

# **Hampshire County Council**

## **Statement of Accounts**

### **2014/15**

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## Summary Statement of Accounts 2014/15

### 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 2014/15 and where the money came from to pay for them.

	2014/15 £000 Expenditure	2014/15 £000 Income	2014/15 £000 Net expenditure
<b>Operating income and expenditure</b>			
Cultural, environmental and planning services	126,435	-26,952	99,483
Education and children's services	1,098,920	-809,995	288,925
Highways and transport services	127,268	-25,173	102,095
Adult social care	456,811	-97,302	359,509
Public Health	37,587	-40,588	-3,001
Other services, corporate and non-distributed costs	183,137	-104,436	78,701
Assets transferred to academies for nil consideration	15,034		15,034
<b>Total operating income and expenditure</b>	<b>2,045,192</b>	<b>-1,104,446</b>	<b>940,746</b>
<b>Taxation and non-specific grant income</b>			
Non-ringfenced government grants			-237,478
Non domestic rates			-42,946
Council tax income			-506,212
Capital grants and contributions			-120,494
<b>Taxation and non-specific grant income</b>			<b>-907,130</b>
<b>Deficit on the provision of services</b>			<b>33,616</b>

### 2 Impact on the General Fund Balance

The Comprehensive Income and Expenditure Statement is drawn up in accordance with international accounting standards. However, the Government has stipulated that certain costs that form part of the Comprehensive Income and Expenditure Statement need not be included in the General Fund for the purpose of setting council tax. These costs are mainly associated with the depreciation of assets and the accrual of retirement benefits, which do not necessarily lead to cash flows in the short and medium term. Consequently, these costs are transferred to the Balance Sheet and replaced with the annual repayment of loans for capital expenditure and the employer's pension contribution. This net adjustment is -£14 million.

## Summary Statement of Accounts

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

	£000
<b>General Fund Balance at 31 March 2014</b>	-27,698
Deficit on the provision of services	33,616
Net adjustment	-14,017
<hr/>	
Balance before transfers from earmarked reserves	-8,099
Transfers from earmarked reserves	-12,499
<hr/>	
<b>General Fund Balance at 31 March 2015</b>	<b>-20,598</b>

### 3 Financial position of the Council

The Balance Sheet presents the Council's financial position at 31 March 2015 and the value of its assets and liabilities. It shows what the Council owns, owes and is owed.

	2014/15 £000	2014/15 £000
Land, buildings, vehicles, equipment and infrastructure		3,781,304
Money owed to the Council:		
Within 12 months	459,770	
After 12 months	225,768	
Money owed by the Council:		
Within 12 months	-346,286	
After 12 months	-606,760	
Net borrowing		-267,508
Pension fund net liability		-1,100,620
<hr/>		
<b>Total net assets</b>		<b>2,413,176</b>
<b>Financed by:</b>		
Cash-backed reserves		-462,149
Non-cash-backed reserves*		-1,951,027
<hr/>		
<b>Total net worth</b>		<b>-2,413,176</b>

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

## Summary Statement of Accounts

### 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.

	2014/15
	£000
Adult Services	7,870
Children's Services	100,660
Environment	109,974
Policy and Resources	26,061
<b>Total</b>	<b>244,565</b>
<b>Financed by:</b>	
Capital receipts	-12,534
Grants and other income	-160,734
Loans	-36,116
Revenue (main contribution)	-21,235
Revenue (reserves)	-13,946
	<b>-244,565</b>

### 5 Pension Fund

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

	2014/15
	£000
Pension contributions	237,542
Transfers in from other pension funds	6,794
Benefits paid	-216,547
Payments to and on account of leavers	-85,264
<b>Net additions from dealings with members and employers</b>	<b>-57,475</b>
<b>Investment management expenses</b>	<b>-20,461</b>
Profits and losses on disposal of investments and disposal of investments and changes in the market value of investments	585,004
Investment income (net of tax)	94,303
Net return on investments	679,307
Add opening net assets of the Fund	4,535,717
<b>Closing net assets of the Fund</b>	<b>5,137,088</b>

## **Explanatory Foreword**

### **1 Introduction**

This document contains Hampshire County Council's Statement of Accounts for the year ended 31 March 2015. 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 2014/15 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 2014/15 are set out on pages 12 to 161.

They consist of:

- Movement in reserves statement – analyses the change in net worth between the general fund, other useable reserves and unusable reserves
- Comprehensive Income and Expenditure Statement – shows the accounting cost in the year of providing services measured in accordance with international accounting standards rather than on the basis of the costs that are required to be financed from taxation
- Balance sheet – this sets out assets and liabilities at 31 March 2015 compared with 31 March 2014
- Cash flow statement – this summarises the movement in cash and cash equivalents during the course of the year
- Notes to the accounts – which explain some of the key items and disclosures in the accounts
- Pension Fund accounts - these are the accounts of the Pension Fund, which is operated for employees of the County Council, Hampshire unitary and district councils and other bodies
- Statement of responsibilities for the Statement of Accounts

### **3 Where the money comes from**

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

## Explanatory Foreword

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

	2013/14 %	2014/15 %
Council tax	26	26
Business rates	2	2
General Government grants	14	13
Fees, charges and interest	14	15
Specific Government grants	44	44
	<b>100</b>	<b>100</b>

## 4 What the money is spent on

Type of expenditure	2013/14 %	2014/15 %
Staff costs	47	46
Running expenses	49	48
Capital financing	4	6
	<b>100</b>	<b>100</b>

Service shares of gross revenue expenditure	2013/14 %	2014/15 %
Children's services and education	59	59
Adult social care	24	24
Highways, roads and transport	7	7
Cultural, environmental and planning services	7	7
Public Health	2	2
Other services	1	1
	<b>100</b>	<b>100</b>

## 5 Employees

At 31 March 2015, the County Council employed 37,500 people, making the Council one of the largest employers in the County. Many of these employees work part-time. In full-time equivalent (FTE) terms, the total number of employees was 24,439 at 31 March 2015, a net increase of 3 since 31 March 2014. This is largely due to an increase of 219 in school-based staff. This is largely offset by reductions in other areas as part of the County Council's efficiency and transformation programme.

## Explanatory Foreword

<b>Full-time equivalent employees</b>	March 2014	March 2015
School - based	14,907	15,126
Other children's services	2,299	2,241
Adult Services	2,712	2,688
Economy, Environment and Transport	688	603
Culture, Communities and Business Services	2,390	2,378
Central services	1,440	1,403
	<b>24,436</b>	<b>24,439</b>

## 6 Summary of the year – Revenue account

The financial year 2014/15 was the fourth and last year of the 2010 Comprehensive Spending Review period, which saw the start of the major grant reduction programme across the public sector. Following the CSR announcement in 2010, local government was anticipating an average 28% reduction in Government funding across the country. However, the distribution of the reductions and the fact that the County Council is a 'floor' authority has meant that the County Council has experienced Revenue Support Grant reductions of over 43% during this period, including a reduction in 2014/15 of just over £22 million.

The County Council's early response to these reductions has placed it in a very strong position for the 2014/15 budget, which was balanced without the need for additional savings targets using the Grant Equalisation Reserve in line with the agreed Medium Term Financial Strategy.

The budget requirement for 2014/15 was set at £748 million. This reflected the reduction in Government grant and enabled the council tax to be frozen at its 2010/11 level allowing the County Council to claim a Government council tax freeze grant of £5.3 million. It also planned to draw £7.1 million from general reserves and working balances as part of the agreed strategy to smooth the impact of grant reductions.

The Council has continued to demonstrate strong financial stewardship over this extremely challenging period. At the end of 2014/15, service net expenditure was £6.9 million lower than budgeted and in accordance with the financial management policy has been transferred to the designated under spending earmarked reserve. Further savings of £4.9 million were achieved largely as a result of improved treasury management activity and higher business rates income than originally budgeted. This has been transferred to the Grant Equalisation Reserve. Other variations are offset by transfers to and from reserves. Further information is included in the End of Year Financial Report 2014/15 considered by the County Council's Cabinet on 22 June 2015:

[http://www3.hants.gov.uk/councilmeetings/advsearchmeetings/meetingsitemsummary.htm?sta=&pref=Y&item\\_ID=6638&tab=1&co=&confidential](http://www3.hants.gov.uk/councilmeetings/advsearchmeetings/meetingsitemsummary.htm?sta=&pref=Y&item_ID=6638&tab=1&co=&confidential)



## Explanatory Foreword

General Balances at 31 March 2015 are £20.6 million, which is in line with the current policy of carrying a general balance that is approximately 2.5% of the County Council's Budget Requirement.

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

<b>Budget</b>	Revised budget	Actual	Variation from revised
	£million	£million	£million
<b>Cost of services</b>	<b>882.0</b>	<b>875.8</b>	<b>-6.2</b>
Gain on disposal of assets	-5.6	-5.6	0
Loss on assets transferred to academies	15.0	15.0	0
Net interest payable and investment property income	22.9	21.9	-1
Investment property gains	-5.2	-5.2	0
Pension interest cost and expected return on pensions assets	18.1	40.8	22.7
Surplus on trading units	-0.4	-2	-1.6
<b>Net operating and financing expenditure</b>	<b>926.8</b>	<b>940.7</b>	<b>13.9</b>
<b>Amount to be met from non-specific Government grant and local taxpayers</b>			
Council tax income	-506.2	-506.2	0
General Government grants	-237.5	-237.5	0
Business rates	-41.3	-42.9	-1.6
Capital grants and contributions	-120.5	-120.5	0
<b>Deficit on the provision of services</b>	<b>21.3</b>	<b>33.6</b>	<b>12.3</b>
<b>Adjustments between accounting and funding basis under regulations</b>	<b>19.5</b>	<b>-14</b>	<b>-33.5</b>
<b>Contribution to/(from) earmarked reserves</b>	<b>-33.7</b>	<b>-12.5</b>	<b>21.2</b>
<b>Movement in General Fund Balance</b>	<b>7.1</b>	<b>7.1</b>	<b>0</b>
<b>General Fund Balance</b>			
Brought forward 1 April 2014	-27.7	-27.7	0
Carried forward 31 March 2015	-20.6	-20.6	0

## **7 Summary of the year – Capital expenditure**

In 2014/15 the County Council spent £244.6 million on capital projects, £12.6 million less than the revised budget. Capital receipts of £12.5 million were received.

Capital expenditure has been funded by Government capital grant together with contributions from developers and outside agencies and available capital receipts. Funding from these sources totalled £173.3 million. In accordance with the agreed criteria for the use of borrowing, £41.2 million was borrowed from internal resources. Adding planned revenue contributions to capital of £43.0 million gave a total of £257.5 million. This has allowed £5.1 million of prudential borrowing to be repaid and a transfer of £7.8 million to reserves to fund future capital expenditure.

The Council may borrow on a day-to-day basis from internal resources, such as the revenue account and earmarked reserve balances to finance capital expenditure. Internal resources were lower in 2014/15 than in the previous year, so that, net of investments, £91.4 million was owed to external lenders at 31 March 2015, an increase of £30.7 million on the previous year. This largely relates to the investment in street lighting which will be repaid over the remaining life of the contract.

Further information is provided in the End of Year Financial Report 2014/15 referenced above.

## **8 Pension Fund liability**

The County Council's net pension liability has increased from £986.1 million at 31 March 2014 to £1,100.6 million at 31 March 2015. This overall actuarial loss arises because although the assets of the fund have increased by £238 million, this has been outweighed by an assumed increase in future pension liabilities due to a lower discount rate applied. The net loss is shown in the Comprehensive Income and Expenditure Statement and then transferred to the Pension Reserve and does not impact on the General Fund balance. Further information can be obtained from note 33 to the accounts.

## **9 Changes**

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

## Explanatory Foreword

Hampshire Cultural Trust in accordance with its agreement with the County Council. Further information is provided in note 21 to the accounts.

During the year a number of schools became academies/foundation schools. This has resulted in a transfer of cash balances of £0.75 million. In addition building and furniture and equipment assets valued at £15.0 million have been transferred. These transfers are not cash backed and increase the deficit on the Comprehensive Income and Expenditure Statement by £15.0 million. This represents a movement in unusable reserves and there is no impact on the General Fund balance.

In accordance with the Code of Practice, this loss on assets transferred to academies is now shown under other operating expenditure in the Comprehensive Income and Expenditure Statement thus increasing the deficit on the provision of services. Consequently a prior period adjustment is required in respect of the Movement in Reserves Statement, the Cash Flow Statement and relevant supporting notes.

Prior period adjustments have also been made to the 2013/14 statements in order to reflect the inclusion of land and buildings relating to non Trust Foundation schools. The assets are vested in the governing bodies of the schools, and until 2014/15 the County Council did not include the value of the assets on the Balance Sheet. In line with new guidance, the County Council has changed the policy to include the 12 foundation school assets on the Balance Sheet from 2014/15 and has restated the Balance Sheet and affected notes to show the position if foundation school assets had been included in 2013/14.

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

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

### **11 Further information**

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

## Movement in Reserves Statement

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

	General Fund Balance £000	Earmarked Reserves £000	Capital Grants Unapplied Reserve £000	Total Usable Reserves £000	Unusable Reserves £000	Total Reserves £000
<b>Balance at 31 March 2013</b>	<b>-34,795</b>	<b>-308,999</b>	<b>-74,967</b>	<b>-418,761</b>	<b>-1,859,080</b>	<b>-2,277,841</b>
<b>Restated Balance at 31 March 2013 *</b>	<b>-34,795</b>	<b>-308,999</b>	<b>-74,967</b>	<b>-418,761</b>	<b>-1,968,307</b>	<b>-2,387,068</b>
Surplus (-) or deficit on provision of services (accounting basis) see note 2 below	103,064	-	-	<b>103,064</b>	-	<b>103,064</b>
Other comprehensive expenditure and income see note 2 below	-	-	-	-	-168,628	<b>-168,628</b>
<b>Total comprehensive expenditure and income</b>	<b>103,064</b>	<b>-</b>	<b>-</b>	<b>103,064</b>	<b>-168,628</b>	<b>-65,564</b>
Adjustments between accounting basis & funding basis under regulations (note 6)	-166,051	-	-	<b>-166,051</b>	166,051	-
<b>Net increase (-) / decrease before transfers to earmarked reserves</b>	<b>-62,987</b>	<b>-</b>	<b>-</b>	<b>-62,987</b>	<b>-2,577</b>	<b>-65,564</b>
Transfers to (-) / from earmarked reserves (note 8)	70,084	-73,273	3,189	-	-	-
<b>Increase (-) / decrease in Year</b>	<b>7,097</b>	<b>-73,273</b>	<b>3,189</b>	<b>-62,987</b>	<b>-2,577</b>	<b>-65,564</b>
<b>Balance at 31 March 2014</b>	<b>-27,698</b>	<b>-382,272</b>	<b>-71,778</b>	<b>-481,748</b>	<b>-1,970,884</b>	<b>-2,452,632</b>

## Movement in Reserves Statement

\*Prior period adjustments have been made to the 2013/14 statements in order to reflect two changes:

(1) The restated opening balances reflect the inclusion of land and buildings relating to non Trust Foundation schools. These assets are owned and controlled by the Governing Body which is not a legal entity separate from the school. Consequently assets valued at £109.2 million as at April 2013 relating to 12 foundation schools have been included in the County Council's balance sheet. The valuation of these assets has been treated as a deemed cost with the balancing entry made to the capital adjustment account. These changes are shown in the Movement in Reserves Statement and the Balance Sheet. There is no impact on the Consolidated Income and Expenditure Statement or the Cash Flow Statement.

(2) The deficit on the provision of services has increased from £54,182,000 to £103,064,000 and other comprehensive income and expenditure has increased from -£119,746,000 to -£168,628,000 as the loss on assets transferred to academy / foundation trust schools is now shown under other operating expenditure in the Comprehensive Income and Expenditure Statement and was previously shown under other comprehensive income and expenditure.

	General Fund		Capital Grants	Total Usable	Unusable	Total Reserves
	Balance	Earmarked Reserves	Unapplied Reserve	Reserves	Reserves	Reserves
	£000	£000	£000	£000	£000	£000
<b>Balance at 31 March 2014</b>	<b>-27,698</b>	<b>-382,272</b>	<b>-71,778</b>	<b>-481,748</b>	<b>-1,970,884</b>	<b>-2,452,632</b>
Surplus (-) or deficit on provision of services (accounting basis)	33,616	-	-	<b>33,616</b>	-	<b>33,616</b>
Other comprehensive expenditure and income	-	-	-	-	5,840	<b>5,840</b>
<b>Total comprehensive expenditure and income</b>	<b>33,616</b>	<b>-</b>	<b>-</b>	<b>33,616</b>	<b>5,840</b>	<b>39,456</b>
Adjustments between accounting basis & funding basis under regulations (note 6)	-14,017	-	-	<b>-14,017</b>	14,017	-
<b>Net increase before transfers to earmarked reserves</b>	<b>19,599</b>	<b>-</b>	<b>-</b>	<b>19,599</b>	<b>19,857</b>	<b>39,456</b>
Transfers to (-) / from earmarked reserves (note 8)	-12,499	-10,911	23,410	-	-	-
<b>Increase (-) / decrease in year</b>	<b>7,100</b>	<b>-10,911</b>	<b>23,410</b>	<b>19,599</b>	<b>19,857</b>	<b>39,456</b>
<b>Balance at 31 March 2015</b>	<b>-20,598</b>	<b>-393,183</b>	<b>-48,368</b>	<b>-462,149</b>	<b>-1,951,027</b>	<b>-2,413,176</b>

## **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

2013/14			See	2014/15		
Gross expenditure £000	Gross income £000	Net expenditure £000	note	Gross expenditure £000	Gross income £000	Net expenditure £000
7,756	-3,172	<b>4,584</b>		5,987	-3,073	<b>2,914</b>
50,181	-11,705	<b>38,476</b>		50,373	-12,749	<b>37,624</b>
64,916	-9,859	<b>55,057</b>		67,201	-11,032	<b>56,169</b>
11,017	-2,383	<b>8,634</b>		8,861	-3,171	<b>5,690</b>
1,093,127	-799,167	<b>293,960</b>		1,098,920	-809,995	<b>288,925</b>
124,681	-27,449	<b>97,232</b>		127,268	-25,173	<b>102,095</b>
425,507	-93,694	<b>331,813</b>		434,644	-97,112	<b>337,532</b>
25,093	-190	<b>24,903</b>		22,167	-190	<b>21,977</b>
33,434	-37,072	<b>-3,638</b>		37,587	-40,588	<b>-3,001</b>
1,753	-1,336	<b>417</b>		2,045	-1,001	<b>1,044</b>
14,121	-624	<b>13,497</b>		14,157	-619	<b>13,538</b>
-	-204	<b>-204</b>		-	-204	<b>-204</b>
17,830	-7,079	<b>10,751</b>		11,504	-160	<b>11,344</b>
-2,794	-	<b>-2,794</b>	15	139	-	<b>139</b>
<b>1,866,622</b>	<b>-993,934</b>	<b>872,688</b>		<b>1,880,853</b>	<b>-1,005,067</b>	<b>875,786</b>
<b>Cost of services</b>						
<b>Other operating expenditure</b>						
16,405	-15,365	<b>1,040</b>		6,939	-12,534	<b>-5,595</b>
48,882	-	<b>48,882</b>	10a	15,034	-	<b>15,034</b>
145,125	-79,077	<b>66,048</b>	9	142,366	-86,845	<b>55,521</b>
<b>Taxation and non-specific grant income</b>						
-	-256,393	<b>-256,393</b>	26	-	-237,478	<b>-237,478</b>
-	-38,963	<b>-38,963</b>	16f	-	-42,946	<b>-42,946</b>
-	-497,466	<b>-497,466</b>	16f	-	-506,212	<b>-506,212</b>
-	-92,772	<b>-92,772</b>	26	-	-120,494	<b>-120,494</b>
<b>-</b>	<b>-885,594</b>	<b>-885,594</b>		<b>-</b>	<b>-907,130</b>	<b>-907,130</b>
<b>Total taxation and non-specific grant income</b>						<b>-907,130</b>
<b>Surplus(-)/Deficit on the provision of services</b>						<b>33,616</b>
						<b>103,064</b>
						<b>-60,438</b>
						<b>-108,190</b>
						<b>-60,438</b>
<b>Net gains on revaluation of fixed and available for sale assets</b>						<b>-68,190</b>
<b>Actuarial loss/(gain) on pension fund assets and liabilities</b>						<b>74,030</b>
<b>Other comprehensive income and expenditure</b>						<b>5,840</b>
<b>Total Comprehensive Income and Expenditure</b>						<b>39,456</b>

\*Assets transferred to academy / foundation trust schools were previously shown under Other comprehensive income and expenditure. This change has increased the 2013/14 deficit on the provision of services from £54,182,000 to £103,064,000 and increased other comprehensive income and expenditure from -£119,746,000 to -£168,628,000 leaving the overall surplus for 2013/14 unchanged.

