

Appendix 1

Amendments to the draft Statement of Accounts for 2009/10

Accounting policies	Additional explanation in paragraph 3.3 relating to provisions
Statement of Total Recognised Gains and Losses (STRGL)	Explanation of 2008/09 restatement
Balance sheet	Adjustment to correct compensating overstatement of debtors and creditors relating to council tax
Cash Flow Statement	Revised analysis of 2009/10 borrowing repayable within one year
Note 4	Revised analysis of movement in provisions
Note 6	Inclusion of note relating to revised accounting treatment
Note 7c	Inclusion of estimate of 2010/11 employers pension contributions
Note 7h	Amended percentages for 2007/08 and 2008/09 changes in assumptions underlying the present value of pension liabilities
Note 14	Inclusion of note relating to revised accounting treatment
Note 16b	Change to sundry debtors at 31 March 2010 relating to council tax
Note 16i	Change to sundry creditors at 31 March 2010 relating to council tax
Note 21a	Inclusion of note relating to revised accounting treatment
Note 21b	Inclusion of note relating to revised accounting treatment
Note 22	Change to variation in debtors and variation in creditors relating to council tax
Note 27	Number of admission bodies updated to 191 from 194
Note 31	Explanation of 2008/09 restatement of income
Note 34	Additional note to disclose the expected impact of the move to Consumer Price Index

(Page numbers refer to item 10 of the 30 June 2010 Audit Committee)

Pension Fund Accounts

Fund Account	Inclusion of sub totals and adjustments to derivative contracts
Note 1	Number of admission bodies updated to 191 from 194 and percentage changes relating to the proportion of Fund's overall value
Note 2	Expansion on accounting standards that the accounts are prepared in accordance with, and additional note regarding derivative contracts
Note 7	Inclusion of 2008/09 comparatives
Note 8	Adjustment to Royal Dutch Shell plc equity holding by market value
Note 9	Inclusion of 31 March 2009 comparatives
Note 12	Inclusion of 31 March 2009 comparatives and sub totals and additional comments relating to unlisted investment holdings
Note 13	Derivatives adjustments
Note 14	Breakdown provided between public sector and other fixed-interest bonds, inclusion of subtotals and changes to cash movements allowing for currency hedging
Note 16	The term 'Capital' has been changed to 'Investment'
Note 17	Number of admission bodies updated to 191 from 194

Accounting policies

- The Minerals & Waste Development Framework (MWDF) reserve is made up of contributions from each of the partners (including Hampshire County Council, Portsmouth City Council, Southampton City Council and the New Forest National Park Authority). The contributions go towards the ongoing costs of operating the joint MWDF, and in particular it is earmarked to meet the cost of future public inquiries that do not fall evenly across financial years.
- The Community Transport Vehicle Replacement reserve is made up of annual contributions to meet the periodic cost of vehicle replacement.
- The Corporate Procurement reserve includes a contribution from the supplies business unit surplus to help pay the extra costs of the Corporate Procurement Efficiency programme.

3.3. Provisions are made where an event has taken place that gives the council an obligation that probably requires settlement by a transfer of economic benefits, but where the timing of the transfer is uncertain. For example, the County Council has made provision in respect of legal claims that could eventually result in the payment of compensation or other settlement. Provisions are charged to the Income and Expenditure Account in the year the event occurs. When payments are eventually made, they are charged to the provision in the Balance Sheet.

4. Fixed assets

- 4.1. All expenditure on the acquisition, creation or enhancement of a fixed asset that yields benefits for more than one year can be treated as capital expenditure in the accounts. Spending on IT assets and intangible assets (such as software licences) typically yields benefits for a period of less than five years. Such expenditure is capitalised only if it yields benefits of five years or more, which is not in accordance with recommended practice. This does not have a material effect on the accounts.
- 4.2. From 2009/10, in accordance with the SORP, where the Council has control over assets used in the provision of services through PFI and similar service concession contracts, such assets are accounted for as fixed assets in the same way as owned assets.
- 4.3. Fixed assets are valued on the basis recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA) and in accordance with the Statements of Asset Valuation Principles and Guidance Notes issued by the Royal Institution of Chartered Surveyors.

