Hampshire County Council

Statement of Accounts

2010/2011

Hampshire
County Council

Contents

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Summary Statement of Accounts 2010/11

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 2010/11 and where the money came from to pay for them.

	2010/11 £'000 Expenditure	2010/11 £'000 Income	2010/11 £'000 Net Exp
Operating income and expenditure			
Cultural, environmental and planning services	134,892	-28,113	106,779
Education and children's services	1,297,818	-1,029,284	268,534
Highways and transport services	97,829	-17,473	80,356
Adult social care	421,487	-105,381	316,106
Other services, corporate and non-distributed costs *	-65,455	-109,388	-174,843
Total operating income and expenditure	**1,886,571**	**-1,289,639**	**596,932**
Taxation and non-specific grant income			
Non-ringfenced government grants			-87,790
Non domestic rates			-128,217
Council tax income			-527,421
Capital grants and contributions			-89,432
Taxation and non-specific grant income			**-832,860**
Surplus on the provision of services			**-235,928**

* The surplus on other services, corporate and non-distributed costs is mostly due to a reduction in the valuation of pension fund liabilities related to past service. This results from the Government's decision taken in June 2010 to base statutory pension increases in future on the increase in the Consumer Price Index (CPI) rather than the Retail Price Index (RPI).

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 £200.6 million. The impact on the General Fund Balance is shown in the Movement in Reserves Statement which is summarised below.

	£000
General Fund Balance at 31 March 2010	-36,930
Surplus on the provision of services	-235,928
Net adjustment between accounting basis and funding basis	200,644
Balance before transfers to earmarked reserves	-72,214
Transfers to earmarked reserves	51,183
General Fund Balance at 31 March 2011	**-21,031**

3 Financial position of the Council

The Balance Sheet presents the Council's financial position at 31 March 2011 and the value of its assets and liabilities. It shows what the Council owns, owes and is owed.

	2010/11 £'000	2010/11 £'000
Land, buildings, vehicles, equipment and infrastructure		3,803,769
Money owed to the Council:		
Within 12 months	313,448	
After 12 months	47,753	
Money owed by the Council		
Within 12 months	-320,437	
After 12 months	-512,192	
Net borrowing		-471,428
Pension fund net liability		-753,960
Total net assets		**2,578,381**
Financed by:		
Cash-backed reserves		-235,360
Non-cash-backed reserves *		-2,343,021
Total net worth		**-2,578,381**

* 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.

	2010/11 £'000
Adult Services	3,077
Children's Services	94,571
Environment	76,795
Policy and Resources	13,924
Culture, Communities and Rural Affairs	7,965
Total	**196,332**
Financed by:	
Capital receipts	-13,030
Grants and other income	-102,717
Loans	-64,478
Revenue (main contribution)	-10,636
Revenue (reserves)	-5,471
	-196,332

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 198 other scheduled and admission bodies. A summary of the pension fund accounts is given below.

	2010/11 £'000
Pension contributions	232,873
Transfers in from other pension funds	21,788
Benefits paid	-181,765
Payments to and on account of leavers	-13,224
Administrative expenses	-2,621
Net additions from dealings with members and employers	**57,051**
Returns on investments	275,352
Investment management expenses and taxes on income	-11,518
Increase in the net assets available for benefits during the year	**320,885**
Add opening net assets of the Fund	3,237,535
Closing net assets of the Fund	**3,558,420**

Explanatory Foreword

1 Introduction

This document contains Hampshire County Council's Statement of Accounts for the year ended 31 March 2011. The pattern of presentation of the statement is laid down by a code of practice, which the County Council is legally required to follow.

This foreword gives:

- a summary of the various statements that make up the County Council's 2010/11 accounts
- a broad picture of where the money comes from and what it is spent on
- a summary of revenue expenditure on services and capital expenditure on new assets over the course of the year.

2 Summary of Statement of Accounts

The accounts for 2010/11 are set out on pages 9 to 130.

They consist of:

- Annual Governance Statement
- Statement of Responsibilities for the Statement of Accounts
- 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 2011 compared with 31 March 2009 and 2010
- Cash Flow Statement – this summarises the movement in cash and cash equivalents during the course of the year
- Notes to 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.

3 Where the money comes from

Since the introduction of the new schools funding arrangements in 2006/07, most of the County Council's income comes from specific government grants and the council tax. A new general grant was introduced in 2008/09, the area based grant, from the amalgamation of a number of grants previously paid as specific government grants. Fees and charges contribute to the cost of some services and interest is earned on day-to-day balances. Government grant and external contributions applied to finance capital expenditure have been excluded from the table below.

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

	2009/10 %	2010/11 %
Council tax	28	27
National business rates	7	7
General Government grant	1	1
Area based grant	3	4
Fees, charges and interest	14	16
Specific Government grants	47	45
	100	**100**

In 2010/11 there was no significant change in the balance of income obtained from the various funding sources.

4 What the money is spent on

Type of expenditure	2009/10 %	2010/11 %
Staff costs	57	58
Running expenses	38	38
Capital financing	5	4
	100	**100**

Service shares of gross revenue expenditure	2009/10 %	2010/11 %
Children's services and education	64	66
Adult social care	22	21
Highways, roads and transport	5	5
Cultural, environmental and planning services	7	7
Other services	2	1
	100	**100**

The service shares of gross expenditure in 2010/11 were similar to those in 2009/10, but reflect the continued priority given to school budgets in 2010/11.

5 Employees

At 31 March 2011, the County Council employed 41,585 people, making the Council one of the largest employers in the county. Many of these employees work part-time. In full-time equivalent (fte) terms, the total number of employees was 28,328 at 31 March 2011, 650 lower than at 31 March 2010. School-based staff were 83 higher than at 31 March 2010, but there were reductions of 733 FTEs across all other departments as a result of the recruitment controls introduced during 2010/11 to facilitate the achievement of substantial budget reductions in 2011/12.

Full-time equivalent employees	March 2010	March 2011
School-based	17,544	17,627
Other children's services	3,252	2,893
Adult Services	3,359	3,198
Environment	796	749
Culture, Communities and Rural Affairs	1,017	896
Central services and internal trading units	3,010	2,965
	28,978	**28,328**

6 Summary of the year – Revenue account

2010/11 was a transitional year for the County Council. It was the last year of the three year grant settlement approved in 2007 prior to the crisis in the international financial system in 2008. Despite the deterioration in the public finances since 2007, the Government decided to leave the original provisional grant settlement for 2010/11 unchanged. The County Council as a floor authority received the lowest grant increase for upper tier authorities of 1.5%.

After the UK general election in May 2010, the new Government presented an Emergency Budget in June 2010 incorporating some reductions in specific and area based grants already allocated in 2010/11, particularly affecting Children's Services. The financial envelope for the Spending Review announced in October 2010 was also set in the June budget, indicating the likelihood of significant reductions in Government grant to local authorities.

The County Council approved an Expenditure Reduction and Efficiencies programme in July 2010, leading to the establishment of a series of corporate efficiency workstreams. Recruitment controls were also introduced designed to achieve savings in advance of 2011/12 which could then be used to finance costs associated with restructuring the County Council's services. Though Children's Services were faced with having to achieve significant savings in 2010/11 to compensate for in year reductions in Government grant, for other services plans were developed designed to achieve underspendings against the approved 2010/11 budget.

The main components of the 2010/11 budget, revised budget and actual income and expenditure are set out below:

Budget	Original budget £million	Revised budget £million	Actual £million	Variation from revised £million
Cost of services	**853.4**	**569.4**	**558.6**	**-10.8**
(Surpluses)/deficits on trading units	0.4	0.4	-2.6	-3.0
Net interest payable and investment property income	-	24.1	21.8	-2.3
Investment property gains/losses	-	-5.5	-5.5	-
Loss/(gain) on disposal of assets	-	-4.5	-4.5	-
Pension interest cost and expected return on pensions assets	61.1	29.1	29.1	-
Net operating and financing expenditure	**914.9**	**613.0**	**596.9**	**-16.1**
Amount to be met from non-specific Government grant and local taxpayers				
Council tax precept income	-525.3	-527.4	-527.4	-
General Government grant (including Area Based Grant)	-93.1	-87.8	-87.8	-
Non-domestic rates	-128.2	-128.2	-128.2	-
Capital grants and contributions	-106.7	-89.4	-89.4	-
	-853.3	-832.8	-832.8	-
(Surplus)/Deficit on the provision of services	**61.6**	**-219.8**	**-235.9**	**-16.1**
Adjustments between accounting and funding basis under regulations				
Contribution to capital	29.7	31.5	16.1	-15.4
Excess of depreciation, impairment net of grant over statutory provision for debt repayment	-42.3	-52.5	-52.0	0.5
Actuarial loss on Pension Fund assets and liabilities	-	18.7	18.7	-
Contribution to Pensions Reserve	-39.9	209.4	209.4	-
Net cost of soft loans, reversal of disposal gain, collection fund and compensated absences adjustment	-	8.4	8.4	-
Contribution to/(from) earmarked reserves	-0.8	20.2	51.2	31.0
Movement in General Fund Balance	**8.3**	**15.9**	**15.9**	**-**
General Fund Balance				
Brought forward 1 April 2010	29.8	36.9	36.9	-
Carried forward 31 March 2011	21.5	21.0	21.0	-

The budget requirement for 2010/11 was set at £672.1 million (net of area based grant of £74.5 million), an increase of 2.3% on the adjusted budget for 2009/10. The budget strategy continued to be based on setting a council tax in the lower quartile for county councils, while providing high performing services by delivering value for money. The budget recognized the continuing demographic pressures affecting social care services by providing additional funding of £8.3m above inflation. In the light of the anticipated much tougher financial situation from 2011/12 onwards, the County Council included in its medium term financial strategy allowance for achieving corporate efficiency savings of £15m per annum in 2011/12 and 2012/13 and the 2010/11 budget included provision for achieving corporate efficiency savings of £8.6m in advance of 2011/12. Underspendings achieved in earlier years enabled a contribution from balances of £8.3m to be made in 2010/11 to limit the increase in council tax to 1.9%, while enabling a further contribution from balances to be planned in 2011/12. The General Fund Balance at 31 March 2011 was estimated at £21.5m.

In July 2010 the final accounts for 2009/10 were reported to the Cabinet. Service cash-limited spending was £0.3 million lower than budgeted. Further savings of £9.7 million in net operating expenditure were achieved mainly as a result of lower interest costs, lower fire insurance reinstatement, higher trading unit surpluses and savings on the waste management contract. These were partly offset by higher expenditure on highways winter maintenance and revenue contributions to capital. £3.9million of these savings were transferred to earmarked reserves, resulting in an underspend of £6.1 million against the General Fund compared with the revised budget. The General Fund Balance therefore increased to £36.9 million at 31 March 2010. Reporting of the final accounts for 2009/10 coincided with the announcement of in year grant reductions in 2010/11 and of the overall levels of planned public spending for 2011/12 and later years. In view of the potential budget gaps in 2011/12 and 2012/13, it was agreed that the underspending of £6.1m in 2009/10 be transferred to the Corporate Policy Reserve in 2010/11.

Children’s Services were faced with having to plan immediate substantial reductions in spending in 2010/11 as a result of in year grant reductions of £4.9 million and budget pressures affecting services for looked after children and home to school transport. The Cabinet agreed to provide cash flow support in 2010/11 providing the required savings were achieved by March 2011. When services revised their budgets in the autumn, Children’s Services forecast that restructuring costs of £3.7 million would not be able to be accommodated within the cash limit and corporate support at this level was agreed. Following the Cabinet’s decision to introduce an enhanced voluntary redundancy scheme to facilitate the achievement of staffing reductions on a voluntary basis, an organisational change reserve was established with a transfer of £10 million from the corporate policy and invest to save and modernisation reserves. £2.2 million was also set aside for anticipated higher spending on winter maintenance as a result of the heavy snow in December 2010. The additional allocations of £5.9 million for Children’s Services and highway winter maintenance were largely offset by lower capital financing costs of £5.3 million, reducing the General Fund balance by £0.6 million to a forecast level of £21 million at 31 March 2011.

When the accounts for 2010/11 were finalised, service cash limited expenditure was £9.8m lower than budgeted as a result of savings achieved in advance of 2011/12 to assist in financing restructuring and other costs associated with the County Council's efficiencies and expenditure reduction programme. Further savings of £3.6m were achieved, mainly as a result of lower net interest and fire insurance reinstatement costs, savings on the waste management contract and higher business unit surpluses. These savings were offset by a higher corporate provision for voluntary redundancy costs due to the progress made in agreeing planned staffing reductions in advance of 2011/12 and increased revenue contributions to capital, financed from trading unit reserves. In addition, in order to maximise budgetary flexibility in 2011/12, the planned revenue contribution to capital in 2010/11 of £17.6 million was transferred to the Capital Reserve. After allowing for transfers to earmarked reserves, there was a net underspending of £1.1million, which has been transferred to the insurance reserve in accordance with the recommendations of an actuarial review of the Council's potential liabilities. As a result, the General Fund Balance at 31 March 2011 is as budgeted in the revised budget at £21 million.

The table below analyses the main factors in the final accounts:

	Over/under(-) spending £million	Contribution to/from(-) reserves £million	Net over/under(-) spending £million
Service cash-limited spending	-9.8	9.8	-
Corporate provision made for additional cost of voluntary redundancy scheme	3.1	-3.1	-
Capital financing/interest costs	-1.8	-	-1.8
Insurance provision	-2.6	2.6	-
Waste management contract contingency	-1.9	1.9	-
Planned revenue contributions to capital transferred to the Capital Reserve	-17.6	17.6	-
Additional revenue contributions to capital financed from trading unit and other reserves	2.2	-2.2	-
Higher trading unit net surpluses	-3.0	3.0	-
Highways winter maintenance	-0.1	-	-0.1
Provision for doubtful debts	0.7	-	0.7
Other variations	-0.2	0.3	0.1
Underspending transferred to the Insurance Reserve	-	1.1	1.1
	-31.0	**31.0**	**-**

7 Summary of the year – capital expenditure

In 2010/11 the County Council spent £196.3 million on capital projects, £1.5 million less than the revised budget. Capital receipts of £13.0m were received, very close to the estimated £13.1m.

The 2010/11 budget contained provision for revenue contributions to capital of £17.6m in addition to revenue contributions in respect of school capital repairs financed by Dedicated Schools Grant. The Cabinet however agreed to make an equivalent contribution to the Capital Reserve instead and to finance £17.6m of capital expenditure from unsupported borrowing, as a contingency measure to provide additional flexibility within the financial strategy for 2011/12.

Spending financed from supported borrowing amounted to £35.3 million, and new unsupported borrowing net of repayments amounted to £14.4m inclusive of the additional borrowing of £17.6m to replace revenue contributions to capital. In addition, £14.7m of capital expenditure on street lighting column replacement was financed through the Private Finance Initiative.

Potential outstanding borrowing for capital purposes to be serviced by the County Council now amounts to £710.5 million at 31 March 2011, together with extra debt of £37.1 million for services transferred to the unitary and other authorities. The Council may borrow on a day-to-day basis from internal resources, such as the revenue account and earmarked reserve balances. Internal resources were higher in 2010/11 than in the previous year, so that net of temporary investments, £284.3 million (a reduction of £58.4 million on the previous year) was owed to external lenders at 31 March 2011.

8 Pension Fund liability

The County Council's net pension liability has reduced from £963.3 million at 31 March 2010 to £754.0 million at 31 March 2011. The reduction in the net liability is mainly the result both of improved investment performance in 2010/11 and of the effect on the valuation of the Fund's liabilities related to past service of the Government's decision taken in June 2010 to base statutory pension increases in future on the increase in the Consumer Price Index (CPI) rather than the Retail Price Index (RPI).

9 Changes

There were no significant changes to the County Council's range of functions in 2010/11. However, the implementation of International Financial Reporting Standards (IFRS) in 2010/11 has a significant impact on the format of the statements and on the extent of the disclosures required.

One of the main changes, to the accounting treatment of PFI and related contracts, was implemented in 2009/10. The other change, implemented in 2010/11, which has the most significant impact on the statements is to the treatment of capital grants and contributions. These were previously retained on the Balance Sheet and discharged to the Income and Expenditure Account over the life of the asset they had been used to finance, irrespective of whether there was any potential liability to repay any of the grant or contribution. The revised practice is only to recognize a continuing liability on the Balance Sheet if a repayment condition exists, resulting in a restatement of the 31 March 2010 balance sheet which adds £517m to the net worth of the County Council. This change in practice also affects the presentation of the Comprehensive Income and Expenditure Statement, with capital grants and contributions that have been applied or could have been applied for capital purposes being added to general funding in the Comprehensive Income and Expenditure Statement. The impact on the General Fund is neutralized by making contributions either to the Capital Adjustment Account or the Capital Grants Unapplied Reserve, but the effect is to reduce the likelihood of a significant deficit being reported on the provision of services in the Comprehensive Income and Expenditure Statement.

The change to the basis on which the Government proposes to determine future pensions increases from RPI to CPI has a major impact on the Comprehensive Income and Expenditure Statement in 2010/11, resulting in a past service credit of approximately £240m, which has the effect of turning what would otherwise have been a small deficit on the provision of services into a surplus of £236m in 2010/11.

10 Further information

You can get more information about the accounts from
The County Treasurer, Hampshire County Council, The Castle, Winchester, SO23 8UB,
telephone (01962) 847519,
e-mail budget@hants.gov.uk.

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.

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 website.

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

This Statement explains how the County Council has complied with the Code and meets with the requirements of the Accounts and Audit (England) Regulations 2011 in relation to the publication of an Annual Governance Statement during 2010-2011.

2 The purpose of Corporate Governance

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

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

The governance framework has been in place at Hampshire County Council for the year ending 31 March 2011 and up to the date of approval of the annual report and the statement of accounts.

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 questionnaire being sent every year to all Chief Officers
- a detailed questionnaire being sent every year to other Officers who undertake key corporate roles within the County Council
- consultation with other relevant Officers throughout the County Council.

The questionnaires, which are revised and updated on each occasion, cover a wide range of Corporate Governance 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 revised Internal Audit Strategy adopted by the County Council in December 2007, the key elements of the Corporate Governance framework are risk assessed and reviewed by Internal Audit over a 5 year period.

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 Questionnaires and Corporate Governance Questionnaires were sent out to Chief Officers and Officers with key corporate roles in October 2010.

3 Establishing principal statutory obligations and organisational objectives

3.1 Mechanism established to identify principal statutory obligations

The County Council’s Constitution, adopted from 1 September 2001, sets out the processes by which the County Council’s policies are made and decisions taken. It sets out clearly the role of:

- the County Council
- the Leader
- Cabinet
- arrangements for the performance of regulatory functions
- arrangements for scrutiny
- the Standards Committee
- the role of the Audit Committee
- key roles of the Chief Officers and Statutory Officers.

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

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

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

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

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

All County Council decisions are made in accordance with the County Council's Decision Making Protocol (agreed in 2001). The Protocol requires all reports for decisions, whether by the Executive or by Committee to be submitted in advance for both legal and financial consideration.

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

All legal staff have access to training courses, and regular internal sessions are organised for the whole of Legal Services on topics of specific and general relevance to their roles and responsibilities. Senior lawyers within the service have regular meetings with Chief Officers and senior clients to assess performance, review future demands, and identify new legislative demands.

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

The County Treasurer operates a system of Devolved Finance Units, each with a Head of Finance working closely with the relevant Chief Officer and reporting to a Member of the Treasurer's Management Team. The Head of Finance and relevant Treasurer's Management Team Member work together to ensure that both corporate and departmental financial perspectives are taken into account in all papers for decision, and attend meetings to advise further as appropriate.

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. These priorities are approved by the County Council; and are in place for the life of the administration. Priorities are clearly communicated on the County Council's website and through various communications.

A new Performance Management Framework is under development, building on the previous iteration Driving Success. As part of this, a new County Council Business Plan will be drafted, identifying the medium term priorities for the organisation (aligned to the three overarching corporate priorities). This will include key themes from Open for Business; the efficiencies and expenditure reduction work streams; major change areas; and the main departmental priorities (e.g. safeguarding). Priorities are also informed through feedback from service users and residents; outcome of inspection; performance benchmarking; and national policies and initiatives. The Plan will contain actions across finance, workforce, performance and customer focus/communications – securing full integration. It also shows how the County Council responds to changes and challenges, identifies common aims with partners and sets priorities and targets for improvement.

Activities and targets are drawn from work stream plans and department level business plans; and cascaded through service plans and Individual Performance Plans. Clear guidance for the preparation of department and service plans is available on Hantsnet; and this will be revised in line with the new Performance Management Framework. The resources to deliver the Plan will be clearly outlined and linked to workforce plans; the Asset Management Strategy; and the Revenue and Capital Budgets. The Business Plan will be approved by the Corporate Management Team (CMT) and Cabinet. Progress against the Business Plan will be evaluated on an annual basis, through departments completing a self-assessment process. Areas for improvement will be incorporated in a refresh of the Business Plan for the following year.

The County Council Business Plan links to the following partnership plans, outlining the local authority contribution to these cross-cutting areas of work:

- Hampshire Sustainable Community Strategy, which expresses the aims the County Council shares with strategic partners in Hampshire.
- Hampshire's Children and Young People's Plan, which is the overarching strategy for services for children and young people in the county.
- Healthier Hampshire – Health and Well-being Strategy, the strategy of Hampshire Health and Well-being Partnership Board.

The new performance framework will set the communications and marketing priorities for the year ahead. A comprehensive Communications Strategy is being developed to inform external and internal audiences of the County Council's Open for Business and Efficiency and Expenditure Reductions Programme using a wide variety of traditional and innovative communications routes.

3.3 Effective Corporate Governance arrangements are embedded within the County Council

The County Council adopted a Code of Corporate Governance that complies with the Chartered institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives and Senior managers (SOLACE) guidance at a meeting of the Governance Committee on 27 March 2008.

The Monitoring Officer and the Chief Internal Auditor (for the Section 151 Officer) have close working relationships both between themselves, and with the Standards Committee, and the Audit Committee.

An Officer Corporate Governance Group was establish in 2009. The group includes the Monitoring Officer, the Chief Internal Auditor and other officers involved in corporate governance. The role of the groups is to support the work of the Audit Committee and its terms of reference include:

- review of the County Council's Corporate Governance Framework
- participation in the preparation of the County Council's Annual Governance Statement
- review of the implementation of the Action Plan set out in the Annual Governance Statement
- identification of actions to be included in the following year's Action Plan.

The Standards Committee has responsibility for maintaining high standards of probity amongst Members through the provision of advice and training and by carrying out investigations of complaints received.

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

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

Internal Audit is required to comply with the CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006 and its prescribed professional standards. External assurance that these standards are met is provided through regular inspections by the Audit Commission and ISO quality accreditation assessors.

The Audit Committee approved the Internal Audit Strategy and Plan for 2010/2011 and continues to monitor performance and the progress of significant issues, including the implementation of audit recommendations. This plan was based on a revised future Audit Strategy for 2008 to 2013, as approved by the Governance Committee at its meeting in December 2007.

The Chief Internal Auditor submitted an Annual Audit Report and Opinion to the June 2011 Audit Committee on the effectiveness of the control framework

3.4 Performance management arrangements are in place

As outlined above, a new Performance Management Framework is currently under development, building on the previous iteration Driving Success. The new Framework represents a robust and coherent way of managing and improving services across the organisation. It is based on a cycle of continuous improvement, encompassing planning, delivering, monitoring and revising.

Key components are as follows:

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

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

(c) Monitoring
- Monthly reporting on efficiencies
- Quarterly reporting on performance against the County Council Business Plan
- External reporting requirements and inspection
- Annual departmental self-assessment
- County Council Annual Report

(d) Revising
- Improvement support/consultancy

Transparent processes are in place for regular reporting to CMT and Cabinet. Although the Corporate Performance and Efficiency Group is under review, its replacement will retain responsibility for support and challenge, in order to manage performance against the County Council Business Plan.

In addition, departments have robust mechanisms for performance management.

Performance management arrangements are enhanced by a thorough and fully embedded system of budget forecasting and monitoring which focuses on:

- annually updated three year budget projections and a three year capital programme.
- detailed quarterly budget monitoring reports on revenue and capital to the relevant executive Member.
- ability of Select Committees to scrutinise monitoring reports.
- overall budget monitoring report to Cabinet on a quarterly basis.

