	CNY	-51,025		-273
1 to 6 months	GBP	64,497	EUR	-83,057		-1,424
1 to 6 months	GBP	21,658	JPY	-3,607,397	8	-704
1 to 6 months	GBP	4,490	MXN	-122,964		-483
1 to 6 months	GBP	10,151	PLN	-57,537		-597
1 to 6 months	GBP	141,873	USD	-204,559	53	-485
1 to 6 months	AUD	3,797	GBP	-1,847	181	
1 to 6 months	AUD	7,730	USD	-5,690	171	
1 to 6 months	EUR	9,100	GBP	-7,158	64	
1 to 6 months	USD	30,240	GBP	-21,333	56	-303
1 to 6 months	USD	3,560	JPY	-404,594	13	-44
1 to 6 months	USD	7,680	KRW	-8,760,029	0	-2
1 to 6 months	USD	7,535	BRL	-27,542		-17
1 to 6 months	CAD	3,020	USD	-2,242	64	
1 to 6 months	PLN	13,344	EUR	-3,086	97	-54
1 to 6 months	NOK	108,716	USD	-12,711	375	-75
1 to 6 months	BRL	8,205	USD	-2,244	5	
<b>Open forward currency contracts at 31 March 2016</b>					<b>1,541</b>	<b>-6,898</b>

**Net forward currency contracts at 31 March 2016****-5,357****Prior year comparative**

Open forward currency contracts at 31 March 2015	2,585	-4,616
Net forward currency contracts at 31 March 2015		-2,031

\* List of currencies

AUD = Australian Dollar	BRL = Brazilian Real	CAD = Canadian Dollar
CNY = Chinese Yuan	EUR = Euro	GBP = British Pound
JPY = Japanese Yen	KRW = South Korean Won	MXN = Mexican Peso
NOK = Norwegian Krone	PLN = Polish Zloty	USD = United States Dollar

**Purchased/written options**

<b>Investment underlying option contract</b>	<b>Expires</b>	<b>Put/call</b>	<b>Notional holding</b>	<b>Market value</b>	<b>Notional holding</b>	<b>Market value</b>
				<b>31 March 2015</b>		<b>31 March 2016</b>
			<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Assets</b>						
Overseas fixed interest purchased	One to three months	Put	6	5	0	0
Overseas cash purchased	Less than one month	Call	0	0	50	0
Overseas cash purchased	One to three months	Put	68	0	0	0
Overseas cash purchased	One to three months	Call	0	0	91	37
<b>Total assets</b>				<b>5</b>		<b>37</b>
<b>Liabilities</b>						
Overseas fixed interest written	One to three months	Put	-36	-21	0	0
Overseas fixed interest written	One to three months	Call	-90	-100	-24	-34
Overseas cash written	One to three months	Call	-102	-399	0	0
<b>Total liabilities</b>				<b>-520</b>		<b>-34</b>
<b>Net purchased/written options</b>				<b>-515</b>		<b>3</b>

**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 2015			31 March 2016		
Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost	Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost
£000	£000	£000	£000	£000	£000
<b>Financial assets</b>					
237,162			246,436		
1,922,482			1,909,250		
2,030,638			2,039,243		
53,568			36,480		
350,519			298,727		
354,075			375,280		
2,884			1,971		
	151,635			279,135	
	11,981			14,819	
<b>4,951,328</b>	<b>163,616</b>	<b>0</b>	<b>4,907,387</b>	<b>293,954</b>	<b>0</b>
<b>Financial Liabilities</b>					
-5,706			-7,246		
		-3,616			-4,912
<b>-5,706</b>	<b>0</b>	<b>-3,616</b>	<b>-7,246</b>	<b>0</b>	<b>-4,912</b>
<b>4,945,622</b>	<b>163,616</b>	<b>-3,616</b>	<b>4,900,141</b>	<b>293,954</b>	<b>-4,912</b>

**16b) Net gains and losses on financial instruments**

<b>31 March 2015</b>		<b>31 March 2016</b>
<b>£'000</b>		<b>£'000</b>
	<b>Financial assets</b>	
595,745	Fair value through profit and loss	-12,415
	<b>Financial liabilities</b>	
-10,741	Fair value through profit and loss	-12,997
<hr/>		
<b>585,004</b>	<b>Total</b>	<b>-25,412</b>
<hr/>		

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

**16c) Valuation of financial instruments carried at fair value**

The valuation of financial instruments has 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.