Statement of Total Recognised Gains and Losses (STRGL)

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

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

The published Total Recognised Gains and Losses in 2008/09 was £574,100. This has been restated to £563,017 as shown above and detailed in note 1 to the accounts. This reflects the change in accounting policy for service concessions requiring the recognition of assets and liabilities in the Council's accounts relating to the contract for waste management.

Balance Sheet

31 March 2009 restated £'000	See note 1		£'000	31 March 2010 £'000
	13	Tangible fixed assets		
		Operational assets		
2,911,642		Land and buildings	3,004,232	
56,986		Vehicles plant and equipment	56,905	
446,106		Infrastructure assets	468,180	
11,913		Community assets	13,379	
		Non-operational assets		
41,914		Assets under construction	32,936	
64,893		Surplus assets, held for disposal	63,726	
3,533,454		Total fixed assets	3,639,358	
40,788	16a	Long-term debtors	39,289	
3,574,242		Total long-term assets		3,678,647
		Current assets		
3,245	17	Stocks and work in progress	3,369	
61,772	16b	Debtors	78,918	
8,573		Payments in advance	10,244	
195,209	16c	Short-term investments	184,584	
5,591	18	Cash in hand	5,629	
274,390			282,744	
		Current liabilities		
-1,811	16h	Deposits	-3,319	
-146,252	16i	Creditors	-150,871	
-62,627	16j	Receipts in advance	-83,109	
-99,841	16e	Borrowing repayable within one year	-89,888	
-3,197	20	Finance lease repayable within one year	-3,454	
-17,124	19	Cash overdrawn	-15,400	
-330,852			-346,041	
-56,462		Net current liabilities		-63,297
3,517,780		Total assets less current liabilities		3,615,350
-336,996	16d	Long-term borrowing	-336,556	
-85,525	20	Deferred Liabilities	-82,071	
-165,950	10a	Deferred Contributions	-177,859	
-307,168	10b	Deferred Government Grants	-339,144	
-32,706	16g	Developers' Contributions	-33,197	
-5,215	4	Provisions	-5,188	
-933,560				-974,015
-727,570	7e	Net liability related to defined benefit pension schemes		-963,330
1,856,650		Total net assets		1,678,005
		Financed by:		
-1,952,848	21b	Capital Adjustment Account	1,882,356	
98	21	Financial Instruments Adjustment Account	88	
	9	Collection Fund Adjustment Account	-4,529	
-434,573	21a	Revaluation Reserve	-563,096	
-2,290		Capital Receipts Unapplied	-	
727,570	21	Pensions reserve	963,330	
-160,095	21c	Earmarked reserves	-154,512	
-34,512		General Fund	-36,930	
-1,856,650		Total net worth		-1,678,005

Cash Flow Statement

	2008/09 £'000	2009/10 £'000
Revenue Activities		
Cash outflows		
Cash paid to and on behalf of employees	981,955	1,030,594
Other operating costs	647,646	669,369
	1,629,601	1,699,963
Cash inflows		
Rents	-4,658	-4,757
Council tax income	-500,029	-512,212
National business rates	-125,220	-117,643
Revenue Support Grant	-17,432	-27,154
Charges for goods and services	-84,885	-87,796
Specific and Area Based Government grants	-864,346	-903,417
Other income	-135,226	-130,805
	-1,731,796	1,783,784
Net cash inflow from revenue activities (see note 22)	-102,195	-83,821
Returns on investments and servicing of finance		
Cash outflows - Interest paid	28,509	26,591
Cash inflows - Interest received	-14,531	-9,210
Net cash outflow from servicing of finance activities	13,978	17,381
Capital Activities		
Cash outflows		
Fixed assets	161,078	154,046
Cash inflows		
Sale of fixed assets	-2,355	-12,155
Capital grants (see note 23)	-67,670	-67,984
Other income	-13,155	-15,726
	-83,180	-95,865
Net cash outflow from capital activities	77,898	58,181
Net cash inflow (-)/outflow before financing (see notes 24 and 25)	-10,319	-8,259
Financing		
Borrowing repayable over periods of one year or more:		
Repayments	28,295	12,454
New loans	-16,277	-8,560
Borrowing repayable within one year:		
Repayments	546,830	556,424
New loans	-580,721	-543,196
Net cash inflow (-)/outflow	-32,192	8,863