Performance information is published online and easily accessible for staff, partners and the public.

The county wide Efficiency Cost Reduction and Transformation programme began in July 2010 and is the principal means by which the County Council is addressing its grant reduction and improving efficiency. The County Council intend to save £55 million in 2011-2012 and a further £45 million in 2012-2013.

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 priorities (the ‘Corporate Strategy’) and improvement/business plans. The new Business Plan (described above) will provide a coherent, shared vision for the organisation. Implementation of these ambitions will be through department business plans and efficiency work streams.

The vision of the County Council, as embodied in the three priorities, is reviewed with each political administration. Business Plan priorities are likely to last for three to four years (medium term), but will be reviewed on an annual basis and refreshed as necessary.

The purpose and vision of partnerships:

Partnerships are underpinned by a common vision, that is understood and agreed by all partners. Clear governance structures are also in place. For example, the Hampshire Senate has brought together all key partners in Hampshire with five aims:

- to deliver the 2008-11 Local Area Agreement (now concluded);
- to bring people together to keep government as local as possible;
- to add value to, and reduce the costs of, public service through working with all the public services and partners;
- to act as a strong local voice for Hampshire;
- to secure extra government funding for our infrastructure needs.

Other examples include:

- the Health and Well-being Partnership;

- the Children's Trust;
- the Local Safeguarding Children Board;
- the Safeguarding Adults Board.
- the Solent LEP

The Sustainable Community Strategy also provides a common vision and set of ambitions for the County Council and partners.

Reviewing performance and publishing this information:

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

Dealing with failure in service delivery:

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.

Reviewing value for money and measuring the environmental impact of policies:

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

- benchmarking of spend compared with service quality i.e. lower quartile council tax and `excellent' rated performance;
- all post-Gershon targets for efficiency gains exceeded;
- integrated planning which links corporate priorities and areas for improvement to the budget setting decision process;
- high levels of capital investment which shows that short term gains are not pursued at the expense of long term value for money;
- the Annual Audit & Inspection Letter 2010 (2009/10 conclusion) commented positively on the County Council's VFM arrangements stating:

'an unqualified conclusion was issued – the County Council had proper arrangements in place. The County Council had already established a strong baseline against the specified criteria and performed to a high standard as noted in my 2008/09 assessment.

The County Council continues to meet the expected standards, delivering good outcomes for local people.'

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

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

In 2009-10 the Director of Children's services was appointed Deputy Chief Executive and the role Assistant Chief Executive was created. These appointments provide additional senior management capacity for the County Council.

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

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

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

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

The County Council has appointed and maintains an Independent Remuneration Panel pursuant to the requirements of the Local Authorities (Members Allowances) (England) Regulations 2003 which meets in open session. The Panel makes recommendations to the Members Allowances Scheme Panel and the Members Allowances Scheme Panel, having considered those recommendations, makes recommendations to the County Council.

The Members' Allowances Scheme for 2011/12 was approved by the County Council on 24 February 2011 and is published on Hantsweb as part of the County Council's Constitution. Administration of the Scheme is overseen by the Head of Member Services and supported by effective and robust business processes

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 County Treasurer, Director of HR and Head of Remuneration and Benefits.

Performance management arrangements and mechanisms and the respective roles of officers and Members to monitor service delivery are described above.

The mechanisms for developing and communicating the County Council's vision etc are also described above.

In relation to partnership working, the County Council has published guidance on governance and roles and responsibilities for officers and members alongside other information and advice on partnership working. See: http://intranet.hants.gov.uk/partnerships.htm.

A corporate group which includes representatives from all departments reviews this guidance. Additionally, linked to the County Council's risk management, regular audits of the County Council's partnership approach are carried out.

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

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

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

- Members and Officers Codes of Conduct
- Member/Officer protocol
- Standards Committee
- Complaints Procedures
- Anti fraud and corruption policy
- Standing Orders governing the conduct of Council business

- Contract Standing Orders
- Financial Regulations
- Guidance on Partnerships
- Performance Management system
- Investors in People and a system of individual performance plan appraisal.

An effective Standards Committee is in place, which has taken on in accordance with the Standards Committee (England) Regulations 2008, responsibility from the Standards Board for England for the local initial assessment (and where appropriate investigation and determination) of complaints against Members of the County Council.

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

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

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

The Decision Making Protocol is available on Hantsnet to inform the preparation of decision reports. It is reviewed annually to ensure it is fit for purpose. A corporate decision making report template is available to download to ensure that a consistent approach is taken across all departments in preparing a report on which a decision is to be made together with the inclusion of timely and relevant information/evidence to inform the decision maker. All reports go through a robust quality assurance process.

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

Within their own areas of responsibility, Executive Members, Committee Chairmen and Vice Chairmen, Minority Group Spokespersons and Local Members are routinely briefed in relation to pending business. After County Council elections, all Members take part in a comprehensive New Member Induction Programme, both generic and specific, to support them in the exercise of their duties as County Councillors. Ongoing training is additionally available through the County Council's own established monthly Briefing Programme and via external seminars, conferences and briefings. A Member Development Working Group has recently been established to promote continuous development with the assistance of Hampshire Learning Centre and other organisations such as South East Employers and the Improvement and Development Agency.

Executive decisions are recorded in accordance with the requirements of the Local Authorities (Executive Arrangements) (Access to Information) (England) Regulations 2000. Internal protocols govern legal and financial requirements by way of consultation internally, as indicated with the Head of Legal Services and the County Treasurer. Internal protocols also govern the preparation and publication of the County Council's Forward Plan, and the publication of all County Council, Cabinet, Executive Member and Committee Agenda, Reports Decision Records and Minutes.

The maintenance of an effective scrutiny function is supported by a dedicated resource for scrutiny by designated officers located in the Business Advice and Member Support Unit (BAMS). Reviews are regularly shared with Executive Members and partner agencies as appropriate and resulting action monitored. Working arrangements with District Authorities are in place as are wider networks for health overview and scrutiny. A wider review of the scrutiny functions has been completed and the recommendations implemented. Progress will be re-evaluated as part of a wider assessment of the new BAMS Unit.

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

The role of Monitoring Officer, supported by other 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 reporting on risk. Through the Risk Management Board, chaired by the Deputy Chief Executive, risk management is embedded into the culture of the County Council so as to better influence decision making. Regular briefings on risk are made to the Executive Member with responsibility for risk management. Assessments of risk to the County Councils major change programmes are regularly reported to the Cabinet and Executive Members.

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.

For Officers the Corporate Induction Programme is underpinned by a service-specific induction. The Individual Performance Planning (IPP) process ensures that Officers identify and update their knowledge and skills on a regular basis. In addition IPP facilitates the identification of training requirements. This is subsequently used to develop departmental training and development plans.

The skills required by Officers to undertake their roles are identified within the person specification for the particular job in question, and an assessment is made of the individual's competence against these during the selection process. Further skills assessment for Officers is undertaken during the annual IPP process and these are incorporated within service and departmental training plans.

The County Council’s Management and Leadership Competencies form the basis of how managers and leaders within the County Council need to develop themselves and others to be even more effective. Implicit within the Competencies is a recognition that to be fully effective, individuals need to be able to positively challenge and scrutinise information presented to them. The "Vision and Direction" and "Stakeholders' and Partnerships” Competencies also identify the need to work with others, particularly when expertise is not available internally.

The County Council’s IPP process has been further developed to ensure that individual development needs can be identified and on the basis of this, departmental training plans developed.

The range of training and development programmes available within the County Council has also increased and can be accessed both on-line and face to face delivery. In particular, an emphasis has been placed on management and leadership training with the introduction of the “Essentials of Leadership” development programme which has been well attended and equally well received.

The County Council is in the process of developing a Talent Management Strategy which will significantly aid succession planning within the organisation. In addition, as part of the current departmental restructures taking place, services are reviewing their succession planning arrangements to ensure that these are robust enough for the future. The County Council is also undertaking a corporate review of Learning and Development provision and as part of this, organisational succession planning arrangements will be reviewed and strengthened as appropriate.

The induction programme for members was overhauled for the 2009 elections and there are now ongoing member briefings to ensure continuous development. Member induction has been significantly strengthened and there are also now member briefings which address generic development needs. A member’s champion group has also been developed looking at more focused development needs.

For Officers, skills are assessed via the person spec for the role and development needs are individually identified through the Council’s IPP process and generically through a range of options e.g. management &

leadership competencies. Corporately, officer development is managed through the learning & development forum.

The revised Performance Management Framework will be integrated with workforce development initiatives, building capacity and securing the skills needed to drive transformational change within the County Council.
A Corporate Governance e-learning module was developed and launched in July 2010. The e-learning module is available to all County Council staff and forms part of the mandatory corporate induction programme

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

The County Council undertakes a programme of consultation with the public on the issues that are likely to affect them. For both consultation and communications the County Council draws on a number of strategies and feedback mechanisms documents:
- Communications Strategy (currently being developed)
- Inter Faith Forum
- Community Involvement Strategy
- Petitions to the County Council
- E-consultation database.

The publication of a wide range of documents such as the following help to ensure that the County Council is held to account:
- Corporate Strategy
- Driving Success - Corporate Improvement Plan
- Financial Statements and Accounts
- Policy and Resources Select Committee reports
- Health Overview and Scrutiny reports.

and annual reporting to the wider public via special articles being published in the County Council's magazine for residents 'Hampshire Now'.

Great emphasis is placed on raising awareness among the general public of the work of the County Council. The County Council's Communications Strategy is developed and implemented to include a range of tools including, selected summer events, the Hampshire Now magazine, alongside proactive media relations which incorporate new technology including social media and the web. The Internal Communications Strategy has been developed to embrace new initiatives to make staff aware of change programmes.

5 Identify principal risks to achievement of objectives

5.1 The County Council has robust systems and processes in place for the identification and management of strategic and operational risk

The County Council addresses the key risks to the people of Hampshire through its Corporate Improvement Plan. It has developed effective methods of communicating risk issues to the public and uses risk based approaches to support innovation and well managed risk taking, for example through a positive risk taking policy for social care.

The County Council has a comprehensive risk management framework in place, that includes partnership risks, with effective processes for reporting on risk.

A network of risk registers focusing on strategic and operational risk is in place, with regular reporting to senior management at both corporate and departmental levels. Risk financing arrangements are benchmarked against the performance of other local authorities, with regular reports to the Policy and Resources Select Committee for scrutiny. Training programmes are in place to increase the capacity and competence of staff to manage risk well. Balanced risk management arrangements are in place in key partnerships, which are subject to review and monitoring for effectiveness. Business continuity arrangements are in place for all critical services, and tested.

Performance standards are used to improve the delivery and effectiveness of risk management.

Through the Risk Management Board, chaired by the Deputy Chief Executive, risk management is embedded through the culture of the County Council so as to better influence decision making.

Regular briefings on risk are made to the Executive Member with responsibility for risk management and regular reports have been made to the relevant scrutiny committees.

The County Council has developed and uses a performance management framework that measures the maturity of its risk management arrangements. It provides assurance that:

- there is top down commitment to embedding and integrating risk management as routine business practice
- risk policies and strategies are communicated effectively and made to work through a framework of processes
- a core group of people have the skills & knowledge to manage risk effectively
- approaches for addressing risk with partners have been developed and implemented

- there is clear evidence that risk management is being effective and leading to the production of good results.

The County Council benchmarks the performance of its risk management arrangements with other public sector organisations.

The County Council largely self-insures against risk, subject to the availability of catastrophic insurance. There is good evidence that the management of claims within Legal Services is in accordance with the Civil Procedure Rules and that appropriate reserves are placed on claims. Significant claims are regularly reviewed by the Monitoring Officer with the Head of Litigation. The budget for dealing with these claims, and the contributions to be made to that budget by Departments reflects the sums identified within the reserve figures placed on all claims. There is evidence of monitoring the incidence of successful and unsuccessful claims and of feeding that information into the policy for risk financing accordingly. The system of self insurance is subject to internal audit, and review by external insurers.

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 County Treasurer, 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 midyear review and outturn report and external audit has confirmed compliance with the Prudential Code. The Audit Committee is responsible for challenging and scrutinising treasury management activity and practices.

Financial Regulations and Contract Standing Orders are regularly reviewed with the most recent changes to Financial Regulations having been completed in 2008. During 2009-10 a review of Standing Orders on Contracts, including reviewing the CIPFA contract procedure rules was undertaken by staff in Legal Services, County Treasurers and the Corporate Procurement network. This review along with The Corporate Services Review on Procurement and recent EU legislation and case law identified a number of issues that need to be addressed in revised Contract Standing Orders. Revised standing Orders were adopted by the County Council in 2010-11.

As indicated, there is a Reporting Concerns at Work (whistle-blowing) Policy and Anti-fraud and Corruption Policy embedded into the County Council and fully accessible on the County Council's website.

Registers of gifts and hospitality for both Members and Officers are maintained and the member's register is available for public inspection. The Monitoring Officer will provide any advice required on whether specific gifts or offers of hospitality should be accepted or politely declined. Any acceptance of hospitality by a member of staff must be subject to discussion and the agreement of that person's Line Manager. The processes in place for maintaining these Registers are monitored.

A revised Members Code of Conduct was adopted by the County Council in 2007 and signed up to by all Members. Training sessions on the new Code were offered by the Monitoring Officer to all Members including co-opted Members.

A high level scheme of delegation is contained within the Constitution, and this is supplemented within each Department whereby the Chief Officer authorises other senior Officers to carry out allocated functions on their behalf.

The County Council's third corporate procurement strategy (CPS) was formally approved by Cabinet in November 2009 following previous iterations in 2006 and 2003. It is planned that the next review of the corporate procurement strategy will be in 2011/12.

The internal Best Practice Guide (BPG) first produced in 2008 was revised jointly by Legal Services and Corporate Procurement during 2010 and now incorporates the Contract Practice Notes previously issued by Legal Services. The new BPG is on the Council's intranet and reviews are planned every 6-12 months.

The Corporate Procurement team maintains relevant information on procurement policy and practice on both the County Council's internal and external websites at:
http://intranet.hants.gov.uk/corporateprocurement.htm
http://www3.hants.gov.uk/procurement

The actions associated with the CPS and the Procurement Improvement Programme (PIP) are reviewed with departmental representatives at regular meetings of the Corporate Procurement Network and PIP Steering Group. Overall progress on the corporate procurement agenda and key issues continues to be considered by Members on the Buildings, Land & Procurement Panel. The County Council has developed a Licensed Procurement Practitioner programme for its procurement staff and successful completion of all three assessments (set and managed by the Chartered Institute Of Purchasing & Supply) will give the individual the Award in Public Sector Procurement. Two groups have commenced the programme and the County Council has offered places to district council colleagues. All procurement staff across the County Council have been matched to generic, corporate role profiles since 1/4/11.

The County Council plays a significant role in collaborative procurement with local, regional and national partners (for example, on construction with IESE, Reading Borough Council, Surrey County Council and on commodity goods and services through the Central Buying Consortium, Pro5 and the Hampshire & Isle of Wight Procurement Partnership). The County Council's Chief Executive is the Chairman of the National Improvement & Efficiency Partnership for the Built Environment and is also the national lead officer for the Procurement, Capital and Shared Assets Productivity work stream. Pro5 includes five of the major local authority purchasing consortia and is building its work plan in accordance with category management principles. The County Council has recently joined its procurement of electricity to collaborative arrangements managed by Kent County Council and continues to manage a contract for the supply of temporary workers on behalf of West Sussex County Council, Hampshire Police and other partners.

Business continuity arrangements have been embedded into the County Council. Potential critical service areas have been identified and prioritised across the County Council's services against guideline criteria described in the Civil Contingencies Act 2004. Business impact analysis within the critical services has been undertaken and appropriate department and service plans developed as appropriate. A suite of business continuity plans consisting of corporate and incident management plans, together with template department incident are service recovery plans have been prepared and are stored within a robust system. A scheduled programme of testing is in place, including recovery arrangements for key IT systems.

Corporate and Departmental risk registers include control measures, which are reviewed and monitored on a regular basis.

The Corporate Risk Register is reviewed and reassessed on a quarterly basis by the Risk Management Board. Departmental risks are subject to an annual reassessment.

The Corporate Health and Safety Policy is regularly reviewed and signed off by both the Leader and the Chief Executive. Partnership health and safety is covered by specific policy arrangement.

The Corporate Health and Safety Policy is available electronically on the intranet and is supported by departmental policies and guidance. Audit programmes are in place across the County Council to review compliance against the policies and procedures.

The Corporate Health and Safety policy and supporting policies are covered in health and safety induction and other relevant training courses. A suite of training course for health and safety is in place.

There have been no HSE interventions such as Prohibition or Improvement Notices or prosecutions since 2005.

The Risk and Safety Executive Group, the Risk Management Board and CMT receive reports on health and safety performance including incidents and positive indicators. The overall health and safety management performance is measured annually against standards defined by the HSE. The County Council's health and safety management system was assessed by RoSPA as part of their annual awards in 2010, with the County Council receiving the award in their Public Services, Education and Local Government Sector category.

The County Council has an established Complaints Policy and Procedure which is reviewed on a quarterly basis. The procedure is compliant with all relevant statutory requirements, and details of the operation of the complaints regime can be found on the County Council's website. The County Council's leaflets and posters which highlight complaints procedures are published and available. All complaints files are kept in locked and secure cabinets with restricted access.

An annual report on the Complaints Policy and procedure is submitted to the Audit Committee.

As described above, guidance and the database of partnerships helps to identify and register risks in partnerships. Additionally, major corporate partnerships are included in the risk register.

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 County Council Business Plan and an annual self-assessment, to be completed by departments.

It is a management responsibility to develop and maintain the internal control framework, and to ensure that the County Council's resources are properly applied. Internal audit is an assurance function that primarily provides an independent and objective opinion to the County Council on the control environment by evaluating its effectiveness in achieving the County Council's objectives. Within the County Council, internal audit assists managers by evaluating and reporting to them the effectiveness of the controls for which they are responsible.

The internal audit strategy and terms of reference for internal audit, approved by the Audit Committee, require the regular assessment and review of risks, controls and governance processes; and also the provision of an annual report and opinion from the Chief Internal Auditor. This is a key element of the assurance available to the Monitoring Officer in drafting the Annual Governance Statement.

On 1 November 2010 Hampshire County Council and Southampton City Council agreed to a collaborative approach for the provision of a shared internal audit service. The agreement introduces a shared Chief Internal Auditor role across both authority's.

The arrangement provides further scope to develop the shared service approach to best utilise areas of expertise across both authority's and generate economies of scale through training and development. Additional independent assessment of the internal control framework is provided by external audit reports, including the District Auditor's annual Management Letter.

The Audit Committee reviewed the County Council's Whistle Blowing and Counter Fraud and Corruption policies at its meeting in December 2009, and the updated and revised procedures are now in place, set out on the website, and have been integrated into the e-learning on corporate governance.

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 and the Corporate Governance questionnaires retained by the Monitoring Officer as part of the assurance framework. 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 recommendations 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 regular provision of inspection and assessment reports by the Audit Commission (as the designated external auditor), 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 Monitoring Officer and the Chief Internal Auditor have evaluated the reports from the internal and external assurance providers which have also been reported to the Audit Committee. This Annual Governance Statement sets out the County Council's arrangements for receiving reports and identifying weaknesses in Internal control.

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

The County Council will adopt the revised Constitution by July 2011.

The Monitoring Officer will complete the review of the Officer's Code of Conduct by the end of the 2011-2012 year.

The review of the County Council's suite of Governance documentation will be completed by the Monitoring Officer and the Chief Internal Auditor by the end of 2011 and clear "ownership" of the respective documents will be established.

The Policy and Performance Unit will Finalise the review of the performance management framework by the end July 2011.

The Chief Executive's Department will review the County Council's risk management and health and safety frameworks by December 2011 to ensure that processes continue to effectively support the delivery of the County Council's business objectives.

Implementation of the County Council's Procurement Improvement Programme is planned to continue in 2011/12. The Director of Culture, Communities and Business Services leads on behalf of the Corporate Management Team and delivery of the programme is managed by a corporate steering group.

Completion of the corporate review of learning & development, ensuring greater co-ordination of activities to achieve improved efficiencies and more focused learning interventions based on business need, is being co-ordinated by the Workforce Development Steering Group (WDSG) chaired by the Deputy Chief Executive and will be completed by April 2012.

The review of County Council's Talent Management Strategy, in light of current organisational restructures and potentially different delivery models for services, will be completed by 31st March 2012.

The revised Communications Strategy will be finalised by Corporate Communications by I July 2011.

A Community Involvement Strategy will be developed during 2011-2011 to promote more community involvement and resilience.

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.

The Action Plan is kept under regular review by the Officer Corporate Governance Group. In response to the Action Plan identified in the 2009-2010 Annual Governance Statement:

- The corporate partnership guidance and protocols have been revised and strengthened, particularly in respect of links to risk management
- A governance guidance note has been produced by the Monitoring Officer and relevant officers have been made aware of the protocols relating to the approval of exempt reports.
- The Constitution has been reviewed and rewritten by the Monitoring Officer. The new Constitution was considered by the Audit Committee, Cabinet and by members generally in workshops. The amended Constitution will be adopted by the County Council by July 2011
- The Protocol for Member Officer Relations has been reviewed and updated as part of the wider review of the Constitution. A revised Officer's Code of Conduct has been drafted and consultation is ongoing. The full review will remain an action point for 2011-2012
- A review of the County Council's Governance Documents is currently being compiled to substantiate ownership and accountabilities and is to be discussed at the next meeting of the Officer Corporate Governance Group
- In the light of the proposed changes to the standards regime in the Localism Bill the Standards Committee decided not to proceed with a full structured work programme while still performing its statutory obligations and operating within its terms of reference.
- Significant progress has been made towards the development of the Talent Management Strategy with the development of "Leadership Essentials" which is a leadership development offering designed to ensure that managers are being equipped with the necessary skills to take on more senior positions in the future. The County Council's overall Talent Management strategy is being further reviewed in light of the corporate review of learning & development and current organisational restructure programme
- The Corporate Governance e-learning module was launched in July 2010. The module is available to all County Council staff and forms part of the

mandatory corporate induction programme. To date approximately 1,000 members of staff have completed the training.

- The launch of the governance e-learning module was endorsed by the County Council's Leader, Cllr Thornber, who said

"It is vital that we, in Hampshire County Council, demonstrate the highest possible standards of behaviour in the duties we perform. I welcome this e-learning which provides guidance about what is expected of all of us to act morally, fairly, decently and justly on behalf of the people of Hampshire"

- The key learning objectives of the training are to:
  - Define what is meant by ethical behaviour
  - Describe the basic principles of good governance
  - Explain the minimum standards expected and outlined in the Code of Conduct and other considerations such as political neutrality; and
  - Summarise the policies that make up the governance framework
- Implementation of the recommendations of the Corporate Services Review of procurement as contained in the Council's Procurement Improvement Programme progressed well during 2010/11 and progress on procurement was regularly reported to elected Members. Both implementation and reporting will continue in 2011/12
- The review of Contract Standing Orders has been completed and the revised Contract Standing Orders have been adopted by the County Council.

Declaration

We have been advised on the implications of the result of the review of the governance framework by the Audit Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

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:	Signed:
Date: 29 September 2011	Date: 29 September 2011
Chief Executive	Leader of the County Council

Statement of Responsibilities for the Statement of Accounts

1 The Council's responsibilities

The Council is required to:

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

2 The County Treasurer's responsibilities

1 The County Treasurer is responsible for preparing the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA / LASAAC Code of Practice on Local Authority Accounting in Great Britain.

2 In preparing this Statement of Accounts, the County Treasurer has:

- selected suitable accounting policies and applied them consistently
- made judgements and estimates that were reasonable and prudent
- complied with the Code of Practice.

3 The County Treasurer has also:

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

3 The County Treasurer's statement

I certify that the Statement of Accounts presents a true and fair view of the financial position of the County Council as at 31 March 2011 and its income and expenditure for the year ended 31 March 2011.

Carolyn Williamson
County Treasurer and Section 151 Officer
20 September 2011

4 The Chairman’s statement

I certify that the Statement of Accounts for 2011/10 was considered and approved by the Audit Committee on 29 September 2011.