## **Balance Sheet**

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



## Balance Sheet

Restated 31 March 2013 £000	Restated 31 March 2014 £000	See note		£000	31 March 2015 £000
3,654,737	3,663,296	10a	<b>Property, plant &amp; equipment (PPE)</b>	<b>3,749,695</b>	
27,996	24,138	11	Investment property	31,609	
<b>3,682,733</b>	<b>3,687,434</b>		<b>Total non-current assets</b>	<b>3,781,304</b>	
110,000	95,500	12	Long-term investments	191,703	
36,914	35,179	12b	Long-term debtors	34,065	
<b>3,829,647</b>	<b>3,818,113</b>		<b>Total long-term assets</b>		<b>4,007,072</b>
			<b>Current assets</b>		
5,748	609	14	Current assets held for sale	609	
276,843	351,810	12	Short-term investments	252,899	
3,075	3,053	13	Inventories	2,731	
93,671	107,212	12c	Short-term debtors	135,296	
65,775	78,745	12a	Cash and cash equivalents	68,235	
<b>445,112</b>	<b>541,429</b>		<b>Total current assets</b>	<b>459,770</b>	
			<b>Current liabilities</b>		
-9,876	-16,139	12a	Bank overdraft	-31,497	
-167,376	-203,336	12g	Short-term Creditors	-207,346	
-51,539	-51,987	12d	Short-term borrowing	-42,857	
-6,274	-7,317	30	Deferred liability repayable within one year	-8,300	
-22,753	-23,708	26	Grants receipts in advance - revenue	-36,820	
-16,004	-19,664	26	Grants receipts in advance - capital	-19,466	
<b>-273,822</b>	<b>-322,151</b>		<b>Total current liabilities</b>	<b>-346,286</b>	
<b>171,290</b>	<b>219,278</b>		<b>Net current liabilities</b>		<b>113,484</b>
<b>4,000,937</b>	<b>4,037,391</b>		<b>Total assets less current liabilities</b>		<b>4,120,556</b>
-25,849	-32,344	15	Provisions	-27,038	
-368,658	-358,568	12d	Long-term borrowing	-349,751	
-127,564	-152,723	30	Deferred liabilities	-171,868	
-51,198	-55,034	12f	Developers' contributions	-58,103	
<b>-573,269</b>	<b>-598,669</b>		<b>Total long term liabilities</b>		<b>-606,760</b>
<b>-1,040,600</b>	<b>-986,090</b>	33f	Net liability related to defined benefit pension schemes		<b>-1,100,620</b>
<b>2,387,068</b>	<b>2,452,632</b>		<b>Total net assets</b>		<b>2,413,176</b>
			<b>Financed by:</b>		
			<b>Usable reserves</b>		
-34,795	-27,698	7	General Fund	-20,598	
-308,999	-382,272	8	Earmarked reserves	-393,183	
-74,967	-71,778	8	Capital grants unapplied reserve	-48,368	
<b>-418,761</b>	<b>-481,748</b>		<b>Total usable reserves</b>		<b>-462,149</b>
<b>-1,968,307</b>	<b>-1,970,884</b>	16	<b>Unusable reserves</b>		<b>-1,951,027</b>
<b>-2,387,068</b>	<b>-2,452,632</b>		<b>Total net worth</b>		<b>-2,413,176</b>

## Cash Flow Statement

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

2013/14 £000	See note		2014/15 £000
103,064	*	Net surplus (-) or deficit (+) on the provision of services	33,616
-332,510	17a	Adjustments to net surplus or deficit on the provision of services for non-cash movements	-203,553
108,002	17a	Adjustment for items included in the net surplus or deficit on the provision of services that are investing and financing activities	132,880
<hr/> -121,444		Net cash inflow from Operating Activities	<hr/> -37,057
100,949	17b	Investing Activities	39,592
13,788	17c	Financing Activities	23,333
<hr/> -6,707		Net increase (-) or decrease (+) in cash and cash equivalents	<hr/> 25,868
-55,899		Cash and cash equivalents at the beginning of the reporting period	-62,606
<hr/> <b>-62,606</b>		<b>Cash and cash equivalents at the end of the reporting period (note 12a)</b>	<hr/> <b>-36,738</b>

\* The 2013/14 deficit on the provision of services has increased from £54,182,000 to £103,064,000 as the loss on assets transferred to academy / foundation trust schools is now shown under other operating expenditure in the Comprehensive Income and Expenditure Statement and was previously shown under other comprehensive income and expenditure.

## 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 County Council's transactions for the 2014/15 financial year and its position at the year-end of 31 March 2015. The County Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2011. These require the accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and the Service Reporting Code of Practice 2014/15. The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

#### 1.2 Accruals of income and expenditure

Sums due to, or from, the County Council during the year are included in the accounts, whether or not the cash has actually been received or paid in the year – that is, on an accruals basis. In particular:

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

However, there are some exceptions, as follows:

- Overtime is accounted for with the basic pay with which it is paid. The total amount involved at 31 March 2015 is estimated at £2.6 million (£2.1 million at 31 March 2014).
- Electricity and other utility companies' quarterly payments are accounted for at the date of meter reading rather than being shared between financial years.
- Pension Fund income includes dividends declared in the income tax year.

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

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

### **1.3 Cash and cash equivalents**

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

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

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

### **1.4 Exceptional items**

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

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

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

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

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

## **1.6 Employee benefits**

### **Benefits payable during employment**

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

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

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

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

### **Termination benefits**

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

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

### **Post employment benefits (retirement pensions)**

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

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

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

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

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



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

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

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

### **Discretionary benefits**

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

## 1.7 Events after the balance sheet date

Events after the balance sheet date are those events that occur (both favourable and non-favourable) between the date of the Balance Sheet (31 March) and the date the accounts are authorised for issue (24 September). There are two types of event:

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

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

## 1.8 Financial instruments

### Financial liabilities

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

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

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

### **Financial assets**

Financial assets are classified into two types:

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

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

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

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

Available for sale financial assets are recognised on the Balance Sheet when the County Council becomes a party to the contractual provisions of a financial instrument. These assets are measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the County Council. Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:

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

Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/loss is recognised in the Surplus or Deficit on Revaluation of Available-for-Sale Financial Assets. The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available-for-Sale Reserve. Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

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

## Foreign currency translation

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

### 1.9 Government Grants and other contributions

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

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

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

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

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

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is transferred to the Capital Grants and Contributions Unapplied Reserve. Where it has been applied in the year, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants and Contributions Unapplied Reserve that are subsequently

applied in future years will be transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

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

### **1.10 Intangible assets**

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

### **1.11 Collaborative arrangements**

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

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

The County Council is corporate trustee or the designated treasurer for a number of trust funds and these funds are disclosed in the notes to the accounts.

The County Council owns a 51% share of the Reading Hampshire Property Partnership Limited which was formally incorporated on 4 March 2014 with Companies House. This is a joint public to public venture entirely owned between Hampshire County Council and Reading Borough Council and is limited by shares.

It commenced operations in April 2014 and its financial impact on the County Council is anticipated to be immaterial following the elimination of intragroup transactions.

### **1.12 Stock and long term contracts**

Stocks held in the balance sheet are valued according to their differing nature and purpose. For example, County Supplies stock of £1.3 million is valued at the latest buying price. This does not accord with the International Accounting Standard 2 which requires stock to be valued at the lower of the original purchase price and current value but the differences in the valuations are not material. Other stock is mainly on an historical cost basis. Spending on consumable items is accounted for in the year of purchase.

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

### **1.13 Investment properties**

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

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

## 1.14 Leases

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

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

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

### **The County Council as lessee:**

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

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

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

### **The County Council as lessor:**

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



against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

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

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

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

### **1.15 Overheads and support services**

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

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

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

## **1.16 Property, plant and equipment (PPE)**

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

### **Recognition**

Expenditure on the acquisition, creation or enhancement of PPE assets is capitalised on an accruals basis, provided that it benefits the County Council and the services that it provides are for more than one financial year. Expenditure that maintains, but does not extend, the previously assessed standards of performance of the asset (e.g. repairs and maintenance) is charged to the relevant service area within the Comprehensive Income and Expenditure Statement as it is incurred.

### **Measurement**

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

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

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

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

## **Impairment**

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

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

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

## **Depreciation**

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

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

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

Depreciation is calculated on the following basis:

- Dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer \*
- Furniture and equipment - 10 years
- Vehicles - between five and 10 years
- Roads and bridges – reflect an assessment of the useful economic lives of different parts of road structures
- New and improved highways:
  - Major schemes - 50 years
  - Minor schemes - 40 years
- Structural maintenance:
  - Principal roads - 20 years
  - Non-principal - 50 years
- Area strategies and improvements for safety - 25 years
- Pedestrian facilities, street lighting and cycling facilities - 20 years
- Traffic calming - 10 years

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

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

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

### **Disposals and assets held for sale**

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

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

Amounts received in excess of £10,000 are categorised as capital receipts and are credited to the other operating expenditure line within the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. They are then appropriated to the Capital Receipts Reserve from the General Fund Balance within the Movement in Reserves Statement and then can only be used for new capital investment or set aside to reduce the County Council's underlying need to borrow (the capital financing requirement).

### **1.17 Foundation trust schools and voluntary aided and voluntary controlled schools**

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

### **1.18 Heritage assets**

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

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

balance sheet, but details of heritage assets are given in the notes to the accounts.

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

### **1.19 Private Finance Initiative (PFI) and similar contracts**

PFI and similar contracts are agreements to receive services, where the PFI contractor is responsible for making available the property, plant and equipment needed to provide the services. As the County Council is deemed to control the services that are provided under its PFI schemes, and as ownership of the property, plant and equipment will pass to the County Council at the end of the contracts for no additional charge, the County Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

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

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

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

### **1.20 Provisions**

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

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

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

### **1.21 Carbon reduction commitment scheme**

The County Council is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. The County Council is required to purchase and surrender allowances on the basis of emissions i.e. carbon dioxide produced as energy is used. As carbon dioxide is emitted (i.e. as energy is used), a liability and an expense are recognised.

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

### **1.22 Contingent liabilities**

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

### **1.23 Contingent assets**

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

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

### **1.24 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.

### **1.25 Revenue expenditure funded from capital under statute**

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

### **1.26 Redemption of debt**

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

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



concessions, minimum revenue provision is made on the basis of the principal element of the annuity payment required to write down the liability over the life of the related asset.

### **1.27 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.

### **1.28 Transferred functions**

The County Council has transferred to a charitable company, the operational responsibility for its Arts and Museums service with effect from 1 November 2014. The County Council retains ownership of the collections and the land and buildings occupied by the service and makes an annual revenue grant towards the running costs of the service.

## **2 Critical judgements in applying accounting policies**

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

### **2.1 Asset classifications**

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

### **School assets**

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

assets of Trust foundation schools and the majority of voluntary aided schools are considered to be controlled by a third party and not included in the County Council's balance sheet.

## **2.2 Lease classifications**

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

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

## **2.3 Providing for potential liabilities**

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

## **2.4 Future funding for local government**

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

## **2.5 Production of group accounts**

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

The County Council is sole trustee of a number of trust funds as a result of individuals or executors of an estate seeking to place an asset or assets in a charitable trust and requesting the County Council to act as trustee given that as a statutory corporation, the local authority will provide certainty that the charitable purpose can be sustained. This is an alternative to creating trustees within the family of the individual. As such, these trusts are unconnected with the County Council's role of providing services funded from taxation. Therefore, in order to assess the County Council's financial position either from year to year or as compared with other authorities, trust funds are excluded from the County Council's accounting statements, although they are disclosed in note 34.

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

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

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

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

There is one item in the County Council's Balance Sheet at 31 March 2015 for which there is a risk of adjustment in the forthcoming financial year and that is the pension liability. Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the County Council with expert advice about the assumptions to be applied.

The effects on the net pension's liability of changes in individual assumptions can be measured. For instance, a 0.1% increase in the discount rate assumption for funded liabilities would result in a decrease in the pension liability of £52.2 million. However, the assumptions interact in complex ways. Further detail on the sensitivity of financial assumptions is provided in note 33g.

#### **4 Accounting standards issued not yet adopted**

The Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 (the Code) requires the disclosure of information relating to the expected impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of the following new or amended standards within the 2015/16 Code:

- IFRS 13 Fair Value Measurement - This standard provides a consistent definition of fair value and enhanced disclosure requirements. It is designed to apply to assets and liabilities covered by those IFRS standards that currently permit or require measurement at fair value (with some exceptions). The adoption of this standard will require surplus assets (assets that are not being used to deliver services, but which do not meet the criteria to be classified as either investment properties or non-current assets held for sale) to be revalued to market value rather than value in existing use as at present. Operational property, plant and equipment assets are outside the scope of IFRS 13. Overall this standard is not expected to have a material impact on the Statement of Accounts, due to the value of surplus assets held by the County Council.
- IFRIC 21 Levies - This standard provides guidance on when to recognise a liability for a levy imposed by government in the financial statements of entities paying the levy. The IFRIC specifies the obligating event as the activity that triggers the timing of the payment of the levy. The amount payable may be based on information relating to a period before the obligation to pay arises or the levy is payable only if a threshold is reached, or both. This standard will not have a material impact on the Statement of Accounts.
- Annual Improvements to IFRSs (2011 – 2013 Cycle). These improvements are minor, principally providing clarification and will not have a material impact on the Statement of Accounts.

The Code requires implementation from 1 April 2015 and there is therefore no impact on the 2014/15 Statement of Accounts.

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

The Statement of Accounts was authorised by the Chief Financial Officer on 24 September 2015. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2015, the figures in the financial statements and notes would have been adjusted in all material respects to reflect the impact of this information but there were none.

## 6 Adjustments between accounting basis and funding basis under regulations

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

2014/15	Usable reserves		Unusable Reserves £000
	General Fund Balance £000	Capital Receipts Reserve £000	
<b>Reversal of items included in the Comprehensive Income and Expenditure Statement but required by statute to be excluded when determining the surplus or deficit on the general fund for the year.</b>			
Depreciation and impairment of non-current assets	-167,892		167,892
Movement in the market value of investment property	5,187		-5,187
Revenue expenditure funded by capital under statute	-16,087		16,087
Book value of non-current assets sold	-6,893		6,893
Book value of assets transferred to academy/foundation trust schools	-15,034		15,034
Capital grants and contributions applied	143,904		-143,904
<b>transferred to Capital Adjustment Account</b>	<b>-56,815</b>	<b>-</b>	<b>56,815</b>
Transfer cash proceeds from sale of non-current assets	12,534	-12,534	-
Use of capital receipts to finance capital expenditure		12,534	-12,534
Council tax and business rate income accrual transferred to Collection Fund Adjustment Account	4,771		-4,771
Net charges relating to retirement benefits transferred to the Pensions Reserve	-121,069		121,069
Employee benefits accrual transferred to the Accumulated Absences Account	-911		911
<b>Insertion of items not included in the Comprehensive Income and Expenditure Statement but required by statute to be included when determining the surplus or deficit on the general fund for the year.</b>			
Statutory provision for the repayment of debt	33,163		-33,163
Contribution from other authorities for the repayment of debt	-1,578		1,578
PWLB Premium Annual Charge	138		-138
Capital expenditure funded from the General Fund	35,181		-35,181
<b>transferred from Capital Adjustment Account</b>	<b>66,904</b>	<b>-</b>	<b>-66,904</b>
Employer's contributions payable to the pension Fund transferred from the Pension Reserve	80,569		-80,569
<b>Total adjustments</b>	<b>-14,017</b>	<b>-</b>	<b>14,017</b>

## Notes to the Core Financial Statements

2013/14	Usable reserves		Unusable Reserves £000
	General Fund Balance	Capital Receipts Reserve	
	£000	£000	

**Reversal of items included in the Comprehensive Income and Expenditure Statement but required by statute to be excluded when determining the surplus or deficit on the general fund for the year.**

Depreciation and impairment of non-current assets	-183,925	-	183,925
Movement in the market value of investment property	-968	-	968
Revenue expenditure funded by capital under statute	-12,790	-	12,790
Book value of non-current assets sold	-16,364	-	16,364
Book value of assets transferred to academy/foundation trust schools *	-48,882	-	48,882
Capital grants and contributions applied	95,962	-	-95,962

**transferred to Capital Adjustment Account**

<b>transferred to Capital Adjustment Account</b>	<b>-166,967</b>	<b>-</b>	<b>166,967</b>
Transfer cash proceeds from sale of non-current assets	15,365	-15,365	-
Use of capital receipts to finance capital expenditure	-	15,365	-15,365
Council tax income accrual transferred to Collection Fund Adjustment Account	3,120	-	-3,120
Net charges relating to retirement benefits transferred to the Pensions Reserve	-123,052	-	123,052
Effective interest on PWLB premium transferred to the Financial Instruments Adjustment Account	-	-	-
Employee benefits accrual transferred to the Accumulated Absences Account	425	-	-425

**Insertion of items not included in the Comprehensive Income and Expenditure Statement but required by statute to be included when determining the surplus or deficit on the general fund for the year.**

Statutory provision for the repayment of debt	30,414	-	-30,414
Contribution from other authorities for the repayment of debt	-1,629	-	1,629
PWLB Premium Annual Charge	139	-	-139
Capital expenditure funded from the General Fund	6,762	-	-6,762

**transferred from Capital Adjustment Account**

<b>transferred from Capital Adjustment Account</b>	<b>35,686</b>	<b>-</b>	<b>-35,686</b>
Employer's contributions payable to the pension Fund transferred from the Pension Reserve	69,372	-	-69,372

**Total adjustments**

<b>Total adjustments</b>	<b>-166,051</b>	<b>-</b>	<b>166,051</b>
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\* Inclusion of this item follows the change in presentation of the Comprehensive Income and Expenditure Account since the publication of the 2013/14 accounts

## 7 General Fund

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

## 8 Transfers to/from earmarked reserves

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

		Balance	Movement	Balance	Movement	Balance
		at 1 April	in	at	in	at
	See	2013	2013/14	31 March	2014/15	31 March
	note	£000	£000	2014	2014/15	2015
				£000	£000	£000
<b>Fully Committed to Existing Spend Programmes</b>						
Capital Grants Unapplied	a	-74,967	3,189	-71,778	23,410	-48,368
Revenue Grants Unapplied	b	-18,448	-22,219	-40,667	4,506	-36,161
General Capital Reserve	c	-89,316	-39,956	-129,272	-4,654	-133,926
Street Lighting Reserve	d	-2,395	-1,497	-3,892	-2,371	-6,263
Other	e	-1,550	-101	-1,651	-144	-1,795
		<b>-186,676</b>	<b>-60,584</b>	<b>-247,260</b>	<b>20,747</b>	<b>-226,513</b>
<b>Departmental / Trading Reserves</b>						
Trading Accounts	f	-13,780	-912	-14,692	-1,033	-15,725
Departmental Cost of Change	g	-30,601	59	-30,542	-12,109	-42,651
		<b>-44,381</b>	<b>-853</b>	<b>-45,234</b>	<b>-13,142</b>	<b>-58,376</b>
<b>Risk Reserves</b>						
Insurance	h	-22,043	-2,794	-24,837	-1,971	-26,808
Interest Risk	i	-	-	-	-500	-500
Local Government resource review	j	-6,150	-	-6,150	6,150	-
		<b>-28,193</b>	<b>-2,794</b>	<b>-30,987</b>	<b>3,679</b>	<b>-27,308</b>
<b>Corporate Reserves</b>						
Grant Equalisation	k	-48,460	-2,004	-50,464	-417	-50,881
Invest To Save	l	-10,154	81	-10,073	612	-9,461
Corporate Policy	m	-1,979	-1,696	-3,675	-301	-3,976
Corporate Efficiency	n	-9,235	304	-8,931	-50	-8,981
Organisational Change	o	-10,018	2,164	-7,854	4,261	-3,593
		<b>-79,846</b>	<b>-1,151</b>	<b>-80,997</b>	<b>4,105</b>	<b>-76,892</b>
<b>County Council reserves</b>		<b>-339,096</b>	<b>-65,382</b>	<b>-404,478</b>	<b>15,389</b>	<b>-389,089</b>
Schools Reserves	p	-44,870	-4,702	-49,572	-2,890	-52,462
<b>Total Earmarked Reserves and Balances</b>		<b>-383,966</b>	<b>-70,084</b>	<b>-454,050</b>	<b>12,499</b>	<b>-441,551</b>
General Fund Balance		-34,795	7,097	-27,698	7,100	-20,598
<b>Total Reserves and Balances</b>		<b>-418,761</b>	<b>-62,987</b>	<b>-481,748</b>	<b>19,599</b>	<b>-462,149</b>



## Notes to the Core Financial Statements

- a. The capital grants unapplied reserve holds capital grants that have been received in advance of the matched spending being incurred. They are not available for revenue purposes.
- b. The revenue grants unapplied reserve was established to reflect change in accounting practice under IFRS, requiring grants to be accounted for in advance of the matched spending being incurred, where there is no repayment condition.
- c. The general capital reserve is to assist in matching the timing of the availability of capital financing resources with the timing of capital payment.
- d. The street lighting reserve represents the anticipated surplus generated by the financial model for this PFI scheme that is invested up front and then applied to the contract payments for future years.
- e. Other smaller reserves are sums set aside for specific future purposes.
- f. The trading accounts reserve enable business units to carry forward planned surpluses to cover future investment or possible losses.
- g. The departmental cost of change reserve enables individual services to carry forward underspendings in accordance with the financial management policy.
- h. The County Council self insures against certain types of risks and the level of the insurance reserve is based on an independent valuation of past claims experience and the level and nature of current outstanding claims.
- i. The Interest Risk reserve was established in 2014/15 to mitigate the slight additional risk associated with the revised approved investment strategy.
- j. The Local Government Resource Review reserve was established in 2011/12 to cover the risk of reduced income resulting from business rates appeals and localisation of council tax benefit.
- k. The grant equalisation reserve is to assist in managing the impact of future grant loss.
- l. The invest-to-save reserve is to provide funding for investment which will generate future cash savings which can be recycled back into the reserve.
- m. 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.