## Notes to the Pension Fund Accounts

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 values of the investment in private equity are based on valuations provided by the general partners to the private equity funds in which Hampshire Pension Fund has invested.

These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS and US GAAP. Valuations are usually undertaken annually at the end of December. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

The values of investments in hedge funds are based on the net asset value provided by the fund manager. Assurances over the valuation are gained from the independent audit of the value.

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.

	<b>Quoted market price</b>	<b>Using observable inputs</b>	<b>With significant unobservable inputs</b>	
<b>Values at 31 March 2016</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Financial assets</b>				
Financial assets at fair value through profit and loss	4,202,468	425,147	279,772	4,907,387
Loans and receivables	293,954			293,954
<b>Total financial assets</b>	<b>4,496,422</b>	<b>425,147</b>	<b>279,772</b>	<b>5,201,341</b>
<b>Financial liabilities</b>				
Financial liabilities at fair value through profit and loss		-7,246		-7,246
Financial liabilities at amortised cost	-4,912			-4,912
<b>Total financial liabilities</b>	<b>-4,912</b>	<b>-7,246</b>	<b>0</b>	<b>-12,158</b>
<b>Net financial assets</b>	<b>4,491,510</b>	<b>417,901</b>	<b>279,772</b>	<b>5,189,183</b>

## Notes to the Pension Fund Accounts

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2015	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
<b>Financial assets</b>				
Financial assets at fair value through profit and loss	4,184,137	416,672	350,519	4,951,328
Loans and receivables	163,616	0	0	163,616
<b>Total financial assets</b>	<b>4,347,753</b>	<b>416,672</b>	<b>350,519</b>	<b>5,114,944</b>
<b>Financial liabilities</b>				
Financial liabilities at fair value through profit and loss	0	-5,706	0	-5,706
Financial liabilities at amortised cost	-3,616	0	0	-3,616
<b>Total financial liabilities</b>	<b>-3,616</b>	<b>-5,706</b>	<b>0</b>	<b>-9,322</b>
<b>Net financial assets</b>	<b>4,344,137</b>	<b>410,966</b>	<b>350,519</b>	<b>5,105,622</b>

### 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 and Board. 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 are 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 2015/16 reporting period:

<b>Asset type</b>	<b>Potential market movements (+/-)</b>
UK equities	10.58%
Overseas equities	9.70%
UK index-linked gilts	8.36%
UK fixed interest bonds	6.32%
Overseas index-linked gilts	5.72%
Overseas fixed interest bonds	3.01%
Property	2.39%
Alternative investments	3.65%
Cash	0.01%

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 (the prior year comparator is shown below):

Notes to the Pension Fund Accounts

<b>Asset type</b>	<b>Value at 31 March 2016 £'000</b>	<b>Potential market movement £'000</b>	<b>Value on increase £'000</b>	<b>Value on decrease £'000</b>
UK Equities	1,084,786	114,770	1,199,556	970,016
Global Equities	1,679,432	162,905	1,842,337	1,516,527
UK index-linked gilts	1,170,187	97,828	1,268,015	1,072,359
UK fixed interest bonds	12,915	816	13,731	12,099
Overseas index-linked gilts	14,964	856	15,820	14,108
Overseas fixed interest bonds	227,369	6,844	234,213	220,525
Property	411,760	9,841	421,601	401,919
Alternatives	298,727	10,904	309,631	287,823
Cash	36,452	4	36,456	36,448
<b>Total assets</b>	<b>4,936,592</b>	<b>404,768</b>	<b>5,341,360</b>	<b>4,531,824</b>

<b>Asset type</b>	<b>Value at 31 March 2015 £'000</b>	<b>Potential market movement £'000</b>	<b>Value on increase £'000</b>	<b>Value on decrease £'000</b>
UK Equities	1,096,021	115,959	1,211,980	980,062
Global Equities	1,699,056	164,808	1,863,864	1,534,248
UK index-linked gilts	1,147,686	95,947	1,243,633	1,051,739
UK fixed interest bonds	14,447	913	15,360	13,534
Overseas index-linked gilts	7,516	430	7,946	7,086
Overseas fixed interest bonds	222,734	6,704	229,438	216,030
Property	407,643	9,743	417,386	397,900
Alternatives	350,519	12,794	363,313	337,725
Cash	49,765	5	49,770	49,760
<b>Total assets</b>	<b>4,995,387</b>	<b>407,303</b>	<b>5,402,690</b>	<b>4,588,084</b>

### **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 of 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 31 March 2016 and 31 March 2015 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

### **Interest rate risk sensitivity analysis**

The Pension Fund recognises that interest rates can vary and can affect both income to the Fund and the carrying value of Fund assets, both of which affect 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. The Pension Fund's fixed interest investment manager has applied their market experience to the Fund's portfolio of investments to calculate the effect of a change in interest rates. The figures below for Fixed Interest Securities do not include the Fund's pooled investment in Index Linked Gilts. This better reflects the Fund's approach to the management of investment risk and how this analysis is applied to the Fund's different investments.