Councillor Keith Evans
Chairman of Audit Committee
29 September 2011

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

Opinion on the Authority accounting statements

I have audited the accounting statements of Hampshire County Council for the year ended 31 March 2011 under the Audit Commission Act 1998. The accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Hampshire County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the County Treasurer and auditor

As explained more fully in the Statement of the County Treasurer's Responsibilities, the County Treasurer is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authority; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion the accounting statements:

- give a true and fair view of the state of Hampshire County Council's affairs as at 31 March 2011 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

Matters on which I report by exception

I have nothing to report in respect of the governance statement on which I report to you if, in my opinion, the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

Opinion on the pension fund accounting statements

I have audited the pension fund accounting statements for the year ended 31 March 2011 under the Audit Commission Act 1998. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Hampshire County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the County Treasurer and auditor

As explained more fully in the Statement of the County Treasurer's Responsibilities, the County Treasurer is responsible for the preparation of the pension fund's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund’s circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the fund; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion the pension fund’s accounting statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2011 and the amount and disposition of the fund’s assets and liabilities as at 31 March 2011, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

Conclusion on Authority’s arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority’s responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor’s responsibilities

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Basis of conclusion

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, I am satisfied that, in all significant respects, Hampshire County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

Certificate

I certify that I have completed the audit of the accounts of Hampshire County Council and Hampshire County Council Pension Fund in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

K L Handy
Officer of the Audit Commission
Collins House'
Bishopstoke Road,
Eastleigh,
Hampshire
SO50 6AD

30 September 2011

Movement in Reserves Statement

This Statement shows the movement in the year on the different reserves held by the authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The 'surplus or (deficit) on the provision of services' line shows the true economic cost of providing the authority'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 Council.

	General Fund Balance £'000	Earmarked GF Reserves £'000	Capital Grants Unapplied Reserve £'000	Total Usable Reserves £'000	Unusable Reserves £'000	Total Authority Reserves £'000
Balance at 31 March 2009	**(34,512)**	**(161,937)**	**(5,143)**	**(201,592)**	**(2,120,388)**	**(2,321,980)**
Surplus or (deficit) on provision of services (accounting basis)	86,021	-	-	86,021	-	86,021
Other comprehensive expenditure and income	-	-	-	-	46,764	46,764
Total comprehensive expenditure and income	**86,021**	**-**	**-**	**86,021**	**46,764**	**132,785**
Adjustments between accounting basis & funding basis under regulations (note 7)	(89,668)	-	-	(89,668)	89,668	-
Net increase / decrease before transfers to earmarked reserves	**(3,647)**	**-**	**-**	**(3,647)**	**136,432**	**132,785**
Transfers to / from earmarked reserves (note 9)	1,229	6,267	(5,654)	1,842	(1,842)	-
Increase / decrease in year	**(2,418)**	**6,267**	**(5,654)**	**(1,805)**	**134,590**	**132,785**
Balance at 31 March 2010	**(36,930)**	**(155,670)**	**(10,797)**	**(203,397)**	**(1,985,798)**	**(2,189,195)**

Movement in Reserves Statement

	General Fund Balance £'000	Earmarked GF Reserves £'000	Capital Grants Unapplied Reserve £'000	Total Usable Reserves £'000	Unusable Reserves £'000	Total Authority Reserves £'000
Balance at 31 March 2010	**(36,930)**	**(155,670)**	**(10,797)**	**(203,397)**	**(1,985,798)**	**(2,189,195)**
Surplus or (deficit) on provision of services (accounting basis)	(235,928)	-	-	(235,928)	-	(235,928)
Other comprehensive expenditure and income	-	-	-	-	(153,258)	(153,258)
Total comprehensive expenditure and income	**(235,928)**	**-**	**-**	**(235,928)**	**(153,258)**	**(389,186)**
Adjustments between accounting basis & funding basis under regulations (note 7)	200,644	-	-	200,644	(200,644)	-
Net increase before transfers to earmarked reserves	**(35,284)**	**-**	**-**	**(35,284)**	**(353,902)**	**(389,186)**
Transfers to / from earmarked reserves (note 9)	51,183	(48,607)	745	3,321	(3,321)	**-**
(Increase) / decrease in Year	**15,899**	**(48,607)**	**745**	**(31,963)**	**(357,223)**	**(389,186)**
Balance at 31 March 2011	**(21,031)**	**(204,277)**	**(10,052)**	**(235,360)**	**(2,343,021)**	**(2,578,381)**

Comprehensive Income and Expenditure Statement

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

Comprehensive Income and Expenditure Statement

2009/10 Gross expenditure £'000	2009/10 Gross income £'000	2009/10 Net expenditure £'000	See note		2010/11 Gross expenditure £'000	2010/11 Gross income £'000	2010/11 Net expenditure £'000
7,251	-2,393	4,858		Central services to the public	8,552	-2,488	6,064
129,215	-27,472	101,743		Cultural, environmental and planning services	134,892	-28,113	106,779
1,223,956	-931,433	292,523	26	Education & Children's services	1,297,818	-1,029,284	268,534
98,466	-8,565	89,901		Highways and transport services	97,829	-17,473	80,356
412,978	-123,469	289,509		Adult social care	421,487	-105,381	316,106
1,067	-1,039	28		Court services	1,710	-1,153	557
18,077	-	18,077		Corporate and democratic core	15,326	-	15,326
-	-2,250	-2,250		Reward grant	-	-1	-1
7,172	-5,812	1,360		Non-distributed costs	-233,057	-241	-233,298
-4,182	-	-4,182	17	Reduction in provisions	-1,833	-	-1,833
1,894,000	**-1,102,433**	**791,567**		**Cost of services**	**1,742,724**	**-1,184,134**	**558,590**
				Other operating expenditure			
6,240	-5,769	471		Gain/loss on disposal of assets	8,583	-13,030	-4,447
132,909	**-60,687**	72,222	10	Total financing and investment income and expenditure	135,264	-92,475	42,789
				Taxation and non-specific grant income			
-	-72,587	-72,587	27	Non-ringfenced government grants		-87,790	
-	-117,643	-117,643		Non domestic rates		-128,217	
-	-513,503	-513,503	18f	Council tax income		-527,421	
-	-74,506	-74,506	27	Capital grants and contributions		-89,432	
-	**-778,239**	**-778,239**		**Total taxation and non-specific grant income**			**-832,860**
2,033,149	**-1,947,128**	**86,021**		**Surplus or deficit on the provision of services**			**-235,928**
		-145,883		Net gains on revaluation of fixed assets		-172,096	
		-3,064		Adjustment to prior year revaluations and capital receipts		227	
		199,110		Actuarial loss on pension fund assets and liabilities		18,770	
		-161		External contribution towards debt outstanding on transferred services		-159	
		-3,238	18f	Opening adjustment for council tax accrual		-	
		46,764		**Other comprehensive income and expenditure**			-153,258
		132,785		**Total comprehensive income and expenditure**			**-389,186**

Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the 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 09	31 March 10	See note		31 March 2011 £'000	£'000
2,915,577	3,005,305		Land and buildings	3,132,183	
56,986	56,905		Vehicles, plant and equipment	54,824	
447,308	469,382		Infrastructure assets	512,705	
11,958	13,424		Community assets	14,254	
41,914	32,936		Assets under construction	37,035	
13,028	10,942		Surplus assets	6,600	
3,486,771	**3,588,894**	11a	**Property, plant & equipment**	**3,757,601**	
37,781	42,032	12	Investment property	46,168	
3,524,552	**3,630,926**		**Total non-current assets**	**3,803,769**	
-	-	13c	Long-term investments	10,000	
40,788	39,289	13a	Long-term debtors	37,753	
3,565,340	**3,670,215**		**Total long-term assets**		**3,851,522**
			Current assets		
8,902	8,432	16	Current assets held for sale	13,766	
147,804	146,504	13c	Short-term investments	171,171	
3,245	3,369	15	Inventories	2,956	
72,189	89,900	13b	Short-term debtors	86,809	
52,996	43,709	14	Cash and cash equivalents	38,746	
285,136	**291,914**		**Total current assets**	**313,448**	
			Current liabilities		
-17,124	-15,400		Bank overdraft	-7,561	
-219,624	-242,824	13g	Short-term creditors	-270,628	
-99,841	-89,888	13e	Short-term borrowing	-36,313	
-3,197	-3,454		Deferred liability repayable within one year	-5,935	
-339,786	**-351,566**		**Total current liabilities**	**-320,437**	
-54,650	**-59,652**		**Net current liabilities**		**-6,989**
3,510,690	**3,610,563**		**Total assets less current liabilities**		**3,844,533**
-5,215	-5,188	17	Provisions	-12,816	
-336,996	-336,556	13d	Long-term borrowing	-365,895	
-85,525	-82,071	31	Deferred liabilities	-88,544	
-33,404	-34,223	13f	Developers' contributions	-44,937	
-461,140	**-458,038**		**Total long term liabilities**		**-512,192**
-727,570	**-963,330**	32	Net liability related to defined benefit pension schemes		**-753,960**
2,321,980	**2,189,195**		**Total net assets**		**2,578,381**

			Financed by:		
			Usable reserves		
-34,512	-36,930	8	General Fund	-21,031	
-161,937	-155,670	9	Earmarked reserves	-204,277	
-5,143	-10,797		Capital Grants Unapplied Reserve	-10,052	
-201,592	**-203,397**		**Total usable reserves**	**-235,360**	
-2,120,388	**-1,985,798**	18	**Unusable reserves**	**-2,343,021**	
-2,321,980	**-2,189,195**		**Total net worth**		**-2,578,381**

Cash Flow Statement

	2009/10 £'000	2010/11 £'000
Net surplus (-) or deficit (+) on the provision of services	86,021	-235,928
Adjustments to net surplus or deficit on the provision of services for non-cash movements (note 19a)	-152,461	126,785
Adjustment for items included in the net surplus or deficit on the provision of services that are investing and financing activities (note 19a)	-17,381	-21,673
Net cash inflow from Operating Activities	-83,821	-130,816
Investing Activities (note 19b)	58,181	56,169
Financing Activities (note 19c)	33,203	71,771
Net increase (-) or decrease (+) in cash and cash equivalents	7,563	-2,876
Cash and cash equivalents at the beginning of the reporting period	-35,872	-28,309
Cash and cash equivalents at the end of the reporting period (note 14)	**-28,309**	**-31,185**

Notes to the Core Financial Statements

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Notes to the Core Financial Statements

1 Accounting policies

1.1 General principles

The Statement of Accounts summarises the Authority’s transactions for the 2010/11 financial year and its position at the year-end of 31 March 2011. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2011. These require the accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 and the Best Value Accounting Code of Practice 2010/11. 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 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 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 2011 is estimated at £3.5 million (£3.6 million in 2009/10)
- 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 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 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 Authority's cash management.

1.4 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. lease cars) for current employees, are recognised as an expense in the year in which employees render service to the 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 term's 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 HCC staff work under 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 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 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 Authority are members of two separate pension schemes:

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

Both schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Authority. However, the arrangements for the teachers' scheme mean that liabilities for these benefits cannot ordinarily be identified specifically to the Authority. The scheme is therefore accounted for as if it were 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 Local Government Pension Scheme is accounted for as a defined benefits scheme where:

- the liabilities of the scheme attributable to the Council are included in the Council's 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 Council are included in the Council's 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 pensions liability is analysed into seven 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 to the services that the employees provide.
- **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.
- **Interest cost:** this is the expected increase in the present value of liabilities during the year as they move one year closer to being paid. This is shown as a financing cost within the Comprehensive Income and Expenditure Statement.
- **Expected return on assets:** this is the annual investment return on the fund assets attributable to the council, based on an average of the expected long-term return. This is shown as investment income within 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 Council of liabilities or reduce the expected future service or accrual of benefits of employees. This is shown as a non-distributed cost.
- **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 Council to raising council tax to cover the actual amounts payable by the 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 Account 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 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.

1.5 Events after the balance sheet date

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

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

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

1.6 Financial instruments

Financial liabilities

Financial liabilities are recognised on the Balance Sheet when the Authority 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 Authority 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 Authority has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial assets

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

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the financing and investment income and expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Foreign currency translation

Where the Authority 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.

1.7 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 Authority 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 Account 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 donator.

In deciding if developer contribution agreements have conditions attached the 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 posted 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.

1.8 Intangible assets

Intangible assets 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. The County Council does not have any material intangible assets. Capital expenditure on immaterial intangible assets is classified as furniture and equipment.

1.9 Interests in companies and other entities

The Council does not have any material controlling interests in other entities, so group accounts are not required.

1.10 Stock and long term contracts

Stocks held in the Balance Sheet are valued according to their differing nature and purpose. For example, County Supplies stock of £1.3 million is valued at the latest buying price. The rest are mainly on an historical cost basis. Spending on consumable items is accounted for in the year of purchase.

Long term contracts are accounted for on the basis of charging services with the value of works and services received under the contract during the financial year. The cost of capital schemes that are in progress at the date of the Balance Sheet are included as assets under construction within long term assets.

1.11 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.

1.12 Jointly controlled operations

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

1.13 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. Extremely long leases of land (say over 250 years) could be treated as finance 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 materiality level is used equivalent to the triviality level used by the council's external auditors (currently £330,000). In addition, property leases under 25 years are classified as operating leases.

The council as lessee

Finance leases - Where the council leases a material asset under a finance lease it is recognised in the accounts as if it were the 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 council leases a material asset under an operating lease the asset is not recognised in the council's 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 council as lessor

Finance leases - Where the Authority 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 Authority'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 (ie 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 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 Account. Credits are made on a straight-line basis over the life of the lease.

1.14 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 Best Value Accounting 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 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 Account, as part of the cost of services.

1.15 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 council and the services that it provides are for more than one financial year. Spending on IT assets and intangible assets (such as software licences) typically yields benefits for a period of less than five years. Such expenditure is capitalised only if it yields benefits of five years or more which is not in accordance with recommended practice. This does not have a material effect in the accounts. Expenditure that maintains, but does not extend, the previously assessed standards of performance of the asset (e.g. repairs and maintenance) is charged to the relevant service area within the Comprehensive Income and Expenditure Statement as it is incurred.

Measurement

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

- land and buildings are measured at fair value. For land and buildings this means existing use value (EUV) for non-specialised properties or depreciated replacement cost (DRC) for specialised properties. For surplus land and buildings this means open market value
- vehicles, plant and equipment are measured at depreciated historical cost (as this is not materially different from the fair value)
- infrastructure assets are measured at depreciated historical cost
- community assets and assets under construction are measured at historical cost.

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

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

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.

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 bases:

- 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.

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. 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 Authority’s underlying need to borrow (the capital financing requirement).

1.16 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 Authority 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 Authority at the end of the contracts for no additional charge, the Authority 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 Authority. 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.

1.17 Provisions

Provisions are made where an event has taken place that gives the Authority 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. In 2010/11, provision has been made for estimated restructuring costs where there is an agreed business case setting out the proposed restructuring.

Provisions are charged to the Comprehensive Income and Expenditure Statement in the year that the authority 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.

1.18 Landfill allowances scheme

Landfill allowances, whether allocated by DEFRA or purchased from another Waste Disposal Authority (WDA) are recognised as current assets and are initially measured at fair value. After initial recognition, allowances are measured at the lower of cost and net realisable value. Landfill allowances allocated by DEFRA are accounted for as a government grant.

As landfill is used, a liability and an expense are recognised. The liability is discharged by surrendering. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally the market price of the number of allowances required to meet the liability at the reporting date.

1.19 Contingent liabilities

A contingent liability arises where an event has taken place that gives the authority 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 Authority. 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.

1.20 Contingent assets

A contingent asset arises where an event has taken place that gives the Authority 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 Authority.

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.

1.21 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.

1.22 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 account in the year it is incurred. However, so that it does not impact on the year’s council tax, an adjustment is made in the Statement of Movement on the General Fund balance.

1.23 Redemption of debt

The Council's borrowing for capital purposes is controlled under the CIPFA Prudential Code for Capital Finance in Local Authorities. The total borrowing is expressed as the Capital Financing Requirement and is derived from the opening Balance Sheet.

With regard to The Local Authority (Capital Finance and Accounting) (England) (Amendment) Regulations 2008, the Council's policy is to make a minimum revenue provision equal to 4% of the capital financing requirement at the beginning of the year on supported borrowing. For unsupported borrowing incurred after 1 April 2008, minimum revenue provision is made on an equal instalment basis that reflects the life of the related asset, using a period that is no longer than used to calculate the corresponding depreciation provision. For deferred liabilities relating to PFI and service concessions, minimum revenue provision is made on the basis of the principal element of the annuity payment required to write down the liability over the life of the related asset.

1.24 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.

1.25 Accounting standards issued, not adopted

FRS 30 Heritage Assets has been published but has not been incorporated within the 2010/11 Code of Practice. However it has been included in the 2011/12 Code of Practice and so will apply from 1 April 2011.

Heritage assets are those held by the authority for cultural, environmental or historical reasons in relation principally to their contribution to knowledge and culture. These assets will be measured at fair value where practicable or otherwise at historic cost less depreciation, amortisation or impairment.

Where such assets are held currently on the balance sheet they are likely to be classed as Community Assets, which are valued at undepreciated historic cost. Other Community Assets such as museum exhibits, pieces of art, historic records held by Hampshire Record Office and historic monuments are not currently accounted for on the Balance Sheet.

2 Critical judgements in applying accounting policies

In applying the accounting policies set out in note 1, the Authority 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 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 Council they are deemed to be property, plant and equipment assets. If there is no subsidy and/or full market rent is being charged this would indicate that the asset is an investment property. Where assets are being held vacant for purposes of future capital appreciation, due to market conditions or planning decisions, these have been classified as investment property. The classification determines the valuation and depreciation method to be used.

2.2 Lease classifications

The accounting treatment for operating and finance leases is significantly different and could have a significant effect on the accounts. 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. These tests include the following assumptions in the classification of operating leases:

- land leases under 250 years
- property leases under 25 years
- all leases below £330,000.

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 legal claims, including those relating to equal pay, 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 legal actions based on experience in previous years or in other local authorities.

2.4 Future funding for local government

There is a high degree of uncertainty about future levels of funding for local government. However, earmarked reserves will provide invest to save funding for a range of efficiency measures to ensure services can continue to be provided at an appropriate level.

2.5 Production of group accounts

The 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 authority'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 included in a disclosure note.

3 Uncertainties relating to assumptions and estimates used

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

There is one item in the Council's Balance Sheet at 31 March 2011 for which there is a significant risk of material 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 Authority with expert advice about the assumptions to be applied.

The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption for funded liabilities would result in a decrease in the pension liability of £154.3 million. However, the assumptions interact in complex ways. During 2010/11, the Council's actuaries advised that for funded liabilities, the net pension liability had increased by £26.75 million as a result of estimates being corrected as a result of experience and decreased by £23.0 million attributable to updating of the assumptions.

4 First time adoption of International Financial Reporting Standard (IFRS)

The Statement of Accounts for 2010/11 is the first to be prepared on an IFRS basis. Adoption of the IFRS based code has resulted in the restatement of various balances and transactions, with the result that some amounts presented in the financial statements are different from the equivalent figures presented in the Statement of Accounts 2009/10.

The material differences between the amounts presented in the 2009/10 financial statements and the equivalent amounts presented in the 2010/11 financial statements are set out below.

4.1 Assets

Under the Code, assets are renamed, reclassified and redefined. Fixed assets are now named long term assets and include two main classifications of assets:

- Property, plant and equipment covering:
    - operational land and buildings
    - surplus land and buildings
    - community land and buildings
    - infrastructure assets
    - vehicles, plant and equipment
    - assets under construction
- investment property.

Assets held for sale are now classified as current assets.

The code uses a revised definition of investment property and assets held for sale than that used in previous years. Consequently a number of assets have been reclassified. In addition, the code changes the accounting for revaluation gains and losses on investment properties as these are now recognised as financing, investment Income and expenditure in the Comprehensive Income and Expenditure Statement rather than in the Revaluation Reserve. Consequently the balance on the investment property revaluation reserves has been transferred to the Capital Adjustment Account. The changes are summarised in the tables below.

Another change relating to impairment of asset values under the Code is that these can now be charged to the Revaluation Reserve with any excess charged to the Comprehensive Income and Expenditure Statement, whereas, previously, the full amount was charged to the Income and Expenditure Account.

	2009/10 published accounts £'000	Reclassified investment properties £'000	Reclassified assets held for sale £'000	2009/10 restated accounts £'000
Opening balance sheet 1 April 2009				
Property, plant and equipment	3,533,454	-37,781	-8,902	3,486,771
Investment property	-	37,781	-	37,781
Long-term debtors	40,788	-	-	40,788
Total long-term assets	3,574,242	-	-8,902	3,565,340
Current assets	274,390	-	8,902	283,292
Revaluation Reserve	-434,573	6,010	-	-428,563
Capital Adjustment A/c	-1,952,848	-6,010	-	-1,958,858
Closing balance sheet 31 March 2010				
Property, plant and equipment	3,639,358	-42,032	-8,432	3,588,894
Investment property	-	42,032	-	42,032
Long-term debtors	39,289	-	-	39,289
Total long-term assets	3,678,647	-	-8,432	3,670,215
Current assets	282,744	-	8,432	291,189
Revaluation Reserve	-563,096	9,647	-	-553,449
Capital Adjustment A/c	-1,882,356	-9,647	-	-1,892,003

	2009/10 published accounts net expenditure £'000	Net revaluations and net income on investment properties £'000	Impairments transferred to net gains on revaluations £'000	2009/10 restated accounts £'000
2009/10 Income and Expenditure Account				
Central services to the public	5,271	-	-413	4,858
Cultural, environmental & planning services	108,588	284	-8,174	100,698
Education and children's services	284,882	-	-5,882	279,000
Highways, roads and transport services	77,548	97	-	77,645
Adult social care	290,291	-274	-2,330	287,687
Court services	515	-	-487	28
Non-distributed costs	3,931	62	-2,633	1,360
Total financing and investment income and expenditure	-	-169	-3,637	-3,806
	771,026	-	-23,556	747,470

4.2 Grants and Contributions

Under the Code, revenue and capital grants and contributions are recognised as income when they become receivable and any conditions have been met. Any amounts unapplied are transferred to a usable reserve in the Balance Sheet. If conditions have not been met, the amount is transferred to receipts in advance on the Balance Sheet. Previously, capital grants and contributions were held as receipts in advance on the Balance Sheet until they were applied when they were transferred to a grants and contributions deferred account and recognised as income in the Income and Expenditure Account over the life of the asset they were used to fund.

As a consequence of adopting the accounting policy required by the Code, the financial statements have been amended as follows:

- the balance of deferred grants and contributions has been transferred to the Capital Adjustment Account
- the amount of deferred income recognised in the 2009/10 Income and Expenditure Account is replaced with capital grants applied in 2009/10
- grants and contributions received in 2008/09 and 2009/10 with outstanding conditions have been recognised as short term liabilities in the Balance Sheet
- unapplied grants and contributions received in 2008/09 and 2009/10 with no conditions or none outstanding have been transferred to usable reserves.