## Notes to the Core Financial Statements

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

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

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

### 9 Financing and investment income and expenditure

2013/14				2014/15		
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure
£000	£000	£000		£000	£000	£000
30,090	-6,600	<b>23,490</b>	Interest	30,580	-8,070	<b>22,510</b>
1,820	-853	<b>967</b>	Investment property gains(-) and losses	-	-5,187	<b>-5,187</b>
505	-1,095	<b>-590</b>	Investment property transactions	466	-1,107	<b>-641</b>
112,710	-68,990	<b>43,720</b>	Pension interest	111,320	-70,510	<b>40,810</b>
-	-1,539	<b>-1,539</b>	Surplus on trading undertakings	-	-1,971	<b>-1,971</b>
<b>145,125</b>	<b>-79,077</b>	<b>66,048</b>	<b>Total within other operating expenditure</b>	<b>142,366</b>	<b>-86,845</b>	<b>55,521</b>

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

The movements in property plant and equipment during 2014/15 were as follows:

	Other land and buildings £000	Vehicles, plant and equipment £000	Infra- structure assets £000	Comm- unity assets £000	Surplus assets £000	Assets under const- ruction £000	<b>Total Property, Plant and Equipment £000</b>
<b>Cost or valuation at 31 March 2014</b>	<b>3,364,162</b>	<b>130,572</b>	<b>907,257</b>	<b>15,358</b>	<b>9,667</b>	<b>45,355</b>	<b>4,472,371</b>
Additions	71,638	12,353	88,627	569	1	43,047	<b>216,235</b>
Disposals (inc. components)	-12,070	-823	-	-217	-27	-	<b>-13,137</b>
Transfers to other classes	17,826	1,284	5,609	494	1,166	-35,524	<b>-9,145</b>
Transfers to foundation schools	-	-	-	-	-	-	-
Changes in certified valuations	-6,001	-	-	-	1,390	-	<b>-4,611</b>
Transfer of assets to Academy schools	-16,121	-545	-	-	-	-	<b>-16,666</b>
<b>Cost or valuation at 31 March 2015</b>	<b>3,419,434</b>	<b>142,841</b>	<b>1,001,493</b>	<b>16,204</b>	<b>12,197</b>	<b>52,878</b>	<b>4,645,047</b>
<b>Accumulated depreciation at 31 March 2014</b>	<b>-506,028</b>	<b>-85,223</b>	<b>-216,085</b>	<b>-73</b>	<b>-1,666</b>	<b>-</b>	<b>-809,075</b>
Depreciation for the year	-75,915	-8,745	-34,891	-	-140	-	<b>-119,691</b>
Impairment losses	-41,397	-	-	-	-16	-	<b>-41,413</b>
Disposals- accumulated depreciation	7,846	624	-	-	14	-	<b>8,484</b>
Depreciation on transfers	255	-	-	-2	-219	-	<b>34</b>
Deprecation on transfers to foundation schools	-	-	-	-	-	-	-
Revaluations- write back depreciation	64,640	-	-	-	37	-	<b>64,677</b>
Transfer of assets to Academy schools	1,230	402	-	-	-	-	<b>1,632</b>
<b>Accumulated depreciation at 31 March 2015</b>	<b>-549,369</b>	<b>-92,942</b>	<b>-250,976</b>	<b>-75</b>	<b>-1,990</b>	<b>-</b>	<b>-895,352</b>
<b>Net book value (NBV) of fixed assets at 31 March 2014</b>	<b>2,858,134</b>	<b>45,349</b>	<b>691,172</b>	<b>15,285</b>	<b>8,001</b>	<b>45,355</b>	<b>3,663,296</b>
<b>Net book value at 31 March 2015</b>	<b>2,870,065</b>	<b>49,899</b>	<b>750,517</b>	<b>16,129</b>	<b>10,207</b>	<b>52,878</b>	<b>3,749,695</b>
<b>Nature of asset holding</b>							
Owned	2,684,530	49,899	750,517	16,129	10,207	52,878	<b>3,564,160</b>
PFI/service concessions (see note 30)	185,535	-	-	-	-	-	<b>185,535</b>
	<b>2,870,065</b>	<b>49,899</b>	<b>750,517</b>	<b>16,129</b>	<b>10,207</b>	<b>52,878</b>	<b>3,749,695</b>

## Notes to the Core Financial Statements

The comparative movements in PPE during 2013/14 were as follows:

	Other land and buildings £000	Vehicles, plant and equipment £000	Infra- structure assets £000	Comm- unity assets £000	Surplus Assets £000	Assets under const- ruction £000	Total Property, Plant and Equipment £000
<b>Cost or valuation at 31 March 2013</b>	<b>3,323,662</b>	<b>136,223</b>	<b>790,012</b>	<b>14,605</b>	<b>9,056</b>	<b>43,242</b>	<b>4,316,800</b>
<b>Restated</b>	<b>3,432,889</b>	<b>136,223</b>	<b>790,012</b>	<b>14,605</b>	<b>9,056</b>	<b>43,242</b>	<b>4,426,027</b>
Additions	55,858	10,461	89,571	197	106	35,383	191,576
Disposals	-14,216	-14,664	-	-	-608	-	-29,488
Transfers to other classes	2,238	3	27,674	556	852	-33,270	-1,947
Transfers to foundation schools	-	-	-	-	-	-	-
Changes in certified valuations	-57,682	-	-	-	261	-	-57,421
Transfer of assets to Academy Schools	-54,925	-1,451	-	-	-	-	-56,376
<b>Gross book value (GBV) at 31 March 2014</b>	<b>3,364,162</b>	<b>130,572</b>	<b>907,257</b>	<b>15,358</b>	<b>9,667</b>	<b>45,355</b>	<b>4,472,371</b>
<b>Accumulated depreciation at 31 March 2013</b>	<b>-491,771</b>	<b>-92,430</b>	<b>-185,738</b>	<b>-62</b>	<b>-1,289</b>	-	<b>-771,290</b>
Depreciation for the year	-74,388	-8,275	-29,947	-	-	-	-112,610
Impairment losses	-70,883	-	-	-	-202	-	-71,085
Disposals- accumulated depreciation	6,171	14,628	-	-	-	-	20,799
Depreciation on transfers	55	-	-400	-11	-232	-	-588
Deprecation on transfers to foundation schools	-	-	-	-	-	-	-
Revaluations- write back depreciation	118,147	-	-	-	57	-	118,204
Transfer of assets to Academy schools	6,641	854	-	-	-	-	7,495
<b>Accumulated depreciation at 31 March 2014</b>	<b>-506,028</b>	<b>-85,223</b>	<b>-216,085</b>	<b>-73</b>	<b>-1,666</b>	-	<b>-809,075</b>
<b>Net book value of fixed assets at 31 March 2013</b>	<b>2,831,891</b>	<b>43,793</b>	<b>604,274</b>	<b>14,543</b>	<b>7,767</b>	<b>43,242</b>	<b>3,545,510</b>
<b>Restated</b>	<b>2,941,118</b>	<b>43,793</b>	<b>604,274</b>	<b>14,543</b>	<b>7,767</b>	<b>43,242</b>	<b>3,654,737</b>
<b>Net book value of fixed assets at 31 March 2014</b>	<b>2,858,134</b>	<b>45,349</b>	<b>691,172</b>	<b>15,285</b>	<b>8,001</b>	<b>45,355</b>	<b>3,663,296</b>
<b>Nature of asset holding</b>							
Owned	2,686,382	45,349	691,172	15,285	8,001	45,355	3,491,544
PFI/service concessions (see note 30)	168,476	-	-	-	-	-	168,476
	<b>2,854,858</b>	<b>45,349</b>	<b>691,172</b>	<b>15,285</b>	<b>8,001</b>	<b>45,355</b>	<b>3,660,020</b>

**10b Capital commitments**

Commitments for major contracts entered into up to 31 March 2015 are estimated at £59.6 million (£42.7 million in 2013/14). This comprises £9.8 million (£1.7 million in 2013/14) for highways and £28.8 million (£41 million in 2013/14) for buildings and £21.0 million (£0 Million in 2013/14) for Superfast Broadband contracts.

**10c Valuation of assets**

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

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

<b>Valuation</b>	Other land and buildings £000	Vehicles, plant and equipment £000	Infra- structure £000	Comm- unity assets £000	Surplus assets £000
Valued at historic cost		49,899	750,517	16,129	
Pre 2010/11	3,544				144
2010/11	389,369				1,432
2011/12	458,597				1,984
2012/13	739,148				2,318
2013/14	651,537				1,340
2014/15	627,870				2,990
<b>Total</b>	<b>2,870,065</b>	<b>49,899</b>	<b>750,517</b>	<b>16,129</b>	<b>10,208</b>

**10d Impairment losses**

During 2014/15, the County Council has recognised impairment losses of £41.4m (£71.3m in 2013/14). In 2014/15, this all relates to land and buildings that are valued on a depreciated replacement cost (DRC) basis. DRC is based on the instant build of a modern equivalent asset, depreciated to reflect its age and physical deterioration. As such the DRC valuation can be lower than the initial recognition of actual capital expenditure.

## **10e Foundation and aided school assets**

The fixed assets of foundation schools are vested in the governing bodies of the schools. Until 2014/15 the County Council did not include the value of the assets in the Balance Sheet. In line with new guidance, the County Council has changed the policy to now include the 12 foundation school assets on the Balance Sheet from 2014/15, and has restated the Balance Sheet and affected notes to show the position if foundation schools had been included on the Balance Sheet in 2013/14. Amendments have been made to notes 10a and 16b.

On 31 March 2015 there was also 1 foundation trust school, that will remain off the County Council's Balance Sheet, as the fixed assets are controlled by the Trust.

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

On 31 March 2015 there were 53 aided schools (53 in 2013/14).

## **10f Heritage assets**

### **Land/building heritage assets**

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

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

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

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

There have been no material acquisitions, disposals or impairments of heritage assets in the past five years.

## **Museum collections**

### **Archaeology**

The archaeology collections consist of excavation and fieldwork archives from around the county. The largest collection is the Danebury collection, which relates to the Danebury Hill Fort and is the main source of exhibits for the Museum of the Iron Age in Andover.

### **Art and design**

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

The art and design collections also contain many examples from the decorative arts, including around 8,500 ceramic items dating from the 17<sup>th</sup> century onwards, many of which are on display at the Allen Gallery in Alton. There are also clocks and watches displaying decorative metalwork.

### **Social and industrial history**

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

### **Natural science**

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

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

## **Records, access and collecting policy**

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

Since 1 November 2014, the County Council's museum collection is managed by the Hampshire Cultural Trust. A significant proportion of the collection is on display at various museums and other community sites across Hampshire. The Hampshire Cultural Trust also organises touring exhibitions and may loan items to other museums. Items not currently on display are stored at Chilcomb House in Winchester, and may be viewed for research purposes by appointment.

The collection and disposal policy is available through the following website: <http://www3.hants.gov.uk/collections-old.htm>

## **Archives**

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

The archives have been designated by the Museums, Libraries and Archives Council as an outstanding collection of national and international importance. Their scope and importance is summarised in the following document:

<http://www3.hants.gov.uk/archives/hals-collections.htm>. The Winchester Bishopric Pipe Rolls are on the UNESCO UK Memory of the World Register. Many of the items in the archives are not owned by the County Council, but have been deposited with the Record Office by a range of public bodies and private institutions and individuals.

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

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



## Notes to the Core Financial Statements

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

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

A list of new accessions is sent annually to The National Archives who publish this on their website. The latest complete list for is for 2013: <http://www.nationalarchives.gov.uk/accessions/>

### 11 Investment properties

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

	2013/14	2014/15
	£000	£000
Rental income from investment property	-1,095	-1,107
Direct operating expenses arising from investment property	505	466
<b>Net (gain)</b>	<b>-590</b>	<b>-641</b>

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

## Notes to the Core Financial Statements

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

	2013/14 £000	2014/15 £000
Balance at start of the year	27,996	24,138
Additions:		
- purchases	-	4,590
- construction	-	-
- subsequent expenditure	-	1
Disposals	-3,020	-2,240
Net gains/losses from fair value adjustments	-968	5,187
Transfers:		
- to/from Inventories	-	-
- to/from Property, Plant and Equipment	130	-67
<b>Balance at end of the year</b>	<b>24,138</b>	<b>31,609</b>

## 12 Financial instruments

The term 'financial instrument' is where a contract gives rise to a financial asset in one entity and a financial liability or equity instrument in another. Non exchange transactions, such as those relating to taxes and government grants do not give rise to financial instruments. The financial assets and liabilities disclosed in the Balance Sheet are analysed across the following categories:

## Notes to the Core Financial Statements

		Long term		Current	
		31 March	31 March	31 March	31 March
see		2014	2015	2014	2015
note		£000	£000	£000	£000
Loans & receivables - Investments		95,500	157,500	351,810	160,647
Available for sale - investments			34,203		92,252
<b>Total investments</b>		<b>95,500</b>	<b>191,703</b>	<b>351,810</b>	<b>252,899</b>
Loans & receivables - cash and cash equivalents	12a	-	-	36,630	-11,057
Available for sale cash & cash equivalents	12a	-	-	25,976	47,795
<b>Total cash &amp; cash equivalents</b>		<b>-</b>	<b>-</b>	<b>62,606</b>	<b>36,738</b>
Loans & receivables - Debtors	12b12c	2,293	2,757	72,479	95,643
<b>Total debtors</b>		<b>2,293</b>	<b>2,757</b>	<b>72,479</b>	<b>95,643</b>
Financial liabilities at amortised cost:					
Borrowing	12d	-358,568	-349,751	-51,987	-42,857
Developers' contributions	12f	-55,034	-58,103	-	-
Deposits	12h	-	-	-485	-532
Creditors and receipts in advance	12i	-	-	-178,990	-188,900
PFI & finance lease liabilities	30	-152,723	-171,868	-7,317	-8,300
<b>Financial liabilities at amortised cost</b>		<b>-566,325</b>	<b>-579,722</b>	<b>-238,779</b>	<b>-240,589</b>

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

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

The fair value of long term loans and receivables and borrowings are included in disclosure note 12e.

**12a Cash and cash equivalents**

Cash comprises cash in hand and call accounts.

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

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

	31 March 2014 £000	31 March 2015 £000
Cash in hand	2,721	3,334
Call accounts (instant access bank accounts)	50,048	17,106
Available for sale financial assets (instant access money market funds)	25,976	47,795
<b>Total cash and cash equivalents</b>	<b>78,745</b>	<b>68,235</b>
Bank overdraft	-16,139	-31,497
<b>Net cash and cash equivalents</b>	<b>62,606</b>	<b>36,738</b>

**12b Long-term debtors**

	31 March 2014 £000	31 March 2015 £000
Car loans to staff	1,175	1,075
Other	1,118	1,682
	<b>2,293</b>	<b>2,757</b>
Transferred debt	32,886	31,308
	<b>35,179</b>	<b>34,065</b>

Transferred debt represents amounts of capital advances due to be repaid after statutory transfers of former services to independent bodies. These are not financial instruments and are shown at the book value of the amount outstanding. £29.2 million remains to be repaid by the cities of Portsmouth and Southampton, £1.1 million by the Office of the Police and Crime Commissioner for Hampshire and, £1 million by colleges of further education and magistrates' courts.

The other long-term debtors figure of £2.8 million (£2.3 million in 2013/14) is classified as a loans and receivables financial instrument.

## Notes to the Core Financial Statements

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

### 12c Debtors

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

	31 March 2014 £000	31 March 2015 £000
<b>Financial instrument debtors</b>		
Government departments	1,464	892
Other local authorities	11,957	9,217
NHS bodies	153	455
Sundry debtors	58,905	85,079
<b>Total Financial Instrument debtors</b>	<b>72,479</b>	<b>95,643</b>
<b>Non-financial instrument debtors</b>		
Government departments *	12,230	8,801
Other local authorities *	9,829	16,169
Payments in advance	12,674	14,683
<b>Total debtors and prepayments</b>	<b>107,212</b>	<b>135,296</b>

\* In the 2013/14 published accounts the government and other local authorities non financial instrument debtors were included in the financial instrument debtor figure above.

### 12d Borrowing

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

	Long term		Short term	
	31 March 2014 £000	31 March 2015 £000	31 March 2014 £000	31 March 2015 £000
Loans at amortised cost:				
-Public Works Loan Board (PWLB)	-281,056	-269,516	-17,016	-13,966
-Market loans	-77,512	-80,235	-1,094	-1,033
-Other short-term borrowing	-	-	-33,877	-27,858
	<b>-358,568</b>	<b>-349,751</b>	<b>-51,987</b>	<b>-42,857</b>

**12e Fair values**

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

- PWLB loans have been discounted at the published interest rates for new certainty rate loans with an identical remaining term to maturity arranged on 31st March
- Market loans have been discounted at the appropriate interest rate swap rate on 31 March over the whole life of the loan, plus a margin for local authority credit risk and adding the value of the embedded options
- PFI scheme liabilities have been discounted (excluding service charge elements) at the appropriate AA corporate bond yield
- No early repayment or impairment is recognised.
- The fair value of short-term instruments, including trade payables and receivables is assumed to approximate to the carrying amount and therefore is not shown below. This is because the amounts are due within one year, without interest.

	31 March 2014		31 March 2015	
	Amortised Cost	Fair Value	Amortised Cost	Fair Value
	£000	£000	£000	£000
<b>Financial Liabilities</b>				
PWLB loans - principal	-295,595	-319,559	-281,056	-339,667
PWLB loans - interest	-1,031		-2,426	
Market loans - principal	-77,575	-93,531	-80,235	-109,568
Market loans - interest	-2,476		-1,033	
PFI arrangements	-160,040	-200,556	-180,168	-242,709
<b>Total</b>	<b>-536,717</b>	<b>-613,646</b>	<b>-544,918</b>	<b>-691,944</b>
<b>Financial Assets</b>				
Long-term investments - principal	95,500	96,128	157,500	167,066
Long-term investments - interest	803		1,941	
<b>Total</b>	<b>96,303</b>	<b>96,128</b>	<b>159,441</b>	<b>167,066</b>

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

The fair value for long term assets at the Balance Sheet date is higher than the carrying amount because the interest rate on similar investments is now lower than that obtained when the investment was originally made (the opposite was true at 31 March 2014).

**12f Developers' contributions**

Developers' contributions arise mainly as a result of agreements under Section 106 of the Town and Country Planning Act 1990 and also Section 278 of the Highways Act 1980 if a development derives special benefit from highway works, developers can be required to contribute towards the costs. Before being applied, deposits are credited with interest on the basis of market rates. Therefore the carrying amount is a reasonable assessment of the fair value of the financial liability.

	2013/14			2014/15		
	Highways	Other	Total	Highways	Other	Total
	£000	£000	£000	£000	£000	£000
Balance at 1 April	-45,998	-5,200	-51,198	-47,700	-7,334	-55,034
Income	-12,465	-9,859	-22,324	-13,842	-10,336	-24,178
Contributions applied	10,763	7,725	18,488	8,132	12,977	21,109
<b>Balance at 31 March</b>	<b>-47,700</b>	<b>-7,334</b>	<b>-55,034</b>	<b>-53,410</b>	<b>-4,693</b>	<b>-58,103</b>

**12g Short-term creditors**

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

**12h Deposits**

	31 March	31 March
	2014	2015
	£000	£000
Capital deposits and unapplied contributions	-358	-443
Other	-127	-89
	<b>-485</b>	<b>-532</b>

**12i Creditors and receipts in advance**

	31 March 2014 £000	31 March 2015 £000
<b>Financial instrument creditors</b>		
Government departments	-305	-1,151
NHS Bodies	-13,855	-16,800
Public corporations and trading funds		-131
Other local authorities	-12,525	-7,619
Sundry creditors	-152,305	-163,199
<b>Total Financial Instrument creditors</b>	<b>-178,990</b>	<b>-188,900</b>
<b>Non-financial instrument creditors</b>		
HM Revenue and Customs and Government departments *	-19,900	-16,045
Other local authorities *	-3,961	-1,869
<b>Total short term creditors</b>	<b>-203,336</b>	<b>-207,346</b>

\* In the 2013/14 published accounts the government and other local authority non financial instrument creditors were included in the financial instrument creditor figure above.

**12j Nature and extent of risks arising from financial instruments**

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

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

The Treasury Management Strategy includes an Annual Investment Strategy in compliance with the Government's Investment Guidance for local authorities. This Guidance emphasises that priority is to be given to security and liquidity, rather than yield. The County Council's Treasury Strategy, together with its Treasury Management Practices are based on seeking the highest rate of return consistent with the proper levels of security and liquidity.



The main risks covered are:

**Credit risk:** the possibility that one party to a financial instrument will fail to meet their contractual obligations, causing a loss to the County Council.

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

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

### **Credit risk**

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

A limit of £70m of the total portfolio is placed on the amount of money that can be invested with a single counterparty. No more than £285m in total can be invested for a period longer than one year.

The County Council's maximum exposure to credit risk in relation to its investments in banks, building societies and money market funds of £271.2 million cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the County Council's deposits, but there was no evidence at the 31 March 2015 that this was likely to crystallise.

The credit quality of £15.2 million of the County Council's investments is enhanced by collateral held in the form of covered bonds collateralised by UK residential mortgages. The collateral significantly reduces the likelihood of the County Council suffering a credit loss on those investments.

## Notes to the Core Financial Statements

The table below summarises the credit risk exposures of the County Council's investment portfolio at 31 March 2015 by type of counterparty:

Credit Rating	Long term		Short term	
	31 March	31 March	31 March	31 March
	2014	2015	2014	2015
	£000	£000	£000	£000
AA+	-	-	-	15,237
AA	-	12,366	-	-
AA-	-	-	110,221	47,122
A+	-	-	-	45,331
A	-	-	150,294	99,021
A-	-	-	45,088	33,302
AAA Money market funds	-	-	25,975	47,795
Unrated local authorities	96,303	159,440	95,453	28,051
Unrated pooled funds	-	21,837	-	-
<b>Total</b>	<b>96,303</b>	<b>193,643</b>	<b>427,031</b>	<b>315,859</b>

### Invoiced debtors risk

The invoiced debtors have been reviewed by age to determine an appropriate provision for debts that are likely to be uncollectable. Debts of £11.2 million secured on property or with agreed repayment plans are considered low risk and have been excluded.

A provision of £4.8 million (£3.2 million in 2013/14) has been estimated.

Outstanding debt raised in	Outstanding balance due at 31 March 2015	Individually assessed impairment	Collectively assessed impairment	Total provision
	£000	£000	£000	£000
2014/15	46,084	134	392	526
2012/13 & 2013/14	3,802	495	2,818	3,313
before 2012/13	928	292	636	928
	50,814	921	3,846	4,767

### Liquidity risk

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

## Notes to the Core Financial Statements

This risk is managed by maintaining a spread of fixed rate loans, limiting the amount of the County Council's borrowing that matures in any one financial year.

The maturity analysis of the principal sums borrowed at 31 March 2015 was as follows:

	Outstanding 31 March 2014 £000	Outstanding 31 March 2015 £000
Not over one year	-14,602	-11,540
Between one and two years	-11,540	-12,540
Between two and five years	-33,905	-32,626
Between five and 10 years	-43,611	-49,585
Between 10 and 15 years	-53,000	-52,000
Between 15 and 20 years	-77,000	-90,000
Between 20 and 25 years	-85,000	-65,000
More than 25 years	-50,000	-48,000
Total	-368,658	-361,291

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

### Market risk

#### Interest rate risk

The County Council is exposed to risks arising from interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the County Council. For instance a rise in interest rates would have the following effects:

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

Investments classed as loans and receivables and loans borrowed are not carried at fair value, so changes in their fair value will have no impact on Comprehensive Income and Expenditure. However, changes in interest payable and receivable on

## Notes to the Core Financial Statements

variable rate borrowings and investments will be posted to the Surplus or deficit on the Provision of Services. Movements in the fair value of fixed rate investments classed as 'available for sale' will be reflected in Other Comprehensive Income and Expenditure.