Notes to the Pension Fund Accounts

<b>Assets exposed to interest rate risk</b>	<b>Value as at 31 March 2016</b>	<b>Potential movement on 1% change in interest rates</b>	<b>Value on increase</b>	<b>Value on decrease</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Cash & cash equivalents	242,684	0	242,684	242,684
Cash deposits	36,451	0	36,451	36,451
Fixed interest securities	246,436	19,206	227,230	265,642
<b>Total</b>	<b>525,571</b>	<b>19,206</b>	<b>506,365</b>	<b>544,777</b>

<b>Assets exposed to interest rate risk</b>	<b>Value as at 31 March 2015</b>	<b>Potential movement on 1% change in interest rates</b>	<b>Value on increase</b>	<b>Value on decrease</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Cash & cash equivalents	101,870	0	101,870	101,870
Cash deposits	49,765	0	49,765	49,765
Fixed interest securities	237,162	17,700	219,462	254,862
<b>Total</b>	<b>388,797</b>	<b>17,700</b>	<b>371,097</b>	<b>406,497</b>

<b>Income exposed to interest rate risk</b>	<b>Amount receivable as at 31 March 2016</b>	<b>Potential movement on 1% change in interest rates</b>	<b>Value on increase</b>	<b>Value on decrease</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Cash deposits / cash & cash equivalents	660	2,158	2,818	-1,498
Fixed interest securities	7,343	0	7,343	7,343
<b>Total</b>	<b>8,003</b>	<b>2,158</b>	<b>10,161</b>	<b>5,845</b>

## Notes to the Pension Fund Accounts

<b>Income exposed to interest rate risk</b>	<b>Amount receivable as at 31 March 2015</b>	<b>Potential movement on 1% change in interest rates</b>	<b>Value on increase</b>	<b>Value on decrease</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Cash deposits / cash & cash equivalents	639	1,664	2,303	-1,025
Fixed interest securities	6,722	0	6,722	6,722
<b>Total</b>	<b>7,361</b>	<b>1,664</b>	<b>9,025</b>	<b>5,697</b>

This analysis demonstrates that a 1% increase in interest rates will not affect the interest received on fixed assets but will reduce their fair value, and vice versa. Changes in interest rates do not impact on the value of cash/cash equivalent balances but they will affect the interest income received on those balances. Changes to both the fair value of assets and the income received from investments impact the net assets available to pay benefits.

### 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.

### Currency risk – sensitivity analysis

In consultation with WM Company plc, the Pension Fund considers the likely volatility associated with foreign exchange rate movements to be 6.47%.

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

A 6.47% 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:

<b>Currency exposure – Overseas asset type</b>	<b>Asset value at 31 March 2016 £'000</b>	<b>Potential market movement £'000</b>	<b>Value on increase £'000</b>	<b>Value on decrease £'000</b>
Quoted securities	1,124,062	72,727	1,196,789	1,051,335
Unit trusts	569,457	36,844	606,301	532,613
Alternative investments	298,727	19,328	318,055	279,399
Poled property investments	8,998	582	9,580	8,416
Public sector bonds	157,212	10,172	167,384	147,040
Corporate bonds	71,033	4,596	75,629	66,437
<b>Total</b>	<b>2,229,489</b>	<b>144,249</b>	<b>2,373,738</b>	<b>2,085,240</b>

<b>Currency exposure – Overseas asset type</b>	<b>Asset value at 31 March 2015 £'000</b>	<b>Potential market movement £'000</b>	<b>Value on increase £'000</b>	<b>Value on decrease £'000</b>
Quoted securities	1,139,736	73,741	1,213,477	1,065,995
Unit trusts	569,677	36,858	606,535	532,819
Alternative investments	350,519	22,679	373,198	327,840
Poled property investments	27,765	1,796	29,561	25,969
Public sector bonds	165,896	10,733	176,629	155,163
Corporate bonds	53,998	3,494	57,492	50,504
<b>Total assets</b>	<b>2,307,591</b>	<b>149,301</b>	<b>2,456,892</b>	<b>2,158,290</b>