	2009/10 published accounts £'000	Applied grants £'000	Unapplied grants £'000	2009/10 restated accounts £'000
Opening Balance Sheet 1 April 2009				
Current assets	274,390	-	1,844	276,234
Current liabilities	-330,852	-	5,839	-325,013
Long-term liabilities	-933,560	473,118	-698	-461,140
Capital Adjustment A/c	-1,952,848	-473,118	-	-2,425,966
Usable reserves	-196,897	-	-6,985	-203,882
	-3,139,767	-	-	-3,139,767
Closing Balance Sheet 31 March 2010				
Current assets	282,744	-	738	283,482
Current liabilities	-346,041	-	12,243	-333,798
Long-term liabilities	-974,015	517,003	-1,026	-458,038
Capital Adjustment A/c	-1,882,356	-517,003	-	-2,399,359
Usable reserves	-191,442	-	-11,955	-203,397
	-3,111,110	-	-	-3,111,110
2009/10 Income and Expenditure Account				
Cultural, environmental & planning services	108,588	956	89	109,633
Education and children's services	284,882	9,620	908	295,410
Highways & transport	77,548	12,569	-313	89,804
Adult social care	290,291	1,822	-	292,113
Taxation and non-specific grant income	-703,733	-68,852	-5,654	-778,239
	57,576	-43,885	-4,970	8,700

4.3 Cash and cash equivalents

Very short term investments are deemed to be equivalent to cash under the code. Consequently investments that mature the same day as the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value have been reclassified in the balance sheet as follows:

	2009/10 published accounts £'000	Cash equivalents £'000	2009/10 restated accounts £'000
Opening balance sheet 1 April 2009			
Short term investment	195,209	-47,405	147,804
Cash and cash equivalents	5,591	47,405	52,996
Closing balance sheet 31 March 2010			
Short term investment	184,584	-38,080	146,504
Cash and cash equivalents	5,629	38,080	43,709

4.4 Employee benefits

The Code introduces the requirement to accrue for employee benefits earned but not taken in the financial year. However, the impact on the General Fund is refunded by the Compensated Absences Adjustment Account within the Movement in Reserves Statement. The accrual for 2009/10 was as follows:

	2009/10 published accounts £'000	Employee benefits accrual £'000	2009/10 restated accounts £'000
Opening balance sheet 1 April 2009			
Current liabilities	-330,852	-14,773	-345,625
Compensated Absences Adjustment Account	-	14,773	14,773
Closing balance sheet 31 March 2010			
Current liabilities	-346,041	-17,768	-363,809
Compensated Absences Adjustment Account	-	17,768	17,768
2009/10 Income and Expenditure Account			
Education and children's services	284,882	17,768	302,650

5 Material items of income and expense

The authority terminated, or made provision to terminate, the contracts of a number of employees in 2010/11. Total liabilities of £16.1 million are included within service costs (£1.0 million in 2009/10). This includes the termination benefits paid to senior officers disclosed in note 24b.

6 Events after the Balance Sheet date

The Statement of Accounts was authorised for issue by the County Treasurer on 20 September 2011. In the period since 31 March 2011 until the date the accounts were authorised for issue, 17 schools have transferred to academy status. The Balance Sheet at 31 March 2011 included assets and liabilities relating to these schools that will transfer during 2011/12. This includes plant, property and equipment valued at £185.3 million at 31 March 2011 and cash backed reserves of £7 million. However, the actual value of transfers will be agreed as at the date of transfer.

7 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 Authority in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Authority to meet future capital and revenue expenditure.

	Usable reserves				
2009/10	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Unusable Reserves	Total
	£'000	£'000	£'000	£'000	£'000
Reversal of items included in the Comprehensive Income and Expenditure Statement but required by statute to be excluded when determining the surplus or deficit on the General Fund for the year.					
Depreciation and impairment of non-current assets	-168,225	-	-	168,225	-
Movement in the market value of investment property	3,637	-	-	-3,637	-
Revenue expenditure funded by capital under statute	-14,776	-	-	14,776	-
Loss on assets transferred to foundation schools	-21,579	-	-	21,579	-
Book value of non-current assets sold	-6,230	-	-	6,230	-
Capital grants and contributions applied	74,908	-	-	-74,908	-
Transferred to Capital Adjustment Account	**-132,265**	**-**	**-**	**132,265**	**-**
Transfer cash proceeds from sale of non-current assets	5,769	-5,769	-	-	-
Transfer from deferred capital receipts upon receipt of cash	-	-5,724	-	5,724	-
Use of capital receipts to finance capital expenditure	-	11,493	-	-11,493	-
Council tax income accrual transferred to Collection Fund Adjustment Account	1,291	-	-	-1,291	-
Net charges relating to retirement benefits transferred to the Pensions Reserve	-106,235	-	-	106,235	-
Effective interest on soft loans transferred to the Financial Instruments Adjustment Account	10	-	-	-10	-
Employee benefits accrual transferred to the Accumulated Absences Account	-2,995	-	-	2,995	-
Insertion of items not included in the Comprehensive Income and Expenditure Statement but required by statute to be included when determining the surplus or deficit on the General Fund for the year.					
Statutory provision for the repayment of debt	28,845	-	-	-28,845	-
Contribution from other authorities for the repayment of debt	-1,866	-	-	1,866	-
Capital expenditure funded from the General Fund	48,193	-	-	-48,193	-
Transferred from Capital Adjustment Account	**75,172**	**-**	**-**	**-75,172**	-
Employer's contributions payable to the Pension Fund transferred from the Pension Reserve	69,585	-	-	-69,585	-
Total adjustments	**-89,668**	**-**	**-**	**89,668**	**-**

2010/11	Usable reserves General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Unusable Reserves	Total
	£'000	£'000	£'000	£'000	£'000
Reversal of items included in the Comprehensive Income and Expenditure Statement but required by statute to be excluded when determining the surplus or deficit on the General Fund for the year.					
Depreciation and impairment of non-current assets	-165,174	-	-	165,174	-
Movement in the market value of investment property	5,504	-	-	-5,504	-
Revenue expenditure funded by capital under statute	-9,244	-	-	9,244	-
Book value of non-current assets sold	-8,569	-	-	8,569	-
Capital grants and contributions applied	86,855	-	-	-86,855	-
Transferred to Capital Adjustment Account	**-90,628**	**-**	**-**	**90,628**	**-**
Transfer cash proceeds from sale of non-current assets	13,030	-13,030	-	-	-
Use of capital receipts to finance capital expenditure	-	13,030	-	-13,030	-
Council tax income accrual transferred to Collection Fund Adjustment Account	2,128	-	-	-2,128	-
Net charges relating to retirement benefits transferred to the Pensions Reserve	148,075	-	-	-148,075	-
Effective interest on soft loans transferred to the Financial Instruments Adjustment Account	9	-	-	-9	-
Employee benefits accrual transferred to the Accumulated Absences Account	1,824	-	-	-1,824	-
Insertion of items not included in the Comprehensive Income and Expenditure Statement but required by statute to be included when determining the surplus or deficit on the General Fund for the year.					
Statutory provision for the repayment of debt	31,839	-	-	-31,839	-
Contribution from other authorities for the repayment of debt	-1,805	-	-	1,805	-
Capital expenditure funded from the General Fund	16,107	-	-	-16,107	-
Transferred from Capital Adjustment Account	**46,141**	**-**	**-**	**-46,141**	**-**
Employer's contributions payable to the Pension Fund transferred from the Pension Reserve	80,065	-	-	-80,065	-
Total adjustments	**200,644**	**-**	**-**	**-200,644**	**-**

8 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.

9 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	Transfers out	Transfers in	Balance at 31 March	Transfers out	Transfers in	Balance at 31 March
	2009	2009/10	2009/10	2010	2010/11	2010/11	2011
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Schools	-37,433	3,464	-	-33,969	-	-2,605	-36,574
Capital	-8,899	8,724	-294	-469	335	-17,932	-18,066
Landfill Allowances	-5,758	-	-226	-5,984	2,400	-300	-3,884
Local Public Service Agreement Reward Grant	-3,774	857	-1,820	-4,737	3,081	-	-1,656
Insurance	-9,392	-	-3,250	-12,642	-	-4,083	-16,725
Designated Underspendings	-16,707	2,226	-	-14,481	1,455	-4,643	-17,669
Grant Equalisation	-24,905	2,490	-	-22,415	3,735	-	-18,680
Equal Pay	-39,198	-	-1,833	-41,031	-	-6,151	-47,182
Trading Accounts	-10,942	2,197	-3,794	-12,539	2,863	-3,077	-12,753
Invest-to-save	-2,361	-	-1,933	-4,294	976	-	-3,318
Corporate Policy Reserve	-	-	-650	-650	-	-1,758	-2,408
Corporate Procurement Reserve	-	-	-500	-500	100	-	-400
Corporate efficiency	-	-	-	-	-	-10,340	-10,340
Corporate Organisational Change	-	-	-	-	-	-3,511	-3,511
Revenue Grants Unapplied	-1,842	1,458	-774	-1,158	-	-5,421	-6,579
Other	-726	45	-120	-801	47	-3,778	-4,532
	-161,937	**21,461**	**-15,194**	**-155,670**	**14,992**	**-63,599**	**-204,277**
Capital Grants Unapplied	-5,143	1,840	-7,494	-10,797	3,321	-2,576	-10,052

The purpose of the Schools Reserve is to earmark the balance of unspent delegated budgets.

The Capital Reserves are to assist in matching the timing of the availability of capital financing resources with the timing of capital payments.

The Landfill Allowances Trading Scheme Reserve was established on closure of the 2005/06 accounts to earmark income from the sale of surplus allowances for future use.

Local Public Service Agreement Reward Grant is to earmark the reward grant for future use.

The Insurance Reserve is to cover fire, flood and storm damage reinstatement costs which are already committed and to reserve against adverse trends in liability claims.

The Designated Underspendings Reserve enables individual services to carry forward underspendings in accordance with the financial management policy.

The Grant Equalisation Reserve is to assist in managing the impact of future grant loss.

The Equal Pay Reserve is to assist in meeting transitional salary protection and equal pay claim costs likely to arise from implementation of the pay and benefit review.

The Trading Accounts Reserve enables business units to carry forward planned surpluses to cover future investment or possible losses.

The Invest-to-save and Modernisation Reserve is to provide funding for investment which will generate future cash savings which can be recycled back into the reserve.

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.

The Corporate Procurement Reserve is used to redirect a contribution from the County Supplies business unit towards the costs of providing support to the corporate procurement efficiency programme.

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

The Organisational Change Reserve was established in 2010/11 from contributions from the corporate policy and invest to save and modernisation reserves to fund the additional cost of the voluntary redundancy scheme implemented to facilitate staffing reductions on a voluntary basis.

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.

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

The Capital Grants Unapplied Reserve is the equivalent to the revenue grants unapplied reserve in respect of capital grants.

10 Financing and investment income and expenditure

2009/10				2010/11		
Gross expenditure £'000	Gross income £'000	Net expenditure £'000		Gross expenditure £'000	Gross income £'000	Net expenditure £'000
25,443	-5,116	20,327	Interest	26,804	-4,440	22,364
-	-3,637	-3,637	Investment property gains and losses	-	-5,504	-5,504
706	-875	-169	Investment property transactions	390	-969	-579
106,760	-	106,760	Pension interest cost	108,070	-	108,070
-	-49,070	-49,070	Expected return on pension assets	-	-78,930	-78,930
-	-1,989	-1,989	Surplus on trading undertakings	-	-2,632	-2,632
132,909	**-60,687**	**72,222**	**Total**	**135,264**	**-92,475**	**42,789**

11a Fixed assets

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

	Other land and buildings £'000	Vehicles, plant and equipment £'000	Infra-structure assets £'000	Comm-unity assets £'000	Surplus assets £'000	Assets under const-ruction £'000	Total property, plant and equipment £'000	PFI assets included in property, plant and equipment £'000
Cost or valuation at 31 March 2010	**3,595,085**	**120,022**	**586,278**	**13,425**	**16,901**	**32,936**	**4,364,647**	**95,227**
Additions	78,862	8,849	62,414	831	45	24,202	175,203	14,741
Disposals	-4,127	-36	-	-	-466	-	-4,629	-
Transfers to other classes	8,884	22	648	-1	-1,455	-20,103	-12,005	-
Transfers to foundation schools	-	-	-	-	-	-	-	-
Changes in certified valuations	55,462	-	-	-	1,189	-	56,651	-
Adjustment to prior year revaluations	-225	-	-	-	-	-	-225	-
Cost or valuation at 31 March 2011	**3,733,941**	**128,857**	**649,340**	**14,255**	**16,214**	**37,035**	**4,579,642**	**109,968**
Accumulated depreciation at 31 March 2010	**-589,780**	**-63,117**	**-116,896**	**-1**	**-5,959**	**-**	**-775,753**	**-11,276**
Depreciation for the year	-72,011	-10,945	-20,388	-	-	-	-103,344	-5,638
Impairment losses	-55,381	-	-	-	-4,381	-	-59,762	-
Disposals - accumulated depreciation	100	29	-	-	-1	-	128	-
Depreciation on transfers	-581	-	649	-	726	-	794	-
Deprecation on transfers to foundation schools	-	-	-	-	-	-	-	-
Revaluations - write back depreciation	115,895	-	-	-	1	-	115,896	-
Prior year revaluations - depreciation write back	-	-	-	-	-	-	-	-
Accumulated depreciation at 31 March 2011	**-601,758**	**-74,033**	**-136,635**	**-1**	**-9,614**	**-**	**-822,041**	**-16,914**
Net book value (NBV) of fixed assets at 31 March 2010	**3,005,305**	**56,905**	**469,382**	**13,424**	**10,942**	**32,936**	**3,588,894**	**83,951**
Net book value at 31 March 2011	**3,132,183**	**54,824**	**512,705**	**14,254**	**6,600**	**37,035**	**3,757,601**	**93,054**
Nature of asset holding								
Owned	3,039,129	54,824	512,705	14,254	6,600	37,035	3,664,547	
PFI/service concessions (see note 31)	93,054						93,054	
	3,132,183	**54,824**	**512,705**	**14,254**	**6,600**	**37,035**	**3,757,601**	

The comparative movements in fixed assets during 2009/10 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	PFI assets included in property, plant and equipment £'000
Cost or valuation at 31 March 2009	**3,495,890**	**110,261**	**545,758**	**11,959**	**15,570**	**41,914**	**4,221,352**	**95,227**
Additions	78,532	9,779	38,153	705	1,362	24,257	152,788	-
Disposals	-800	-16	-	-	-37	-	-853	-
Transfers to other classes	22,812	-	2,371	761	-3,684	-32,655	-10,395	-
Transfers to foundation schools	-24,328	-	-3	-	-6	-580	-24,917	-
Changes in certified valuations	23,366	-	-1	-	3,696	-	27,061	-
Adjustment to prior year revaluations	-387	-2	-	-	-	-	-389	-
Gross book value (GBV) at 31 March 2010	**3,595,085**	**120,022**	**586,278**	**13,425**	**16,901**	**32,936**	**4,364,647**	**95,227**
Accumulated depreciation and impairment at 31 March 2009	**-580,313**	**-53,275**	**-98,450**	**-1**	**-2,542**	**-**	**-734,581**	**-5,638**
Depreciation for the year	-68,715	-9,858	-18,446	-	-	-	-97,019	-5,638
Impairment losses	-87,287	-	-2	-	-3,059	-	-90,348	-
Disposals - accumulated depreciation	-	14	-	-	-	-	14	-
Depreciation on transfers	1,257	-	-	-	-363	-	894	-
Deprecation on transfers to foundation schools	3,338	-	1	-	-	-	3,339	-
Revaluations - write back depreciation	141,924	-	1	-	5	-	141,930	-
Prior year revaluations - depreciation write back	16	2	-	-	-	-	18	-
Accumulated depreciation at 31 March 2010	**-589,780**	**-63,117**	**-116,896**	**-1**	**-5,959**	**-**	**-775,753**	**-11,276**
Net book value of fixed assets at 31 March 2009	**2,915,577**	**56,986**	**447,308**	**11,958**	**13,028**	**41,914**	**3,486,771**	**89,589**
Net book value of fixed assets at 31 March 2010	**3,005,305**	**56,905**	**469,382**	**13,424**	**10,942**	**32,936**	**3,588,894**	**83,951**
Nature of asset holding								
Owned	2,921,354	56,905	469,382	13,424	10,942	32,936	3,504,943	
PFI/service concessions (see note 31)	83,951	-	-	-	-	-	83,951	
	3,005,305	**56,905**	**469,382**	**13,424**	**10,942**	**32,936**	**3,588,894**	

11b Capital commitments

Commitments for major contracts entered into up to 31 March 2011 are estimated at £37 million (£45.4 million in 2009/10). This comprises £9.4 million (£17.2 million in 2009/10) for highways and £27.6 million (£28.2 million in 2009/10) for buildings.

11c Valuation of assets

The freehold and leasehold properties of the Council's property portfolio, including investment properties, 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.

IAS 16 requires the dates and amounts of valuations to be analysed across each of the classes of assets carried at current value. No analysis is required for assets valued at historic cost.

Valuation	Other land and buildings £'000	Vehicles, plant and equipment £'000	Infra-structure £'000	Community assets £'000	Surplus assets £'000
Valued at historic cost	-	54,824	512,705	14,254	-
Pre 2006/07	2,151	-	-	-	137
2006/07	159,406	-	-	-	263
2007/08	265,627	-	-	-	677
2008/09	816,547	-	-	-	2,254
2009/10	884,717	-	-	-	1,198
2010/11	1,003,735	-	-	-	2,071
Total	**3,132,183**	**54,824**	**512,705**	**14,254**	**6,600**

11d Impairment Losses

During 2010/11, the Authority has recognised impairment losses of £61.8m (£91.1m in 2009/10). Of this, £2m relates to assets held for sale reflecting a fall in the anticipated market value, £14m relates to land and buildings valued on the basis of existing use, again reflecting changes in market conditions and £45.8m 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.

11e Fixed assets held at 31 March

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

Foundation schools

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

On 31 March 2011 there were 28 foundation schools (28 in 2009/10).

Aided Schools

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

On 31 March 2011 there were 56 aided schools (56 in 2009/10).

12 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.

	2009/10	2010/11
	£'000	£'000
Rental income from investment property	-875	-969
Direct operating expenses arising from investment property	432	390
Net (gain)	**-443**	**-579**

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

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

	2009/10 £'000	2010/11 £'000
Balance at start of the year	37,781	42,032
Additions:		
- purchases	-	-
- construction	-	-
- subsequent expenditure	760	507
Disposals	-	-1,875
Net gains/losses from fair value adjustments	3,363	5,504
Transfers:		
- to/from inventories	113	-
- to/from property, plant and equipment	15	-
Balance at end of the year	**42,032**	**46,168**

13 Financial Instruments

The term 'financial instrument' covers both financial assets and liabilities and includes debtors, creditors, the Council's borrowings, PFI liabilities and investment transactions. The financial assets and liabilities disclosed in the Balance Sheet are analysed across the following categories:

	Long term			Current			
	31 March 2009 £'000	31 March 2010 £'000	31 March 2011 £'000	31 March 2009 £'000	31 March 2010 £'000	31 March 2011 £'000	see note
Loans and receivables at amortised cost:							
Long-term debtors	1,121	1,328	1,438	-	-	-	13a
Debtors	-	-	-	63,616	79,656	77,472	13b
Payments in advance	-	-	-	8,573	10,244	9,337	13b
Short-term investments	-	-	-	147,804	146,504	171,171	13c
Long-term investments	-	-	10,000	-	-	-	13c
Loans and receivables at amortised cost	**1,121**	**1,328**	**11,438**	**219,993**	**236,404**	**257,980**	
Financial liabilities at amortised cost:							
Long-term borrowing	-336,996	-336,556	-365,895	-	-	-	13d
Short-term borrowing	-	-	-	-99,841	-89,888	-36,313	13e
Developers' contributions	33,404	-34,223	-44,937	-	-	-	13f
Deposits	-	-	-	-1,152	-1,846	-679	13h
Creditors	-	-	-	-156,456	-158,608	-173,881	13i
Receipts in advance	-	-	-	-62,016	-82,370	-96,068	13j
PFI & finance lease liabilities	85,525	-82,071	-88,544	-3,197	-3,454	-5,935	31
Financial liabilities at amortised cost	**-218,067**	**-452,850**	**-499,376**	**-322,662**	**-336,166**	**-312,876**	

2009/10 short term investments have been reduced by £38.1 million by reclassifying them as cash equivalents (see note 14).

All financial instruments are carried in the Balance Sheet at amortised cost, although the fair value of borrowings is included in disclosure notes 13d and 13e. The Council does not have any investments required to be measured at fair value.

13a Long-term debtors

	31 March 2009 £'000	31 March 2010 £'000	31 March 2011 £'000
Car loans to staff	731	972	961
Other	390	356	477
	1,121	**1,328**	**1,438**
Transferred debt	39,667	37,961	36,315
	40,788	**39,289**	**37,753**

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. £34.4 million remains to be repaid by the cities of Portsmouth and Southampton, and £1.9 million by Hampshire Police Authority.

The other long-term debtors figure of £1.4 million (£1.3 million in 2009/10) is classified as a loans and receivables financial instrument.

By value, the majority of these loans are for a period of less than five years and attract a market rate of interest. Their amortised cost in the Balance Sheet is a reasonable assessment of fair value. One loan of £247,597 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. All loans are expected to be repaid in full, so a reduction for impairment is not considered necessary.

13b Debtors

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

	31 March 2009 £'000	original 31 March 2010 £'000	restated 31 March 2010 £'000		31 March 2011 £'000
Government departments	9,987	11,347	12,085	*	10,976
Other local authorities	8,247	7,354	7,354		14,842
NHS bodies	-	-	-		-
Sundry debtors	45,382	60,217	60,217		51,654
Payments in advance	8,573	10,244	10,244		9,337
	72,189	**89,162**	**89,900**		**86,809**

*Increase relates to revised accounting treatment for grants and contributions.

13c Investments

Surplus cash balances are lent to borrowers on the Council's approved list. Short term investments are due to be repaid within a year and so their amortised cost in the Balance Sheet is a reasonable assessment of their fair value. Long term investments are not due to be repaid until after a year from the Balance Sheet date for periods of up to two years. Their amortised cost in the Balance Sheet is a reasonable assessment of their fair value because the interest rates receivable on similar investments at the Balance Sheet date are broadly unchanged from when the investments were originally made.

13d Long term borrowing

Long-term borrowing is carried in the Balance Sheet at amortised cost. The fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using premature repayment interest rates from the Public Works Loan Board (PWLB). For market loans, in the absence of information requested from the lender, the Council's Treasury Adviser calculated the fair value based on equivalent swap rates at the Balance Sheet date.

	31 March 2010		31 March 2011	
	Amortised cost	Fair value	Amortised cost	Fair value
	£'000	£'000	£'000	£'000
Public Works Loan Board	-263,556	-292,394	-292,583	-328,894
Market loans	-73,000	-74,619	-73,312	-77,564
	-336,556	**-367,013**	**-365,895**	**-406,458**

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

13e Borrowing repayable within one year

Long-term borrowing repayable within one year is shown at its fair value, which is assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments using premature repayment interest rates from the Public Works Loan Board (PWLB). For all other loans due to be repaid within a year, their amortised cost in the Balance Sheet is a reasonable assessment of their fair value.

	31 March 2010		31 March 2011	
	Amortised cost	Fair value	Amortised cost	Fair value
	£'000	£'000	£'000	£'000
Long-term borrowing repayable within one year	-12,550	-12,842	-10,936	-11,271
Temporary deposits by Hampshire Pension Fund	-50,767	-50,767	-	-
Other short-term borrowing	-26,571	-26,571	-25,377	-25,377
	-89,888	**-90,180**	**-36,313**	**-36,648**

13f 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.

	restated 2009/10 *			2010/11		
	Highways	Other	Total	Highways	Other	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 April	-32,706	-698	-33,404	-33,172	-1,051	-34,223
Income	-7,218	-353	-7,571	-13,727	-5,441	-19,168
Contributions applied	6,752	-	6,752	7,403	1,051	8,454
Balance at 31 March	**-33,172**	**-1,051**	**-34,223**	**-39,496**	**-5,441**	**-44,937**

* 2009/10 developers' contributions have been increased by reclassifying some deposits

13g Short-term creditors

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

13h Deposits

		original	restated		
	31 March	31 March	31 March		31 March
	2009	2010	2010		2011
	£'000	£'000	£'000		£'000
Capital deposits and unapplied contributions	-645	-2,719	-1,246	*	-424
Other	-507	-600	-600		-255
	-1,152	**-3,319**	**-1,846**		**-679**

* Decrease relates to revised accounting treatment for grants and contributions.

13i 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	original 31 March 2010 £'000		restated 31 March 2010 £'000	31 March 2011 £'000
HM Revenue and Customs and Government departments	-23,739	-33,584	*	-23,553	-23,627
Other local authorities	-16,668	-11,390		-11,390	-14,917
Sundry creditors	-116,049	-105,897	*	-123,665	-135,337
	-156,456	**-150,871**		**-158,608**	**-173,881**

* Changes in creditors relate to revised accounting treatment for grants and new requirement to accrue for employee benefits.