4 Change in provisions

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

	31 March 2009	Change in 2009/10		31 March 2010
		Central Provision	Service Provision	
	£'000	£'000	£'000	£'000
Insurance claims	-4,925	3,575	-3,492	-4,842
Contract terminations	-262	-	-55	-317
Other	-28	-	-1	-29
Provisions identified in the Balance Sheet	-5,215			-5,188
Provision for doubtful debts (included with debtors in the Balance Sheet)	-5,495	607	3,434	-1,454
		4,182	-114	

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

Liabilities

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

Property

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

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

Additional cover

Personal accident of staff on duty
Fidelity guarantee
Vessels

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

6 Interest

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

	original 2008/09 £'000	restated 2008/09 £'000	2009/10 £'000
Interest receivable:			
Loans and receivables financial instruments	-11,041	-11,041	-3,826
Statutory debtors relating to transferred services	-1,998	-1,998	-1,290
	-13,039	-13,039	-5,116
Interest payable:			
Financial liabilities at amortised cost	20,392	28348 *	25,443
Net interest payable	7,353	15,309	20,327

* Increase relates to revised accounting treatment for the waste management contract.
See note 1 for further information.

7c Charges to the Income and Expenditure Account

Current Service Cost

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

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

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

Contributions in 2010/11 are estimated to be £66 million.

Past service cost of pensions

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

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

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

7h Net actuarial gain/(loss) on pensions

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

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

Difference between actuarial assumptions about liabilities and actual experience

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

Changes in assumptions underlying the present value of pension liabilities

LGPS funded			268,020 18.7%	23,690 1.6%	-449,550 -21.7%
LGPS unfunded			2,280 8.5%	-230 -0.9%	-3,640 -12.5%
Teachers unfunded			3,190 8.8%	-360 -1.0%	-5,080 -12.6%
TOTAL	-109,380 -7.0%	7,400 0.4%	273,490 18.3%	23,100 1.5%	-458,270 -21.4%

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

14 Capital financing

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

* Change relates to revised accounting treatment for the waste management contract.
See note 1 for further information.

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

15 Contribution from other authorities

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

The other long-term debtors, £1.3 million (£1.1 million in 2008/09) are classified as loans and receivable financial instruments.

By value, the majority of these loans are for a period of less than five years and attract a market rate of interest. Their amortised cost in the Balance Sheet is a reasonable assessment of fair value. One loan made in 2007/08 is interest-free. The amortised cost has been reduced to a fair value based on market interest rates at the time of the loan. Further detail is included in note 10. All loans are expected to be repaid in full, so a reduction for impairment is not considered necessary.

16b Debtors

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

	31 March 2009	31 March 2010
	£'000	£'000
Government departments	8,143	11,347
Other local authorities	8,247	7,354
Sundry debtors	45,382	60,217
	61,772	78,918

16h Deposits

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

16i Creditors

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

	31 March 2009 £'000	31 March 2010 £'000
HM Revenue and Customs and Government departments	-28,308	-33,584
Other local authorities	-16,668	-11,390
Sundry creditors	-101,276	-105,897
	-146,252	-150,871

16j Receipts in advance

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

21 Movement on Reserves

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

21a Revaluation reserve

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

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

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

* Change relates to revised accounting treatment for the waste management contract.
See note 1 for further information.

21b Capital adjustment account

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

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

* Change relates to revised accounting treatment for the waste management contract.

See note 1 for further information.