The Treasury Management Strategy aims to mitigate these risks by setting upper limits on its net exposures to fixed and variable interest rates. At 31 March 2015, £461.2 million of principal borrowed was at fixed rates and £81.9 million at variable rates. The County Councils investments with less than one year to maturity (£337.7 million at 31 March 2015) are classed as being held at variable rates and exposed to interest rate 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	1,079
Increase in interest receivable on variable rate investments	-3,159
<b>Impact on Surplus or Deficit on the Provision of Services</b>	<b>-2,080</b>
Decrease in fair value of available for sale financial assets	1,897
<b>Impact on Comprehensive Income and Expenditure</b>	<b>1,897</b>

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

### Price risk

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

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

### Foreign exchange risk

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

**13 Inventories**

	31 March 2014	Purchases	Expense in the year	Written off balances	31 March 2015
	£000	£000	£000	£000	£000
<b>Stocks</b>					
Catering stock	577	10,940	-10,954	-8	555
County Supplies general	1,469	7,636	-7,693	-26	1,386
Retail stock at County Council visitor attractions	252	464	-601	-1	114
Salt stock	204	-	-	-99	105
Other (including landfill allowances)	378	3,145	-3,073	-181	269
	<b>2,880</b>	<b>22,185</b>	<b>-22,321</b>	<b>-315</b>	<b>2,429</b>
<b>Construction contracts</b>					
	Work not recharged at 31 March 2014	Value of new work done 2014/15		Income received in 2014/15	Value of work not recharged 2015
	£000	£000		£000	£000
Highway rechargeable works	168	121		-4	285
Other	5	12		-	17
	<b>173</b>	<b>133</b>		<b>-4</b>	<b>302</b>
<b>Total stocks and work in progress</b>	<b>3,053</b>	<b>22,318</b>	<b>-22,321</b>	<b>-319</b>	<b>2,731</b>

**14 Assets held for sale**

	2013/14 £000	2014/15 £000
Balance outstanding at start of year	5,748	609
Assets newly classified as held for sale:		
- property, plant and equipment	792	-
- other assets/liabilities in disposal groups	-	-
Revaluation gains and losses	-346	-
Impairment losses	-230	-
Assets declassified as held for sale	-700	-
Assets sold	-4,655	-
<b>Balance outstanding at year-end</b>	<b>609</b>	<b>609</b>

**15 Change in provisions**

		31 March 2014	Use of Provision In Year	Increase or decrease in 2014/15			31 March 2015
		£000	£000	Central Provision £000	Service Provision £000	Taxation Provision £000	£000
Insurance claims	a	-6,390	4,723	1,971	-6,873	-	-6,569
Contract terminations	b	-249	-	-	-	-	-249
Non school employee related expenditure	c	-10,507	3,330	-	-7,499	-	-14,676
School employee related expenditure	c	-6,770	50	-	6,692	-	-28
Tax liabilities	d	-3,559	7	-	3,518	-	-34
Other	e	-1,105	1,105	-	-890	-	-890
Business rates appeals	f	-3,764	3,764	-	-	-4,592	-4,592
<b>Provisions identified in the Balance Sheet</b>		<b>-32,344</b>	<b>12,979</b>	<b>1,971</b>	<b>-5,052</b>	<b>-4,592</b>	<b>-27,038</b>
Provision for doubtful debts		-3,177	520	-2,110	-	-	-4,767
Further details in note 12j							
Net change included in the Comprehensive Income and Expenditure Statement				<b>-139</b>	<b>-5,052</b>	<b>-4,592</b>	

a. The insurance provision represents an assessment of the likely cost of liability claims known to the County Council at 31 March 2015. The risks covered are as follows:

**Liabilities**

Employer's liability, public liability and officials indemnity up to a total loss of £12.5 million in any one year. Should this limit ever be exceeded, the maximum liability for any one claim would be £5 million.

**Property**

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

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

## Additional cover

Personal accident of staff on duty

Fidelity guarantee

Vessels

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

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

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

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

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

## 16 Unusable reserves

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

	see note	Balance 1 April 2014 £000	Net Movement in the year £000	Balance 31 March 2015 £000
<b>Reserve</b>				
Revaluation reserve	16a	-831,479	-40,477	-871,956
Capital adjustment account	16b	-2,130,914	-48,862	-2,179,776
Available for sale Financial assets	16c	-	-1,336	-1,336
Financial instrument adjustment account	16d	3,029	-138	2,891
Pensions reserve	16e	986,090	114,530	1,100,620
Collection fund adjustment account	16f	-10,372	-4,771	-15,143
Accumulated absences account	16g	12,762	911	13,673
		<b>-1,970,884</b>	<b>19,857</b>	<b>-1,951,027</b>

### 16a Revaluation reserve

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

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

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

	2013/14 £000	2014/15 £000
Balance at 1 April	-824,132	-831,479
Surplus(-) or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	-60,438	-66,854
Difference between fair value depreciation and historical cost depreciation	22,530	23,793
Adjustments to prior year	-	-
Write off net gains for assets transferred to Academy/Foundation schools	21,703	2,103
Accumulated gains on assets sold, scrapped or transferred to/from current assets	8,858	481
<b>Amount written off to the Capital Adjustment Account</b>	<b>53,091</b>	<b>26,377</b>
<b>Balance at 31 March</b>	<b>-831,479</b>	<b>-871,956</b>



**16b Capital adjustment account**

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. This account contains expenditure financed from revenue and capital receipts together with the statutory amount required to provide for the repayment of external loans less the amounts included for depreciation, impairment and revenue expenditure financed by capital under statute and the historic cost of asset disposals. The reserve is not cash backed. The movement in the account is analysed below:

	2013/14 £000	2014/15 £000
Balance brought forward 1 April	<b>-2,084,651</b>	<b>-2,130,914</b>
Restated balance brought forward 1 April	<b>-2,193,878</b>	
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
Charges for depreciation and impairment of noncurrent assets	183,925	167,892
Revenue expenditure funded from capital under statute	12,790	16,087
Assets disposals current value	16,364	6,893
Assets transferred to Academy/Foundation schools current value	48,882	15,034
	<b>-1,931,917</b>	<b>-1,925,008</b>
Adjusting amounts written out of Revaluation Reserve:		
Excess of current value depreciation over historic cost depreciation	-22,530	-23,793
Adjustments to prior year	-	-
Write off net gains for assets transferred to Academy/Foundation Schools	-21,703	-2,103
Write out revaluations on asset disposals and transfers to/from current assets	-8,858	-481
	<b>-53,091</b>	<b>-26,377</b>
<b>Net amount written out of the cost of assets consumed in the year</b>	<b>-1,985,008</b>	<b>-1,951,385</b>
<b>Capital financing applied in the year</b>		
Capital receipts applied	-15,365	-12,534
Statutory minimum revenue provision for capital financing	-30,414	-33,163
Debt outstanding on transferred services	-	-
External contribution to minimum revenue provision	1,629	1,578
Revenue contributions to capital expenditure	-6,762	-35,181
Capital grants and contributions applied	-95,962	-143,904
	<b>-146,874</b>	<b>-223,204</b>
Movement in the market value of investment properties	968	-5,187
<b>Balance as at 31 March</b>	<b>-2,130,914</b>	<b>-2,179,776</b>

**16c Available for sale financial assets reserve**

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

	2013/14 £000	2014/15 £000
Balance brought forward 1 April	-	-
Gains on revaluation	-	-2,041
Losses on revaluation	-	705
<b>Balance at 31 March</b>	<b>-</b>	<b>-1,336</b>

**16d Financial instruments adjustment account**

The balance on the financial instruments adjustment account at the end of the financial year represents the amount that would have been charged to the Comprehensive Income and Expenditure Statement in accordance with proper accounting practice, but which statutory provisions allow or require to be deferred over future years. During 2012/13 the County Council moved the balance of a premium that was paid relating to the early repayment of a Public Works Loans Board (PWLB) loan to this account. The premium is being charged to the Comprehensive Income and Expenditure Statement (CI&ES) over the life of the replacement loans. There are 21 years remaining.

	2013/14 £000	2014/15 £000
Balance brought forward 1 April	3,168	3,029
PWLB Premium charged to CIES	-139	-138
<b>Balance at 31 March</b>	<b>3,029</b>	<b>2,891</b>

**16e Pensions reserve**

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

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

	2013/14 £000	2014/15 £000
Balance at 1 April	1,040,600	986,090
Actuarial losses on pensions assets and liabilities	-108,190	74,030
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	123,052	121,069
Employer's pensions contributions and direct payments to pensioners payable in the year	-69,372	-80,569
<b>Balance at 31 March</b>	<b>986,090</b>	<b>1,100,620</b>

**16f Collection fund adjustment account**

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

	2013/14 £000	2014/15 £000
Balance at 1 April	-7,252	-10,372
Accrued income in the Comprehensive Income and Expenditure account	-497,466	-549,158
Amount calculated in accordance with statutory requirements	494,346	544,387
<b>Balance at 31 March</b>	<b>-10,372</b>	<b>-15,143</b>

**16g Accumulated absences account**

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

	2013/14	2014/15	
	£000	£000	£000
Balance at 1 April	13,187		12,762
Settlement or cancellation of accrual made at the end of the preceding year	-13,187	-12,762	
<hr/>			
Amounts accrued at the end of the current year	12,762	13,673	
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	-425		911
<hr/>			
<b>Balance at 31 March</b>	<b>12,762</b>		<b>13,673</b>

**17a Cash Flow Statement – operating activities**

The cash flows for operating activities include the following items:

	2013/14	2014/15
	£000	£000
Interest paid	30,163	30,628
Interest received	-6,703	-6,863
	<b>23,460</b>	<b>23,765</b>
Adjustments to net surplus or deficit on the provision of services for non-cash movements		
Depreciation	-112,610	-119,691
Impairments and downward revaluations	-71,315	-48,201
Increase/decrease in impairment for provision of bad debt	575	-1,590
Increase in creditors	-32,993	-1,351
Increase in debtors	12,557	28,714
Decrease in inventory	-22	-322
Pension Liability	-53,680	-40,500
Carrying amount of non-current assets sold	-16,364	-6,893
Carrying amount of assets transferred to academy / foundation Trust schools *	-48,882	-15,034
Adjustment for provisions	-6,495	5,306
Movement in the value of investment properties	-968	5,187
PPE written off as REFCUS	-2,313	-9,178
Amortisation of loan redemption premium	-	-
Non-cash movement	<b>-332,510</b>	<b>-203,553</b>
Adjustment for items included in the net surplus or deficit on the provision of services that are investing and financing activities		
Proceeds from the sale of PPE etc	15,365	12,534
Capital grants and contributions	92,772	120,494
Interest on developer contributions	-135	-148
Investing/financing cash flows	<b>108,002</b>	<b>132,880</b>

\* Inclusion of this item follows the change in presentation of the Comprehensive Income and Expenditure Account since the publication of the 2013/14 accounts

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

	2013/14	2014/15
	£000	£000
<b>Cash outflows</b>		
Purchase of property, plant and equipment	155,202	191,768
Purchase of short-term and long-term investments	525,500	416,856
<b>Cash inflows</b>		
Proceeds from the sale of property, plant and equipment	-14,620	-11,816
Proceeds from the sale of short-term and long-term investments	-465,000	-434,000
Capital grants	-100,133	-123,216
Other income	-	-
<b>Net cash outflow from investing activities</b>	<b>100,949</b>	<b>39,592</b>

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

	2013/14	2014/15
	£000	£000
<b>Cash outflows</b>		
Cash payments for the reduction of the outstanding liabilities relating to PFIs	5,835	7,013
Repayments of short- and long-term borrowing	188,566	154,336
Other payments for financing activities	-	-
<b>Cash inflows</b>		
Cash receipts of short- and long-term borrowing	-178,984	-136,438
Other receipts from financing activities	-1,629	-1,578
<b>Net cash outflow from financing activities</b>	<b>13,788</b>	<b>23,333</b>

**18 Amounts reported for resource allocation decisions**

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

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

**Service income and expenditure**

	Total 2013/14	Children's Services Schools block	Children's Services Non Schools	Adult Services	Environment	Policy and Resources	Total 2014/15
	£000	£000	£000	£000	£000	£000	£000
<b>Expenditure</b>							
Employee costs	817,402	527,302	68,628	92,812	32,738	109,327	830,807
Premises Related Expenditure	66,878	39,495	1,163	3,503	5,402	13,396	62,959
Transport Related Expenditure	38,465	3,647	26,856	5,495	1,441	2,316	39,755
Supplies & Services	237,324	80,743	12,414	9,975	13,970	63,901	181,003
Third Party Payments	485,100	76,211	68,138	290,589	95,766	32,093	562,797
Transfer Payments	24,410	178	2,459	25,712	-	169	28,518
Support Services	55,525	51,853	9,204	1,969	1,899	4,924	69,849
<b>Income</b>							
Other Grants Reimbursements and Contributions	-67,644	-14,748	-10,861	-30,508	-4,990	-7,655	-68,762
Sales	-18,434	-13,973	12	-88	-300	-1,700	-16,049
Fees and Charges	-136,532	-26,330	-3,388	-66,036	-9,930	-30,181	-135,865
Rents	-5,324	-891	-243	-40	-1,724	-2,560	-5,458
Interest	-24	-42	-	-1	-4	-	-47
Hampshire schools	849	154	-232	-	-	-	-78
Other misc	-5,868	-2,826	-545	-187	-2,875	-564	-6,997
<b>Other</b>							
Transfer to/ from business unit reserves	-	-	-	-	-	-	-
Recharges between departments	-58,016	-2,125	-4,401	-2,471	-15,260	-50,194	-74,451
<b>Service analysis total</b>	<b>1,434,111</b>	<b>718,648</b>	<b>169,204</b>	<b>330,724</b>	<b>116,133</b>	<b>133,272</b>	<b>1,467,981</b>

**Reconciliation between the service analysis and the cost of services 2014/15**

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.

	2013/14	2014/15	2014/15
	£000	£000	£000
<b>Service analysis total</b>	1,434,111		1,467,981
<b>Net expenditure of services and support service not included in the service analysis</b>			
Flood Levy	603	603	
Coroners	1,284	1,366	
	1,887		1,969
<b>Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the service analysis</b>			
Specific Grants	-780,144	-792,875	
Current pension cost adjustment	21,275	17,454	
Past pension cost adjustment	1,965	-3,372	
Depreciation and impairment of assets	195,684	182,938	
School catering support	539	0	
Transfer to/ from provisions	-2,794	139	
Employee benefit accrual	-425	911	
	-563,900		-594,805
<b>Amounts in the analysis not included in the Comprehensive Income and Expenditure Statement cost of services</b>			
Income on investment properties	1,095		1,107
Expenditure on investment properties	-505		-466
<b>Cost of Services in Comprehensive Income and Expenditure Statement</b>	<b>872,688</b>		<b>875,786</b>



### Reconciliation between service analysis and surplus (-) / deficit on the provision of services 2014/15

	Total 2013/14	Service Analysis £000	Services not in Analysis £000	Not reported to mgmt £000	Not included in net cost of services £000	Net Cost of Services £000	Amounts reported below net cost of services £000	Total £000
Fees, charges & other service income	-166,644	-164,447	-1,001	-	1,107	-164,341	-1,107	-165,448
Interest and investment income (including pension)	-77,152	-47	-	-	-	-47	-80,551	-80,598
Income from council tax	-497,466	-	-	-	-	-	-506,212	-506,212
Government grants and contributions	-1,235,916	-68,762	-	-792,875	-	-861,637	-400,918	-1,262,555
Net investment property gains and losses	967	-	-	-	-	-	-5,187	-5,187
Gain on Disposal of Fixed Assets	1,040	-	-	-	-	-	-5,595	-5,595
<b>Total Income</b>	<b>-1,975,171</b>	<b>-233,256</b>	<b>-1,001</b>	<b>-792,875</b>	<b>1,107</b>	<b>-1,026,025</b>	<b>-999,570</b>	<b>-2,025,595</b>
Employee expenses	840,832	830,807	539	14,993	-	846,339	-	846,339
Other service expenses	855,323	875,032	2,413	-	-466	876,979	466	877,445
Support Service recharges	-2,492	-4,602	18	-	-	-4,584	-	-4,584
Depreciation and impairment of assets	195,684	-	-	182,938	-	182,938	-	182,938
Loss on transfer of assets to academy / foundation trust schools *	48,882	-	-	-	-	-	15,034	15,034
Interest Payments	142,800	-	-	-	-	-	141,900	141,900
<b>Total operating expenses</b>	<b>2,081,029</b>	<b>1,701,237</b>	<b>2,970</b>	<b>197,931</b>	<b>-466</b>	<b>1,901,672</b>	<b>157,400</b>	<b>2,059,072</b>
<b>Transfers to/ from reserves and provisions</b>	<b>-2,794</b>	<b>-</b>	<b>-</b>	<b>139</b>	<b>-</b>	<b>139</b>	<b>-</b>	<b>139</b>
<b>Surplus (-) / deficit on the provision of services</b>	<b>103,064</b>	<b>1,467,981</b>	<b>1,969</b>	<b>-594,805</b>	<b>641</b>	<b>875,786</b>	<b>-842,170</b>	<b>33,616</b>

\* Inclusion of this item follows the change in presentation of the Comprehensive Income and Expenditure Account since the publication of the 2013/14 accounts

**19 Internal trading accounts**

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

The trading units had an overall surplus of £1,971,000 (2013/14 overall surplus of £1,539,000) as follows:

		2013/14 £000	2014/15 £000
<b>Former Direct Services Organisation</b>			
- provides catering and cleaning services to schools and some non-educational sites in Hampshire and supplies vehicles to departments of the County Council.	Turnover	-31,159	-37,361
	Expenditure	31,054	36,571
	<b>Deficit/Surplus(-)</b>	<b>-105</b>	<b>-790</b>
<b>Education Business Units</b>			
- provide support services principally to schools but also to other departments and other local authorities.	Turnover	-19,088	-19,348
	Expenditure	18,522	18,751
	<b>Deficit/Surplus(-)</b>	<b>-566</b>	<b>-597</b>
<b>County Supplies</b>			
- operate the central purchasing warehouse and arrange direct delivery and other contracts for County Council departments, other local authorities and voluntary organisations.	Turnover	-12,191	-12,801
	Expenditure	11,900	12,470
	<b>Deficit/Surplus(-)</b>	<b>-291</b>	<b>-331</b>
<b>Eight other smaller trading units</b>			
- including a surplus of £21,000 (£53,000 surplus in 2013/14) on the management of the River Hamble.	Turnover	-7,505	-7,748
	Expenditure	6,928	7,495
	<b>Deficit/Surplus(-)</b>	<b>-577</b>	<b>-253</b>
	<b>Total Deficit/Surplus(-)</b>	<b>-1,539</b>	<b>-1,971</b>

## 20 Collaborative arrangements

### Pooled budgets

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

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

The partner bodies are:

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

	2013/14	2014/15
	£000	£000
Gross income		
Hampshire County Council	-1,708	-1,750
NHS Fareham and Gosport CCG	-1,287	-1,319
NHS North East Hampshire & Fareham CCG	-1,057	-1,083
NHS North Hampshire CCG	-1,413	-1,448
NHS South Eastern Hampshire CCG	-1,401	-1,436
NHS West Hampshire CCG	-3,559	-3,648
	-10,425	-10,684
Expenditure	10,008	10,427
<b>Surplus</b>	<b>-417</b>	<b>-257</b>
Council's share of the net surplus arising on the pooled budget	-68	-42

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

The partner bodies are:

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

## Notes to the Core Financial Statements

	2013/14			2014/15
	£000			£000
Gross income				
Hampshire County Council	-2,376			-2,641
NHS Fareham and Gosport CCG	-356			-397
NHS North East Hampshire & Fareham CCG	-285			-424
NHS North Hampshire CCG	-380			-425
NHS South Eastern Hampshire CCG	-380			-309
NHS West Hampshire CCG	-974	-4,751	-1,087	-5,283
<b>Expenditure</b>		<b>4,541</b>		<b>5,283</b>
<b>Surplus</b>		<b>-210</b>		<b>-</b>
Council's share of the net surplus arising on the pooled budget		-105		-

### Joint working

**20c** During 2014/15, the County Council entered into a number of joint working agreements with Hampshire Fire and Rescue Service and Hampshire Constabulary for a range of corporate services including finance, HR, IT, facilities management, property services and procurement across the three organisations. The services are hosted but not controlled by Hampshire County Council as they are delivered with joint direction, governance, control and senior management with each organisation accounting for its share of cost in accordance with the individual agreements. The total cost of these services in 2014/15 was £30 million of which the County Council's share was £22 million.

### 21 Structured entities – Hampshire Cultural Trust

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

As at 31 March 2015, the County Council had one representative on the Trustee Board of 6 members.

## Notes to the Core Financial Statements

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

The County Council has agreed a level of funding with the trust for the first 5 years of its operation, based on the funding that would have been required if the service had remained part of the County Council. The total expected payments remaining amount to £12.5 million with £2.7 million grant due to be paid in 2015/16.

<b>Nature of risks</b>	2014/15
	£000
Operational land and buildings retained by the County Council and used by the Trust	50,440
Community assets retained by the County Council and used by the Trust	2,400
Collections of heritage assets retained by the County Council and managed by the Trust (not valued as explained in note 10f)	-
Annual County Council revenue grant provided to the Trust	-1,720
Other unrestricted income received by the Trust	-1,395
Expenditure by the Trust	2,678
Trusts' General Reserve	-438

The maximum exposure to loss from the Trust is the annual grant paid to the Trust for services not yet delivered. At 31 March 2015 the exposure to risk was nil as the service had been received. Future risk is minimised by the terms within the Management and Funding Agreement between the County Council and the Trust.

## 22 Members' allowances

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

	2013/14	2014/15
	£000	£000
Allowances	1,352	1,328
Expenses	78	75
<b>Total</b>	<b>1,430</b>	<b>1,403</b>

**23a Officer remuneration**

The number of employees whose remuneration was £50,000 or more, in bands of £5,000, is shown below, excluding those that are senior employees at 31 March 2015 (see note 23b). Remuneration includes all amounts paid to an employee, including the taxable value of expenses.