13j Receipts in advance

	31 March 2009 £'000	original 31 March 2010 £'000	restated 31 March 2010 £'000		31 March 2011 £'000
Education Standards Fund and devolved capital grants	-31,185	-42,630	-		-
Dedicated Schools Grant	-9,345	-12,638	-		-
Grants (see note 27 for breakdown)	-	-	-66,568		-79,038
Other receipts and contributions	-21,486	-27,841	-15,802		-17,030
	-62,016	**-83,109**	**-82,370**	*	**-96,068**

* Decrease in receipts in advance relates to revised accounting treatment for grants and contributions

13k Nature and extent of risks arising from financial instruments

The Council has adopted CIPFA's Revised Code of Practice on Treasury Management and complies with The Revised Prudential Code of Capital Finance for Local Authorities (both updated in November 2009).

As part of the adoption of the Treasury Management Code, the 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 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 Council's Treasury Strategy, together with its Treasury Management Practices are based on seeking the highest rate of return consistent with the proper levels of security and liquidity.

The main risks covered are:

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

Liquidity risk: the possibility that the Council will be unable to raise funds to meet its payment commitments as they fall due.

Market risk: the possibility that the value of an instrument will fluctuate because of changes in interest rates, market prices etc.

Credit risk

The Council manages credit risk by ensuring that investments are placed with the UK Government's Debt Management Office, other local authorities, AAA-rated money market funds or banks and building societies having sufficiently high credit worthiness as set out in the Council's Annual Investment Strategy. A maximum investment limit of £60 million is placed on the amount of money that can be invested with a single counterparty. No more than £60 million in total can be invested for a period longer than 364 days and up to a maximum duration of two years, although the maximum investment being placed with one institution will be restricted to £20 million. The Council has no historical experience of counterparty default.

It should be noted that although credit ratings remain a key source of information, the Council recognises that they have limitations and investment decisions are based on a range of market intelligence. All investments have been made in line with the Council's Annual Investment Strategy for 2010/11, approved by Full Council on 18 February 2010.

Throughout 2010/11 the minimum criteria for new investments has been a long term Moody's rating of A2 and AAA for money market funds.

The table below summarises the nominal value of the Council's investment portfolio at 31 March 2011, and confirms that all investments were made in line with the Council's approved credit rating criteria:

Counterparty	Credit rating criteria met when investment placed?	Credit rating criteria met on 31 March 2011?	Balance invested as at 31 March 2011				
	Yes/No	Yes/No	Up to 1 month	> 1 month and < 6 months	> 6 months and < 12 months	> 12 months and < 24 months	Total
			£'000	£'000	£'000	£'000	£'000
Banks – UK	Yes	Yes	12,500	42,500	62,500	-	117,500
Building societies – UK	Yes	Yes	-	27,500	5,000	-	32,500
Other local authorities	Yes	Yes	-	-	20,000	10,000	30,000
Call accounts	Yes	Yes	33,550	-	-	-	33,550
Total			46,050	70,000	87,500	10,000	213,550

The above analysis shows that all deposits outstanding at 31 March 2011 met the Council's credit rating criteria on the 31 March 2011.

The invoiced debtors have been reviewed by age to determine an appropriate provision for debts that are likely to be uncollectable. A provision of £2.2 million (£1.5 million in 2009/10) has been estimated.

Outstanding debt raised in	Outstanding balance at 31 March 2011	Individually assessed impairment	Collectively assessed impairment	Total provision
	£'000	£'000	£'000	£'000
2010/11	29,198	26	-	26
2008/09 & 2009/10	1,844	468	683	1,151
before 2008/09	1,029	191	838	1,029
	32,071	685	1,521	2,206

Liquidity risk

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

The Council lessens this risk by its strategy of taking out its long-term borrowing requirements reasonably evenly from one year to the next.
The maturity analysis of the nominal value of the Council's debt at 31 March 2011 was as follows:

		Outstanding 31 March 2010 £'000	Outstanding 31 March 2011 £'000
Between one and two years		-4,861	-6,097
Between two and five years		-19,585	-29,105
Between five and 10 years		-33,307	-43,753
Between 10 and 15 years		-41,308	-42,308
Between 15 and 20 years		-43,308	-54,308
Between 20 and 25 years		-85,307	-99,351
More than 25 years		-108,880	-90,973
Total		-336,556	-365,895
Range of interest rates payable	Source of loan		
3.39% - 9.875%	Public Works Loan Board	-263,556	-292,583
3.89% - 5.0%	Market loans	-73,000	-73,312
		-336,556	-365,895

Market risk

Interest rate risk

The Council is exposed to risks arising from movements in interest rates. The Treasury Management Strategy aims to mitigate these risks by setting an upper limit of £420 million on external debt that can be subject to variable interest rates. At 31 March 2011, £387.0 million of the debt portfolio was held in fixed rate instruments, and £112.2 million in variable rate instruments.

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

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

	£'000
Increase in interest payable on variable rate borrowing	1,453
Increase in interest receivable on variable rate investments	-2,881
Net cost/(saving)	-1,428

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

Price risk

The Council does not invest in equity shares and has no shareholdings in joint ventures or local industry. There is, therefore, no exposure to price risk.

Foreign exchange risk

The Council has no material 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.

14 Cash and cash equivalents

Cash comprises cash on hand and demand deposits.

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 2009 £'000	31 March 2010 £'000	31 March 2011 £'000
Cash in hand	5,591	5,629	5,196
Call accounts (same day access funds)	47,405	20,000	33,550
Money market funds	-	18,080	-
Total cash and cash equivalents	**52,996**	**43,709**	**38,746**
Bank overdraft	-17,124	-15,400	-7,561
Net cash and cash equivalents	**35,872**	**28,309**	**31,185**

15 Stocks and work in progress

	31 March 2010 £'000	Purchases £'000	Expense in the year £'000	Written off balances £'000	31 March 2011 £'000
Stocks					
Catering stock	377	6,299	6,238	9	429
County Supplies general	1,412	6,645	6,685	9	1,363
Recreation and Heritage sales stocks	263	517	526	7	247
Other (including landfill allowances)	295	3,486	3,443	1	337
	2,347	**16,947**	**16,892**	**26**	**2,376**
Construction contracts	Work not recharged at	Value of new work done		Income received in	Value of work not recharged
	2010	2010/11		2009/10	2011
Highway rechargeable works	958	829		1,267	520
Other	64	-		4	60
	1,022	**829**		**1,271**	**580**
Total stocks and work in progress	**3,369**	**17,776**	**16,892**	**1,297**	**2,956**

Closing stock valuations have been assessed using the latest purchase price. This does not accord with the International Accounting Standard 2 which requires stock to be valued at the lower of the original purchase price and current value but the differences in the valuations are not material.

16 Assets held for sale

	2009/10 £'000	2010/11 £'000
Balance outstanding at start of year	8,902	8,432
Assets newly classified as held for sale:		
- property, plant and equipment	5,114	9,863
- other assets/liabilities in disposal groups	-	184
Revaluation gains and losses	311	-450
Impairment losses	-503	-2,067
Assets declassified as held for sale	-	-
Assets sold	-5,392	-2,196
Balance outstanding at year-end	**8,432**	**13,766**

17 Change in provisions

	31 March 2009	Change in 2009/10 Central provision	Service provision	31 March 2010
	£'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**	

	31 March 2010	Change in 2010/11 Central provision	Service provision	31 March 2011
	£'000	£'000	£'000	£'000
Insurance claims	-4,842	2,579	-4,658	-6,921
Contract terminations	-317	-	68	-249
Employee termination benefits	-	-	-5,636	-5,636
Other	-29	-	19	-10
Provisions identified in the Balance Sheet	**-5,188**	**2,579**	**-10,207**	**-12,816**
Provision for doubtful debts (included with debtors in the Balance Sheet)	-1,454	-746	-	-2,200
		1,833	**-10,207**	

The insurance provision represents an assessment of the likely cost of liability claims known to the Council at 31 March 2011. 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.

18 Unusable reserves

Movements in the Authority's reserves are detailed in the Movement in Reserves Statement. Unusable reserves are detailed in the table below.

Reserve	see note	Balance 1 April 2010 £'000	Net movement in the year £'000	Balance 31 March 2011 £'000
Revaluation Reserve	18a	-567,025	-152,482	-719,507
Capital Adjustment Account	18b	-2,395,430	8,590	-2,386,840
Financial Instrument Adjustment Account	18c	88	-9	79
Pensions Reserve	18d	963,330	-209,370	753,960
Deferred Capital Receipts Reserve	18e	-	-	-
Collection Fund adjustment Account	18f	-4,529	-2,127	-6,656
Accumulated Absences Account	18g	17,768	-1,825	15,943
		-1,985,798	**-357,223**	**-2,343,021**

18a Revaluation Reserve

The Revaluation Reserve contains the gains made by the Authority 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.

	2009/10		2010/11	
	£'000		£'000	£'000
Balance at 1 April	**-428,563**			**-567,025**
Surplus or deficit on revaluation of non-current assets not posted to the surplus or deficit on the provision of services	**-145,883**			**-172,096**
Difference between fair value depreciation and historical cost depreciation	20,769		16,097	
Adjustments to prior year revaluations	-13,576	*		
Write off net gains for assets transferred to foundation schools	-63		-	
Accumulated gains on assets sold or scrapped	291		3,517	
Amount written off to the Capital Adjustment Account	**7,421**			**19,614**
Balance at 31 March	**-567,025**			**-719,507**

*Correction of balances on individual revaluation reserves for a small proportion of impaired assets that were transferred to the Capital Adjustment Account in error.

18b 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:

	2009/10	2010/11
	£'000	£'000
Balance brought forward 1 April	**-2,431,976**	**-2,395,430**
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	168,225	165,174
Revenue expenditure funded from capital under statute	14,776	9,244
Assets disposals current value and assets transferred to foundation schools	27,809	8,569
	-2,221,166	**-2,212,443**
Adjusting amounts written out of revaluation reserve:		
Excess of current value depreciation over historic cost depreciation	-20,769	-16,097
Write off net gains for assets transferred to foundation schools	63	-
Write out revaluations on asset disposals	-291	-3,517
Adjustment to prior year revaluations	13,946	227
	-7,051	**-19,387**
Net written out amount of the cost of assets consumed in the year	**-2,228,217**	**-2,231,830**
Capital financing applied in the year:		
Capital receipts applied	-11,493	-13,030
Statutory minimum revenue provision for capital financing	-28,845	-31,839
External contribution to minimum revenue provision	1,705	1,646
Revenue contributions to capital expenditure	-48,193	-16,107
Capital grants and contributions applied	-76,750	-90,176
	-163,576	**-149,506**
Movement in the market value of investment properties	-3,637	-5,504
Balance as at 31 March	**-2,395,430**	**-2,386,840**

18c Financial Instruments Adjustment Account

The balance on the Financial Instruments Adjustment Account at the end of the financial year represents the amount that should 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. The authority uses the account to offset the effective interest rate charged to the Comprehensive Income and Expenditure Account in respect of one soft loan.

One interest-free loan was advanced in 2007/08 to enable a foster carer to purchase a larger house. The amount was £247,597, repayable in monthly instalments within 30 years. The Comprehensive Income and Expenditure Statement has been credited in 2010/11 with an amount for the effective interest of £9,215 (£10,033 in 2009/10) calculated at the market rate prevailing when the loan was advanced. The Local Authorities (Capital Financing and Accounting) (Amendment) (England) Regulations 2007 allow this to be transferred to a financial instrument adjustment account so that it does not affect the General Fund.

	2009/10	2010/11
	£'000	£'000
Balance brought forward 1 April	98	88
Effective interest credited to Income and Expenditure	-10	-9
Balance at 31 March	**88**	**79**

18d 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 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 Authority 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 Authority 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.

	2009/10	2010/11
	£'000	£'000
Balance at 1 April	727,570	963,330
Actuarial losses on pensions assets and liabilities	199,110	18,770
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	106,235	-148,075
Employer's pensions contributions and direct payments to pensioners payable in the year	-69,585	-80,065
Balance at 31 March	**963,330**	**753,960**

18e Deferred Capital Receipts Reserve

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

	2009/10	2010/11
	£'000	£'000
Balance at 1 April	-2,290	-
Transfer to the Capital Receipts Reserve upon receipt of cash	2,290	-
Balance at 31 March	**-**	**-**

18f Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the district councils' collection funds.

	2009/10	2010/11
	£'000	£'000
Balance at 1 April	-	-4,529
Introduction of Collection Fund Adjustment Account during 2009/10	-3,238	-
Accrued income in the Comprehensive Income and Expenditure account	-513,503	-527,421
Amount calculated in accordance with statutory requirements	512,212	525,294
Balance at 31 March	**-4,529**	**-6,656**

18g 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.

		2009/10		2010/11
		£'000		£'000
Balance at 1 April		14,773		17,768
Settlement or cancellation of accrual made at the end of the preceding year	-14,773		-17,768	
Amounts accrued at the end of the current year	17,768		15,943	
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		2,995		-1,825
Balance at 31 March		**17,768**		**15,943**

19a Cash Flow Statement - Operating Activities

The cash flows for operating activities include the following items:

	2009/10 £'000	2010/11 £'000
Interest paid	26,591	27,014
Interest received	-9,210	-5,341
	17,381	**21,673**

	2009/10 £'000	2010/11 £'000
Variation in stocks	124	-415
Variation in deposits	-83	743
Variation in debtors	24,638	-1,097
Variation in long-term debtors	206	110
Variation in payments in advance	1,671	-907
Variation in creditors	-8,872	-21,707
Variation in receipts in advance	-20,482	-12,959
Variation in provisions	27	-7,628
Variation in interest accruals on borrowing	-3,532	-150
Transfers to reserves	4,899	-48,607
Variation in doubtful debts provision	607	-746
Interest on developers contributions	-103	-209
Provision for loan and lease repayments	-28,845	-31,839
Financial Instruments Adjustment Account	-10	-9
Accumulated Absences Account	-	-1,825
Collection Fund Adjustment Account	-4,529	-2,128
Contribution to capital outlay	-48,193	-16,107
Net additional amount required by statutory and non-statutory proper practices to be credited to the General Fund Balance	-84,760	251,827
Adjustment to revenue expenditure funded by capital under statute	14,776	20,438
	-152,461	**126,785**

19b Cash Flow Statement - Investing Activities

	2009/10	2010/11
	£'000	£'000
Cash outflows		
Fixed assets	154,046	167,311
Cash inflows		
Sale of fixed assets	-12,155	-12,746
Capital grants	-67,984	-90,080
Other income	-15,726	-8,316
Net cash outflow from investing activities	**58,181**	**56,169**

19c Cash Flow Statement - Financing Activities

	2009/10	2010/11
	£'000	£'000
Cash receipts of short and long term borrowing	-551,756	-538,699
Other receipts from financing activities	-1,300	34,666
Cash payments for the reduction of the outstanding liabilities relating to finance leases	3,454	5,935
Repayments of short and long term borrowing	565,424	548,196
Other payments for financing activities	17,381	21,673
Net cash outflow from financing activities	**33,203**	**71,771**

20 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 Best Value Accounting Code of Practice. However, decisions about resource allocation are taken by the Authority'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
- expenditure on some support services is budgeted for centrally and not charged to services budgets.

Service Income and Expenditure 2010/11

	Children's Services Schools block	Children's Services Non Schools	Adult Services	Environment	Culture, Communities and Rural Affairs	Policy and Resources	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Expenditure							
Employee costs	644,410	112,966	108,163	35,180	30,803	73,832	1,005,354
Premises related expenditure	44,198	3,166	2,894	4,812	4,037	12,541	71,648
Transport related expenditure	4,003	26,956	6,051	1,609	1,271	1,338	41,228
Supplies & services	101,071	20,721	16,006	51,583	14,818	12,761	216,960
Third party payments	65,839	112,489	248,813	31,049	200	5,180	463,570
Transfer payments	1,346	1,607	15,151	141	33	59	18,337
Support services	124,190	66,721	3,346	284	1,382	16,765	212,688
Income							
Other grants reimbursements and contributions	-33,640	-81,678	-37,251	-956	-7,400	-2,577	-163,502
Sales	-19,377	-220	-19	-147	-1,226	-99	-21,088
Fees and charges	-39,936	-9,711	-58,167	-14,577	-8,399	-15,974	-146,764
Rents	-5,537	-261	-16	-1,272	-483	-1,993	-9,562
Interest	-30	21	-1	-3	-7	-	-20
Other							
Transfer to/ from business unit reserves	-	130	-	-	-	-	130
Recharges between departments	-68,246	-79,715	-1,390	-11,982	-1,238	-20,819	-183,390
Service analysis total	**818,291**	**173,192**	**303,580**	**95,721**	**33,791**	**81,014**	**1,505,589**

Reconciliation between the segmental analysis and the net expenditure of continuing services 2010/11

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.

	£'000	£'000
Service analysis total		1,505,589
Net expenditure of services and support service not included in the service analysis		
Winter maintenance	5,392	
Flood levy	557	
Coroners	1,324	
		7,273
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the service analysis		
Specific grants	-865,335	
Current pension cost adjustment	-3,859	
Past pension cost adjustment	-253,421	
Capital charges	171,927	
Landfill Allowances Trading Scheme income	-300	
School catering support	-205	
Transfer to/from provisions	-1,833	
Employee benefit accrual	-1,825	
		-954,851
Amounts in the analysis not included in the Comprehensive Income and Expenditure Statement cost of services		
Income on investment properties		969
Expenditure on investment properties		-390
Cost of services in Comprehensive Income and Expenditure Statement		**558,590**

Reconciliation between service analysis and net expenditure of continuing services 2010/11

	Service analysis	Services not in analysis	Not reported to mgmt	Not included in Comprehensive Income and Expenditure Statement	Net cost of services	Amounts reported below net cost of services	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fees, charges & other service income	-177,414	-2	-300	969	-176,747	-	-176,747
Interest and investment income (including expected return on pension assets)	-20	-	-	-	-20	-86,002	-86,022
Income from council tax	-	-	-	-	-	-527,421	-527,421
Government grants and contributions	-163,502	-1,151	-865,335	-	-1,029,988	-305,439	-1,335,427
Net investment property gains and losses	-	-	-	-	-	-6,083	-6,083
Gain on disposal of fixed assets	-	-	-	-	-	-4,447	-4,447
Total income	**-340,936**	**-1,153**	**-865,635**	**969**	**-1,206,755**	**-929,392**	**-2,136,147**
Employee expenses	1,005,354	580	-259,105	-	746,829	-	746,829
Other service expenses	811,743	7,846	-205	-390	818,994	-	818,994
Support service recharges	29,298	-	-	-	29,298	-	29,298
Depreciation, amortisation and impairment	-	-	171,927	-	171,927	-	171,927
Interest payments	-	-	-	-	-	134,874	134,874
Total operating expenses	**1,846,395**	**8,426**	**-87,383**	**-390**	**1,767,048**	**134,874**	**1,901,922**
Transfers to/from reserves and provisions	**130**	**-**	**-1,833**	-	**-1,703**	-	**-1,703**
Surplus or deficit on the provision of services	**1,505,589**	**7,273**	**-954,851**	**579**	**558,590**	**-794,518**	**-235,928**

Service Income and Expenditure 2009/10

	Children's Services Schools block	Children's Services Non Schools	Adult Services	Environment	Culture, Communities and Rural Affairs	Policy and Resources	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Expenditure							
Employee costs	630,851	109,976	107,133	32,036	29,321	68,324	977,641
Premises related expenditure	46,200	3,341	3,582	5,188	4,259	13,415	75,985
Transport related expenditure	4,206	27,220	5,434	1,580	1,342	1,463	41,245
Supplies & services	146,874	26,672	17,484	62,551	15,159	16,065	284,805
Third party payments	20,207	43,891	235,400	30,637	275	3,591	334,001
Transfer payments	2,368	1,484	12,813	88	47	59	16,859
Support services	110,686	31,298	10,180	1,004	1,728	15,030	169,926
Income							
Other grants reimbursements and contributions	-31,806	-23,783	-35,307	-777	-6,603	-2,285	-100,561
Sales	-18,689	-2,059	-24	-144	-1,120	-108	-22,144
Fees and charges	-40,075	-11,306	-51,290	-25,153	-9,022	-14,773	-151,619
Rents	-5,353	-275	-14	-1,053	-443	-1,883	-9,021
Interest	-48	24	-1	-4	-8	-	-37
Other							
Transfer to/from business unit reserves	-	-133	-	-	-	-	-133
Recharges between departments	-67,715	-36,553	-3,526	-10,921	-1,198	-27,208	-147,121
Service analysis total	**797,706**	**169,797**	**301,864**	**95,032**	**33,737**	**71,690**	**1,469,826**

Reconciliation between the service analysis and the net expenditure of continuing services 2009/10

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.

	£'000	£'000
Service analysis total		1,469,826
Net expenditure of services and support service not included in the analysis		
Winter maintenance	6,133	
Flood levy	553	
Coroners	1,272	
		7,958
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the service analysis		
Specific grants	-857,230	
Current pension cost adjustment	-15,441	
Past pension cost adjustment	-5,599	
Capital charges	192,860	
Landfill Allowances Trading Scheme income	-226	
Other service expenditure	-	
School catering support	216	
VAT rebate	-53	
Transfer to/from provisions	-4,182	
Employee benefit accrual	2,995	
		-686,660
Amounts in the analysis not included in the Comprehensive Income and Expenditure Statement cost of services		
Income on investment properties		875
Expenditure of investment properties		-432
Cost of services in Comprehensive Income and Expenditure Statement		**791,567**

Reconciliation between segmental analysis and net expenditure of continuing services 2009/10

	Service analysis	Services not in analysis	Not reported to mgmt	Not included in Comprehensive Income and Expenditure Statement	Net cost of services	Amounts reported below net cost of services	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fees, charges & other service income	-182,784	-3	-279	-432	-183,498	-	-183,498
Interest and investment income (including expected return on pension assets)	-37	-	-	-	-37	-56,175	-56,212
Income from council tax	-	-	-	-	-	-513,503	-513,503
Government grants and contributions	-100,561	-1,036	-857,230	-	-958,827	-264,736	-1,223,563
Net investment property gains and losses	-	-	-	-	-	-3,806	-3,806
Total income	**-283,382**	**-1,039**	**-857,509**	**-432**	**-1,142,362**	**-838,220**	**-1,980,582**
Employee expenses	977,641	550	-18,045	-	960,146	-	960,146
Other service expenses	752,895	8,447	216	875	762,433	-	762,433
Support service recharges	22,805	-	-	-	22,805	-	22,805
Depreciation, amortisation and impairment	-	-	192,860	-	192,860	-	192,860
Interest payments	-	-	-	-	-	132,203	132,203
Loss on disposal of fixed assets	-	-	-	-	-	471	471
Total operating expenses	**1,753,341**	**8,997**	**175,031**	**875**	**1,938,244**	**132,674**	**2,070,918**
Transfers to/ from reserves and provisions	-133	-	-4,182	-	-4,315	-	-4,315
Surplus or deficit on the provision of services	**1,469,826**	**7,958**	**-686,660**	**443**	**791,567**	**-705,546**	**86,021**

21 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 £2,632,000 (2009/10 overall surplus of £1,989,000) as follows:

		2009/10 £'000	2010/11 £'000
Former Direct Services Organisation - provides catering and cleaning services to schools and some non-educational sites in Hampshire and supplies vehicles to departments of the County Council.	Turnover	-27,369	-27,559
	Expenditure	26,957	26,752
	Surplus (-)	**-412**	**-807**
Education Business Units - provide support services principally to schools but also to other departments and other local authorities.	Turnover	-42,090	-34,674
	Expenditure	42,223	34,544
	Deficit/Surplus (-)	**133**	**-130**
Information Technology Services - provided to County Council departments and some other local authorities	Turnover	-37,602	-46,217
	Expenditure	36,949	44,786
	Surplus (-)	**-653**	**-1,431**
County Supplies - operate the central purchasing warehouse and arrange direct delivery and other contracts for County Council departments, other local authorities and voluntary organisations.	Turnover	-11,396	-11,321
	Expenditure	10,643	11,024
	Surplus (-)	**-753**	**-297**
Hampshire Printing Services - provide printing and reprographic services to County Council departments.	Turnover	-2,782	-2,323
	Expenditure	2,692	2,494
	Surplus (-) / Deficit	**-90**	**171**
Six other smaller trading units - including a surplus of £57,000 (£164,000 surplus in 2009/10) on the management of the River Hamble.	Turnover	-1,636	-1,626
	Expenditure	1,422	1,488
	Surplus (-)	**-214**	**-138**
	Total Surplus(-)	**-1,989**	**-2,632**

22 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

	2009/10		2010/11	
	£'000	£'000	£'000	£'000
Gross income				
Hampshire County Council	-1,924		-1,833	
NHS Hampshire	-7,526	-9,450	-7,696	-9,529
Expenditure				
Hampshire County Council	1,909		1,829	
NHS Hampshire	7,471	9,380	7,681	9,510
Surplus		**-70**		**-19**
Council's share of the net surplus arising on the pooled budget		-15		-4

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)

	2009/10		2010/11	
	£'000	£'000	£'000	£'000
Gross income				
Hampshire County Council	-79		-82	
Hampshire Primary Care Trust	-896	-975	-927	-1,009
Expenditure				
Hampshire County Council	67		69	
Hampshire Primary Care Trust	761	828	835	904
Surplus		**-147**		**-105**
Council's share of the net surplus arising on the pooled budget		-12		-13

23 Members' allowances

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

	2009/10	2010/11
	£'000	£'000
Allowances	1,329	1,302
Expenses	110	85
Total	**1,439**	**1,387**

24a Officers' emoluments

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

	Number of employees								
	2009/10			2010/11 Including termination			2010/11 Excluding termination		
	Schools	Other	Total	Schools	Other	Total	Schools	Other	Total
£50,000 - £54,999	271	198	469	267	144	411	266	156	422
£55,000 - £59,999	176	118	294	180	124	304	180	125	305
£60,000 - £64,999	97	62	159	135	50	185	134	41	175
£65,000 - £69,999	43	43	86	50	69	119	49	54	103
£70,000 - £74,999	21	24	45	31	40	71	31	31	62
£75,000 - £79,999	12	16	28	15	15	30	15	13	28
£80,000 - £84,999	20	6	26	15	16	31	15	14	29
£85,000 - £89,999	5	11	16	15	12	27	15	4	19
£90,000 - £94,999	5	3	8	5	18	23	5	3	8
£95,000 - £99,999	3	6	9	3	10	13	3	3	6
£100,000 - £104,999	1	2	3	3	9	12	3	3	6
£105,000 - £109,999	-	2	2	1	5	6	1	3	4
£110,000 - £114,999	2	1	3	1	3	4	1	-	1
£115,000 - £119,999	3	-	3	1	1	2	1	-	1
£120,000 - £124,999	-	1	1	1	2	3	1	1	2
£125,000 - £129,999	-	-	-	-	1	1	-	-	-
£130,000 - £134,999	1	-	1	-	2	2	-	-	-
£135,000 - £139,999	-	-	-	-	1	1	-	-	-
£140,000 - £144,999	-	-	-	-	3	3	-	-	-
£145,000 - £149,999	-	-	-	-	2	2	-	-	-
	660	493	1,153	723	527	1,250	720	451	1,171

24b Senior employees' remuneration

This statement covers the remuneration of members of the Corporate Management Team.