### 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

## Notes to the Pension Fund Accounts

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 ratings 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 over the past 5 years. The Fund's cash holding under its treasury management arrangements at 31 March 2016 was £131.05 million (31 March 2015: £50.57 million). This was held with the following institutions:

## Notes to the Pension Fund Accounts

	<b>Rating as at 31 March 2016</b>	<b>Balances as at 31 March 2015 £'000</b>	<b>Balances as at 31 March 2016 £'000</b>
<b>Money market funds</b>			
Aberdeen	AAA	4,000	12,420
Blackrock	AAA	0	11,630
Deutsche	AAA	4,000	10,110
Federated Investors UK	AAA	3,870	11,140
Goldman Sachs	AAA	4,000	0
Insight	AAA	4,000	10,930
Standard Life (formerly Ignis)	AAA	4,390	8,810
<b>Bank deposits</b>			
Barclays	A-	4,880	10,560
Close Brothers	A	5,000	4,000
Credit Suisse	A	0	5,000
HSBC	AA-	3,810	0
Lloyds	A	3,810	6,400
Nationwide Building Society	A	0	5,000
Nordea Bank AB	AA-	0	5,000
Overseas Chinese Banking Corp	AA-	0	5,000
Santander UK	A	3,810	9,910
Svenska Handelsbanken	AA-	5,000	12,140
<b>Treasury bills</b>			
UK Government	AA+	0	3,000
<b>Total</b>		<b>50,570</b>	<b>131,050</b>

### 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.

The Pension Fund has immediate access to its cash holdings, with the exception of Close Brothers, where notice needs to be given to withdraw funds.

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert in to cash. As at 31 March 2016 the values of illiquid assets was £686m, which represented 13.2% of the total fund assets (2014/15 £735m, which represented 14.3% of the total fund assets).

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

All financial liabilities at 31 March 2016 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 Local Government Pension Scheme Regulations 2013, 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.

## Notes to the Pension Fund Accounts

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.

### Financial assumptions

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

#### Financial assumptions - 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

## Notes to the Pension Fund Accounts

Rate of deferred pension increases 2.40% a year

Valuation of assets market value

Demographic assumptions:

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.

50:50 option:

An allowance consistent with that used by the Government Actuary's Department on the costing of the 2014 LGPS based on an assumption of 10% of members earning less than £21,000 electing to join the 50:50 scheme.

### **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. This valuation is not carried out on the same basis as that used for setting fund contribution rates and the fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

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.

As noted above 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.

## Notes to the Pension Fund Accounts

Assumptions used - 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 2015	31 March 2016
	£'000	£'000
Debtors:		
- Contributions due - employees	2,608	4,867
- Contributions due - employers	23,143	14,699
- Transfer values receivable (joiners)	4,113	4,153
- Tax	3,158	5,458
- Sundry debtors	11,981	14,819
	<b>45,003</b>	<b>43,996</b>
Cash balances	101,870	242,684
<b>Total</b>	<b>146,873</b>	<b>286,680</b>

### Analysis of debtors

	31 March 2015	31 March 2016
	£'000	£'000
Central government bodies	1,824	3,608
Other local authorities	26,303	18,708
NHS bodies	0	3
Public corporations and trading funds	3,912	0
Other entities and individuals	12,964	21,677
<b>Total</b>	<b>45,003</b>	<b>43,996</b>

**21. Current liabilities**

	<b>31 March 2015</b>	<b>31 March 2016</b>
	<b>£'000</b>	<b>£'000</b>
Sundry creditors	3,616	4,912
Transfer values payable (leavers)	10,069	11,530
Benefits payable	300	641
Tax	315	390
<b>Total</b>	<b>14,300</b>	<b>17,473</b>

**Analysis of creditors**

	<b>31 March 2015</b>	<b>31 March 2016</b>
	<b>£'000</b>	<b>£'000</b>
Central government bodies	316	1,693
Other local authorities	10,122	10,661
NHS bodies	1	0
Other entities and individuals	3,861	5,119
<b>Total</b>	<b>14,300</b>	<b>17,473</b>

**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 £9,128 million, of this the following year's instalment (£1.521 million) is classified as a debt repayable in one year, and the remaining balance £7,607 million is a long term debtor.