Including termination payments	Number of employees					
	2013/14			2014/15		
	Schools	Other	<b>Total</b>	Schools	Other	<b>Total</b>
£50,000 - £54,999	177	84	<b>261</b>	207	121	<b>328</b>
£55,000 - £59,999	175	124	<b>299</b>	177	118	<b>295</b>
£60,000 - £64,999	131	33	<b>164</b>	123	51	<b>174</b>
£65,000 - £69,999	57	10	<b>67</b>	63	23	<b>86</b>
£70,000 - £74,999	32	57	<b>89</b>	27	46	<b>73</b>
£75,000 - £79,999	22	10	<b>32</b>	21	17	<b>38</b>
£80,000 - £84,999	5	17	<b>22</b>	12	23	<b>35</b>
£85,000 - £89,999	6	5	<b>11</b>	6	6	<b>12</b>
£90,000 - £94,999	6	4	<b>10</b>	4	4	<b>8</b>
£95,000 - £99,999	5	7	<b>12</b>	7	5	<b>12</b>
£100,000 - £104,999	1	3	<b>4</b>	1	7	<b>8</b>
£105,000 - £109,999	-	3	<b>3</b>	1	2	<b>3</b>
£110,000 - £114,999	-	1	<b>1</b>	-	1	<b>1</b>
£115,000 - £119,999	-	-	<b>-</b>	-	-	<b>-</b>
£120,000 - £124,999	-	1	<b>1</b>	-	3	<b>3</b>
£125,000 - £129,999	-	-	<b>-</b>	-	1	<b>1</b>
£130,000 - £134,999	-	2	<b>2</b>	-	-	<b>-</b>
£135,000 - £139,999	-	-	<b>-</b>	-	-	<b>-</b>
£140,000 - £144,999	-	-	<b>-</b>	-	-	<b>-</b>
£145,000 - £149,999	-	2	<b>2</b>	-	-	<b>-</b>
£150,000 - £154,999	-	-	<b>-</b>	-	1	<b>1</b>
£165,000 - £169,999	-	-	<b>-</b>	-	-	<b>-</b>
£175,000 - £179,999	-	-	<b>-</b>	-	1	<b>1</b>
	617	363	<b>980</b>	649	430	<b>1,079</b>

## Notes to the Core Financial Statements

Excluding termination payments	Number of employees					
	2013/14			2014/15		
	Schools	Other	<b>Total</b>	Schools	Other	<b>Total</b>
£50,000 - £54,999	176	77	<b>253</b>	207	108	<b>315</b>
£55,000 - £59,999	174	123	<b>297</b>	178	113	<b>291</b>
£60,000 - £64,999	130	33	<b>163</b>	123	42	<b>165</b>
£65,000 - £69,999	56	10	<b>66</b>	62	22	<b>84</b>
£70,000 - £74,999	30	57	<b>87</b>	26	41	<b>67</b>
£75,000 - £79,999	22	7	<b>29</b>	21	12	<b>33</b>
£80,000 - £84,999	5	17	<b>22</b>	9	22	<b>31</b>
£85,000 - £89,999	6	2	<b>8</b>	6	5	<b>11</b>
£90,000 - £94,999	6	4	<b>10</b>	4	2	<b>6</b>
£95,000 - £99,999	5	6	<b>11</b>	7	4	<b>11</b>
£100,000 - £104,999	1	3	<b>4</b>	1	7	<b>8</b>
£105,000 - £109,999	-	3	<b>3</b>	1	1	<b>2</b>
£110,000 - £114,999	-	1	<b>1</b>	-	-	<b>-</b>
£115,000 - £119,999	-	-	<b>-</b>	-	-	<b>-</b>
£120,000 - £124,999	-	1	<b>1</b>	-	3	<b>3</b>
£125,000 - £129,999	-	-	<b>-</b>	-	-	<b>-</b>
£130,000 - £134,999	-	1	<b>1</b>	-	-	<b>-</b>
	<b>611</b>	<b>345</b>	<b>956</b>	<b>645</b>	<b>382</b>	<b>1,027</b>

**23b Senior employees' remuneration**

This statement covers the remuneration of Chief Officers.

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



## Notes to the Core Financial Statements

<b>Senior employees 2014/15</b>	Salary, (Including fees and allowances)	Expense Allowances	Benefits in Kind	Compensation for Loss of Office	Pension contribution	Total remuneration including pension contributions
	£	£	£	£	£	£
Chief Executive Andrew Smith	208,513	-	-	-	24,340	232,853
Director of Children's Services and Deputy Chief Executive John Coughlan	168,656	-	-	-	22,094	190,750
Director of Corporate Resources Carolyn Williamson	165,908	-	-	-	240	166,148
Director of Economy, Transport and Environment	139,640	-	-	-	18,293	157,933
Director of Community, Culture and Business Services	139,640	-	-	-	18,293	157,933
Director of Public Health	144,451	191	-	-	17,291	161,933
Director of Adult Services	135,652	-	-	-	17,770	153,422
Director of Policy and Governance	122,306	-	-	-	16,022	138,328

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

### 23c Termination agreements

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

#### Schools 2013/14

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

## Notes to the Core Financial Statements

### Non schools 2013/14

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

### Schools 2014/15

Exit package cost band	Number of Compulsory Redundancies	Number of other departures agreed	Total number of exit packages by cost band	Total redundancy costs in each band £
£0 - £20,000	105	75	180	1,020,416
£20,001 +	4	2	6	165,450
	109	77	186	1,185,866

### Non schools 2014/15

Exit package cost band	Number of Compulsory Redundancies	Number of other departures agreed	Total number of exit packages by cost band	Total redundancy costs in each band £
£0 - £20,000	23	411	434	4,395,892
£20,001 - £40,000	12	220	232	6,009,997
£40,001 - £60,000	2	18	20	931,414
£60,001 - £80,000	-	5	5	336,180
£80,001 - £100,000	-	2	2	181,834
	37	656	693	11,855,317

**24 External audit fees**

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

	2013/14 £000	2014/15 £000
Code of Audit Practice	134	139
Grant Claims	8	3
	<b>142</b>	<b>142</b>

**25 Dedicated Schools Grant**

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

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

Details of the deployment of DSG receivable for 2014/15 are as follows:

	Central expenditure £000	Individual Schools Budget £000	Total £000
Final DSG for 2014/15 before Academy recoupment			-851,205
Academy figure recouped for 2014/15			159,976
Total DSG after Academy recoupment for 2014/15			-691,229
Brought forward from 2013/14			-19,741
Carry forward to 2015/16 agreed in advance			31,363
Agreed initial budgeted distribution in 2014/15	-63,694	-615,913	-679,607
In year adjustments		536	536
<b>Final budgeted distribution in 2014/15</b>	<b>-63,694</b>	<b>-615,377</b>	<b>-679,071</b>
Less Actual central expenditure	63,694		63,694
Less Actual ISB deployed to schools		615,377	615,377
<b>Carry forward to 2015/16</b>	<b>-</b>	<b>-</b>	<b>-31,363</b>

**26 Grant and contribution income**

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

	2013/14 £000	2014/15 £000
<b>Credited to Taxation and Non Specific Grant Income</b>		
Capital Grants and Contributions:		
Community Capacity Building	-857	-4,529
Autism Grant	-	-19
Community Grant - LD Transformation	-845	-
Local Sustainable Transport Fund Grant	-1,224	-2,791
Local Transport Capital Block Funding Grant	-34,532	-39,397
Better Bus Area Fund	-857	-7
Broadband Delivery UK Grant	-	-4,946
Rural Broadband	-	-421
Pinchpoint Funding	-660	-8,265
Environment Agency	-	-690
Department for Environment, Food and Rural Affairs Grant	-589	-
Other Highways, Roads and Transport Grants	-12	-
Standards Fund	-4,998	-3,498
Capital Maintenance Grant	-18,663	-18,473
Basic Needs Grant	-18,602	-23,137
Aiming High for Disabled Children	-425	-
Havant Academy	-44	-
New Deal for Schools Maintenance	-1,932	-68
Universal Infant Free School Meals	-	-3,036
Other Children's Services and Education Grants	-47	-42
Co-Location Funding	-74	-
Developer's contributions	-15,807	-21,374
Other contributions	-954	-3,702
Contributions from other Local Authorities	-1,810	-2,929
<b>Less: Capital income used to fund revenue expenditure under statute</b>	<b>10,160</b>	<b>16,830</b>
	<hr/>	<hr/>
	-92,772	-120,494
Non-ringfenced Government grants	-256,393	-237,478
<b>Total</b>	<b>-349,165</b>	<b>-357,972</b>

## Notes to the Core Financial Statements

<b>Credited to services</b>	2013/14 £000	2014/15 £000
Warm Homes Healthy People Grant	-76	-
Local Welfare Assistance Grant	-1,596	-
Local Reform & Community Voices	-833	-859
Zero Based Review funding	-210	-
Common Assessments Framework	-166	-319
Other Adult Services Grants	-27	-
PFI Street Lighting Grant	-9,373	-9,373
Bikeability Training Grant	-348	-350
Local Sustainable Transport Funds	-1,918	-1,958
Flood & Water Management Grant	-168	-433
Eco Town funding	-11	-330
Care Bill Implementation Grant	-	-125
Department for Energy & Climate Change Grant	-261	-514
Severe Weather Grant	-7,286	-3,612
Bus Service Operators Grant	-271	-1,068
Local Services Support Grant	-985	-666
Sustainable Drainage Systems Grant	-	-135
Dedicated School's Grant	-687,413	-679,071
Universal Infant Free School Meals	-	-9,255
SEND Pathfinder	-150	-912
PE & Sport Grant	-2,837	-3,749
PE Teacher Release Funding	-219	-
Additional Schools Grant	-53	-49
Social Work Grants	-459	-262
Adoption Reform Grant	-718	-1,069
Staying Put Grant	-	-137
SEN Reform Grant	-	-1,544
New Remand Framework Funding Grant	-192	-140
Unaccompanied Asylum Seeking Children Grant	-637	-514
Isle of Wight Strategic Partnership Grant	-500	-
Supporting Troubles Families Grant	-1,831	-2,427
Transformation Challenge Award	-500	-
HPSN2 Grant	-298	-
Public Health Grant	-36,753	-40,428
Other Public Health Grants	-197	-
Other P&R grants	-197	-166
Pupil Premium grant	-26,742	-35,413
Education Funding Agency Grant	-4,848	-2,882
Skills Funding Agency Grant	-	-2,200
Music Grant	-1,290	-1,346
Other Children's Services and Education Grants	-170	-2,250
Heritage Lottery Fund	-113	-54
Arts Council Funding	-413	-
Other Cultural Grants	-335	-265
Other Countryside Grants	-761	-402
Developers Contributions	-1,867	-1,208
<b>Add: Capital income used to fund revenue expenditure under statute</b>	<b>-10,160</b>	<b>-16,830</b>
<b>Total</b>	<b>-803,182</b>	<b>-822,315</b>

## Notes to the Core Financial Statements

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

	31 March 2014 £000	31 March 2015 £000
<b>Capital grants receipts in advance</b>		
Department of Health Community Capacity Grant	-2,125	-204
Department of Health Transformation Grant	-	-800
Standards Fund	-68	-
Bordon Eco Town Grant	-209	-209
Other countryside grants (Lepe)	-21	-21
Other CCBS grants	-302	-303
Devolved Formula Capital	-6,686	-6,391
Department for Transport Grant	-1,566	-5,206
Pot Hole Grant	-4,224	-
Targeted Basic Need Grant	-2,041	-3,014
Universal Infant Free School Meals	-	-419
Whitehill & Bordon	-	-400
Other Children's Services Grants	-	-5
Department for Transport Pinchpoint Grant	-2,293	-687
Sport England Grant	-58	-15
LSTF Grant	-71	-
Environment Agency Grants	-	-198
Homes & Communities Agency	-	-1,592
Other ETE grants	-	-2
<b>Total</b>	<b>-19,664</b>	<b>-19,466</b>
<b>Revenue grants receipts in advance</b>		
Dedicated Schools Grant	-19,741	-31,363
Pupil Premium	-42	-20
Early Years Pupil Premium & Integrated Review Readiness Grant	-	-43
Children's Social Care Innovation Funding	-	-1,480
Other Children's Services and Education Grants	-23	-20
Common Assessment Framework Adults Grant	-511	-192
Local Welfare Assistance Grant	-	-1,302
Flood management	-489	-489
Single Farm Payments European Grant	-453	-598
Eco Towns - project funding	-563	-483
Department of Energy and Climate Change Grant	-185	-
Skills Funding Agency	-1,338	-406
Sustainable Drainage System Grant	-	-82
Cass Foundation	-90	-78
Rural Payments Agency	-66	-114
Other Countryside Grants	-83	-114
Arts Council Funding	-64	-
Other Cultural Grants	-60	-36
<b>Total</b>	<b>-23,708</b>	<b>-36,820</b>

## **27 Related party transactions**

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

### **Central Government**

Central Government has effective control over the general operations of the Council - it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties. Grants received from government departments are set out in the subjective analysis in note 18. Grant receipts are shown in note 26.

### **Members**

Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2014/15 is shown in note 22 . Before every decision making meeting, members are required to disclose any conflicts of interest. There were 18 related party transactions totalling £20,623.05 arising from disbursements from members' devolved budgets. All such payments were counter signed by a member other than the budget-holding member.

### **Officers**

There were no related-party transactions involving chief officers of the Council. Details of senior officer remuneration are given in note 23b.

### **Limited Companies**

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

### 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 323 other contributing scheduled, admitted, community admission, transferee admission, and resolution bodies (289 in 2013/14).

The Chief Financial Officer of the County Council is also the Chief Financial Officer of the Office of the Police and Crime Commissioner for Hampshire.

Transactions with these related parties are shown below:

	2013/14	2014/15
	£000	£000
<b>Pension Fund</b>		
Administration charge	-2,800	-2,743



## 28 Capital financing

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

	2013/14 £000	2014/15 £000
Opening capital financing requirement	705,067	758,616
Capital spending on fixed assets	191,576	220,826
Revenue expenditure funded by capital under statute	20,636	23,739
	<b>917,279</b>	<b>1,003,181</b>
Funded by:		
Capital receipts	-15,365	-12,534
Grants and other income	-106,122	-160,734
Revenue		
- main contribution	-4,346	-21,235
- reserves	-2,416	-13,946
Minimum revenue provision	-30,414	-33,163
<b>Closing capital financing requirement</b>	<b>758,616</b>	<b>761,569</b>
Explanation of movements in year		
Increase/decrease (-) in borrowing (supported by government financial assistance)	13,362	-21,364
Increase/decrease (-) in borrowing (unsupported by government financial assistance)	13,985	4,189
Increase/decrease (-) in borrowing related to PFI contracts	26,202	20,128
<b>Increase/decrease (-) in Capital Financing Requirement</b>	<b>53,549</b>	<b>2,953</b>

**29a Leases – operating leases – County Council as lessee**

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

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

	2013/14			2014/15		
	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	2,705	2,135	4,840	2,153	1,873	4,026
Later than one year and not later than five years	6,614	2,489	9,103	5,311	1,994	7,305
Later than five years	10,218	1	10,219	9,989	-	9,989
<b>Total payments</b>	<b>19,537</b>	<b>4,625</b>	<b>24,162</b>	<b>17,453</b>	<b>3,867</b>	<b>21,320</b>

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

	2013/14	2014/15
	£000	£000
Minimum lease payments	4,934	4,758
Contingent rents	-	-
(Sublease payments receivable)	-173	-82
<b>Total net expenditure</b>	<b>4,761</b>	<b>4,676</b>

**29b County Council as lessor**

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

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

	2013/14	2014/15
	£000	£000
Not later than one year	3,573	3,384
Later than one year and not later than five years	7,019	6,695
Later than five years	50,828	46,384
<b>Total future minimum lease payments</b>	<b>61,420</b>	<b>56,463</b>

### **29c Leases – finance leases**

At 31 March 2015 the County Council has not taken or granted any finance leases over the deminimus level of £500,000.

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

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

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

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

The contract has three phases. During phases 1 and 2 the contractor planned, financed and constructed the three Energy Recovery Facilities, two Material Reprocessing Facilities and two composting sites. The contract is currently in Phase 3 covering the provision of waste disposal services in relation to the newly constructed facilities ending in 2024/25. The contract price mechanism is structured with an annual re-pricing each January linked to the retail price index in the previous October and a step-change increase in the contract price midway through the contract. During 14/15 agreement was reached to extend the contract by 5 years to 2030. This change is not reflected in the following tables as contracts are due to be signed during 2015/16.

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

The County Council's share of the waste disposal assets constructed under the contract are included in the balance sheet together with a deferred liability to pay for the assets over the life of the contract.

## Notes to the Core Financial Statements

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

	2013/14	2014/15
	£000	£000
<b>Gross book value</b>		
At 1 April	95,227	80,177
Additions	-	-
Disposals	-	-
Revaluations	-15,050	-
Gross book value at 31 March	80,177	80,177
<b>Depreciation</b>		
At 1 April	-28,190	-5,638
Depreciation for the year	-5,638	-6,849
Impairments	-	-
Revaluations	28,190	-
Depreciation at 31 March	-5,638	-12,487
Net book value at 1 April	67,037	74,539
<b>Net book value at 31 March</b>	<b>74,539</b>	<b>67,690</b>

The movement in the deferred liability was:

	31 March 2014	31 March 2015
	£000	£000
Balance brought forward 1 April	-74,316	-69,966
Principal repayment in the year	4,350	4,698
<b>Balance at 31 March</b>	<b>-69,966</b>	<b>-65,268</b>
Finance lease repayable in one year	-4,698	-5,074
deferred liability	-65,268	-60,194
<b>Balance at 31 March</b>	<b>-69,966</b>	<b>-65,268</b>

The waste management contract has 11 years to run. The expected payments are shown below.

	Principal repayment £000	Interest £000	Service Charge £000	Total £000
Next year	5,074	5,221	42,334	52,629
Years two to five	24,694	16,486	188,410	229,590
Years six to 10	35,179	7,974	241,761	284,914
Year 11	321	2	281	604
	<b>65,268</b>	<b>29,683</b>	<b>472,786</b>	<b>567,737</b>

### **30b The South Coast Street Lighting PFI**

The County Council has one PFI contract which is for street lighting. This came into effect from the financial year 2010/11. The South Coast Street Lighting PFI project was procured in partnership between Hampshire County Council, Southampton City Council and West Sussex County Council together with the service provider, Tay Valley Lighting. Each council has its own separate contract to deliver individualised lighting requirements under a standard contractual framework.

Through the contract, Hampshire County Council is replacing some 78,000 of its 132,000 street lighting columns and modernising the remaining 54,000 lanterns in order to improve energy efficiency. In addition, other items of illuminated street furniture such as signs are being replaced or upgraded over a five year core investment period. The long-term contract with Tay Valley Lighting (Hampshire) will run for 25 years, from 1 April 2010, and will also provide for the ongoing maintenance of the council's street lighting network until 2034/35.

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

As part of the PFI contract a Remote Monitoring System (RMS) 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 County Council to make efficiencies on electricity costs and vary light outputs as necessary.

An annual re-pricing review linked to retail price index is undertaken on the anniversary of the start of the contract, 1 April. Over the first 5 years of the contract (the investment period) the annual cost of the contract reflects the investment programme which steadily rises until it reaches a peak at year 6 and then stabilises, reflecting the progress of the investment programme. From year 6 to year 25 the annual cost is determined by inflation and amendments to the inventory. No major changes to the contract occurred during the 2014/15 financial year.

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

## Notes to the Core Financial Statements

The movement in the asset values were as follows:

	2013/14	2014/15
	£000	£000
<b>Gross book value</b>		
At 1 April	65,491	97,528
Additions	32,037	27,141
Disposals	-	-
Revaluations	-	-
<b>Gross book value at 31 March</b>	<b>97,528</b>	<b>124,669</b>
Depreciation		
At 1 April	-1,430	-3,591
Depreciation for the year	-2,161	-3,233
Impairments	-	-
<b>Depreciation at 31 March</b>	<b>-3,591</b>	<b>-6,824</b>
Net book value at 1 April	93,937	93,937
<b>Net book value at 31 March</b>	<b>93,937</b>	<b>117,845</b>

The movement in the deferred liability was:

	31 March	31 March
	2014	2015
	£000	£000
Balance brought forward 1 April	-59,522	-90,074
Principal repayment in the year	1,485	2,315
Capital expenditure incurred in the year	-32,037	-27,141
<b>Balance at 31 March</b>	<b>-90,074</b>	<b>-114,900</b>
Finance lease repayable in one year	-2,619	-3,226
deferred liability	-87,455	-111,674
<b>Balance at 31 March</b>	<b>-90,074</b>	<b>-114,900</b>

## Notes to the Core Financial Statements

The street lighting contract has 20 years to run. The expected payments are shown below:

	Principal repayment £000	Interest £000	Service Charge £000	Total £000
Next year	3,226	7,297	6,093	16,616
Years two to five	14,991	27,101	26,901	68,993
Years six to 10	24,483	28,132	39,584	92,199
Years 11 to 15	32,903	19,712	46,640	99,255
Year 16 to 20	44,218	8,397	54,193	106,808
	<b>119,821</b>	<b>90,639</b>	<b>173,411</b>	<b>383,871</b>

A PFI grant of £9 million was received from the Department of Transport to the County Council in 2014/15 with a balance of £188 million due to be received over the remainder of the contract. This grant is expected to be applied to cover the capital and financing costs built into the annual fee.

Energy for street lighting is provided through a separate contract. Estimated costs over the remainder of the contract are expected to be £112 million.

### 31 Undischarged obligations

#### Hampshire Public Service Network

A contract for Hampshire Public Service Network2 (HPSN2) was entered into with NTL Telewest Business. Building on the foundation of the existing HPSN service, HPSN2 offers improved data, voice and service networks for major partners and affordable solutions for town and parish councils and up to 800 schools. The contract was due to end in 2015, but the option to extend for a further 4 years has been taken up. At 31 March 2015 the payments remaining under the extended contract are estimated to be £9.2m.

### 32 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 £6.6 million at 31 March 2015 (see note 15) and a reserve earmarked for potential future claims, £27m at 31 March 2015 (see note 8).

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

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

### **33 Pensions**

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

The Council participates in three pension schemes:

a) Pension schemes accounted for as defined contribution schemes:

- The Teachers' Pension Scheme for teachers
- The NHS Pension Scheme

b) The Local Government Pension Scheme (LGPS) for other employees.