Senior Employees 2009/10	Salary, (Including fees and allowances)	Other emoluments	Benefits in kind	Compensation for loss of office	Pension contribution	Total remuneration including pension contributions
	£	£	£	£	£	£
Chief Executive Andrew Smith	207,969	-	-	-	38,679	246,648
Director of Children's Services (and Deputy Chief Executive from 1 May 2009) John Coughlan	158,190	5,000	-	-	30,351	193,541
County Treasurer Jon Pittam	158,190	-	-202	-	29,421	187,409
Director of Environment (to 20 September 2009) / Acting Director of Environment (from 21 September 2009)	139,762	-	269	-	26,093	166,124
Director of Economic Development (appointed 21 September 2009)	85,849	-	74	-	15,909	101,832
Director of Property, Business and Regulatory Services (Acting Director until 1 May 2009)	138,622	1,000	-	-	25,968	165,590
Director of Adult Services	136,262	-	68	-	25,338	161,668
Director of Culture, Communities and Rural Affairs	124,893	-	-8	-	23,228	148,113
Director of Human Resources	124,893	1,000	-	-	23,414	149,307

Senior Employees 2010/11	Salary, (Including fees and allowances)	Other emoluments	Benefits in kind	Compensation for loss of office	Pension contribution	Total remuneration including pension contributions
	£	£	£	£	£	£
Chief Executive Andrew Smith	207,372	-	-	-	39,608	246,980
Director of Children's Services and Deputy Chief Executive John Coughlan	161,651	7,752	-	-	32,356	201,759
County Treasurer						
Jon Pittam (to 8 June 2010)	33,637	-	41	-	5,691	39,369
Carolyn Williamson (from 17 August 2010)	96,667	-	-	-	18,463	115,130
Director of Environment (Acting prior to 10 November 2010)	138,876	-	-	-	26,525	165,401
Director of Economic Development (to 31 March 2011)	145,593	-	57	79,582	27,808	253,040
Director of Property, Business and Regulatory Services	138,876	-	-	-	26,525	165,401
Director of Adult Services	134,910	-	49	-	25,768	160,727
Director of Culture, Communities and Rural Affairs (to 31 March 2011)	124,533	-	-144	66,876	23,786	215,051
Director of Human Resources	124,533	-	-	-	23,786	148,319

* Redundancy payments were made to two senior officers, they did not receive the enhanced payments made to other staff under the County Council's voluntary redundancy scheme. The post holders' payments were based on actual pay, with the number of weeks' pay calculated in accordance with the statutory scheme. In these two cases, the redundancy payments are more than offset by savings in the salary budget, which would otherwise have been paid to the employees until they reached the retirement age of 60.

25 External audit fees

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

	2009/10	2010/11
	£'000	£'000
Code of Audit Practice	264	255
Grant Claims	4	4
Inspection	18	-
National Fraud Initiative	2	2
	288	**261**

26 Disclosure of deployment of Dedicated Schools Grant

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

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

Details of the deployment of DSG receivable for 2010/11 are as follows:

	Central expenditure	Individual Schools Budget	Total
	£'000	£'000	£'000
Final DSG for 2010/11 as issued by the DfE on 22 February 2011	-	-	-718,908
Brought forward from 2010 as agreed with DCSF	-	-	-12,638
Carry forward to 2011/12 agreed in advance with the Schools Forum	-	-	16,188
Agreed budgeted distribution	-111,567	-603,791	-715,358
Actual central expenditure	105,704	-	105,704
Actual ISB deployed to schools	-	603,791	603,791
Local authority contribution for 2010/11	-	-	-
Carry forward to 2011/12	-5,863	-	-5,863
Carry forward to 2011/12 agreed in advance with the Schools Forum	-	-	-16,188
Total carry forward	-	-	**-22,051**

27 Grant income

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

	2009/10 £'000	2010/11 £'000
Credited to taxation and non specific grant income		
Non-ringfenced Government grants	-72,587	-87,790
Capital grants and contributions:		
Social Care IT Infrastructure Grant	-301	-322
Mental Health Grant	-291	-290
Social Care Reform Grant	-	-569
Extra Care Housing Grant	-1,592	-
Department of Health Single Capital Pot	-731	-731
Common Assessment Framework	-493	-705
Waste Performance and Efficiency Grant	-2,281	-840
Local Transport Capital Block Funding Grant	-4,472	-1,113
New Growth Point Fund Grant	-2,439	-175
Communities Infrastructure Fund Grant	-5,206	-10,729
Other highways, roads and transport grants	-849	-2,491
South East England Development Agency Grant	-190	-
Havant Public Service Village Grant	-240	-4,230
Bordon Eco Town Grant	-	-1,035
Safe and Strong Communities Grant	-717	-179
LPSA2 Pump Priming Grant	-1,520	-
Improvement and Efficiency Funding	-1,373	-
Standard's Fund	-36,274	-42,320
Sure Start and Early Years Grant	-6,033	-17,332
Young People's Learning Agency Capital Works Grant	-5,816	-1,015
Youth Capital Fund	-610	-466
Aiming High for Disabled Children	-393	-1,277
Other Children's Services and Education grants	-597	-479
Co-Location Funding	-58	-2,266
Lottery Funding	-365	-251
Aiming High Funding	-200	-311
Other cultural services funding	-596	-219
Developer's contributions	-4,717	-6,498
Other contributions	-2,896	-1,414
Contributions from other local authorities	-1,154	-4,716
Less: Capital income used to fund revenue expenditure under statute	**7,898**	**12,541**
Total	**(147,093)**	**(177,222)**

	2009/10 £'000	2010/11 £'000
Credited to services		
Supporting People Care Grant	-30,628	-382
HIV Grant	-236	-276
Social Care Reform Grant	-3,618	-4,490
Learning Disabilities Campus Programme Grant	-1,697	-3,728
Stroke Carers Grant	-265	-145
Handy Person Grant	-150	-220
Invest To Save Grant	-240	-
Other Adult Services grants	-	-133
PFI Street Lighting Grant	-	-8,979
Transport Asset Management Grant	-439	-
Bikeability Training Grant	-76	-252
European Projects Grants	-67	-
School Travel Plan Grant	-260	-222
Anti-Social Behaviour Grant	-	-44
Local Authority Business Growth Incentives Grant	-796	-
LPSA Grant	-1,514	-
School Meals Grant	-1,262	-1,244
Dedicated School's Grant	-689,217	-709,495
Standard's Fund Grant	-64,414	-66,481
Direct Schools Grant	-34,656	-35,076
Sure Start and Early Years Grant	-22,798	-27,102
Aiming High for Disabled Children Grant	-1,422	-4,661
14-19 Diploma Grant	-1,968	-2,373
Unaccompanied Asylum Seeking Children Grant	-1,195	-920
Youth Opportunity Fund	-581	-624
Family Intervention Projects	-379	-619
EU Milk Subsidy	-187	-181
Targeted Mental Health in Schools Grant	-209	-161
ICS Grant	-147	-
Contact Point Grant	-358	-116
Young People's Learning Agency Grant	-16,479	-15,544
Other Children's Services and Education Grants	-702	-544
Find Your Talent Grant	-835	-10
Museums, Libraries and Archives Council Funding	-2,454	-2,851
Heritage Lottery Fund	-40	-209
Arts Council Funding	-61	-10
Other cultural grants	-46	-197
Other countryside grants	-279	-258
Developer's contributions	-2,035	-1,956
Add: Capital income used to fund revenue expenditure under statute	**-7,898**	**-12,541**
Total	**(889,608)**	**(902,044)**

The Authority 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 2010 £'000	31 March 2011 £'000
Capital grants receipts in advance		
Improving Care Home Environment for Older People Grant	-118	-118
Common Assessment Framework Grant	-716	-1,858
Standards Fund	-39,091	-34,475
Aiming High For Disabled Children Capital Fund	-88	-
Youth Capital Fund	-209	-
New Deals for Schools Grant	-948	-
Communities Infrastructure Fund Grant	-3,229	-
Pot Hole Grant	-	-6,017
Bordon Eco Town Grant	-	-220
Havant Public Service Village Grant	-	-631
Other transport grants	-13	-12
Co-Location Fund	-680	-3,573
Other countryside grants	-50	-81
Other cultural grant	-16	-5
Total	**(45,158)**	**(46,990)**
Revenue grants receipts in advance		
LD Campus Closure Grant	-492	-
Supporting People Care Grant	-382	-
Dedicated School's Grant	-12,638	-22,051
Standard's Fund	-3,539	-6,662
Childcare Strategy Grant	-165	-174
Other Children's Services and Education grants	-1,583	-193
Section 31 Grant	-100	-190
Bordon Rail Link Study Grant	-150	-53
Support for Community Transport Services Grant	-	-270
Other transport grants	-25	-8
Other planning grants	-	-17
Museums, Libraries and Archives Council Funding	-44	-26
Young People's Learning Agency Grant	-1,504	-1,431
Arts Council Funding	-74	-74
Other countryside grants	-276	-353
Other cultural grants	-95	-142
Future Jobs Fund	-299	-404
Anti-Social Behaviour Grant	-44	-
Total	**(21,410)**	**(32,048)**

28 Related party transactions

The Authority 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 Authority.

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 Authority operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Authority has with other parties. Grants received from government departments are set out in the subjective analysis in note 20. Grant receipts outstanding at 31 March 2011 are shown in note 27.

Members

Members of the council have direct control over the council's financial and operating policies. The total of members' allowances paid in 2010/11 is shown in note 23. There were 39 related party transactions totalling £38,570 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 members or chief officers of the Council. Details of senior officer remuneration are given in note 24b.

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 198 other contributing scheduled and admitted bodies (191 in 2009/10).

Until 30 September 2010 the Pension Fund invested its surplus cash balances jointly with the County Council's to gain the benefits of scale. Interest was paid to the Pension Fund for the period 1 April to 30 September 2010 based on the actual rate of interest earned.

From 1 October 2010, the Pension Fund has operated a separate bank account and invested surplus cash balances in accordance with its treasury management strategy.

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:

	2009/10	2010/11
	£'000	£'000
Pension Fund		
Interest paid	356	201
Temporary borrowing 31 March	-50,767	-
Administration charge	-2,109	-2,415
Hampshire Police Authority		
Interest paid	67	45
Temporary borrowing/investment 31 March	-7,603	-
Hampshire Fire and Rescue Authority		
Interest (received)/paid	8	-11
Temporary investments/borrowing 31 March	3,282	-2,550

29 Capital financing

	2009/10 £'000	2010/11 £'000
Opening capital financing requirement	712,662	714,945
Capital spending on fixed assets	152,788	175,894
Revenue expenditure funded by capital under statute	14,776	20,438
Funded by:		
Capital receipts	-11,493	-13,030
Grants and other income	-76,750	-102,717
Revenue		
- main contribution	-37,484	-10,636
- reserves	-10,709	-5,471
Minimum revenue provision	-28,845	-31,839
	714,945	**747,584**
Explanation of movements in year		
Increase/decrease in borrowing (supported by government financial assistance)	9,467	12,994
Increase/decrease in borrowing (unsupported by government financial assistance)	-3,987	10,691
Increase/decrease in borrowing related to finance leases	-	-
Increase/decrease in borrowing related to PFI/PPP contracts	-3,197	8,954
Increase in capital financing requirement	**2,283**	**32,639**

30a 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:

	2009/10			2010/11		
	Other land and buildings	Vehicles, plant and equipment	Total	Other land and buildings	Vehicles, plant and equipment	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Not later than one year	3,350	4,144	7,494	3,281	3,700	6,981
Later than one year and not later than five years	14,375	4,391	18,766	9,955	4,632	14,587
Later than five years	18,876	178	19,054	14,020	38	14,058
Total payments	**36,601**	**8,713**	**45,314**	**27,256**	**8,370**	**35,626**

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

	2009/10	2010/11
	£'000	£'000
Minimum lease payments	8,079	8,031
Contingent rents	-	-
(Sublease payments receivable)	-493	-518
Total net expenditure	**7,586**	**7,513**

30b 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:

	2009/10	2010/11
	£'000	£'000
Not later than one year	2,817	6,387
Later than one year and not later than five years	19,213	12,553
Later than five years	62,548	48,330
	84,578	**67,270**

30c Leases - finance leases

At 31 March 2011, the County Council has not taken or granted any material finance leases.

31 PFI and service concessions

Project Integra

An existing contract for waste management meets the definition of a service concession. The contract with Veolia Environmental Services Hampshire (VESH) is jointly administered by the County Council and Portsmouth and Southampton unitary authorities. The contract began in January 1996 and runs until 2024/25. The contract includes a provision allowing the County Council to extend the contract by a period of up to 10 years from 2024/25.

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

The contract has three phases. During phases 1 and 2 the contractor planned, financed and constructed the three energy recovery facilities, two material reprocessing facilities and three composting sites. The contract is currently in phase 3 covering the provision of waste disposal services in relation to the newly constructed facilities ending in 2024/25. The contract price mechanism is structured with an annual re-pricing each January linked to the retail price index in the previous October and a step-change increase in the contract price midway through the contract. There have been no major variations to the contract or additional investment in facilities during the 2010/11 financial year.

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

The County Council's share of the waste disposal assets constructed under the contract are now 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:

	2009/10	2010/11
	£'000	£'000
Gross book value		
At 1 April	95,227	95,227
Additions	-	-
Disposals	-	-
Revaluations	-	-
Gross book value at 31 March	95,227	95,227
Depreciation		
At 1 April	-5,638	-11,276
Depreciation for the year	-5,638	-5,638
Impairments	-	-
Depreciation at 31 March	-11,276	-16,914
Net book value at 1 April	89,589	83,951
Net book value at 31 March	**83,951**	**78,313**

The movement in the deferred liability was:

	31 March 2009/10	31 March 2010/11
	£'000	£'000
Balance brought forward 1 April	-88,722	-85,525
Principal repayment in the year	3,197	3,454
Balance at 31 March	**-85,525**	**-82,071**
Finance lease repayable in one year	-3,454	-3,730
Deferred liability	-82,071	-78,341
Balance at 31 March	**-85,525**	**-82,071**

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

	Principal repayment £'000	Interest £'000	Service charge £'000	Total £'000
Next year	3,730	6,565	34,704	44,999
Years two to five	18,147	23,033	161,314	202,494
Years six to 10	32,150	19,325	244,296	295,771
Years 11 to 15	28,044	5,137	204,003	237,184
	82,071	54,060	644,317	780,448

The South Coast Street Lighting PFI

The County Council has entered into 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 successful service provider, Tay Valley Lighting. Each council has its own separate contract to deliver individualised lighting requirements under a standard contractual framework.

Through the contract, Hampshire County Council is replacing some 78,000 of its 132,000 street lighting columns and modernising the remaining 54,000 lanterns in order to improve energy efficiency, in addition other items of illuminated street furniture such as signs are being replaced or upgraded over a five year core investment period. The long-term contract with Tay Valley Lighting (Hampshire) will run for 25 years, from 1 April 2010, and will also provide for the ongoing maintenance of the council’s street lighting network running until 2035/36.

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

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

An annual re-pricing review is undertaken on the anniversary of the start of the contract, 1 April, and this is linked to the retail price index. Over the first 5 years of the contract (the investment period) the annual cost of the contract reflects the investment programme which steadily rises until it reaches a peak at year 6 and then stabilises. From year 6 to year 25 the annual cost is determined by inflation and amendments to the inventory. No major changes to the contract occurred during the 2010/11 financial year.

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

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

	2010/11
Gross book value	£'000
At 1 April	-
Additions	14,741
Disposals	-
Revaluations	-
Gross book value at 31 March	14,741
Depreciation	
At 1 April	-
Depreciation for the year	-
Impairments	-
Depreciation at 31 March	-
Net book value at 1 April	-
Net book value at 31 March	**14,741**

The movement in the deferred liability was:

	31 March 2010/11 £'000
Balance brought forward 1 April	-
Principal repayment in the year	2,333
Capital expenditure incurred in the year	-14,741
Balance at 31 March	**-12,408**
Finance lease repayable in one year	-2,205
Deferred liability	-10,203
Balance at 31 March	**-12,408**

The street lighting contract has 25 years to run. The expected payments are shown below:

	Principal repayment £'000	Interest £'000	Service charge £'000	Total £'000
Next year	2,205	2,262	5,028	9,495
Years two to five	10,333	24,363	22,865	57,561
Years six to 10	19,016	32,752	35,432	87,200
Years 11 to 15	25,555	26,212	44,156	95,923
Years 16 to 20	34,345	17,425	54,240	106,010
Years 21 to 25	35,802	5,612	51,706	93,120
	127,256	108,626	213,427	449,309

A PFI grant of £9 million was received from the Department for Transport to the County Council in 2010/11 with a balance of £225 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 is expected to be £117 million.

32 Pensions

As part of the terms and conditions of employment of its staff, the Council provides retirement benefits. These will be paid only when employees retire but (in accordance with IAS 19) the Council must account for the commitments at the time that employees earn their future entitlement.

The Council participates in two pension schemes:
a) the Teachers’ Pension Scheme for teachers
b) the Local Government Pension Scheme (LGPS) for other employees.

32a 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 authority 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 Authority 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 2010/11 total employer's contributions were £50.91 million representing 14.1% of pensionable pay (£49.89 million representing 14.1% of pensionable pay in 2009/10).

The Authority 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.

32b Local Government Pension Scheme

This is a funded defined benefit scheme, administered by the Council. Employers and employees pay contributions into a fund at a level estimated to balance pension liabilities with investment assets. Enhanced pensions awarded by the Council are described as unfunded benefits. This is because they are not funded by the assets of the Pension Fund but by the Council when they are paid. In 2010/11, Pension Fund assets and liabilities have been included in the Balance Sheet based on a formal actuarial valuation for 31 March 2010. This valuation has been updated using the assumptions below.

Principal financial assumptions

	2009/10 % per year	2010/11 % per year
Rate of discount for scheme liabilities - funded pensions	5.5	5.4
Rate of discount for scheme liabilities - unfunded pensions	5.5	5.5
Rate of increase in salaries	5.15	4.95
Rate of increase in pensions in payment - funded pensions	3.65	2.55
Rate of increase in pensions in payment - unfunded pensions	3.55	2.45
Rate of increase in deferred pensions	3.65	2.55
Proportion of employees opting to take a commuted lump sum:		
for pre 1 April 2008 service	25.0	25
for post 1 April 2008 service	75.0	75
RPI inflation - funded pensions	3.65	n/a
RPI inflation - unfunded pensions	3.55	n/a
CPI inflation - funded pensions	n/a	2.55
CPI inflation - unfunded pensions	n/a	2.45

Principal demographic assumptions

Post retirement mortality	2009/10	2010/11
Men		
Base table	PNMA00 with allowance for MC improvement factors to 2007	Standard SAPS Normal Health Light Amounts
Scaling to above base table rates	110%	100%
Improvements to base table rates	80% of long cohort (from 2007) with a minimum improvement of 1.25% p.a.	CMI_2009 with a long term rate of improvement of 1.25% p.a.
Future lifetime from age 65 (currently aged 65)	22.3	23.8
Future lifetime from age 65 (currently aged 45)	24.7	25.6

Women		
Base table	PNFA00 with allowance for MC improvement factors to 2007	Standard SAPS Normal Health Light Amounts
Scaling to above base table rates	110%	100%
Improvements to base table rates	60% of long cohort (from 2007) with a minimum underpin to improvement factors of 1.25% p.a.	CMI_2009 with a long term rate of improvement of 1.25% p.a.
Future lifetime from age 65 (currently aged 65)	24.3	24.8
Future lifetime from age 65 (currently aged 45)	26.5	26.7

Expected return on assets

The Council employs a building block approach in deciding the rate of return on Fund assets. It studies historical markets, and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed rate of return on each asset class is set out below. The overall expected rate of return on assets is derived by aggregating the expected return for each asset class over the actual asset allocation for the Fund at 31 March 2011.

	2009/10	2010/11
	% per year	% per year
Rate of return on equities (shares)	8	8.4
Rate of return on Government bonds	4.5	4.4
Rate of return on property	8.5	7.9
Rate of return on corporate bonds	5.5	5.1
Rate of return on cash	0.7	1.5
Average long-term expected rate of return	6.7	7.1

The actual return on scheme assets in the year was £62.1 million (£288.6 million in 2009/10).

32c Transactions relating to pension 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 during the year:

	2009/10	2010/11
	£'000	£'000
Included in the Comprehensive Income and Expenditure Statement:		
Current service cost of funded LAPS pensions	48,800	63,140
Charge to non-distributed costs for early retirement in the year:	-255	-240,355
Interest cost on pension liabilities		
LAPS funded liabilities	102,610	104,610
LAPS unfunded liabilities	1,740	1,450
Teachers' unfunded liabilities	2,410	2,010
	106,760	108,070
Expected return on Pension Fund assets	-49,070	-78,930
Total post employment benefits charges to the surplus/deficit on the provision of services	**106,235**	**-148,075**
Actuarial losses	199,110	18,770
Total post employment benefits charges to the Comprehensive Income and Expenditure Statement	**305,345**	**-129,305**
Movement in reserves statement		
Reversal of net changes made to the surplus/deficit for the provision of services for post employment benefits in accordance with the Code	-235,760	209,370
Actual amount charged against the General Fund Balance for pensions in the year		
Employer's contributions payable to the scheme	-64,241	-66,999
Added years and early retirement cash flows in the year:		
LAPS	-2,642	-10,388
Teachers	-2,702	-2,678
	-305,345	**129,305**

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure statement to 31 March 2011 is a loss of £18.8 million.