## Notes to the Pension Fund Accounts

	<b>31 March 2015</b>	<b>31 March 2016</b>
	<b>£'000</b>	<b>£'000</b>
Magistrates Courts - agreed liability settlement due from central government body	9,128	7,607
<b>Total</b>	<b>9,128</b>	<b>7,607</b>

### 23. Additional voluntary contributions

	<b>Market value</b>	<b>Market value</b>
	<b>31 March 2015</b>	<b>31 March 2016</b>
	<b>£'000</b>	<b>£'000</b>
Prudential	4,627	6,468
Zurich	8,575	7,844
Equitable Life	1,337	1,217
<b>Total</b>	<b>14,539</b>	<b>15,529</b>

During the year, AVC contributions of £2.599 million were paid directly to Prudential (2014/15: £2.325 million), £1.074million to Zurich (2014/15: £1.122 million), and £0.007 million to Equitable Life (2014/15: £0.013 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.

During the reporting period, the County Council incurred costs of £2.219 million (2014/15: £2.743 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 £95.422 million to the Fund in 2015/16 (2014/15 £90.005 million).

Key management personnel - The role of Treasurer to the Pension Fund is provided by the Director of Corporate Resources of Hampshire County Council. Paragraph 3.9.4.3 of the Code exempts local authorities from the key management personnel disclosure requirements of IAS24, on the basis that the disclosure requirements for officer remuneration and members allowances detailed in section 3.4 of the Code (which are derived from the requirements of Regulations 7(2)-(4) of The Accounts and Audit (England) Regulations 2011) satisfy the key management personnel disclosure requirements of paragraph 16 of IAS24. This applies in equal measure to

the accounts of the Hampshire Pension Fund.

The disclosure required by Regulation 7(2)-(4) of the Accounts and Audit (England) Regulations can be found in the main accounts of Hampshire County Council.

## **25. Contingent liabilities and contractual commitments**

Outstanding capital commitments (investments) at 31 March 2016 totalled £55.914 million (31 March 2015: £60.177 million). These commitments relate to outstanding call payments due on unquoted private equity limited partnership funds 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.

## **26. Contingent assets**

The Fund had no contingent assets on 31 March 2016.

## **27. Impairment losses**

During 2015/16, the Fund has recognised an impairment loss for bad and doubtful debt of £0.062 million (2014/15: £0.015 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 2016.

## **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 ensure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Chief Financial Officer
- Manage its affairs 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**

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.

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

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 2016 and its income and expenditure for the year ended 31 March 2016.

Carolyn Williamson  
Chief Financial Officer and Section 151 Officer  
29 September 2016

### **4. The Chairman's Statement**

I certify that the Statement of Accounts for 2015/16 were considered and approved by the Audit Committee on 29 September 2016.

Councillor Keith Evans  
Chairman of Audit Committee  
29 September 2016



**ANNUAL GOVERNANCE STATEMENT  
2015/2016**

**FOR**

**HAMPSHIRE COUNTY COUNCIL**

**AND**

**HAMPSHIRE PENSION FUND**

## **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. This Statement explains how the County Council has complied with the Code and meets with the requirements of the Accounts and Audit (England) Regulations 2015 in relation to the publication of an Annual Governance Statement during 2015-2016

### **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 on going 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 2016 and up to the date of approval of the annual report and the statement of accounts.

The County Council has approved and adopted a 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 at:

[Code of Corporate Governance](#)

### **3. Establishing principal statutory obligations and organisational objectives**

#### **3.1 Mechanisms established to identify principal statutory obligations**

The County Council's Constitution and the Code of Corporate Governance sets out the processes by which the County Council's policies are made and decisions taken.

The Audit Committee receives regular reports from both external and internal audit.

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

The County Council operates a system of Finance and HR Business Partners who work closely with the relevant Chief Officer and report through to the Head of Finance and Head of HR & Workforce Development respectively. The Director of Corporate Resources, Heads of Profession, Finance and HR Business Partners work together to ensure that both corporate and departmental financial and HR perspectives are taken into account in all papers for decision, and attend meetings to advise further as appropriate.

#### **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.

The *Shaping Hampshire* Plan provides an operating model for business planning and a framework for reporting organisational progress to Cabinet bringing together key priorities for the Council into a coherent shared strategy.

In addition to the *Transformation to 2015* and *Transformation to 2017* workstreams, it also integrates departmental priorities, the Health and Wellbeing Strategy; Children and Young People's Plan; Workforce Development Strategy; and other key policy areas.

The Performance Management Framework complements the strategic narrative and business planning approach. The Framework was updated in 2013/14 following the approval of the *Shaping Hampshire* Plan.

Work is underway to refresh and revise the Council's Corporate Strategy, which runs until 2017.