#### **33a Pensions Schemes Accounted for as Defined Contribution Schemes**

##### **Teachers' Pension Scheme**

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



In 2014/15 total employer's contributions were £39.6 million representing 14.1% of pensionable pay (£39.55 million representing 14.1% of pensionable pay in 2013/14).

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and detailed in note 33c.

### **NHS Pension Scheme**

On 1 April 2013, Public Health staff transferred from the NHS to the County Council. These staff have maintained their membership in the NHS Pension Scheme. The Scheme provides these staff with specified benefits upon their retirement and the County Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

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

In 2014/15 total employer's contributions were £0.15 million representing 14.1% of pensionable pay (£0.17 million representing 14.1% of pensionable pay in 2013/14).

### **33b Local Government Pension Scheme**

#### **Participation in Pension Schemes**

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

The County Council participates in and administers the Hampshire Local Government Pension Scheme (LGPS). This is a funded defined benefit plan with benefits earned up to 31 March 2014 being linked to final salary. Benefits after 31 March 2014 are based on a Career Average Revalued Earnings scheme. Details of the benefits earned over the period covered by this disclosure are set out in 'The Local Government Pension Scheme Regulations 2013' and 'The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014'. The funded nature of the LGPS requires that Hampshire County Council and

employees pay contributions into the fund, calculated at a level intended to balance the pensions liabilities with investment assets. Information on the framework for calculating contributions to be paid is set out in the LGPS Regulations 2013 and the Fund's Funding Strategy Statement.

The unfunded benefits relate to discretionary post retirement benefits awarded by the County Council upon early retirement of members of the LGPS under the Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations. They are not funded by the assets of the Pension Fund but by the County Council when they are paid. The liabilities are recognised when awards are made, however, there are no investment assets built up to meet these pensions liabilities. Cash has to be generated to meet actual pension payments as they eventually fall due.

In 2014/15 Pension Fund assets and liabilities have been included in the Balance Sheet based on a formal actuarial valuation at 31 March 2013.

### **33c Transactions relating to post-employment benefits**

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

## Notes to the Core Financial Statements

	2013/14	2014/15
	£000	£000
<b>Included in the Comprehensive Income and Expenditure Statement:</b>		
Current service cost of funded LGPS pensions	70,290	70,000
Charge to non-distributed costs for early retirement in the year	3,122	10,259
Settlement costs	-	-
Net increase in liabilities from acquisitions	5,920	-
Interest on net defined liability / (asset)	43,720	40,810
<b>Total post employment benefits charges to the surplus/deficit on the provision of services</b>	<b>123,052</b>	<b>121,069</b>
<b>Remeasurements in Other Comprehensive Income:</b>		
Actuarial (gains)/losses		
Return on plan assets (excluding that recognised in net interest)	7,600	-164,920
Actuarial (gains) / losses due to change in financial assumptions	-40,510	256,460
Actuarial (gains) / losses due to change in demographic assumptions	-29,870	-
Actuarial (gains) / losses due to liability experience	-45,410	-17,510
<b>Total amount recognised in Other Comprehensive Income and Expenditure</b>	<b>-108,190</b>	<b>74,030</b>
Total post employment benefits charges to the Comprehensive Income and Expenditure Statement	<b>14,862</b>	<b>195,099</b>
<b>Movement in reserves statement</b>		
	2013/14	2014/15
	£000	£000
Reversal of net changes made to the surplus/deficit for the provision of services for post employment benefits in accordance with IAS19	54,510	-114,530
Actual amount charged against the General Fund Balance for pensions in the year		
Employer's contributions payable to the fund	-62,065	-66,938
Added years and early retirement cash flows in the year:		
LGPS	-4,318	-10,526
Teachers	-2,989	-3,105
	<b>-14,862</b>	<b>-195,099</b>

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to the 31 March 2015 is a gain of £0 million.

**33d Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation)**

Period ended 31 March 2015	LGPS funded £000	LGPS Unfunded £000	Teachers' Unfunded £000	Total £000
<b>Opening present value of liabilities</b>	-2,557,030	-27,430	-39,400	<b>-2,623,860</b>
Current service cost	-70,000	-	-	<b>-70,000</b>
Interest expense on defined benefit obligation	-108,610	-1,110	-1,600	<b>-111,320</b>
Contributions by participants	-21,980	-	-	<b>-21,980</b>
Actuarial gains/(losses) on liabilities:				
- financial assumptions	-253,060	-1,400	-2,000	<b>-256,460</b>
- demographic assumptions	-	-	-	<b>0</b>
- liability experience	16,880	260	370	<b>17,510</b>
Net benefits paid out (note i)	86,020	1,980	2,880	<b>90,880</b>
Past service cost	-1,590	-	-	<b>-1,590</b>
Net increase in liabilities from acquisitions (note ii)	-	-	-	<b>0</b>
<b>Closing present value of liabilities</b>	<b>-2,909,370</b>	<b>-27,700</b>	<b>-39,750</b>	<b>-2,976,820</b>
Period ended 31 March 2014	LGPS funded £000	LGPS Unfunded £000	Teachers' Unfunded £000	Total £000
<b>Opening present value of liabilities</b>	-2,535,240	-28,250	-40,340	<b>-2,603,830</b>
Current service cost	-70,290	-	-	<b>-70,290</b>
Interest expense on defined benefit obligation	-109,990	-1,120	-1,600	<b>-112,710</b>
Contributions by participants	-20,490	-	-	<b>-20,490</b>
Actuarial gains/(losses) on liabilities:				
- financial assumptions	38,960	630	920	<b>40,510</b>
- demographic assumptions	32,100	-890	-1,340	<b>29,870</b>
- liability experience	45,090	210	110	<b>45,410</b>
Net benefits paid out (note i)	77,080	1,990	2,850	<b>81,920</b>
Past service cost	-1,420	-	-	<b>-1,420</b>
Net increase in liabilities from acquisitions (note ii)	-12,830	-	-	<b>-12,830</b>
<b>Closing present value of liabilities</b>	<b>-2,557,030</b>	<b>-27,430</b>	<b>-39,400</b>	<b>-2,623,860</b>

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

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

**33e Reconciliation of the Movements in the Fair Value of Scheme Assets**

	31 March 2014 £000	31 March 2015 £000
<b>Opening fair value of assets</b>	<b>1,563,230</b>	<b>1,637,770</b>
Interest income on assets	68,990	70,510
Remeasurment gains/(losses) on assets	-7,600	164,920
Contributions by employer	67,670	71,900
Contributions by participants	20,490	21,980
Net benefits paid out (note i)	-81,920	-90,880
Net increase in assets from acquisitions (note ii)	6,910	-
<b>Closing fair value of assets</b>	<b>1,637,770</b>	<b>1,876,200</b>

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

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

**33f Pensions Assets and Liabilities Recognised in the Balance Sheet**

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

	31 March 2014 £000	31 March 2015 £000
Present value of the defined benefit obligation:		
LGPS funded	-2,557,030	-2,909,370
Unfunded Liabilities:		
LGPS	-27,430	-27,700
Teachers	-39,400	-39,750
	<b>-2,623,860</b>	<b>-2,976,820</b>
Fair value of assets in the scheme	1,637,770	1,876,200
<b>Net liability arising from defined benefit obligation</b>	<b>-986,090</b>	<b>-1,100,620</b>

## Notes to the Core Financial Statements

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 Hampshire LGPS by the County Council in the year to 31 March 2015 is £68.68 million. Additional contributions may also become due in respect of any employer discretions to enhance members' benefits in the Fund over the next accounting period.

The proportion of assets by category is shown below:

	31 March 2014 %	31 March 2015 Quoted %	31 March 2015 Unquoted %	31 March 2015 Total %
Equities	60.8	54.9	2.9	57.8
Government bonds	23.6	25.0	0.4	25.4
Property	7.5	1.1	6.9	8.0
Corporate bonds	1.6	1.5	0.1	1.6
Cash	3.8	3.7	-	3.7
Other (hedge funds, currency holdings, futures, private equities)	2.7	0	3.5	3.5
	100.0	86.2	13.8	100.0

### 33g Basis for Estimating Assets and Liabilities

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

## Notes to the Core Financial Statements

The significant assumptions used by the actuary have been:

	2013/14 % per year	2014/15 % per year
Rate of discount for scheme liabilities - funded pensions	4.3	3.2
Rate of discount for scheme liabilities - unfunded pensions	4.2	3.2
Rate of increase in salaries	3.9	3.3
Rate of increase in pensions in payment - funded pensions	2.4	1.8
Rate of increase in pensions in payment -unfunded pensions	2.2	1.8
Proportion of employees opting to take a commuted lump sum for all service:	70	70
RPI inflation - funded pensions	3.4	2.9
RPI inflation - unfunded pensions	3.2	2.9
CPI inflation - funded pensions	2.4	1.8
CPI inflation - unfunded pensions	2.2	1.8

### Principal demographic assumptions

Post retirement mortality	2013/14	2014/15
<b>Men</b>		
Base table	Standard SAPS Normal Health Light Amounts	Standard SAPS Normal Health Light Amounts
Scaling to above base table rates	100%	100%
Improvements to base table rates	CMI_2012 with a longterm rate of improvement of 1.5% p.a.	CMI_2012 with a longterm rate of improvement of 1.5% p.a.
Future lifetime from age 65 (currently aged 65)	24.4	24.5
Future lifetime from age 65 (currently aged 45)	26.5	26.6

<b>Women</b>		
Base table	Standard SAPS Normal Health Light Amounts	Standard SAPS Normal Health Light Amounts
Scaling to above base table rates	95%	95%
Improvements to base table rates	CMI_2012 with a longterm rate of improvement of 1.5% p.a.	CMI_2012 with a longterm rate of improvement of 1.5% p.a.
Future lifetime from age 65 (currently aged 65)	26.2	26.3
Future lifetime from age 65 (currently aged 45)	28.5	28.6

## Sensitivity analysis of financial assumptions

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

### Impact on the present value of the defined benefit obligation at 31 March 2015 from changes in assumptions

	Increase in assumption		Decrease in assumption	
	£000	%	£000	%
Discount rate (increase / decrease 0.1% per annum)	-52,150	-1.8	53,100	1.8
Salary increase rate (increase / decrease 0.1% per annum)	11,450	0.4	-11,340	-0.4
Pension increase rate (increase / decrease 0.1% per annum)	42,980	1.5	-42,310	-1.5
Longevity (increase / decrease by 1 year)	76,240	2.6	-76,490	-2.6

### Impact on the County Council's Cash Flows

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

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



## Notes to the Core Financial Statements

The County Council anticipates paying £68.68 million in expected contributions to the scheme in 2015/16.

The weighted average duration of the defined benefit obligation for scheme members is 18.1 years (18.1 years in 2013/14).

### **34 Trust funds**

The Council has acted as sole trustee for 22 trust funds (22 in 2013/14) and as administrator for 12 other trust funds (12 in 2013/14). They include educational prize funds for financing improvements in education, social care and museum establishments, and musical and sports scholarship funds. The trusts are mainly invested in specialist pooled funds for charities and cash held on deposit with the County Council.

## Notes to the Core Financial Statements

	Balance at 31 March 2014 £000	Balance at 31 March 2015 £000
<b>Sole trustee funds</b>		
<b>Educational trusts</b>		
Dayas Music Scholarship	-106	-109
Michael Austin Harlick Memorial	-256	-255
Mace Educational Trust	-107	-107
Other	-17	-17
<b>Total</b>	<b>-486</b>	<b>-488</b>
<b>Social Care trusts</b>		
Hampshire Old Industrial and Reformatory Schools	-73	-73
Green Meadows Older Persons Home	-19	-19
<b>Total</b>	<b>-92</b>	<b>-92</b>
<b>Museums trusts</b>		
Allen Curtis Museum Trust	-23	-23
Red House Museum Trust	-50	-50
<b>Total</b>	<b>-73</b>	<b>-73</b>
<b>Libraries trust</b>		
Julian Davies Foundation	-2	-2
<b>Other</b>		
Hillier Arboretum Trust	-550	-645
<b>Total - sole trustee trusts</b>	<b>-1,203</b>	<b>-1,300</b>
<b>Administrator funds</b>		
The Eggars Grammar School Alton Site Foundation	-2,198	-2,270
Hampshire Foundation for Young Musicians	-69	-69
Other	-28	-28
Social Care trusts	-6	-6
<b>Total administrator trusts</b>	<b>-2,301</b>	<b>-2,373</b>
<b>Total trust funds</b>	<b>-3,504</b>	<b>-3,673</b>

## Pension Fund Accounts

### Fund Account

		2013/14	2014/15
	See note	£'000	£'000
<b>Dealings with members, employers and others directly involved in the Fund</b>			
Contributions	7	223,101	237,542
Transfers in from other pension funds	8	10,667	6,794
		<b>233,768</b>	<b>244,336</b>
Benefits	9	-203,468	-216,547
Payments to and on account of leavers	10	-9,836	-85,264
		<b>-213,304</b>	<b>-301,811</b>
<b>Net additions from dealings with members</b>		<b>20,464</b>	<b>-57,475</b>
<b>Management expenses*</b>	11	<b>-13,714</b>	<b>-20,461</b>
<b>Returns on investments</b>			
Investment income*	12	91,249	95,757
Taxes on income	13	-1,299	-1,454
Profits and losses on disposal of investments and changes in the market value of investments	15a	98,399	585,004
<b>Net return on investments</b>		<b>188,349</b>	<b>679,307</b>
<b>Net increase in the net assets available for benefits during the year</b>		<b>195,099</b>	<b>601,371</b>

\*Pension Fund management expenses are now disclosed based on the CIPFA guidance *Accounting for Local Government Pension Scheme Management Costs* published in June 2014. Based on this guidance the Pension Fund now accounts for the investment costs of pooled and other investments that are netted off against investment income. Therefore an additional £6.946m has been added to management expenses and investment income in the 2014/15 figures above (the equivalent addition for 2013/14 would have been £5.650m). This change also affects Notes 11, 12 and 14.

## Pension Fund Accounts

### Net Assets Statement

		<b>31 March 2014</b>	<b>31 March 2015</b>
	<b>See Note</b>	<b>£'000</b>	<b>£'000</b>
Investment assets		4,317,821	4,951,328
Cash deposits		52,345	49,765
	15	<b>4,370,166</b>	<b>5,001,093</b>
Long term debtors	22	10,649	9,128
Investment liabilities	15	-1,162	-5,706
Current assets	20	168,878	146,873
Current liabilities	21	-12,814	-14,300
<b>Net assets of the Fund available to fund benefits at the period end</b>		<b>4,535,717</b>	<b>5,137,088</b>

## Notes to the Pension Fund Accounts

### 1 Description of Fund

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

The following description of the Fund is a summary only. For more detail, reference should be made to the Hampshire Pension Fund Annual Report 2014/15 and the underlying statutory powers underpinning the Scheme, namely the Public Service Pensions Act 2013 and the Local Government Pension Scheme (LGPS) Regulations.

#### a) General

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

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

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

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

#### b) Membership

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

## Notes to the Pension Fund Accounts

Organisations participating in the Hampshire Pension Fund include:

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

There are 323 employer organisations within the Hampshire Pension Fund including the County Council itself, as detailed below:

<b>Hampshire Pension Fund</b>	<b>31 March 2014</b>	<b>31 March 2015</b>
Number of employers with active members	303	323
<b>Number of employees in Scheme</b>		
County Council	22,395	24,521
Other employers	28,156	30,158
<b>Total</b>	<b>50,551</b>	<b>54,679</b>
<b>Number of pensioners</b>		
County Council	14,363	15,085
Other employers	18,923	19,279
<b>Total</b>	<b>33,286</b>	<b>34,364</b>
<b>Deferred pensioners</b>		
County Council	26,126	28,193
Other employers	26,291	27,594
<b>Total</b>	<b>52,417</b>	<b>55,787</b>

The increase in employer organisations is partially a result of additional state schools converting to academy status during 2014/15, which are subsequently treated as separate employers to the three Local Education Authorities (the County Council and Portsmouth and Southampton City Councils).

### c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with The LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2015. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last valuation was at 31 March 2013. Currently, employer contribution rates for most employers range from 13.1% to 15.6% of pensionable pay plus a past service deficit contribution.

## d) Benefits

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

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

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

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

<http://www3.hants.gov.uk/pensions>

## 2 Basis of preparation

The Statement of Accounts summarises the Fund's transactions for the 2014/15 financial year and its position at year-end at 31 March 2015. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2014/15* which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

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

### **3 Summary of significant accounting policies**

#### **Fund Account – revenue recognition**

##### **a) Contribution income**

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

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

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

##### **b) Transfers to and from other schemes**

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

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

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

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

##### **c) Investment income**

###### **i) Interest income**

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



## Notes to the Pension Fund Accounts

calculated on an effective interest rate basis.

### ii) Dividend income

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

### iii) Distributions from pooled funds

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

### iv) Property-related income

Property-related income consists primarily of rental income.

Properties held in the UK property portfolio are generally subject to leases with upward-only rent reviews every five years.

Rental income from operating leases on properties owned by the Fund is recognised on a straight-line basis over the term of the lease. Any lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease. Contingent rents based on the future amount of a factor that changes other than with the passage of time, such as turnover rents, are only recognised when contractually due.

### v) Movement in the net market value of investments

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

## **Fund Account – expense items**

### **d) Benefits payable**

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

### **e) Taxation**

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

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

### **f) Management expenses**

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

#### **Administration expenses**

All administration expenses are accounted for on an accruals basis. All staff costs of the pensions administration team are charged direct to the Fund. Associated management accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

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

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

#### **Investment management expenses**

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

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

Where an investment manager's fee note has not been received by the balance sheet date, an estimate based upon market value of their mandate at the end of the

year is used for inclusion in the Fund account. In 2014/15, £0.50m of fees is based on such estimates (2013/14 £0.03m).

## **Net Assets Statement**

### **h) Financial assets**

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

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

#### **i) Market-quoted investments**

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

#### **ii) Fixed interest securities**

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

#### **iii) Unquoted investments**

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

- Valuations of delisted securities are based on the last sale price prior to delisting, or where subject to liquidation, the amount the Fund expects to receive on wind-up, less estimated realisation costs
- Securities subject to takeover offer – the value of the consideration offered under the offer, less estimated realisation costs
- Directly held investments include investments in limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pools or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement
- Investments in unquoted property and infrastructure pooled funds are valued at the net asset value or a single price advised by the fund manager

## Notes to the Pension Fund Accounts

- Investments in private equity funds and unquoted limited partnerships are valued based on the Fund's share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund managers in accordance with standardised methods developed by the British Venture Capital Association.

### iv) Limited partnerships

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

### v) Pooled investment vehicles

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

### vi) Freehold and leasehold properties

The properties were valued on 31 March 2015 by an external valuer, Paul Willis, BSc MRICS of Colliers International in accordance with the Royal Institute of Chartered Surveyors' *Valuation Standards (January 2014 Edition)*. The valuer's opinion of fair value was primarily derived using comparable recent market transactions on arm's-length terms.

### **i) Foreign currency transactions**

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

### **j) Derivatives**

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

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

## Notes to the Pension Fund Accounts

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

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

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

### **k) Cash and cash equivalents**

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

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

### **l) Financial liabilities**

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

### **m) Actuarial present value of promised retirement benefits**

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

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

## **n) Additional voluntary contributions**

Hampshire Pension Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the Pension Fund. The Fund has appointed Prudential and Zurich as its AVC providers. AVCs can also be paid to Equitable Life, but only if they are invested in its building society fund or for an additional death-in-service grant. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

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

## **4 Critical judgements in applying accounting policies**

### **Unquoted private equity investments**

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equities are valued by the investment managers using guidelines set out by the British Venture Capital Association. The value of unquoted private equity investments at 31 March 2015 was £182 million (£175 million at 31 March 2014).

### **Pension fund liability**

The pension fund liability is calculated every three years by the appointed actuary, with updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 18. This estimate is subject to significant variances based on changes to the underlying assumptions.

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

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the balance sheet date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of

## Notes to the Pension Fund Accounts

estimation means that the actual outcomes could differ from the assumptions and estimates.

The items in the Net Assets Statement at 31 March 2015 for which there is a significant risk of adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
<b>Actuarial present value of promised retirement benefits</b>	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of approximately £580 million. A 0.25% increase in assumed earnings inflation would increase the value of liabilities by approximately £70 million, and a one-year increase in assumed life expectancy would increase the liability by approximately £120 million.
<b>Debtors</b>	At 31 March 2015, the Fund had a balance of debtors and prepayments of £54 million. A review of debtor balances suggested that an impairment of £0.015 million was appropriate. However, in the current economic climate, it is not certain that such an allowance would be sufficient.	If collection rates were to deteriorate, a doubling of the amount of the impairment of doubtful debts would require an additional £0.015 million to be set aside as an allowance.
<b>Private equity</b>	Private equity investments are valued at fair value in accordance with the British Venture Capital Association guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statements are £182 million. There is a risk that this investment may be under- or overstated in the accounts.
<b>Hedge funds</b>	Hedge funds are valued at the sum of the fair values provided by the administrators of the funds plus adjustments that the funds' directors or independent administrators judge necessary. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total hedge fund value in the financial statements is £180 million. There is a risk that this investment may be under or overstated in the accounts. The custodian reports a tolerance of +/- 5% around the net asset values on which the hedge fund valuation is based. This equates to a tolerance of +/- £9.02 million.

**6 Events after the reporting date**

There have been no events since 31 March 2015, and up to the date when these accounts were authorised, that require any adjustments to these accounts.