22 Reconciliation of Income and Expenditure Account deficit to net cash inflow from revenue activities	2008/09	2009/10
	£'000	£'000
Net surplus (-) deficit (+) on the Income and Expenditure Account	471,761	155,437
Net cash outflow from servicing of finance activities	-13,978	-17,381
Variation in stocks	-117	124
Variation in deposits	519	-83
Variation in debtors	8,102	24,638
Variation in long-term debtors	-242	206
Variation in payments in advance	2,046	1,671
Variation in creditors	-12,620	-5,877
Variation in receipts in advance	3,000	-20,482
Variation in provisions	-690	27
Variation in interest accruals on borrowing	42	-3,532
	40	-3,308
Non-cash transactions		
Transfers to reserves	-5,462	5,583
Variation in doubtful debts provision	-3,207	607
Interest on developer contributions	-1,197	-28,845
Provision for loan and lease repayments	-47,938	-103
Financial Instruments Adjustment Account	-11	-10
Collection Fund Adjustment Account	-	-4,529
Contribution to capital outlay	-32,123	-48,193
	-89,938	-75,490
Net additional amount required by statutory and non-statutory proper practices to be credited to the General Fund Balance	-482,973	-157,855
Adjustment to Revenue Expenditure funded by capital under statute	12,893	14,776
Net cash inflow from revenue activities	-102,195	-83,821

23 Analysis of capital grants

(Revenue grants are analysed in the Income and Expenditure Account)

	2008/09	2009/10
	£'000	£'000
Capital grants		
Department for Children, Schools and Families	56,857	49,293
Department of Health	1,762	2,165
Department for Transport	6,198	5,565
Department for Communities and Local Government	1,659	2,611
Home and Communities Agency	-	5,206
Other Bodies	1,194	3,144
	67,670	67,984

27 Related party transactions

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

	2008/09	2009/10
	£'000	£'000
Central Government Receipt of Government Grants		
- Revenue	1,006,963	1,048,144
- Capital	66,233	67,166
	1,073,196	1,115,310
Levy paid to the Environment Agency	547	553

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 191 other contributing scheduled and admitted bodies (199 in 2008/09).

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

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

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

Transactions with these related parties are shown below:

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

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

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

31 Pooled Budgets

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

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

The partner bodies are:

Hampshire County Council (host partner) and NHS Hampshire

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

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

The partner bodies are:

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

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

* 2008/09 income restated to include income carried forward from 2007/08.

34. Post Balance Sheet events

FRS17 Pension liabilities in the Hampshire County Council Pension Fund

In its budget on 22 June 2010 the Government announced that future increases in public sector pensions will reflect movements in the Consumer Price Index (CPI), effective from April 2011. Increases are currently determined by reference to the Retail Price Index (RPI).

The rate at which pensions will increase is one of the key factors in determining the liabilities of defined benefit pension funds. So any change in the rate at which pensions will increase will therefore affect the value of pension fund liabilities. The CPI differs from, and tends to be lower than, the RPI. The change from RPI to CPI is therefore expected to reduce pension liabilities and therefore the pension deficit on the Balance Sheet. The change will also affect the Income and Expenditure Account over the next accounting period.

The Council's actuary, Hewitt, has estimated that the impact on the Balance Sheet if the CPI change had occurred at the accounting date would have been to reduce the value of the liabilities by between 8% and 10%, which is £171 million to £214 million. Hewitt have based this estimate on the FRS17 assumptions applying at the accounting year end and assume that CPI increases will be lower than RPI increases by around 0.7% a year in the long term - Hewitt's best estimate of the difference at the accounting date. The actual figure will reflect the age profile of pension fund members and the date of measurement and assumptions used when producing next year's figures.

It is expected that the reduction in liabilities will be accounted for as a (negative) past service cost. In other words, it represents a change to benefits since pension scheme members will expect a lower benefit after the change than before it.

It is also expected that the move to CPI will reduce the interest cost and current service cost calculated for the next accounting period compared to the position if pension increases had remained linked to the RPI.

As at 20 September 2010, when the accounts were authorised for issue by the County Treasurer, there were no other material post Balance Sheet events that required disclosure.