Legislative change has been monitored and implemented where appropriate. The Council has tracked and responded to these national changes as they emerged, and proactively prepared for implementation.

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.

### **3.3 Effective Corporate Governance arrangements are embedded within the County Council**

The County Council's Code of Corporate Governance 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.

During 2015-16, Internal Audit were required to comply with the Public Sector Internal Audit Standards. Assurance that these Standards are met is provided through quality assessment and ISO quality accreditation. In accordance with the Standards an external assessment (required every five years) was commissioned for September 2015

The external assessment was undertaken by the Institute of Internal Auditors (IIA) who concluded that 'the Southern Internal Audit Partnership conforms to all principles within the Standards and work is performed in accordance with the International Professional Practice Framework (IPPF)'.

The Audit Committee approved the Internal Audit Charter and Plan for 2015-16 (June 2015). 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 will be submitting an Annual Audit Report and Opinion (2015-16) to the June 2016 Audit Committee on the effectiveness of the control framework

### **3.4 Performance management arrangements are in place**

As outlined above, the Council's Performance Management Framework (PMF) provides a robust and coherent way to manage and improve services across the organisation. It is based on a cycle of continuous improvement.

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 'people' performance management through a new 'Valuing Performance' (VP) framework that was introduced in January 2015. The framework ensures that staff efforts are directed to the priority areas of the Council and enables assessment of their performance against goals that have been set, and how objectives have been achieved assessed against a behaviour framework. One of the key aims being to continually focus on the need for consistent high performance.

Performance management arrangements are enhanced by a thorough and fully embedded system of budget forecasting and monitoring which is both supported and challenged by the Finance Department.

Performance information is published online and easily accessible for staff, partners and the public. The way performance information is presented online was improved through the use of infographics in 2014/15. Performance information is sited alongside transparency and financial data which is compliant with Government guidance.

The budget for 2015/16 was set in February 2015 and incorporated the savings proposals that had already been approved one year before. This forward planning provided the time and capacity for the County Council to fully implement the savings prior to the start of the financial year and to carry out public consultations where necessary on the detailed proposals.

Enhanced 'Financial Resilience' reporting to the Corporate Management Team was implemented during 2015/16, recognising the greater risks inherent within the budget following cumulative reduction in spend of over £240m since 2011

Programme Management and reporting arrangements are also a key feature of the Transformation to 2017 Programme underpinned by DMT level leads for taking the programme forward, supported by our private sector partners.

The Annual Audit Letter – Year Ending 31 March 2015 was considered by the Audit Committee (3 December 2015) concluding:

Financial Statement Audit – We issued an unqualified audit report on 25 September 2015

Value for Money – We issued an unqualified Value for Money conclusion on 25 September 2015

Annual Governance Statement – the Statement met with the CIPFA / SOLACE requirements and was consistent with other information from our audit of the financial statements.

#### **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 organisation. 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. As described above, the Council also builds an understanding of resident opinion through regular consultation activity.

Partnerships are underpinned by a common vision, which is understood and agreed by all partners. Clear governance structures are also in place.

A key element of ensuring strong service delivery and outcomes for the community has been to ensure that we continue to develop a high performance culture across the Council. Referenced earlier in the report is our new approach to people performance management (VP). A key part of this is to ensure that development opportunities are available and tailored to meet the needs of the organisation and its people. During 2015, there has been a strong emphasis on increasing performance, this has included specialised interventions dependant upon role or profession together with a ‘Leadership Offer’ that is aligned to business needs.

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.

Through the Council's Digital Project, a programme of change is being undertaken to enable the council to deliver services in ways which meet the needs and expectations of future citizens. As part of this work, a new Customer Operating Model has been developed and a revised governance structure is being put in place to oversee the implementation, management and continuous improvement of the delivery of customer services / channels.

The Council considers that the achievement of value for money in the delivery of its services is fundamental.

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

The Constitution and the Code of Corporate Governance set out the respective roles of Members and Senior Officers.

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

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.

#### **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 are set out in the Code of Corporate Governance

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

The County Council's Constitution and Corporate Governance Framework ensures that appropriate legal and financial advice is given and also that decisions made are open and transparent. The County Council's Constitution requires that openness in individual Executive Members decision making goes beyond the minimum statutory requirements by ensuring that, subject to confidential items, all such decisions are made in public.

Advice is available to Members from the Head of Law and Governance and Head of Legal Services 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.