32d Changes to the present value of liabilities during the accounting period

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

Period ended 31 March 2011	LGPS funded £'000	LGPS unfunded £'000	Teachers' unfunded £'000	Total £'000
Opening present value of liabilities	-2,074,760	-29,090	-40,430	**-2,144,280**
Current service cost	-63,140	-	-	**-63,140**
Interest cost	-104,610	-1,450	-2,010	**-108,070**
Contributions by participants	-23,520	-	-	**-23,520**
Actuarial gains/(losses) on liabilities	-3,740	870	900	**-1,970**
Net benefits paid out (note i)	63,450	1,940	2,690	**68,080**
Past service gain	238,730	2,390	3,360	**244,480**
Closing present value of liabilities	-1,967,590	-25,340	-35,490	**-2,028,420**

In the UK budget statement on 22 June 2010 the Chancellor announced that with effect from 1 April 2011 public service pensions would be up-rated in line with the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI).

This has the effect of reducing the authority’s pension liabilities by £244m and has been recognised as a past service gain in accordance with guidance set down in UITF Abstract 48, since the change is considered to be a change in benefit entitlement. There is no impact upon the General Fund.

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 Changes to the fair value of assets during the accounting period

	31 March 2010 £'000	31 March 2011 £'000
Opening fair value of assets	**860,700**	**1,180,950**
Expected return on assets	49,070	78,930
Actuarial gains/(losses) on assets	239,540	-16,800
Contributions by employer	66,120	71,310
Contributions by participants	23,140	23,520
Net benefits paid out (note i)	-57,620	-63,450
Closing fair value of assets	**1,180,950**	**1,274,460**

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 Scheme history

The Pension Fund's actuary assessed the share of the assets and liabilities of the Hampshire LGPS attributable to the 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 2007 £'000	31 March 2008 £'000	31 March 2009 £'000	31 March 2010 £'000	31 March 2011 £'000
Present value of liabilities in the scheme:					
LGPS funded	-1,601,250	-1,431,240	-1,523,940	-2,074,760	-1,967,590
Unfunded Liabilities:					
LGPS	-29,050	-26,770	-27,020	-29,090	-25,340
Teachers	-39,540	-36,280	-37,310	-40,430	-35,490
	-1,669,840	**-1,494,290**	**-1,588,270**	**-2,144,280**	**-2,028,420**
Fair value of assets in the scheme	1,059,280	1,053,980	860,700	1,180,950	1,274,460
Deficit	**-610,560**	**-440,310**	**-727,570**	**-963,330**	**-753,960**

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

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

The total contributions expected to be made to the LGPS by the Council in the year to 31 March 2012 is £66.8 million. Expected contributions for discretionary benefits in the year to 31 March 2012 are £5 million.

The proportion of assets by category is shown below:

	31 March 2010 %	31 March 2011 %
Equities	61.3	63.4
Government bonds	24.4	23.3
Property	6.1	7.3
Corporate bonds	2.4	1.7
Cash	5.8	4.3
	100.0	100.0

32g Net actuarial gain/(loss) on pensions

The actuarial gains identified as movements on the Pensions Reserve in 2010/11 can be analysed into the following categories, measured in absolute amounts and as a percentage of assets or liabilities at 31 March 2011:

	2006/07	2007/08	2008/09	2009/10	2010/11
	£'000	£'000	£'000	£'000	£'000
Difference between	-1,420	-98,040	-288,800	239,540	-16,800
expected and actual	-0.1%	-9.3%	33.6%	20.3%	-1.3%
return on assets					
Difference between actuarial assumptions about liabilities and actual experience					
LGPS funded		29,220	-5,870	16,660	-26,750
		2.0%	-0.4%	0.8%	-1.4%
LGPS unfunded		-430	-220	1,320	430
		-1.6%	-0.8%	4.5%	1.7%
Teachers unfunded		-	-400	1,640	240
		-	-1.1%	4.1%	0.7%
TOTAL	-3,280	28,790	-6,490	19,620	-26,080
	-0.2%	1.9%	-0.4%	0.9%	-1.3%
Changes in assumptions underlying the present value of pension liabilities					
LGPS funded		268,020	23,690	-449,550	23,010
		18.7%	1.6%	-21.7%	1.2%
LGPS unfunded		2,280	-230	-3,640	440
		8.5%	-0.9%	-12.5%	1.7%
Teachers unfunded		3,190	-360	-5,080	660
		8.8%	-1.0%	-12.6%	1.9%
TOTAL	7,400	273,490	23,100	-458,270	24,110
	-0.4%	18.3%	1.5%	21.4%	1.2%
Net actuarial gain/(loss)	**2,700**	**204,240**	**-272,190**	**-199,110**	**-18,770**

33 Contingent liabilities

The County Council self-insures and therefore handles all its own liability claims. The liabilities are uncertain but to cover them a provision is maintained for known liability claims, assessed at £6.9 million at 31 March 2011 (see note 17). In addition, a reserve of £16.7 million is set aside to cover future claims.

The County Council has set aside a reserve of £47.2 million at 31 March 2011 for transitional costs for non-schools staff of implementing the single status agreement to recognise potential equal pay compensation costs. To date 1,199 equal pay claims have been lodged in the employment tribunal. It is unlikely that any claims will be resolved until later in 2011/12 so it is not possible to quantify reliably the liability associated with equal pay compensation.

34 Trust funds

The Council has acted as sole trustee for 24 trust funds (24 in 2009/10) and as administrator for 12 other trust funds (12 in 2009/10). They include educational prize funds, 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 2010 £'000	Income £'000	Expenditure £'000	Transfer of Trust £'000	Balance at 31 March 2011 £'000
Sole trustee funds					
Educational trusts					
Butlocks Heath/ Netley Abbey School	-278	-7	4	281	-
Dayas Music Scholarship	-92	-5	2	-	-95
Michael Austin Harlick Memorial	-259	-14	15	-	-258
Mace Educational Trust	-113	-6	6	-	-113
Other	-16	-	-	-	-16
Total	**-758**	**-32**	**27**	**281**	**-482**
Social Services trusts					
Hampshire Mentally Ill Persons Holiday Organisation	-43	-	-	-	-43
Hampshire Old Industrial and Reformatory Schools	-67	-4	2	-	-69
Green Meadows Older Persons Home	-17	-	-	-	-17
Total	**-127**	**-4**	**2**	**-**	**-129**
Museums trusts					
Allen Curtis Museum Trust	-24	-3	3	-	-24
Red House Museum Trust	-50	-4	4	-	-50
Total	**-74**	**-7**	**7**	**-**	**-74**
Libraries trust					
Julian Davies Foundation	-2	-	-	-	-2
Other					
Hillier Arboretum trust	-12	-	1	-	-11
Total - sole trustee trusts	**-973**	**-43**	**37**	**281**	**-698**
Administrator funds					
The Eggars Grammar School Alton Site Foundation	-1,899	-78	3	-	-1,974
Hampshire Foundation for Young Musicians	-67	-5	4	-	-68
Other	-25	-1	-	-	-26
Social services trusts	-6	-	-	-	-6
Total administrator trusts	**-1,997**	**-84**	**7**	**-**	**-2,074**
Total trust funds	**-2,970**	**-127**	**44**	**281**	**-2,772**

35 Undischarged obligations

Hampshire Public Services Network

A contract for Hampshire Public Service Network2 (HPSN2) has been entered into with NTL Telewest. Building on the foundation of the existing HPSN service, HPSN2 will offer improved data, voice and service networks for major partners and affordable solutions for town and parish councils and up to 800 schools. The contract has an initial period of seven years, with an option to extend for a further 3 years. At 31 March 2011 the payments remaining under the contract are estimated to be £7.32m.

Enterprise Licence

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

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

The payments remaining under the contract are £0.27 million at 31 March 2011 (£0.8 million at 31 March 2010) with approximately 0.5 years remaining.

Project Integra and the South Coast Street Lighting PFI - see note 31

Pension Fund Accounts

Fund Account	See note	2009/10 £'000	2010/11 £'000
Dealings with members and employers			
Contributions			
- from employers		165,970	174,551
- from members			
- normal		56,060	56,538
- additional voluntary		1,724	1,784
	6	**223,754**	**232,873**
Transfers in from other pension funds		**21,872**	**21,788**
Benefits			
Pensions		-124,207	-131,033
Commutation of pensions and lump-sum retirement benefits		-31,426	-46,347
Lump-sum death benefits		-4,168	-4,385
	6	**-159,801**	**-181,765**
Payments to and on account of leavers			
Transfers out to other pension funds		**-18,302**	**-13,185**
Refunds of contributions		**-35**	**-57**
State scheme premiums		**7**	**18**
Administrative expenses	7	**-2,220**	**-2,621**
Net additions from dealings with members and employers		**65,275**	**57,051**
Returns on investments			
Investment income			
Interest from fixed-interest bonds		5,210	6,038
Dividends from equities		49,733	54,168
Income from index-linked bonds		108	128
Income from pooled investment vehicles		1,283	905
Net rents from properties		9,110	10,624
Income from property unit trusts		1,237	1,842
Income from other alternative investments		928	2,223
Interest on cash deposits		1,637	1,620
Other		564	1,110
Profit and losses on disposal of investments and changes in value of investments			
Realised		-11,844	64,919
Unrealised		729,475	131,775
Taxes on income	8	-1,504	-1,470
Investment management expenses	7	-9,777	-10,048
Net returns on investments		**776,160**	**263,834**
Net increase (decrease) in the net assets available for benefits during the year		**841,435**	**320,885**
Add opening net assets of the Fund		2,396,100	3,237,535
Closing net assets of the Fund		**3,237,535**	**3,558,420**

Net Assets Statement	See note	1 April 2009 £'000	31 March 2010 £'000	31 March 2011 £'000
Investment assets				
Fixed-interest bonds	16	109,947	149,844	164,229
Index-linked bonds	16	3,868	5,219	5,928
Equities	10,13,16	1,194,721	1,823,228	2,011,143
Pooled investment vehicles:				
– index-linked	11,16	616,714	680,988	727,018
– equities	11,16	23,545	33,380	37,434
Derivative contracts	15	-	131	2,983
Property	16	93,550	134,273	189,090
Property unit trusts	14,16	62,918	60,656	74,228
Other alternative investments	14,16	105,679	128,326	185,603
Fixed term cash deposits		55,220	98,098	50,465
Investment liabilities				
Derivative contracts	15	-	-105	-6,768
Net investment assets		**2,266,162**	**3,114,038**	**3,441,353**
Current assets				
Contributions due from employers	17	9,509	12,037	14,052
Cash balances		109,307	100,740	94,393
Other current assets	17	15,345	14,117	17,944
		134,161	126,894	126,389
Current liabilities				
Other current liabilities	17	-4,223	-3,397	-9,322
Net current assets		**129,938**	**123,497**	**117,067**
Net assets of the Scheme available to fund benefits at the period end		**2,396,100**	**3,237,535**	**3,558,420**

Notes to the Pension Fund Accounts

1 Operations and management

The Local Government Pension Scheme (LGPS) is a statutory pension scheme, whose rules are governed by Parliament in accordance with the Superannuation Act 1972. New regulations came into force on 1 April 2008 with the rules of the scheme split between two separate sets of regulation: the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007; and the Local Government Pension Scheme (Administration) Regulations 2008. These provide the statutory basis within which the Scheme operates. Separate transitional regulations provide the link between the old and new scheme provisions.

Although a national pension scheme set up for the benefit of local government employees, the LGPS is in fact administered locally. The LGPS is open to all 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 198 other scheduled and admission bodies.

In addition, the Scheme allows employees of private contractors to remain in the Scheme where they are providing a service or assets in connection with the functions of a Scheme employer, in accordance with the specific requirements of the LGPS Regulations.

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 2010/11, employees contributed £58.3 million and employers £174.5 million to the Fund. Contributions are calculated as a percentage of pensionable pay. Pension payments were £131.0m in 2010/11 and given that there were 32,824 pensions paid during the year, the average annual pension paid during 2010/11 was £3,992.

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 2010/11, the investments were managed by the following companies:

	As a proportion of Fund's overall value
• Aberdeen Asset Management Limited	20.3%
• Newton Investment Management	12.0%
• Schroders Investment Management	11.8%
• Legal & General Investment Management	10.2%
• State Street Global Advisors	10.2%
• AllianceBernstein	8.4%
• GLG Partners	6.4%
• Western Asset Management	4.7%
• CB Richard Ellis Investors	5.7%
• Aberdeen Property Investors	1.5%

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

During 2010/11, the Pension Fund Panel consisted of nine councillors who directed the management of the Fund. Co-opted to the Panel was 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 had full voting rights. Two representatives of the Fund's pensioners and contributors were co-opted to the Panel, also with full voting rights. There was also an independent adviser who attended Panel meetings. The Panel met the managers regularly to discuss performance and approve their management strategies. Members' attendance at the Panel's seven meetings in 2010/11 averaged 82%.

2 Accounting policies

Accounting standards

The accounts have been prepared as a going concern to meet the requirements of the Local Government Pension Scheme (Administration) Regulations 2008 and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. They are also required to meet the requirements of the Code of Practice on Local Authority Accounting in the UK 2010/11 issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). 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 notes 3 and 4 for the Fund's actuarial position, which do take account of such liabilities.

The Statement of Accounts for 2010/11 is the first to be prepared on an IFRS basis. Previously the Statement of Accounts have been prepared under the SORP 2009. There have been no material adjustments to the accounts resulting from this change.

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 2011
- 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 2011 translated into sterling at the rate that day
- the UK property portfolio – open-market value at 31 March 2011 as estimated by the Fund's independent property valuer
- future contracts have been valued at the exchange price for closing out the contract at the year end date and this represents the unrealised profit or loss of the contract. Amounts due from the broker represent the amounts outstanding in respect of the initial margin and any variation margin which is due to or from the broker
- forward foreign exchange contracts are stated at fair value which is determined as the gain or loss that would arise if the outstanding contract was matched at year end with an equal and opposite contract.

Acquisition costs

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

3 Actuarial valuation

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 2010.

The valuation at 31 March 2010 showed that the value of the Fund's assets (£3,237.5m) was enough to cover 72% of the promised benefits earned to date (£4,493.6m) by the Fund's members (that is, a 72% funding level). This represents a decrease since the previous valuation at 31 March 2007 with the market value of the Fund's assets (£2,917.8m) at that date covering 77% of the Fund's liabilities (£3,808.8m). This was due to the deterioration in the economic environment which led to a lower return on Fund assets since 31 March 2007 than was anticipated, and an increase in the markets' view of Retail Price Index (RPI) inflation as measured by reference to the yields on government bonds, along with an allowance for an increase in life expectancy. These were only partially offset by the change in pension indexation from RPI to Consumer Price Index (CPI), and an increase in the assumed level of future returns on Fund assets.

The actuarial valuation has determined that the contribution rate for the scheduled bodies group of employers will remain unchanged at 19.1% for the next three years, and the employer contribution rate for the admission bodies group will increase in steps of 0.5% p.a. to 19.6% in 2011/12, 20.1% in 2012/13 and 20.6% in 2013/14.

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 2010 actuarial valuation were as follows:

Discount rate for periods	
In service	
Scheduled bodies	6.80% a year
Admission bodies	6.25% a year
After leaving service	
Scheduled bodies	6.80% a year
Admission bodies	4.75% a year
Long dated fixed interest gilts	4.50% a year
Long dated index linked gilts	0.70% a year
Rate of price inflation (RPI)	3.80% a year
Rate of price inflation (CPI)	3.30% a year
Rate of general pay increases	5.30% a year
Rate of increase to pensions in payment	3.30% a year
Valuation of assets	market value

A 65 year old male pensioner in normal health is now assumed on average to live to 88.7 (rather than 86.2 at the previous valuation). And a 65 year old female pensioner in normal health is assumed on average to live to 89.7 (rather than 88.3).

The next actuarial valuation of the Fund is due to take place at 31 March 2013.

4 Actuarial present value of promised retirement benefits

This note has been compiled from material contained within a report prepared by the Fund's Actuary, Aon Hewitt, to provide information required by the Fund to assist in meeting its disclosure requirements under the Code of Practice on Local Authority Accounting in the UK 2010/11 (the 'Code of Practice').

Background

The results of the calculations provided in this note constitute a valuation exercise in accordance with the principles of International Accounting Standard (IAS) 19. The accounting reference date (ARD) to which this note relates is 31 March 2010.

The Code of Practice indicates that the Fund accounts for the year ending 31 March 2011 should disclose the actuarial present value of the promised retirement benefits as set out in IAS26 and that the actuarial present value should be calculated on assumptions set in accordance with IAS19 rather than on the funding assumptions.

It must not be assumed that figures produced for the purposes of IAS19 (IAS26), which are presented in this note, have any relevance beyond the scope of the International Financial Reporting Standards requirements.

Recent changes to pension increases

The Code requires that the Administering Authority should disclose the effect of any changes to the Fund during the accounting period.

In his budget on 22 June 2010, the Chancellor announced the following:

"The Government will use the CPI for the price indexation of benefits and tax credits from April 2011. The CPI provides a more appropriate measure of benefit and pension recipients' inflation experiences than RPI, because it excludes the majority of housing costs faced by homeowners (low income households are subsidised separately through Housing Benefit, and the majority of pensioners own their home outright) and differences in calculation mean it may be considered a better representation of the way consumers change their consumption patterns in response to price changes. This will also ensure consistency with the measure of inflation used by the Bank of England. This change will also apply to public service pensions through the statutory link to the indexation of the Second State Pension. The Government is also reviewing how the CPI can be used for the indexation of taxes and duties while protecting revenues."

The change to CPI would appear to fall within the requirement of the Code of Practice and CIPFA have subsequently confirmed that an appropriate disclosure should be made that describes the change and assesses the financial impact.

The Actuary has interpreted the Chancellor's announcement as meaning that, with effect from 1 April 2011, increases to local government pensions in payment and deferred pensions, in respect of both past and future accrual, will be linked to annual increases in CPI, rather than RPI.

Since over the long term CPI increases are expected to be lower than RPI increases, this gives rise to a reduction in the actuarial present value of the promised retirement benefits.

For the purposes of this exercise, the Actuary has assumed that the switch to CPI indexation occurred on 31 March 2010 on the basis that this simplification will not introduce any material inaccuracy.

Methodology

Value of the assets - IAS19 requires that assets be valued at ‘fair value’ which is defined as the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. For the purposes of this exercise the Actuary has taken the asset values directly from the Fund's audited annual accounts as at 31 March 2010 and 31 March 2007.

Treatment of risk benefits - to value the risk benefits the Actuary has valued service-related benefits based on service completed to the date of calculations only.

Expenses - scheme administration expenses are not provided for in the net present value of actuarial liabilities.

Volatility of results

Results under the IAS26 reporting standard can change dramatically depending on market conditions. The liabilities are linked to yields on high quality corporate bonds whereas the majority of the assets of the Fund are invested in equities. Changing markets in conjunction with discount rate volatility will lead to volatility in the funded status of the Fund.

Information required for IAS26

IAS26 requires the actuarial present value of the promised retirement benefits to be disclosed, which is the IAS26 terminology for what IAS19 refers to as the ‘defined benefit obligation’.

The information set out below relates to actuarial present value of the promised retirement benefits in the Fund which is part of the LGPS. The Fund provides defined benefits, based on members’ final pensionable pay.

The corresponding fair value of Fund assets is also shown in order to show the level of surplus or deficit within the Fund when the liabilities are valued using IAS19 assumptions.

	Value as at 31 March 2007 £m	Value as at 31 March 2010 £m
Fair value of net assets	2,917.4	3,237.5
Actuarial present value of the promised retirement benefits	4,468.2	5,827.4
Surplus / (deficit) in the Fund as measured for IAS26 purposes	**(1,550.8)**	**(2,589.9)**

For comparative purposes, the actuarial valuation figures are presented as follows:

	Value as at 31 March 2007 £m	Value as at 31 March 2010 £m
Fair value of net assets	2,917.8 *	3,237.5
Actuarial present value of the promised retirement benefits	3,808.8	4,493.6
Surplus / (deficit) in the Fund	**(891.0)**	**(1,256.1)**

* The Actuary has adjusted the assets by an additional £0.4m in respect of special contributions due to be paid after the Valuation Date for early retirements before the age of 60 that occurred before the Valuation Date.

The actuarial present value of the promised benefits at 31 March 2010 differs according to the type of valuation that is being carried out. These accounts show valuations prepared for both statutory accounting and funding purposes.

Statutory accounting valuations are prepared in accordance with the requirements of IAS26 and must follow heavily prescribed rules regarding the financial assumptions chosen to calculate the value of the liabilities. In particular, the discount rate must be determined with reference to market yields on high quality corporate bonds at the accounting reference date, consistent with the currency and estimated term of the post-employment benefit obligations.

In contrast, the funding valuation, required every three years by the LGPS Regulations, is performed for a completely different purpose and therefore requires a set of financial assumptions that is consistent with that purpose. In high level terms, the purpose of the funding valuation is to establish a funding strategy for each employer that balances affordability with regulatory requirements such as solvency and the need to achieve as nearly a constant contribution rate as possible.

To achieve this, the Fund Actuary uses the discount rate as the primary tool to control the degree of risk that is built into the Fund's funding strategy. Adjusting the discount rate in this fashion, enables the funding objectives to be achieved within quantifiable risk parameters agreed between the Fund Actuary and the Administering Authority. More detail on this approach can be found in the Fund's Funding Strategy Statement (FSS).

The principal reason why IAS26 valuations cannot be used for funding purposes is that the heavily prescribed nature of the financial basis would provide no means by which the regulatory solvency and contribution smoothing requirements could be achieved in practice.

Further minor differences may be observed in certain elements of the financial bases due to technical reasons stemming from timing and availability of data at the time of preparation. However, these are not regarded as being material. One difference to note, however, is that the statutory accounting valuation makes allowance for an inflation risk premium of 0.25% whereas the statutory funding valuation does not. Again, this is due to the different purposes of the valuation - an inflation risk premium is not used in the funding valuation because it would invalidate the technical methodology that is used to quantify the risk in the agreed funding strategy.

Financial assumptions

The latest full triennial actuarial valuation of the Fund's liabilities in accordance with the requirements of IAS26 took place at 31 March 2010. The principal financial assumptions used by the Fund's Actuary were:

	31 March 2007 (% p.a.)	31 March 2010 (% p.a.)
Discount rate	5.30	5.50
RPI inflation	3.20	3.65
CPI inflation	N/A	2.75
Rate of increase to pensions in payment	3.20	3.65
Rate of increase to deferred pensions	3.20	3.65
Rate of general increase in salaries	4.70	5.15

Changes in benefits during the accounting period

As set out earlier, the Actuary believes the switch to using CPI for pension increases falls within the requirement of the Code of Practice.

The switch to CPI as the basis for future revaluation and pension increases has a significant impact on the actuarial present value of the promised retirement benefits. This is because all pensions, once they come into payment, and the deferred pensions of former employees, will now be increased in line with an index that is expected, over the long term, to be lower than the RPI index it replaces. This, in turn, will reduce the value of the benefits.

The Actuary has estimated that, had the switch to CPI been implemented on 31 March 2010, the actuarial present value of the promised retirement benefits would have reduced by £671.1m, i.e., the actuarial present value of promised retirement benefits would have been £5,156.3m instead of £5,827.4m.

5 Nature and extent of risks and how the Pension Fund manages those risks

The Pension Fund's activities expose it to a variety of financial risks:

Credit risk – the possibility that other parties might fail to pay amounts due to the Pension Fund

Liquidity risk – the possibility that the Pension Fund might not have funds available to meet its commitments to make payments

Market risk – the possibility that financial loss might arise for the Pension Fund as a result of changes in such measures as interest rates and stock market movements.

Credit risk

The Pension Fund is exposed to credit risk through stock lending, derivative contracts and its daily treasury activities.

The stock-lending programme is administered by the Fund's custodian, Northern Trust, who manage and monitor the counterparty risk, collateral risk and the overall lending programme. The minimum level of collateral for stock on loan is 105%, unless the borrowed stock and collateral are denominated in the same currency, then a collateral level of 102% will apply. This level is assessed daily to ensure it takes account of market movements. In accordance with investment regulations, stock lending is restricted to no more than 25% of the total market value of the stock held within the Fund at any time.