Pension Fund Accounts

Fund Account	See note	2008/09 £'000	2009/10 £'000
Dealings with members and employers contributions			
- from employers			
- normal		118,586	125,759
- augmentation		4,313	4,741
- deficit funding		29,442	35,470
- from members			
- normal		52,931	56,060
- additional voluntary		1,584	1,724
	4	206,856	223,754
Transfers in			
Individual transfers in from other schemes		13,328	21,872
Benefits			
Pensions		-113,835	-124,207
Commutation of pensions and lump-sum retirement benefits		-29,516	-31,426
Lump-sum death benefits		-2,510	-4,168
	4	-145,861	-159,801
Payments to and on account of leavers			
Individual transfers out to other schemes		-7,475	-18,302
Refunds of contributions		-35	-35
State scheme premiums		7	7
Administrative expenses	5	-1,971	-2,220
Net additions from dealings with members and employers		64,849	65,275
Returns on investments			
Investment income			
Interest from fixed-interest bonds		5,471	5,210
Dividends from equities		58,892	49,733
Income from index-linked bonds		55	108
Income from pooled investment vehicles		1,067	1,283
Net rents from properties		8,181	9,110
Income from property unit trusts		1,242	1,237
Income from other alternative investments		108	928
Interest on cash deposits		6,472	1,637
Other		663	564
Change in market value of investments			
Realised		-269,756	-11,844
Unrealised		-418,574	729,475
Taxation	6	-2,034	-1,504
Investment management expenses	5	-8,516	-9,777
Net returns on investments		-616,729	776,160
Net increase/(decrease) in the Fund during the year		-551,880	841,435
Add opening net assets of the Fund		2,947,980	2,396,100
Closing net assets of the Fund		2,396,100	3,237,535

Net Assets Statement

		31 March 2009	31 March 2010
	See Note	£'000	£'000
Investment assets			
Fixed-interest bonds	14	109,947	149,844
Index-linked bonds	14	3,868	5,219
Equities	8,11,14	1,194,721	1,823,228
Pooled investment vehicles:			
– index-linked	9,14	616,714	680,988
– equities	9,14	23,545	33,380
Derivative contracts	13	-	131
Property	14	93,550	134,273
Property unit trusts	14	62,918	60,656
Other alternative investments	14	105,679	128,326
Cash deposits		164,527	198,838
Investment liabilities			
Derivative contracts	13	-	-105
<hr/>			
Net investment assets		2,375,469	3,214,778
Net current assets and liabilities			
Contributions due from employers		9,509	12,037
Other current assets		15,345	14,117
Current liabilities		-4,223	-3,397
<hr/>			
Net assets - balance of Fund		2,396,100	3,237,535

Notes to the Pension Fund Accounts

1. Operations and management

The Hampshire Pension Fund covers employees of Hampshire County Council, Portsmouth and Southampton City Councils and the 11 district councils in Hampshire, except teachers, for whom separate arrangements apply. It also covers 191 other scheduled and admission bodies.

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

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

	As a proportion of Fund's overall value
○ Aberdeen Asset Management Limited	20.1%
○ Newton Investment Management	12.0%
○ Schroders Investment Management	11.6%
○ Legal & General Investment Management	10.5%
○ State Street Global Advisors	10.5%
○ AllianceBernstein	8.9%
○ GLG Partners	6.3%
○ Western Asset Management	5.0%
○ CB Richard Ellis Investors	4.6%
○ Aberdeen Property Investors	1.3%

The Fund also employs Northern Trust as its global custodian and Aberdeen Asset Management as its adviser on alternative investments.

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

2. Accounting policies

Accounting standards

The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the UK 2009 issued by the Chartered Institute of Public Finance and Accountancy, which is based on the Pension Statement of Recommended Practice (SORP) 2007. The accounts summarise the Fund's transactions and net assets. They do not take account of future liabilities to pay pensions and other benefits. See note 3 for the Fund's actuarial position, which does take account of such liabilities.

Basis of preparation

Income and expenditure are generally credited and debited to the Fund Account when earned or incurred, not when received or paid (that is, on an accruals basis). However, transfer values paid and received have been included on a receipts-and-payments basis.