Hampshire County Council has a well-developed and respected scrutiny function, which is resourced effectively to ensure that Members are able to robustly challenge decision-making, play an active role in policy review and development, and monitor the performance of the Authority as a whole. This structure is formalised through the Council's Constitution.

The role of the Head of Law and 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 Transformation 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.

#### **4.5 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 capacity and capability of Members and officers is directly aligned to the shaping Hampshire Plan 2013-17. This is driven through the compilation of

People Priority Plans by HR in conjunction with Departmental Management Teams which are updated on a regular basis and shaped by emerging health and wellbeing together with workforce development themes.

The County Council has in place a Member Development Group (MDG) which is a cross-party forum that supports and oversees the development of Members by a variety of means, i.e. internal and external training courses, induction programme for new Members, an established and well received monthly Member Briefing Programme and ad hoc departmental briefings. The MDG is supported by the Head of Democratic & Member Services and the Commissioner for People in the Shared Services Workforce Development Team.

A Corporate Governance e-learning module was developed and launched in July 2010 (and reviewed February 2016). 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.

#### **4.6 Engaging with local people and other stakeholders to ensure robust public accountability**

In February 2015, Cabinet approved the Council's Consultation Policy, including five key principles for undertaking consultations, which forms part of the County Council's Corporate Governance Framework

The County Council undertakes a programme of consultation with residents, business and other key organisations on a wide range of issues.

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 performance updates and annual performance report
- *Transformation to 2015* update reports
- *Transformation to 2017* update reports
- Financial statements and accounts
- Select Committee reports
- Audit reports
- The publication of transparency and other open data.

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**

There is a comprehensive risk management framework in place with effective processes for managing risk. The Risk Management Board, chaired by the Director of Transformation and Governance, reviews arrangements for managing risk in accordance with the Council’s Risk Management Strategy.

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 scoring matrix within the performance model shows the County Councils risk management arrangements within the “embedded and integrated” range.

The County Council largely self-insures against risk, subject to the availability of catastrophic insurance. The system of self insurance is subject to internal audit, review by external insurers and oversight by the Risk Management Board.

Performance risks are identified and mitigated in line with the established corporate risk 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.

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.

Each department reports directly to their Executive Member as appropriate on matters of budgetary approval.

The County Council's current Corporate Procurement Strategy (CPS) (formally approved by Cabinet) is complimented by a comprehensive Best Practice Guide

The Corporate Procurement Network includes representation from the Council's Legal Services Team, which provides appropriate advice and support across departmental procurement teams and contributes to the content of the Best Practice Guide.

Internal Audit continues to maintain its focus on procurement within the County Council.

The County Council supports 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 in place as part of a wider programme of joint working.

Business continuity arrangements are in place for all critical services against guideline criteria described in the Civil Contingencies Act 2004.

The Corporate Risk Register is reviewed and reassessed on a regular basis by the Risk Management Board. Departmental risks are subject to an annual reassessment. In addition, risk is reported through the Corporate Performance Framework.

A professional lead for Health and Safety is in place, along with a suite of policies and guidance covering all aspects of Health and Safety, which are available to all staff.

Information risk and governance arrangements are in place to ensure the appropriate balance between openness and confidentiality in the management and use of information. The County Council has a nominated Senior Information Risk Officer (SIRO), with a framework for information governance in place, reporting to the Risk Management Board. The County Councils IT service holds ISO27001 compliance for its information security management system.

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.

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 approved by the Audit Committee, requires 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.

During 2014 the DCLG made available £16m to assist Councils in developing innovative and holistic initiatives to tackle the fight against fraud. A successful bid from the Southern Internal Audit Partnership has resulted in funding being awarded to support initiatives in respect of fraud detection and prevention.

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 Law and 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.

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 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 approved by the Audit Committee in June 2015 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 2016.

**9 Action plan to address weaknesses and ensure continuous improvement of the system of corporate governance**

- The Council's Corporate Strategy *Shaping Hampshire* covers the period 2013-2017. Work has commenced to review and refresh the Corporate Strategy for the next four years with a view to agreeing the revised Strategy ahead of April 2017.
- A new customer channels and engagement governance structure will be established by April 2017. This will include a Customer Board to provide strategic oversight and governance to the implementation and operational management of the Customer Operating Model
- The Corporate Performance Framework will be updated to report against the new Corporate Strategy and refreshed to take account of the new Customer Operating Model and wider implementation of the Digital Project. As part of this work, the departmental self-assessment process will be reviewed.
- The County Council will need to maintain a strong focus on delivery of Transformation to 2017 Programme savings at the same time as developing plans for Transformation to 2019 which seek to remove a further £140m from the budget.
- Continuing the relentless focus on the governance and control framework for shared transactional services to minimise the potential risk of errors.
- As part of the Council's new Procurement & Commercial operating model, the governance arrangements in relation to external spend across the commercial lifecycle will be reviewed. .