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

	<b>2013/14</b>	<b>2014/15</b>
	<b>£'000</b>	<b>£'000</b>
Employers	168,102	179,410
Members	54,999	58,132
<b>Total</b>	<b>223,101</b>	<b>237,542</b>

**By type of employer**

	<b>2013/14</b>	<b>2014/15</b>
	<b>£'000</b>	<b>£'000</b>
Scheduled bodies	212,861	226,527
Admitted bodies	4,189	6,305
Community admission bodies	1,046	843
Transferee admission bodies	3,914	2,709
Resolution bodies	1,091	1,158
<b>Total</b>	<b>223,101</b>	<b>237,542</b>

**By type of contribution**

	<b>2013/14</b>	<b>2014/15</b>
	<b>£'000</b>	<b>£'000</b>
Employees' normal contributions	54,999	58,132
Employers' normal contributions	116,920	121,619
Employers' deficit recovery contributions	51,095	57,568
Employers' augmentation contributions	87	223
<b>Total</b>	<b>223,101</b>	<b>237,542</b>

**8 Transfers in from other pension funds**

	<b>2013/14</b>	<b>2014/15</b>
	<b>£'000</b>	<b>£'000</b>
Group transfers	106	304
Individual transfers	10,561	6,490
<b>Total</b>	<b>10,667</b>	<b>6,794</b>



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

	<b>2013/14</b>	<b>2014/15</b>
	<b>£'000</b>	<b>£'000</b>
Pensions	166,231	173,670
Commutation and lump sum retirement benefits	32,526	38,783
Lump sum death benefits	4,711	4,094
<b>Total</b>	<b>203,468</b>	<b>216,547</b>

**By type of employer**

	<b>2013/14</b>	<b>2014/15</b>
	<b>£'000</b>	<b>£'000</b>
Scheduled bodies	194,815	207,439
Admitted bodies	5,045	5,310
Community admission bodies	1,322	1,311
Transferee admission bodies	1,613	1,601
Resolution bodies	673	886
<b>Total</b>	<b>203,468</b>	<b>216,547</b>

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

	<b>2013/14</b>	<b>2014/15</b>
	<b>£'000</b>	<b>£'000</b>
Refunds to members leaving service	18	260
Payments for members joining State scheme	-7	43
Group transfers	412	77,488
Individual transfers	9,413	7,473
<b>Total</b>	<b>9,836</b>	<b>85,264</b>

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

**11 Management expenses**

	<b>2013/14</b>	<b>2014/15</b>
	<b>£'000</b>	<b>£'000</b>
Administrative costs	2,398	2,342
Investment management expenses	10,625	17,566
Oversight and governance costs	691	553
<b>Total</b>	<b>13,714</b>	<b>20,461</b>

In addition to these costs, indirect costs are incurred through the bid-offer spread on investments sales and purchases. These are reflected in the cost of investment acquisitions and in the proceeds from the sales of investments (see Note 15a).

**12 Investment income**

	<b>2013/14</b>	<b>2014/15</b>
	<b>£'000</b>	<b>£'000</b>
Fixed interest securities	6,820	6,722
Equity dividends	55,973	56,077
Pooled property investments	2,132	1,992
Pooled investments – unit trusts and other managed funds	452	1,051
Property (see note 12a)	17,622	18,547
Interest on cash deposits	608	639
Alternative investment income	7,409	10,384
Stock lending	204	298
Other	29	47
<b>Total</b>	<b>91,249</b>	<b>95,757</b>

**12a Property income**

	<b>2013/14</b>	<b>2014/15</b>
	<b>£'000</b>	<b>£'000</b>
Rental income	17,622	18,547
Direct operating expenses	-2,422	-1,956
<b>Net income</b>	<b>15,200</b>	<b>16,591</b>

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

**13 Taxes on income**

	2013/14 £'000	2014/15 £'000
Withholding tax – equities	1,299	1,454
<b>Total</b>	<b>1,299</b>	<b>1,454</b>

**14 Investment management expenses**

	2013/14 £'000	2014/15 £'000
Management fees	10,540	17,476
Custodian fees	85	90
<b>Total</b>	<b>10,625</b>	<b>17,566</b>

**15 Investments**

	Market value 31 March 2014 £'000	Market value 31 March 2015 £'000
<b>Investment assets</b>		
Fixed interest securities	212,592	237,162
Equities	1,853,541	1,922,482
Pooled investments	1,617,743	2,030,638
Pooled property investments	46,860	53,568
Alternative investments	281,507	350,519
Property (see note 15(d))	302,845	354,075
Derivative contracts:		
- Futures	90	293
- Forward currency contracts	2,567	2,585
- Purchased/written options	74	5
- Spot foreign exchange contracts	2	1
Cash deposits	52,345	49,765
<b>Total investment assets</b>	<b>4,370,166</b>	<b>5,001,093</b>
<b>Investment liabilities</b>		
Derivative contracts:		
- Futures	-435	-563
- Forward currency contracts	-367	-4,616
- Purchased/written options	-351	-520
- Spot foreign exchange contracts	-9	-7
<b>Total investment liabilities</b>	<b>-1,162</b>	<b>-5,706</b>
<b>Net investment assets</b>	<b>4,369,004</b>	<b>4,995,387</b>

**15a Reconciliation of movements in investments and derivatives**

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

## Notes to the Pension Fund Accounts

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

Transaction costs, such as commission, stamp duty and other transaction fees, are included in the cost of purchases and in sale proceeds. Transaction costs incurred during the year total £1.837m (2013/14 £2.092m).

**15b Analysis of investments (excluding derivative contracts)**

	31 March 2014 £'000	31 March 2015 £'000
<b>Fixed interest securities</b>		
<b>UK</b>		
Public sector quoted	16,367	4,627
Corporate quoted	6,213	9,820
Corporate unquoted	528	0
<b>Overseas</b>		
Public sector quoted	140,966	163,154
Public sector unquoted	7,422	5,563
Corporate quoted	41,096	53,416
Corporate unquoted	0	582
	<b>212,592</b>	<b>237,162</b>
<b>Equities</b>		
<b>UK</b>		
Quoted	795,735	782,746
<b>Overseas</b>		
Quoted	1,057,806	1,139,736
	<b>1,853,541</b>	<b>1,922,482</b>
<b>Pooled funds – additional analysis</b>		
<b>UK</b>		
Fixed income unit trusts	923,340	1,147,686
Unit trusts	440,050	313,275
<b>Overseas</b>		
Fixed income unit trusts	7,934	10,357
Unit trusts	246,419	559,320
	<b>1,617,743</b>	<b>2,030,638</b>
Pooled property investments	46,860	53,568
Alternative investments	281,507	350,519
Property	302,845	354,075
	<b>631,212</b>	<b>758,162</b>
	<b>4,315,088</b>	<b>4,948,444</b>

## **Analysis of derivatives**

### **Objectives and policies for holding derivatives**

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

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

#### **i) Futures**

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

#### **ii) Forward foreign currency**

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

#### **iii) Options**

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

**i) Futures**

Outstanding exchange traded futures contracts are as follows:

<b>Type</b>	<b>Expires</b>	<b>Economic exposure</b>	<b>Market value</b>	<b>Economic exposure</b>	<b>Market value</b>
			<b>31 March 2014</b>		<b>31 March 2015</b>
		<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Assets</b>					
UK Fixed Income Futures	Less than one year	1,200	4	1,552	18
Overseas fixed income futures	Less than one year	33,833	86	59,401	275
<b>Total assets</b>			<b>90</b>		<b>293</b>
<b>Liabilities</b>					
Overseas fixed income futures	Less than one year	-31,544	-435	-53,347	-563
<b>Total liabilities</b>			<b>-435</b>		<b>-563</b>
<b>Net futures</b>			<b>-345</b>		<b>-270</b>



**ii) Open forward currency contracts**

At 31 March 2015, the Fund had open forward currency contracts in place with a net unrealised loss of £2.03 million.

Settlement	Currency bought	Local value '000	Currency sold*	Local value '000	Asset value £'000	Liability value £'000
Up to one month	BRL	18,456	USD	-6,848	0	-374
Up to one month	INR	539,820	USD	-8,629	22	-31
Up to one month	USD	17,834	BRL	-55,815	163	0
Up to one month	USD	167	GBP	-112	0	0
One to six months	AUD	3,797	GBP	-1,939	11	0
One to six months	EUR	1,600	GBP	-1,168	0	-9
One to six months	GBP	7,454	AUD	-14,669	0	-78
One to six months	GBP	3,463	CAD	-6,601	0	-48
One to six months	GBP	61,856	EUR	-82,760	1,990	-60
One to six months	GBP	26,339	JPY	-4,709,599	0	-139
One to six months	GBP	5,979	MXN	-135,794	0	-10
One to six months	GBP	147,847	USD	-225,109	0	-3,837
One to six months	GBP	296	ZAR	-5,209	9	0
One to six months	USD	7,394	EUR	-6,832	18	0
One to six months	USD	34,387	GBP	-22,829	372	-30
<b>Open forward currency contracts at 31 March 2015</b>					<b>2,585</b>	<b>-4,616</b>
<b>Net forward currency contracts at 31 March 2015</b>						<b>-2,031</b>
<b>Prior year comparative:</b>						
<b>Open forward currency contracts at 31 March 2014</b>					<b>2,567</b>	<b>-367</b>
<b>Net forward currency contracts at 31 March 2014</b>						<b>2,200</b>

## \* List of currencies

AUD = Australian Dollar

CNY = Chinese Yuan

INR = Indian Rupee

PLN = Polish Zloty

BRL = Brazilian Real

EUR = Euro

JPY = Japanese Yen

USD = United States Dollar

CAD = Canadian Dollar

GBP = British Pound

MXN = Mexican Peso

ZAR = S Africa Rand

## iii) Purchased/written options

Investment underlying option contract	Expires	Put/call	Notional holding £'000	Market value 31 March 2014 £'000	Notional holding £'000	Market value 31 March 2015 £'000
<b>Assets</b>						
Overseas fixed interest purchased	One to three months	Call	0	62	0	0
Overseas fixed interest purchased	One to three months	Put	0	0	6	5
Overseas cash purchased	One to three months	Put	4,133	7	68	0
Overseas cash purchased	One to three months	Call	4,079	5	0	0
<b>Total assets</b>				<b>74</b>		<b>5</b>
<b>Liabilities</b>						
Overseas fixed interest written	One to three months	Put	-0	-129	-36	-21
Overseas fixed interest written	One to three months	Call	-1	-193	-90	-100
Overseas cash written	One to three months	Put	-4,133	-29	0	0
Overseas cash written	One to three months	Call	0	0	-102	-399
<b>Total liabilities</b>				<b>-351</b>		<b>-520</b>
<b>Net purchased/written options</b>				<b>-277</b>		<b>-515</b>

**Investments analysed by fund manager**

	<b>Market value 31 March 2014</b>		<b>Market value 31 March 2015</b>	
	<b>£'000</b>	<b>%</b>	<b>£'000</b>	<b>%</b>
Aberdeen	695,956	15.3	723,985	14.1
Schroders	715,884	15.8	695,297	13.5
Newton	601,267	13.2	658,837	12.8
Legal & General	469,822	10.3	569,825	11.1
State Street	1,116,362	24.6	1,419,594	27.6
Western	207,208	4.6	253,430	4.9
CBRE Global Investors	315,680	7.0	376,807	7.4
	<b>4,122,179</b>		<b>4,697,775</b>	
Other investments	311,237	6.9	362,077	7.1
Other net assets	102,301	2.3	77,236	1.5
<b>Total</b>	<b>4,535,717</b>	<b>100.0</b>	<b>5,137,088</b>	<b>100.0</b>

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

**Concentration of investments**

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

The following investments were more than 5% of the total of its asset class:

<b>Asset class</b>	<b>Security</b>	<b>Market value 31 March 2014 £'000</b>	<b>% of asset class</b>	<b>Market value 31 March 2015 £'000</b>	<b>% of asset class</b>
Fixed interest securities	Treasury bonds 5% 09/07/2014	12,362	5.8	0	0
Fixed interest securities	USA Bill 07/05/2015	0	0	23,577	8.3
Fixed interest securities	USA Bill 30/07/2015	0	0	21,150	7.5
Fixed interest securities	USA notes fixed 0.25%	0	0	18,104	6.4
Property	Property x*	23,850	7.9	24,575	6.0

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

### 15c Stock lending

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

At the year-end, the value of quoted stock on loan was £152.2m (£111.3m 2013/14). These stocks continue to be recognised in the Fund's financial statements.

Counterparty risk is managed through holding collateral at the Fund's custodian bank, JP Morgan. As at 31 March 2015, the custodian bank held collateral at fair value of £170m (£126m 2013/14). Collateral consists of acceptable securities and government debt.

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

There are no liabilities associated with the loaned assets.

### 15d Property holdings

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

	Year ending 31 March 2014 £'000	Year ending 31 March 2015 £'000
Opening balance	259,160	302,845
Additions	20,351	30,905
Disposals	-5,340	-1,849
Net change in market value	28,674	22,174
<b>Closing balance</b>	<b>302,845</b>	<b>354,075</b>

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

## Notes to the Pension Fund Accounts

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

	Year ending 31 March 2014 £'000	Year ending 31 March 2015 £'000
Within one year	18,378	20,782
Between one and five years	63,156	69,502
Later than five years	70,445	70,473
<b>Total</b>	<b>151,979</b>	<b>160,757</b>

## 16 Financial instruments

### 16a Classification of financial instruments

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

## Notes to the Pension Fund Accounts

31 March 2014			31 March 2015		
Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost	Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost
£000	£000	£000	£000	£000	£000
<b>Financial assets</b>					
212,592	-	-	237,162		
1,853,541	-	-	1,922,482		
1,617,743	-	-	2,030,638		
46,860	-	-	53,568		
281,507	-	-	350,519		
302,845	-	-	354,075		
2,733	-	-	2,884		
-	180,442	-		151,635	
-	51,430	-		11,981	
<b>4,317,821</b>	<b>231,872</b>	<b>0</b>	<b>4,951,328</b>	<b>163,616</b>	<b>0</b>
<b>Financial Liabilities</b>					
-1,162	-	-	-5,706		
-	-	-12,814			-3,616
<b>-1,162</b>	<b>0</b>	<b>-12,814</b>	<b>-5,706</b>	<b>0</b>	<b>-3,616</b>
<b>4,316,659</b>	<b>231,872</b>	<b>-12,814</b>	<b>4,945,622</b>	<b>163,616</b>	<b>-3,616</b>

\*The disclosure of financial instruments above has changed for 2014/15, the figures above for Debtors and Creditors are only contractual debtor and creditor balances (as shown in Notes 20 and 21 as sundry debtors and sundry creditors). The comparable figures for 2013/14 on this basis are £9.841m Debtors and £3.692m Creditors. The figures for Loans and Receivables and Financial liabilities at amortised costs in Notes 16c) and 16d) below have also been changed accordingly.

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

31 March 2014			31 March 2015	
£'000			£'000	
		<b>Financial assets</b>		
82,282		Fair value through profit and loss		595,745
		<b>Financial liabilities</b>		
16,117		Fair value through profit and loss		-10,741
<b>98,399</b>	<b>Total</b>			<b>585,004</b>

**16c Fair value of financial instruments and liabilities**

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

31 March 2014			31 March 2015	
Carrying value	Fair value		Carrying value	Fair value
£'000	£'000		£'000	£'000
		<b>Financial assets</b>		
4,317,821	4,317,821	Fair value through profit and loss	4,951,328	4,951,328
231,872	231,872	Loans and receivables	163,616	163,616
<b>4,549,693</b>	<b>4,549,693</b>	<b>Total financial assets</b>	<b>5,114,944</b>	<b>5,114,944</b>
		<b>Financial liabilities</b>		
-1,162	-1,162	Fair value through profit and loss	-5,706	-5,706
-12,814	-12,814	Financial liabilities at amortised cost	-3,616	-3,616
<b>-13,976</b>	<b>-13,976</b>	<b>Total financial liabilities</b>	<b>-9,322</b>	<b>-9,322</b>

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

**16d Valuation of financial instruments carried at fair value**

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

**Level 1**

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

## Notes to the Pension Fund Accounts

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

### **Level 2**

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

### **Level 3**

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

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

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

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

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

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



## Notes to the Pension Fund Accounts

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

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

## **17 Nature and extent of risks arising from financial instruments**

### **Risk and risk management**

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

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

### **17a Market risk**

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

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

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

The Fund manages these risks in two ways:

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

## Notes to the Pension Fund Accounts

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

### Other price risk

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

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

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

### Other price risk – sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with WM Company plc, the Pension Fund has determined that the following movements in market price risk are reasonably possible for the 2015/16 reporting period:

<b>Asset type</b>	<b>Potential market movements (+/-)</b>
UK equities	10.3%
Overseas equities	9.0%
UK index-linked gilts	8.6%
UK fixed interest bonds	6.4%
Overseas index-linked gilts	5.1%
Overseas fixed interest bonds	2.5%
Property	3.6%
Alternative investments	4.1%
Cash	0.0%

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

## Notes to the Pension Fund Accounts

Had the market price of the Fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market price would have been as follows (the prior year comparator is shown below):

<b>Asset type</b>	<b>Value at 31 March 2015</b>	<b>Percentage change</b>	<b>Value on increase</b>	<b>Value on decrease</b>
	<b>£'000</b>	<b>%</b>	<b>£'000</b>	<b>£'000</b>
UK Equities	1,096,021	10.3%	1,208,911	983,131
Global Equities	1,699,056	9.0%	1,851,292	1,546,821
UK index-linked gilts	1,147,686	8.6%	1,246,272	1,049,100
UK fixed interest bonds	14,447	6.4%	15,367	13,527
Overseas index-linked gilts	7,516	5.1%	7,898	7,134
Overseas fixed interest bonds	222,734	2.5%	228,347	217,121
Property	407,643	3.6%	422,441	392,846
Alternatives	350,519	4.1%	364,890	336,148
Cash	49,765	0.0%	49,770	49,760
<b>Total assets</b>	<b>4,995,387</b>		<b>5,395,188</b>	<b>4,595,588</b>

<b>Asset type</b>	<b>Value at 31 March 2014</b>	<b>Percentage change</b>	<b>Value on increase</b>	<b>Value on decrease</b>
	<b>£'000</b>	<b>%</b>	<b>£'000</b>	<b>£'000</b>
UK Equities	1,235,784	10.3%	1,363,071	1,108,500
Global Equities	1,304,226	9.0%	1,421,084	1,187,367
UK index-linked gilts	887,941	8.6%	964,215	811,667
UK fixed interest bonds	58,508	6.4%	62,234	54,781
Overseas index-linked gilts	5,055	5.1%	5,312	4,798
Overseas fixed interest bonds	193,933	2.5%	198,820	189,046
Property	349,705	3.6%	362,400	337,011
Alternatives	281,507	4.1%	293,048	269,965
Cash	52,345	0.0%	52,350	52,339
<b>Total assets</b>	<b>4,369,004</b>		<b>4,722,534</b>	<b>4,015,474</b>

### Interest rate risk

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

The Fund's interest rate risk is routinely monitored by the Pension Fund in accordance with the Fund's risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks. The Fund's direct exposure to interest rate movements as at 31 March 2015 and 31 March 2014 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

	<b>31 March 2014</b>	<b>31 March 2015</b>
	<b>£'000</b>	<b>£'000</b>
Cash and cash equivalents	128,097	101,870
Cash deposits	52,345	49,765
Fixed interest securities	212,592	237,162
<b>Total</b>	<b>393,033</b>	<b>388,797</b>

### Interest rate risk sensitivity analysis

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

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a 1% change in interest rates. The Pension Fund's fixed interest investment manager has applied their market experience to the Fund's portfolio of investments to calculate the effect of a change in interest rates. The figures below for Fixed Interest Securities does not include the Fund's pooled investment in Index Linked Gilts, which were included in this analysis in the 2013/14 accounts. This better reflects the Fund's approach to the management of investment risk and how this analysis is applied to the Fund's different investments.

## Notes to the Pension Fund Accounts

Asset type	Carrying amount as at 31 March 2015 £'000	Effect on asset values	
		+1% £'000	-1% £'000
		Cash & cash equivalents	101,870
Cash deposits	49,765	-	-
Fixed interest securities	237,162	-17,700	17,700
<b>Total change in assets available</b>	<b>388,797</b>	<b>-17,700</b>	<b>17,700</b>

Asset type	Carrying amount as at 31 March 2014 £'000	Effect on asset values	
		+1% £'000	-1% £'000
		Cash & cash equivalents	128,097
Cash deposits	52,345	-	-
Fixed interest securities	212,592	-13,159	13,159
<b>Total change in assets available</b>	<b>393,033</b>	<b>-13,159</b>	<b>13,159</b>

Income source	Amount receivable in yr to 31/03/15 £'000	Effect on income values	
		+1% £'000	-1% £'000
		Cash deposits / cash & cash equivalents	639
Fixed interest securities	6,722	-	-
<b>Total change in income receivable</b>	<b>7,361</b>	<b>1,664</b>	<b>-1,664</b>

Income source	Amount receivable in yr to 31/03/14 £'000	Effect on income values	
		+1% £'000	-1% £'000
		Cash deposits / cash & cash equivalents	608
Fixed interest securities	6,820	-	-
<b>Total change in income receivable</b>	<b>7,428</b>	<b>1,470</b>	<b>-1,470</b>

This analysis demonstrates that a 1% increase in interest rates will not affect the interest received on fixed assets but will reduce their fair value, and vice versa.

## Notes to the Pension Fund Accounts

Changes in interest rates do not impact on the value of cash/cash equivalent balances but they will affect the interest income received on those balances. Changes to both the fair value of assets and the income received from investments impact the net assets available to pay benefits.

### Currency risk

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

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

The following table summarises the Fund's currency exposure as at 31 March 2015 and as at the previous period end:

<b>Currency exposure – asset type</b>	<b>Asset value at 31 March 2014 £'000</b>	<b>Asset value at 31 March 2015 £'000</b>
Overseas quoted securities	1,057,806	1,139,736
Overseas unit trusts	175,215	569,677
Alternative investments	281,507	350,519
Overseas pooled property investments	34,025	27,765
Overseas public sector bonds	149,959	165,896
Overseas corporate bonds	41,096	53,998
<b>Total overseas assets</b>	<b>1,739,608</b>	<b>2,307,591</b>

### Currency risk – sensitivity analysis

In consultation with WM Company plc, the Pension Fund considers the likely volatility associated with foreign exchange rate movements to be 6.09%.

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

A 6.09% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

## Notes to the Pension Fund Accounts

Currency exposure – asset type	Asset value as at 31 March 2015 £'000	Change to net assets available to pay benefits	
		+6.09% £'000	-6.09% £'000
<b>Total change in assets available</b>	<b>2,307,591</b>	<b>140,532</b>	<b>140,532</b>

Currency exposure – asset type	Asset value as at 31 March 2014 £'000	Change to net assets available to pay benefits	
		+6.09% £'000	-6.09% £'000
<b>Total change in assets available</b>	<b>1,739,608</b>	<b>105,942</b>	<b>105,942</b>

### 17b Credit risk

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

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

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

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

Deposits are not made with banks and financial institutions unless they are rated independently and meet the Pension Fund's credit criteria. The Pension Fund has also set limits as to the maximum percentage of the deposits placed with any one class of financial institution. In addition, the Pension Fund invests an agreed percentage of its funds in the money markets to provide diversification. The money market funds chosen all have AAA rating from a leading ratings agency.