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

Investments

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

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

Acquisition costs

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

3. Actuarial position

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

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

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

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

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

Discount rate for periods

In service	
Admission bodies	6.20% a year
Scheduled bodies	6.20% a year
Left service	
Admission bodies	5.20% a year
Scheduled bodies	6.20% a year

Short-term investment returns until 1 April 2011

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

Rate of general pay increases 4.70% a year

Rate of increase to pensions in payment 3.20% a year

Valuation of assets market value

The next actuarial valuation of the Fund is due to take place at 31 March 2010 and is now under way.

4. Contributions and benefits

The figures in the Fund Account are broken down in the following table:

	2008/09 £'000	2009/10 £'000
Contributions receivable		
Administering authority	78,728	86,931
Scheduled bodies	120,243	127,930
Admission bodies	7,885	8,893
Total	206,856	223,754
Benefits payable		
Administering authority	55,835	60,153
Scheduled bodies	85,089	93,602
Admission bodies	4,937	6,046
Total	145,861	159,801

The funding objective is to achieve and maintain a funding level of 100% of liabilities. For this reason, a certain proportion of employer contributions received will be used to reduce an existing deficit. The 2007 actuarial valuation stated that the deficit could be eliminated by improving the Scheme's funding for 25 years from 1 April 2008. In accordance with the Code of Practice on Local Authority Accounting in the UK 2009 SORP, the normal employers' contributions that relate to this deficit funding have been separately identified.

5. Administrative and investment management expenses

The figures in the Fund Account are broken down in the following table:

	2008/09 £'000	2009/10 £'000
Administrative expenses		
Pension administration costs and other overheads	1,797	2,061
Office and other administrative expenses	174	159
Total	1,971	2,220

Investment management expenses		
Investment management expenses	6,654	7,306
Property managers' expenses	996	1,514
Custodian's fees	290	339
Actuary's and other fees	576	618
Total	8,516	9,777

6. Taxation

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

UK equity dividends are quoted and accounted for at the net rate. In line with the Pension Statement of Recommended Practice (SORP) 2007, the tax credit which the Fund cannot recover is not recognised.

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

7. Investment returns

The summary investment returns achieved on the Fund are provided in the following table:

	2008/09 %	2009/10 %
Annual return	-19.7	32.3
Rolling 3-year average return	-5.7	1.7

8. Ten largest equity holdings

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

	£'000
Vodafone plc	58,995
Royal Dutch Shell plc	44,923
Rio Tinto plc	44,784
GlaxoSmithKline plc	36,352
HSBC plc	35,619
British American Tobacco plc	35,531
BP plc	33,898
Standard Chartered plc	32,880
BG Group plc	26,631
Centrica plc	25,693

9. Pooled investment vehicle holdings

Pooled investment vehicle holdings comprised the following:

	31 March 2009 £'000	31 March 2010 £'000
Index-linked		
SSGA Over 5-year index-linked gilts	308,685	340,723
Legal & General Over 5-year index-linked gilts	308,029	340,265
Total	616,714	680,988

Equities

Aberdeen UK Emerging Companies	7,275	8,157
Aberdeen UK Mid-Cap Companies	5,463	7,431
Schroders Institutional UK Smaller Companies	4,960	7,687
Schroders Recovery A	4,067	6,839
Mellon Fund Manager Newton Discovery	1,780	3,266
Total	23,545	33,380

10. Concentration of investments

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

11. Analysis of UK equity investments by industrial sector

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

12. Unlisted investments

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

	31 March 2009 £'000	31 March 2010 £'000
Indirect European property	50,137	43,788
Indirect UK property	12,781	16,868
Sub-total	62,918	60,656
Private equities	52,679	65,819
Hedge funds	20,066	7,160
Renewable energy	4,402	8,227
Other alternative investments	28,532	47,120
Sub-total	105,679	128,326
Total	168,597	188,982

At 31 March 2010, these unlisted investment holdings represented 5.8% of the value of the Fund (7.0% at 31 March 2009).

The Fund's unlisted investment holdings are likely to increase over time given the planned intention over the long term to invest up to 10% of the total Fund's value in alternative investments, such as private equities and hedge funds.