**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 2014-2015 Annual Governance Statement;-

- In line with a commitment in the Code of Corporate Governance, Cabinet has agreed a new Consultation Policy. The Policy and

Resources Select Committee will scrutinise implementation of the policy in 2016.

- A new Customer Operating Model has been designed as part of the Council's Digital Project to position the council to: strategically drive how services are delivered, better understand the cost of those services and the customers who are consuming them, and to shift channels, processes and capabilities to meet future demand. As part of this, the need for a new governance structure for customer contact has been identified.
- Specific action plans targeting key staff and suppliers were put in place during 2015/16 for Hampshire Fire and Rescue Service, Hampshire Constabulary and latterly the County Council reflecting the relative size and complexity of each of the organisations. Enhancements to the system following the on-boarding of Oxfordshire County Council ('OCC') have also improved performance in this area.
- The Joint Working Board was formally dis-banded and the Operational Forum began to meet during 2015/16 chaired by the Section 151 Officer at OCC, who then reports through to the Strategic Direction Board consisting of the three Chiefs from the strategic partners.
- A review of Financial Regulations and Contract Standing Orders was concluded and approved by County Council in July last year.
- Transformation to 2015 continued to be reported as an inherent part of the 'Financial Resilience' monitoring to Corporate Management Team that was implemented during the year and sought to ensure that all key risks in the budget were being effectively managed. A strong programme management approach continued to be applied to the Transformation to 2017 Programme together with regular reporting to Cabinet on progress, resourcing and key issues.
- A full public consultation exercise on the Transformation to 2017 Programme savings proposals was carried out in summer 2015 and the results were used to inform final decisions on savings proposals taken by Cabinet and County Council in October 2015.
- A new Information Governance Strategy and Action Plan has been approved by the Risk Management Board.
- The Risk Management Strategy was reviewed and a new Strategy approved by the Risk Management Board.
- Further open data has been published in accordance with the Code of Recommended Practice for Local Authorities on Data Transparency.
- A number of high risk issues were identified within the transactional area of the Shared Services Partnership during 2015/16 following errors in some ad hoc payroll processes (mainly constabulary). A formal Governance and Control framework has therefore been

introduced within the Corporate Resources Department to address these specific issues and to improve staff members wider understanding of good decision making and control in the context of transactional services. This also extends to those staff who may be in the position of instructing transactional areas to carry out changes.

- The proposed work on assurance mapping has been delayed due to the risk registers requiring an update. This work is currently being undertaken by the Corporate Risk Manager. Time has therefore been scheduled during 2016/17 to undertake the assurance mapping piece of work.
- The County Council has a high performing cadre of leaders who have driven delivery of the County Council's strategy over recent years and continue to do so. However, the context of the Council is evolving and the leadership challenges faced by senior officers are changing. As a result, the County Council has developed a 'leadership offer' that places a focus on the areas that our leaders will need to excel in if they are to meet the complexity and scale of challenge facing them. The 'offer' provides a range of development opportunities which are core to the needs of the County Council and which can be tailored in order to maximise impact and learning. The 'offer' will be kept under review and refreshed as the context continues to change.
- Work has progressed throughout the year, particularly for HFRA and HC to look at those suppliers and Departmental users where there are the highest number of process errors. This has enabled the team to focus on the high volume areas where problems are occurring and to address them at source. A similar exercise is ongoing with HCC, but clearly the scale for the County Council is significant and a more structured approach has therefore been necessary.
- The Digital Strategy was further developed during the year with key milestones reached in terms of approvals, planning and procurement. Internal and external resources have been put in place ready for the Programme to commence in the new financial year.

**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.

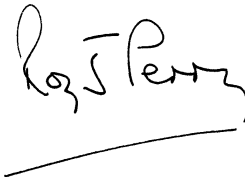
We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed:



Date: 2 August 2016  
Chief Executive

Signed:



Date: 2 August 2016  
Leader of the County Council

Auditor's Report on the Authority

**Independent Auditor's Report to the Members of Hampshire County Council**

Auditor's Report on the Pension Fund

**Independent Auditor's Report to the Members of Hampshire 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-to-day 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.

**SAPS**

Self administered pension scheme

**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.