Responsibility for managing the financial risks associated with derivative contracts rests with the appointed investment fund managers, whose performance is regularly monitored and reviewed.

The Pension Fund's bank account is held at NatWest, which holds a AA long term credit rating (or equivalent) across three rating agencies and it maintains its status as a well capitalised financial institution. The Fund's cash balance is lent to borrowers in accordance with its Annual Investment Strategy. There are rigorous procedures in place to ensure the security of all cash deposits, including criteria for the quality of counterparties and limits on the amount that can be placed with any one counterparty.

Liquidity risk

The Pension Fund holds a working cash balance in its bank account to pay pensions and other benefits. Cash is also required if the UK property manager CBRE Investors purchases additional properties and to finance drawdowns by the indirect property and alternative investment funds. The Fund currently enjoys a positive cash flow, with contributions being paid into the Fund exceeding the pension benefits paid out by an amount in the region of £60 million a year. This cash flow surplus is invested for future pension payments.

Market risk

To mitigate market risk, the Pension Fund invests in a diversified pool of assets to ensure a reasonable balance between different categories, having taken external advice as necessary. The management of the assets is split between a number of investment fund managers with different performance targets and investment strategies.

Each manager is expected to maintain a diversified portfolio within their allocation. Risk associated with the strategy and investment return are regularly monitored and reviewed.

The interest rate risk is the risk to which the Pension Fund is exposed to changes in interest rates and mainly relates to holdings in bonds. This risk is managed by Legal & General, State Street and Western, who are the Fund’s appointed bond portfolio investment managers.

The Pension Fund is exposed to currency risk, for those investments denominated in non sterling currencies, as a result of possible fluctuations in foreign currency exchange rates. So far as its equity investments are concerned, these risks are mitigated to some extent by the global nature of their underlying businesses. Furthermore, investment fund managers may take account of currency risk in their investment decisions. The Fund also manages the currency risk in its US dollar denominated hedge fund portfolio by passively hedging the US dollar exposure to eliminate the effect of currency movements.

The price risk is the risk of losses associated with the movement in prices of the underlying assets. By diversifying investments across asset classes and managers, the Pension Fund aims to reduce the exposure to price risk. Prescribed statutory limits are also in place to avoid concentration of risk in specific areas.

An additional area of risk is the outsourcing of services to third party service organisations. The main service area that the Pension Fund outsources is its custody arrangements with Northern Trust. The Fund’s custodian is responsible for the safe–keeping of the Fund’s assets, settling transactions and collecting income. In addition, they provide a range of support services including stock lending and investment accounting. Northern Trust are a global industry leader, and provide the custodian service to one-third of English local government pension fund administering authorities.

6 Contributions and benefits

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

	2009/10 £'000	2010/11 £'000
Contributions receivable		
Administering authority	86,931	92,111
Scheduled bodies	127,930	132,498
Admission bodies	8,893	8,264
Total	**223,754**	**232,873**
Benefits payable		
Administering authority	60,153	69,693
Scheduled bodies	93,602	105,787
Admission bodies	6,046	6,285
Total	**159,801**	**181,765**

On 31 March 2011 there were 48,251 contributors in the Fund, a decrease from 49,006 at 31 March 2010. These have been analysed by employer as follows:

	Number of contributors	
	31 March 2010	31 March 2011
Hampshire County Council	22,884	22,345
Southampton City Council	5,610	5,630
Portsmouth City Council	4,951	5,018
District councils	4,548	4,343
Hampshire Constabulary	2,626	2,414
Other organisations	8,387	8,501
Total	**49,006**	**48,251**

The average contribution rate for employees in the Fund was 6.4% of their pensionable pay, which is broadly unchanged from the previous year. A pay freeze was implemented by the local authority employers in the Fund in 2010/11.

The aggregate employer contribution rate paid to the Fund rose to 19.1% in 2010/11 up from the previous year's 18.6%, which was the third of the planned annual step increases in employer rates from the 2007 valuation.

As at 31 March 2011, 30,152 people were receiving pensions from the Fund compared with 29,245 at 31 March 2010. No increase was applied to pensions in April 2010, due to negative annual inflation at September 2009 on which the pensions increase is based.

7 Administrative and investment management expenses

Regulations permit Hampshire County Council to charge administration costs to the Fund. A proportion of relevant County Council costs have been charged to the Fund on the basis of actual time spent on pension scheme administration, and investment-related business and in safeguarding Fund assets. The fees of the Fund's external investment managers reflect the agreements contained in their respective mandates. Fees are linked to the market value of the Fund's investment, and therefore may increase or reduce as the value of these investments change.

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

	2009/10 £'000	2010/11 £'000
Administrative expenses		
Pension administration costs and other overheads	2,109	2,415
Office and other administrative expenses	111	206
Total	**2,220**	**2,621**
Investment management expenses		
Investment management expenses	7,306	8,032
Property managers' expenses	1,514	1,219
Custodian's fees	339	349
Actuary's and other fees	618	448
Total	**9,777**	**10,048**

8 Taxes on income

The Fund is an exempt approved fund under the Income and Corporation Taxes Act 1988 and is therefore not liable to certain UK income tax on investment income or to capital gains tax on the proceeds of investments sold.

The Fund's administering authority Hampshire County Council is reimbursed VAT by HM Revenue & Customs (HMRC) and the accounts are shown exclusive of VAT.

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.

9 Investment returns

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

	2009/10 %	2010/11 %
Annual return	32.3	8.2
Rolling 3-year average return	1.7	4.7

10 Ten largest equity holdings

The ten largest equity (company share) holdings by market value were as follows:

	31 March 2010 £'000		31 March 2011 £'000
Vodafone	58,995	Vodafone	59,846
Royal Dutch Shell	44,923	Royal Dutch Shell	48,842
Rio Tinto	44,784	Rio Tinto	46,475
GlaxoSmithKline	36,352	British American Tobacco	43,371
HSBC	35,619	BG Group	38,869
British American Tobacco	35,531	Standard Chartered	36,783
BP	33,898	HSBC	36,447
Standard Chartered	32,880	Centrica	34,786
BG Group	26,631	BHP Billiton	33,234
Centrica	25,693	BP	30,867

11 Pooled investment vehicle holdings

Pooled investment vehicle holdings comprised the following:

	31 March 2010 £'000	31 March 2011 £'000
Index-linked		
SSGA Over 5-year index-linked gilts	340,723	363,695
Legal & General Over 5-year index-linked gilts	340,265	363,323
Total	**680,988**	**727,018**
Equities		
Schroder Institutional UK Smaller Companies	7,687	10,850
Aberdeen UK Emerging Companies	8,157	10,311
Schroder Recovery A	6,839	7,290
Aberdeen UK Mid-Cap Companies	7,431	4,957
BNY Mellon Fund Manager Newton Discovery	3,266	4,026
Total	**33,380**	**37,434**

12 Concentration of investments

Whilst no individual investment exceeded 5% of the total value of the Fund’s net assets, the following single investments are in excess of 5% of any class or type of security:

	31 March 2010		31 March 2011	
	£’000	%	£’000	%
Fixed-interest bonds				
Germany 3.75% GTD 01/04/2020	-	-	16,550	10.1%
US Treasury NTS 1% due 31/12/2011	-	-	12,483	7.6%
US Treasury DTD 15/11/2009 3.375%	13,963	9.3%	8,293	5.0%
US Treasury NTS 15/05/2016 5.125%	10,026	6.7%	-	-
US Treasury NTS 31/10/2013 2.75%	9,761	6.5%	-	-
Pooled investment vehicles				
SSGA	340,723	47.7%	363,695	47.6%
Legal & General	340,265	47.6%	363,323	47.5%
Property				
Retail Warehouse 1	16,200	8.3%	22,650	8.6%
Retail Warehouse 2	11,500	5.9%	-	-
Retail Warehouse 3	9,900	5.1%	-	-
IRUS European Retail Property Fund	12,502	6.4%	-	-
Other alternative investments				
Oaktree OCM Opportunities	15,181	11.8%	13,773	7.4%
Governance for Owners	10,314	8.0%	12,207	6.6%
HG Renewable Power Partners	8,227	6.4%	-	-
Fixed term cash deposits				
NatWest Bank	10,159	10.4%	5,029	10.0%
Barclays Bank	15,112	15.4%	15,114	29.9%
Lloyds TSB Bank	20,065	20.4%	20,231	40.1%
Leeds Building Society	7,508	7.7%	-	-
Nationwide Building Society	35,139	35.8%	10,081	20.0%
Bank of Scotland	10,115	10.3%	-	-

13 Analysis of UK equity investments by industrial sector

	31 March 2010 £'000	31 March 2011 £'000
Financials (banks, insurance, real estate, investment trusts)	183,270	180,012
Basic materials (chemicals, mining, forestry)	106,036	140,844
Oil and gas	113,950	132,638
Consumer goods (vehicles, household goods)	96,199	116,916
Consumer services (general retailers, leisure, media)	106,258	108,894
Industrials (aerospace, defence, electronics, engineering)	85,046	88,670
Telecommunications (fixed line and mobile)	70,654	74,997
Health care (health care, pharmaceuticals)	59,878	57,192
Utilities (electricity, gas, water suppliers)	33,024	42,158
Technology (computer hardware and software)	31,357	24,957
Total	**885,672**	**967,278**

14 Unlisted investments

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

	31 March 2010 £'000	31 March 2011 £'000
Indirect European property	43,788	56,797
Indirect UK property	16,868	17,431
Sub-total	**60,656**	**74,228**
Private equity funds	68,910	92,558
Hedge funds	7,160	35,256
Renewable energy	8,227	8,770
Other alternative investments	44,029	49,019
Sub-total	**128,326**	**185,603**
Total	**188,982**	**259,831**

At 31 March 2011, these unlisted investment holdings represented 7.3% of the value of the Fund (5.8% at 31 March 2010).

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

15 Derivative contracts

At 31 March 2011, the Fund had derivative contracts in place with a net liabilities market value of £3.785 million (£0.026 million net assets market value at 31 March 2010).

	31 March 2010			31 March 2011		
	Assets £'000	Liabilities £'000	Net £'000	Assets £'000	Liabilities £'000	Net £'000
UK fixed income futures	-	-68	-68	-	-	-
Overseas fixed income futures	120	-37	83	185	-200	-15
Overseas fixed income margined options	-	-	-	14	-1	13
UK cash margined options	-	-	-	-	-5	-5
UK cash futures	-	-	-	-	-23	-23
Sub-total futures	**120**	**-105**	**15**	**199**	**-229**	**-30**
Overseas cash options	-	-	-	137	-205	-68
Overseas fixed income options	11	-	11	-	-260	-260
Sub-total options	**11**	**-**	**11**	**137**	**-465**	**-328**
Forward foreign exchange	-	-	-	2,647	-6,074	-3,427
Sub-total forward foreign exchange	**-**	**-**	**-**	**2,647**	**-6,074**	**-3,427**
Total	**131**	**-105**	**26**	**2,983**	**-6,768**	**-3,785**

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

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

Type of future	Expiration (end date)	Economic exposure value £'000	Market value £'000
Overseas fixed income futures	June 2011	-9,748	-15
Overseas fixed income margined options	May 2011	-10	13
UK cash margined options	March 2012	-	-5
UK cash futures	March 2012	54,913	-23
Total		**45,155**	**-30**

At 31 March 2011, the Fund had forward foreign currency contracts in place with a net unrealised loss of £3.427 million.

Currency		Notional Amount (Local currency)		Asset	Liability
Bought	Sold	Bought £'000	Sold £'000	£'000	£'000
GBP	EUR	101,115	-105,544	-	-4,429
GBP	JPY	15,931	-15,793	138	-
GBP	OTHER	29,377	-30,088	-	-711
GBP	USD	116,418	-117,251	-	-833
JPY	GBP	1,361	-1,365	-	-4
USD	EUR	1,700	-1752	-	-52
USD	GBP	21,679	-21,532	147	-
USD	JPY	3,773	-3,618	155	-
USD	OTHER	3,400	-3,445	-	-45
EUR	GBP	34,478	-32,964	1,514	-
EUR	USD	1,726	-1,712	14	-
OTHER	EUR	1,763	-1,745	18	-
OTHER	GBP	14,073	-13,644	429	-
OTHER	USD	7,419	-7,187	232	-
Total		**354,213**	**-357,640**	**2,647**	**-6,074**

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

Individual investment fund managers may use derivatives if permitted by their Investment Management Agreements in the efficient management of portfolios.

16 Investment transactions

	Market value at 1 April 2010	Purchases	Sales	Change in value	Market value at 31 March 2011
	£'000	£'000	£'000	£'000	£'000
UK fixed-interest bonds (public sector)	266	8,177	-	-301	8,142
UK fixed-interest bonds (other)	10,898	2,885	-1,710	-146	11,927
Overseas fixed-interest bonds (public sector)	75,696	166,964	-148,459	-1,380	92,821
Overseas fixed-interest bonds (other)	62,984	10,938	-22,004	-579	51,339
Fixed-interest sub-total	**149,844**	**188,964**	**-172,173**	**-2,406**	**164,229**
Overseas index-linked bonds (public sector)	**5,219**	**1,685**	**-593**	**-383**	**5,928**
UK equities	885,672	192,645	-179,623	68,584	967,278
North America equities	364,547	213,294	-203,031	36,052	410,862
Japan equities	94,357	48,981	-37,631	874	106,581
Europe equities	298,351	96,529	-108,935	-668	285,277
Other overseas equities	180,301	91,440	-45,242	14,646	241,145
Equities sub-total	**1,823,228**	**642,889**	**-574,462**	**119,488**	**2,011,143**
Pooled investment vehicles:					
- index-linked	**680,988**	**-**	**-**	**46,030**	**727,018**
- equities	**33,380**	**4,390**	**-6,946**	**6,610**	**37,434**
Property	**134,273**	**51,109**	**-7,462**	**11,170**	**189,090**
Property unit trusts	**60,656**	**10,150**	**-26**	**3,448**	**74,228**
Other alternative investments	**128,326**	**82,855**	**-33,190**	**7,612**	**185,603**
Cash movements allowing for currency hedging	**98,124**	**58,199**	**-114,768**	**5,125**	**46,680**
Total	**3,114,038**	**1,040,241**	**-909,620**	**196,694**	**3,441,353**

17 Debtors and creditors

Debtors include contributions due from employers and dividends receivable, while Creditors include unpaid fees and pension benefits.

	31 March 2010 £'000	31 March 2011 £'000
Debtors		
Central government bodies	214	369
Other local authorities	9,651	14,516
NHS bodies	-	7
Public corporations and trading funds	2,557	2,213
Bodies external to general government	13,732	14,891
Total	**26,154**	**31,996**
Creditors		
Central government bodies	19	48
Other local authorities	-	81
NHS bodies	8	-
Bodies external to general government	3,370	9,193
Total	**3,397**	**9,322**

18 Financial instrument disclosures

The Net Assets of the Fund disclosed in the Net Assets Statement are made up of the following categories of financial instruments:

	Long-term		Current	
	31/03/2010	31/03/2011	31/03/2010	31/03/2011
	£'000	£'000	£'000	£'000
Financial assets				
Loans and receivables	-	-	124,252	82,461
Cash	-	-	100,740	94,393
Available-for-sale financial assets	1,192,686	1,383,530	-	-
Financial assets at fair value through profit and loss	-	-	1,823,359	2,014,126
Total financial assets	**1,192,686**	**1,383,530**	**2,048,351**	**2,190,980**
Financial liabilities				
Payables	-	-	3,397	9,322
Financial liabilities at fair value through profit and loss	-	-	105	6,768
Total financial liabilities	**-**	**-**	**3,502**	**16,090**

As all investments are disclosed at fair value, carrying value and fair value are therefore the same.

19 Contingent liabilities

The Fund had no contingent liabilities on 31 March 2011.

20 Investment commitments

The Fund had the following investment commitments at 31 March 2011:

	Committed £'000	Invested at 31 March 2011 £'000
Private equity funds	120,985	69,242
Indirect European property	60,233	47,534
Renewable energy	12,282	11,035
Other alternative investments	57,742	32,697
Total	**251,242**	**160,508**

21 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 198 other scheduled and admission bodies (191 in 2009/10).

Whilst the Pension Fund previously invested its surplus cash balances jointly with the County Council, the introduction of a separate bank account for the Pension Fund since October 2010 has enabled its cash balances to be separately invested. As a result, there is no longer any temporary lending to the County Council.

Transactions with these related parties are shown below:

	2009/10 £'000	2010/11 £'000
Hampshire County Council		
Interest received	-356	-201
Temporary lending 31 March	50,767	-
Administration charge	2,109	2,415

22 Property

All the Fund's directly owned property is held as freehold. In March each year the directly held properties in the UK property portfolio are independently valued. Properties held in the UK property portfolio are generally subject to leases with upward-only rent reviews every five years.

23 Stock lending

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

The Fund lends stock to third parties under a stock-lending agreement with its custodian, Northern Trust. The total amount of stock on loan at the year-end was £90.778 million, and this value is included in the Net Assets Statement to reflect the Fund's continuing economic interest in the stock on loan. The table below summarises the value of stock lent out by the Fund:

	31 March 2010 £'000	31 March 2011 £'000
Equities – UK	37,820	36,424
Equities – overseas	45,840	35,365
Fixed interest – UK	675	787
Fixed interest – overseas	10,036	18,202
Total	**94,371**	**90,778**

As security for the stock on loan, the Fund received collateral at 31 March 2011 valued at £97.864 million. This represented 107.8% of the value of stock on loan and comprised 85% government fixed-interest bonds and 15% equities.

The income received from stock-lending activities was £0.805 million net of administrative fees for the year ending 31 March 2011 and is included in the 'Investment income' figure in the Pension Fund Account. This represents a significantly higher income figure than the £0.060 million net of administrative fees generated in 2009/10, and reflects the fact that the Fund's stock-lending activities were suspended immediately following the collapse of Lehman Brothers in September 2008 and only resumed in December 2009 when it was clearer that the risk of losses from stock lending were not significant.

24 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 2011 is shown below. (This summary has not been audited. The Fund relies on individual contributors checking that deductions made on their behalf are accurately reflected in the statements the AVC providers issue.)

	Zurich £'000	Equitable Life £'000	Total £'000
Contributions received in year	1,662	27	1,689
Market value at 31 March 2010	8,083	1,538	9,621
Market value at 31 March 2011	8,409	1,543	9,952

Glossary

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.

Area Based Grant
A general Government grant allocated to local authorities as additional revenue funding to areas. Local authorities are free to use the grant to support the delivery of local, regional and national priorities.

Audit Commission
The independent public body responsible for ensuring that public money is spent economically, efficiently, and effectively in the areas of local government, housing, health, criminal justice, and fire and rescue services.

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
Delivering economy, efficiency and effectiveness to secure continuous service improvement – 'providing the quality services you want at a price you are willing to pay'.

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.

Book value
The value of a fixed asset, such as a building or machine, as recorded in an organisation's books. It is the lower of the depreciated cost and the recoverable amount. The recoverable amount is the higher of the value in use and the net realisable amount.

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 charges
Charges to service revenue accounts for depreciation, net of any Government grant released. Where appropriate they can also include the writing out of revenue expenditure funded by capital under statute (REFCUS).

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 programme
A list of capital projects approved to start in a specified financial year.

Capital receipt
Proceeds from the sale of capital assets (e.g. land, buildings and equipment).

Capitalisation
Treatment of expenditure as capital rather than as revenue (see also capital expenditure).

Cash limit
A defined figure set at the start of the financial year to represent the maximum amount that a service can spend.

Central support services
Services organised on a corporate basis (for the whole Council) that support the delivery of services to the public.

Collection fund
An account maintained by a district council recording the amounts collected in council tax.

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. Examples of community assets are parks and historic buildings.

Comprehensive Area Assessment (CAA)
This considers how well the Council delivers services and how well the Council is run, as this will affect how services are delivered in the future.

Contingency provision
A sum included usually as a central provision within the budget to meet expenditure where timing and scale are uncertain.

Contingent liabilities
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 contributions and Government grant accounts
Accounts that reflect the value of fixed assets in the Balance Sheet that are financed by specific Government grants or external contributions.

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 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 (the organisation paying the lease).

Financial instruments
Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another.

Financial Reporting Standard (FRS)
Accounting standards that govern the treatment and reporting of income and expenditure in an organisation's accounts.

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 Council but owns its land and buildings and employs its own staff.

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.

General Government grant
See revenue support grant.

Government grant released
The reduction in the value of a Government grant deferred when the corresponding fixed asset is depreciated or disposed of.

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.

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 asset
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.

Internal recharge
A charge made by one part of the Council to another.

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.

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.

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
A fixed 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.

National business rates
Charges collected by district councils from non-domestic properties, at a national rate in the £ set by the Government. The proceeds are pooled nationally and redistributed to areas in proportion to their population.

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 current liabilities
The amount by which current liabilities exceed current assets.

Net operating expenditure
Gross expenditure less fees and charges for services and specific grants but before the deduction of revenue support grant, national business rates and council tax income.

Net revenue expenditure
Gross expenditure less fees and charges for services and specific grants but before the deduction of revenue support grant and national business rates.

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-operational asset
A fixed asset held by the Council but not directly occupied, used or consumed in the delivery of services. Examples of non-operational assets are investment properties and assets that are surplus to requirements, pending sale or development.

Operational asset
A fixed asset held and occupied, used or consumed by the Council in the direct delivery of services.

Operational lease
Under this type of lease, the risks and rewards of ownership of the leased goods stay with the lessor (the company leasing out the goods).

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.

Post Balance Sheet event
Events that occur between the Balance Sheet date and the date when the Statement of Accounts is authorised for issue.

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 actuarial 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.

Realised capital resources
Usable capital resources arising mainly from the disposal of fixed assets.

Receipt in advance
A receipt that is attributable to a future financial year.

Related companies
Companies in which the Council has an interest.

Related party during the financial period
Two or more parties are related when:
- one party has direct or indirect control over the other party
- the parties are subject to common control from the same source
- one party has influence over the financial and operational policies of the other party to the extent that the other party may not be able to pursue its own interests at all times
- influence from the same source results in one of the parties entering into a transaction that is against its own separate interests.

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.

Residual life
The assumed remaining life of a fixed asset used in calculating the depreciation charge.

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 support grant (RSG)
Government financial support that does not have to be spent on a particular service. It is based on the Government's assessment of the Council's spending need, its receipt from national business rates and its ability to generate income from the council tax.

Scheduled bodies
These are organisations that have a right to be in the LGPS.

Service concession
Contracts typically involving a private sector entity (the operator) constructing or enhancing property used in the provision of a public service, and operating and maintaining that property for a specified period of time. The operator is paid for its services over the period of the arrangement.

SETS
Stock Exchange Trading Service – a service provided by the Stock Exchange, enabling shares to be bought and sold electronically.

Short-term investments
An investment that is readily realisable.

Specific grants
Central Government grants to finance a particular service.

Stocks
Goods that are acquired in advance of their use in providing services or their resale.

Straight-line basis
Dividing a sum equally between several years.

Supported Capital Expenditure (Revenue) (SCE(R))
Central Government authorisation for a local authority to finance capital expenditure by any form of credit arrangement, such as loans or finance leasing.
- ringfenced SCE(R)s authorise the finance of capital expenditure on a particular service or project
- unringfenced SCE(R)s authorise the finance of capital expenditure, are not specific to individual services and may be used as the Council wishes.

Transfer value
The value of an employee's pension rights, which can be transferred from one pension scheme to another.

Transferee admitted body
A method by which employees who have been transferred to an employer outside the LGPS are permitted to remain as active members in the Scheme (that is, when a local authority outsources services to a private-sector company).

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.

Undischarged obligations
Spending to which the Council has committed itself but will incur in future years.

Unrealised capital resources
Capital resources that are not usable because they are tied up in fixed assets such as property.

Useful life
The period over which the Council will benefit from the use of a fixed asset.

Work in progress
A product or service that is incomplete at the end of the year and is due to be recharged to an external body.

Write-off
Elimination of an asset or liability over a defined period, usually by means of charging or crediting the revenue account.