Given that unlisted investments are not traded on recognised stock exchanges, they may take longer to convert into cash than listed investments.

13. Derivative contracts

At 31 March 2010, the Fund had derivative contracts in place with a net market value of £0.026 million (£0.228 million net market value at 31 March 2009).

	31 March 2009			31 March 2010		
	Assets £'000	Liabilities £'000	Net £'000	Assets £'000	Liabilities £'000	Net £'000
UK fixed income - futures	190	-	190	-	-68	-68
Overseas fixed income - futures	368	-268	100	120	-37	83
Overseas fixed income margined options - futures	136	-198	-62	-	-	-
Sub-total	694	-466	228	120	-105	15
Overseas fixed income – options	-	-	-	11	-	11
Total	694	-466	228	131	-105	26

All of the above derivative contracts are exchange traded. In other words, none are 'over the counter'.

The Fund's objective is to manage risk and interest rate exposure in the portfolio by entering into derivative contracts similar to assets that are already held in the portfolio without disturbing the underlying assets.

Type of future	Expiration (end date)	Economic exposure value £'000	Market value £'000
UK fixed income futures	June 2010	-8,839	-68
Overseas fixed income futures	June 2010	-504	83
Total		-9,343	15

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

14. Investment transactions

	Market Value at 1 April 2009 £'000	Purchases £'000	Sales £'000	Change in value £'000	Market value at 31 March 2010 £'000
UK fixed-interest bonds (public sector)	184	94	-	-12	266
UK fixed-interest bonds (other)	9,905	4,490	-5,962	2,465	10,898
Overseas fixed-interest bonds (public sector)	24,183	105,013	-57,011	3,511	75,696
Overseas fixed-interest bonds (other)	75,675	21,276	-53,629	19,662	62,984
Fixed-interest sub-total	109,947	130,873	-116,602	25,626	149,844
Overseas index-linked bonds (public sector)	3,868	4,007	-3,260	604	5,219
UK equities	552,175	281,356	-261,787	313,928	885,672
North America equities	230,443	179,786	-144,241	98,559	364,547
Japan equities	68,399	38,474	-37,347	24,831	94,357
Europe equities	232,062	107,794	-126,495	84,990	298,351
Other overseas equities	111,642	70,869	-72,690	70,480	180,301
Equities sub-total	1,194,721	678,279	-642,560	592,788	1,823,228

Pooled investment vehicles:					
- index-linked	616,714	-	-	64,274	680,988
- equities	23,545	15,016	-18,986	13,805	33,380
Property	93,550	23,301	-3,225	20,647	134,273
Property unit trusts	62,918	12,033	-22	-14,273	60,656
Other alternative investments	105,679	27,352	-14,061	9,356	128,326
Cash movements allowing for currency hedging	164,527	171,560	-142,027	4,804	198,864
Total	2,375,469	1,062,421	-940,743	717,631	3,214,778

15. Contingent liabilities

The Fund had no contingent liabilities on 31 March 2010.

16. Investment commitments

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

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

17. Related-party transactions

The County Council administers the Hampshire Pension Fund on behalf of its non-teaching employees, those of other local authorities in the county area and 191 other scheduled and admission bodies (199 in 2008/09).

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

Transactions with these related parties are shown below:

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

18. Property

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

19. Stock lending

The Fund lends stock to third parties under a stock-lending agreement with its custodian,

Northern Trust. The total amount of stock on loan at the year-end was £94.371 million, and this value is included in the Net Assets Statement to reflect the Fund's continuing economic interest in the stock on loan. The table below summarises the value of stock lent out by the Fund on 31 March 2010.

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

As security for the stock on loan, the Fund received collateral at the year-end valued at £99.564 million. This represents 105.5% of the value of stock on loan and comprises 92% government fixed-interest bonds and 8% equities.

The income received from stock-lending activities was £0.060 million net of administrative fees for the year ending 31 March 2010 and is included within the 'Investment Income' figure detailed on the Pension Fund Account.

20. Additional voluntary contributions

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

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

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