## Notes to the Pension Fund Accounts

The Pension Fund has managed its exposure to credit risk, and has had no experience of default or uncollectable deposits. The Fund's cash holding under its treasury management arrangements at 31 March 2015 was £50.570 million (31 March 2014: £89.230 million). This was held with the following institutions:

	Rating as at 31 March 2015	Balances as at 31 March 2014 £'000	Balances as at 31 March 2015 £'000
<b>Money market funds</b>			
Aberdeen	AAA	0	4,000
Ignis	AAA	9,000	4,390
Federated Investors UK	AAA	8,740	3,870
Insight	AAA	9,000	4,000
Deutsche	AAA	9,000	4,000
Goldman Sachs	AAA	3,080	4,000
<b>Bank deposit accounts</b>			
HSBC	AA-	5,000	3,810
Lloyds	A	7,000	3,810
Santander UK	A	7,000	3,810
Barclays	A	9,000	4,880
Nationwide Building Society	A	8,500	0
Svenska Handelsbanken	AA-	9,000	5,000
Close Brothers	A-	5,000	5,000
<b>Total</b>		<b>89,320</b>	<b>50,570</b>

### 17c) Liquidity risk

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

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

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert in to cash. As at 31 March 2015 the values of illiquid assets was £735m, which represented 14.3% of the total fund assets (2013/14 £618m, which represented 13.6% of the total fund assets).

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

All financial liabilities at 31 March 2015 are due within one year.

## Refinancing risk

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

## 18 Funding arrangements

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

The key elements of the funding policy are:

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

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

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

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

## Notes to the Pension Fund Accounts

15.6% of Pensionable Pay. In addition, most Admission Body employers will continue to pay shortfall contributions based on the amounts being paid over in 2013/14, but increasing at 20.0% p.a. with effect from 1 April 2014 for 4 years and increasing by 3.9% p.a. thereafter.

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

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

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

### Financial assumptions - discount rate for periods

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

Mortality assumptions:

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

Commutation assumption:

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

## 19 Actuarial present value of promised retirement benefits

In addition to the triennial funding valuation, the Fund's actuary also undertakes a valuation of the Pension Fund's liabilities, on an IAS 19 basis, using the same base data as the funding valuation. This valuation is not carried out on the same basis as that used for setting fund contribution rates and the fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

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

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

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

Assumptions used:

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

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

## Notes to the Pension Fund Accounts

### 20 Current assets

	31 March 2014 £'000	31 March 2015 £'000
Debtors:		
- Contributions due	23,196	25,751
- Transfer values receivable (joiners)	3,808	4,113
- Tax	3,936	3,158
- Sundry debtors	9,841	11,981
	<b>40,781</b>	<b>45,003</b>
Cash balances	128,097	101,870
<b>Total</b>	<b>168,878</b>	<b>146,873</b>

Analysis of debtors	31 March 2014 £'000	31 March 2015 £'000
Central government bodies	2,465	1,824
Other local authorities	20,595	26,303
NHS bodies	8	0
Public corporations and trading funds	3,741	3,912
Other entities and individuals	13,972	12,964
<b>Total</b>	<b>40,781</b>	<b>45,003</b>

### 21 Current liabilities

	31 March 2014 £'000	31 March 2015 £'000
Sundry creditors	3,692	3,616
Transfer values payable (leavers)	8,887	10,069
Benefits payable	1	300
Tax	234	315
<b>Total</b>	<b>12,814</b>	<b>14,300</b>

Analysis of creditors	31 March 2014 £'000	31 March 2015 £'000
Central government bodies	234	316
Other local authorities	9,792	10,122
NHS bodies	0	1
Other entities and individuals	2,788	3,861
<b>Total</b>	<b>12,814</b>	<b>14,300</b>

**22 Long term debtors**

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

The actuary determined that as insufficient assets remain to cover the remaining liabilities, a balancing payment of £15.213 million was required to the Fund by the Civil Service (Her Majesty's Courts Service) to be spread over ten instalments commencing April 2012. The total amount of the remaining debt is £10.649 million, of this the following year's instalment (£1.521 million) is classified as a debt repayable in one year, and the remaining balance £9,128 million is a long term debtor.

	<b>31 March 2014</b> <b>£'000</b>	<b>31 March 2015</b> <b>£'000</b>
Magistrates Courts - agreed liability settlement due from central government body	10,649	9,128
<b>Total</b>	<b>10,649</b>	<b>9,128</b>

**23 Additional voluntary contributions**

	<b>Market value</b> <b>31 March 2014</b> <b>£'000</b>	<b>Market value</b> <b>31 March 2015</b> <b>£'000</b>
Prudential	2,586	4,627
Zurich	7,686	8,575
Equitable Life	1,375	1,337
<b>Total</b>	<b>11,647</b>	<b>14,539</b>

During the year, AVC contributions of £2.325 million were paid directly to Prudential (2013/14: £1.550 million), £1.122 million to Zurich (2013/14: £0.844 million), and £0.013 million to Equitable Life (2013/14: £0.015 million).

## **24 Related party transactions**

The Hampshire Pension Fund is administered by Hampshire County Council. Consequently, there is a strong relationship between the County Council and the Pension Fund. During the reporting period, the County Council incurred costs of £2.743 million (2013/14: £2.800 million) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses. The County Council is also the single largest employer of members of the Pension Fund and contributed £90.005 million to the Fund in 2014/15 (2013/14 £82.108 million).

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

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

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

Outstanding capital commitments (investments) at 31 March 2015 totalled £60.177 million (31 March 2014: £97.926 million). These commitments relate to outstanding call payments due on unquoted private equity limited partnership funds held in the alternative investments part of the Fund. The amounts 'called' by private equity funds are irregular in both size and timing over a period of between four and six years from the date of each original commitment.

The Fund had no contingent liabilities on 31 March 2015.

## **26 Contingent assets**

The Fund had no contingent assets on 31 March 2015.

## **27 Impairment losses**

During 2014/15, the Fund has recognised an impairment loss for bad and doubtful debt of £0.015 million (2013/14: £0.004 million) for possible non-recovery of pensioner death overpayments, and there were no potential non-payment of cessation values where the employer is not backed up by a guarantee on 31 March 2015.



## Statement of Responsibilities for the Statement of Accounts

### 1 The Council's responsibilities

The Council is required to:

- Make arrangements for the proper administration of its financial affairs and to make one of its officers responsible for the administration of those affairs. In this Council, that officer is the Chief Financial Officer
- Manage its affairs so as to use resources economically, efficiently and effectively and safeguard its assets
- Approve the Statement of Accounts.

### 2 The Chief Financial Officer's responsibilities

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

2. In preparing this Statement of Accounts, the Chief Financial Officer has:

- Selected suitable accounting policies and applied them consistently
- Made judgements and estimates that were reasonable and prudent
- Complied with the Code of Practice.

3. The Chief Financial Officer has also:

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

### 3 The Chief Financial Officer's statement

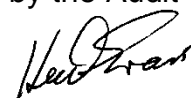
I certify that the Statement of Accounts presents a true and fair view of the financial position of the County Council as at 31 March 2015 and its income and expenditure for the year ended 31 March 2015.



Carolyn Williamson  
Chief Financial Officer and Section 151 Officer  
24 September 2015

### 4 The Chairman's statement

I certify that the Statement of Accounts for 2014/15 was considered and approved by the Audit Committee on 24 September 2015.



Councillor Keith Evans  
Chairman of Audit Committee  
24 September 2015

## **Annual Governance Statement for Hampshire County Council and Hampshire Pension Fund**

### **1 Scope of Responsibility**

Hampshire County Council is responsible for ensuring that:

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

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

This Statement explains how the County Council has complied with the Code and meets with the requirements of the Accounts and Audit (England) Regulations 2011 in relation to the publication of an Annual Governance Statement during 2014-2015

### **2 The purpose of Corporate Governance**

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

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

## Annual Governance Statement

The governance framework has been in place at Hampshire County Council for the year ending 31 March 2015 and up to the date of approval of the annual report and the statement of accounts.

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

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

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

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

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

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

Departmental Corporate Governance and self assessment questionnaires were sent out to Departments in 2015.

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

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

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

- the County Council
- the Leader
- Cabinet
- arrangements for the performance of regulatory functions

## Annual Governance Statement

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

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

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

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

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

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

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

All reports are considered by appropriately qualified legal and finance staff with expertise in the particular function area. Senior lawyers within the service have regular meetings with Chief Officers and senior clients to assess performance, review future demands, and identify new legislative demands.

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

Hampshire Children's Services Department is formed in strict compliance with the Children Act 2004 and revised Statutory Guidance on the Role of the Director of

Children's Services and the Lead Member. This encompasses the lead role of the Local Authority as the principal agency in ensuring and coordinating services for the protection of the most vulnerable children and the safeguarding of a broader group of children in need. This is conducted through internal operational activities especially with regard to Section 47 of the Children Act 1989.

Hampshire Adult Services Department undertook a significant programme of work to ensure compliance with various elements of Care 2014, which were implemented in April 2015. These include new duties to Carers, Self-funders and provision of Advocacy services as well as reinforcing the Safeguarding responsibilities. Work is also underway to prepare for the enactment of Care Cap and Appeals process in April 2016.

The Care Act 2014, created a legislative framework for Safeguarding work in Adults Services which previously was based on the 'No Secrets' guidance (Department of Health 2000). Whilst Hampshire Adult Services Department adhered to the 'No Secrets' guidance, the department is also compliant with the Care Act 2014 which confirms the duty of partnership working for statutory health and social care organisations to work together to put in place services which act to prevent abuse of vulnerable adults, provide assessment and investigate allegations of abuse.

The guidance gives the Local Authority a leadership and co-ordination role to ensure that all those who commission and provide services for our citizens work together to address the safeguarding agenda in Hampshire and this is fully recognised as a corporate responsibility.

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

The County Council operates a system of Finance Business Partners who work closely with the relevant Chief Officer and report through to the Head of Finance. The Director of Corporate Resources, Head of Finance and Finance Business Partners work together to ensure that both corporate and departmental financial perspectives are taken into account in all papers for decision, and attend meetings to advise further as appropriate. The senior team are supported by an Operational Finance Team who undertake day to day finance activity and a Corporate Accounting Team who deal with technical accounting, budgeting and the Capital Programme. A clear process of escalation for major issues that arise is in place within the Department ensuring that strategic issues are dealt with at the appropriate level.

### **3.2 Mechanism in place to identify principal organisational obligations**

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

In 2013, Cabinet agreed a new strategic narrative *Shaping Hampshire: modern, public services for the future* to signal the Authority's intent to further transform and shape services for the future, while meeting the challenges of significant Government grant reductions. The *Shaping Hampshire* Plan provides an operating model for business planning and a framework for reporting organisational progress to Cabinet.

The *Shaping Hampshire* Plan brings together key priorities for the Council into a coherent shared strategy. In addition to the *Transformation to 2015* and *Transformation to 2017* work streams, it also integrates departmental priorities, the Health and Wellbeing Strategy; Children and Young People's Plan; Workforce Development Strategy; and other key policy areas.

The Performance Management Framework complements the strategic narrative and business planning approach. An internal audit of service planning and performance management in 2012/13 (reported to the Audit Committee in 2013/14), provided the Council with 'substantial assurance' that policies and procedures are operating effectively. The Framework was updated in 2013/14 following the approval of the *Shaping Hampshire* Plan.

Activities, key performance measures and targets are drawn from work stream plans and department level business plans; and cascaded through service plans and Individual Performance Plans (currently transitioning to the *Valuing Performance* system). Progress against the Plan is monitored on a quarterly basis, with an annual report to Cabinet providing a full evaluation of performance.

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

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

Business and financial planning takes into account the views of those impacted by any service changes, and the budgetary or service demand impact on external

partners. For instance, the Council consults residents on its strategic budget-setting at appropriate intervals, and on many of its proposals to change service delivery. In the last year, the Council has consulted on various changes to service provision, including:

- Bus subsidies
- Short breaks
- Household Waste and Recycling Centres
- Libraries
- Youth support
- Older people's day opportunities
- Services for children with autism
- Education services for children aged 11 to 18 on the Isle of Wight.

The findings from these consultations are fully analysed and reported alongside other considerations to Executive Members and/or Cabinet to support decision-making.

The Hampshire Partnership provides a constructive forum for collaborative working across key partners, with the aim of providing a strategic overview for public sector organisations across Hampshire. The Partnership is a voluntary collaboration made up of: the County Council Leader, Leaders of most of the Hampshire district, borough and city councils, Chief Constable of Hampshire Police, the Chairman of Hampshire Fire Authority, and Chief Fire Officer of Hampshire Fire and Rescue Service. The Chairman of NHS Hampshire, the Hampshire Association of Local Councils and the New Forest National Park Authority are also members. In addition, there are seats for Southampton and Portsmouth City Councils, the South Downs National Park Authority, the voluntary and community sector, the Armed Forces, the Enterprise M3 and Solent Local Enterprise Partnerships (LEPs), and the Federation of Small Businesses (Wessex region).

The Hampshire Partnership has established governance arrangements with clear roles and responsibilities. For example, the Hampshire Civilian Military Partnership has reviewed its governance arrangements and refreshed its action plan, and enabled partners to liaise about the welfare of veterans, Ghurkha and Nepalese community issues, and rebasing plans.

A strategic partnership for delivering Children's Services on the Isle of Wight was formed between the Council and Isle of Wight Council in early 2014, pursuant to a statutory direction from the Secretary of State and accordance with an agreement lasting for five years. The Council's support is showing demonstrable improvement to outcomes for children who live on the Island. Inspection of the Isle of Wight Council's arrangements for supporting school improvements moved from '*ineffective*' in June 2013, to '*effective*' in June 2014. In 2014, Ofsted's inspection of services for *children in need of help and protection, children looked after and care leavers*, judged

services as '*requires improvement*', against previous inspections of child protection which were judged to be '*inadequate*' in November 2012.

As part of its work with statutory partners the County Council is involved in supporting the activity of the two Hampshire Local Enterprise Partnerships to help businesses adapt and the economy to grow. In the north of the county, the Council has worked with the Enterprise M3 LEP to secure funding from the Regional Growth Fund to go towards a £25 million total investment in a permanent world-class exhibition, conference and hospitality venue at Farnborough Airport.

The Council also engages with key stakeholders through the hosting of high-level conferences. In 2014/15, the Council hosted two major conferences: the 'Better health, better care' conference, and the 'Public Sector Transformation, working beyond boundaries'. Both events were attended by delegates from local and national professional public sector bodies. Both events provided an opportunity to engage with key stakeholders on the strategic vision for Hampshire, and to promote the work of the County Council to transform local services.

A key part of the strategic partnership has been the delivery of the first phase of the Integrated Business Centre, providing transactional and business support services to the three organisations. This long-term investment is designed to create additional financial security and stability as the Council sells the 'platform' to more public sector organisations. The initiative also lays the foundation for greater productivity - reducing business processes and costs.

Legislative change has been monitored and implemented where appropriate. The Council has tracked and responded to these national changes as they emerged, and proactively prepared for implementation. Notable policy changes have included changes to statutory provisions within Children and Families services, the rehabilitation of offenders and in tackling anti-social behaviour. The Council has also integrated the Public Health service into the organisation, and is building relationships with key partners, including the Hampshire Clinical Commissioning Groups.

Business and Financial Planning take into account the service and budgetary impact of working with external partners. The County Council has recognised that this is an area of increasing risk for the future as partnerships expand and as greater reliance is placed on securing and maintaining partner contributions to support service provision. One of the most significant areas is the work with the Clinical Commissioning Groups to progress the Better Care Fund (BCF) initiative which looks to transform the way that Health and Adult Social Care work together to improve outcomes for individuals and to improve the use of resources across the sectors.



Progress against the Better Care Fund action plan has been relatively slow throughout 2014/15 reflecting some of the complexities of joint working between six organisations in what is a very difficult and demanding environment.

This position was recognised very early on and therefore a 'risk sharing' agreement has been put in place that supports the County Council's financial position in 2015/16 and 2016/17, providing additional time to release ongoing savings from operational changes across health and social care.

Joint working with Hampshire Constabulary and Hampshire Fire and Rescue Service went live in 2014/15 for all three strategic partners and are underpinned by robust governance arrangements and cost and benefit sharing methodologies which have been tailored to the support service areas to which they relate. Sensible protections around liabilities and assets have been incorporated into the overall agreement and individual accession agreements drawn up by the three authorities.

This work has helped inform the future model for on-boarding other partners and has been used to produce documentation and cost share percentages with a new partner who is due to join the partnership in 2015/16. The addition of new partners helps to secure contributions to overheads of the existing partners whilst also realising savings for the new partners.

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

The County Council's Code of Corporate Governance complies with the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives and Senior managers (SOLACE) guidance.

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

The Conduct Advisory Panel 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.

During 2014-15 Internal Audit were required to comply with the Public Sector Internal Audit Standards. Assurance that these Standards are met is provided through annual self-assessment and ISO quality accreditation. In accordance with the Standards an external assessment (required every five years) has been commissioned for September 2015.

The Audit Committee approved the Internal Audit Charter and Plan for 2014-15 (June 2014). The internal audit plan is aligned to the County Council's three key priorities, as such ensuring assurance work adds maximum value in the effective delivery of its planned outcomes.

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

The Chief Internal Auditor submitted an Annual Audit Report and Opinion to the June 2015 Audit Committee on the effectiveness of the control framework

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

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

Key components are:

(a) Planning:

- County Council priorities (the three corporate aims)
- The *Shaping Hampshire* Plan

(b) Doing:

- Department Business Plans

(c) Monitoring

- Quarterly reporting on performance against the *Shaping Hampshire* Plan to CMT
- Half yearly reporting on performance against the *Shaping Hampshire* Plan, to Cabinet
- Half-yearly safeguarding children and vulnerable adults to CMT and Cabinet
- Annual Departmental Self-Assessment Reports
- County Council's Annual Performance Report.

## Annual Governance Statement

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

In addition, departments have robust mechanisms for performance management.

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

- Annually updated three year budget projections and a three year capital programme
- Quarterly budget monitoring reports on revenue and capital to the relevant executive Member
- Additional capital investment part of the 2013/14 budget process targeting key capital theme areas, worth over £750 million over four years
- A risk based approach to budget monitoring ensuring that reduced resources within the Finance Department are targeted to high risk areas
- Ability of Select Committees to scrutinise monitoring reports
- Overall budget monitoring report concentrating on key corporate financial issues to Cabinet on a quarterly basis.

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

Children's Services Department activities are governed by the operational structures and the Scheme of Delegations. They are controlled through a range of supervisory and quality assurance arrangements. They are validated through a range of performance data and particularly by the external inspection from Ofsted.

Hampshire Safeguarding Children Board (HSCB) oversees external responsibilities for working together to safeguarding child, with roles and responsibilities governed by its Constitution. The Director of Children's Service is held to account for effective working of the HSCB by the Chief Executive and is challenged, where appropriate, by the Lead Member. The Lead Member has participant observer status on the HSCB and attends board meetings. The independent chair is accountable to the Chief Executive, whilst maintaining a direct link to the Director of Children's Services. Hampshire Children's Trust has a Children's Trust Board Governance Framework and Terms of Reference which set out clear roles, responsibilities and accountabilities for all levels of the Trust, to ensure that it fulfils its purpose and achieves intended outcomes. The HSCB scrutinises and holds to account the work of the Children's Trust Board with regards to safeguarding.

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

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

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

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

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

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

Partnerships are underpinned by a common vision, which is understood and agreed by all partners. Clear governance structures are also in place. For example, the Hampshire Partnership brings together all key partners in Hampshire to continue to build on the successes of voluntary collaborative and co-operative working that is

already taking place in many areas. The Hampshire Partnership aims to promote and facilitate better cross-agency working and find greater ways for them to work together in a more efficient, targeted and rationalised way to deliver better outcomes at lower costs for Hampshire taxpayers.

Other examples include the:

- Health and Well-being Board
- Children's Trust
- Hampshire Safeguarding Children Board
- Multi-agency Safeguarding Hubs
- Early Help Hubs
- Hampshire Safeguarding Adults Board.

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

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

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

- Benchmarking of spend compared with service quality (i.e. lower quartile Council Tax – keeping it at the same rate for six years in a row)
- The successful delivery of £240 million in efficiency savings, improvement in performance across a number of service areas, and increasingly effective collaborations since 2008
- The largest ever capital investment programme which shows that short term gains are not pursued at the expense of long-term value for money

The Local Government Association carried out a Peer Review of the Council in early 2014. The Peer Review recognised the County Council as being *a strong and successful local authority. It is a well-managed and high performing organisation with a good professional pride and ethos, and one that benefits from political stability, visible leadership, and prudent financial stewardship.* The Peer Review acknowledged that the County Council is a well-led, well managed and highly

successful organisation with great (particularly financial) resilience and enormous capacity.

Children's Services were rated by Ofsted as having *good* and *outstanding* services for vulnerable children following an inspection in February 2014 as part of a new, tougher regime. Leadership and governance was judged *outstanding* across all areas of child protection and children in care services. Ofsted acknowledged the Council's strong leadership and self-awareness: *The Local Authority knows itself well through good performance management and reporting arrangements... This enables swift and decisive action to be taken to ensure that quality is maintained and improved, providing a very sound basis for management decision-making.* Further to this, arrangements with the Children's Trust were reported by Ofsted as having: *planning (which) is robust and targeted at the most vulnerable children and young people. The resulting partnership work has led to some very positive outcomes for children.* Ofsted also praised the: *very good partnership arrangements with the police and health agencies... This has led to highly effective planning and the use of pooled budgets.*

The Annual Audit Letter – Year Ending 31 March 2014 was circulated to all Members of the Audit Committee concluding:

Financial Statement Audit – We issued an unqualified audit report on 29 September 2014

Value for Money – We issued an unqualified Value for Money conclusion on 29 December 2014

Annual Governance Statement – No areas of concern

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

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

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

In 2010 the Chartered Institute of Public Finance and Accountancy issued a Statement on the Role of the Chief Financial Officer in Local Government, outlining

the principles that define the core activities and behaviours that belong to the role of the Chief Financial Officer and the governance requirements needed to support them. A self-assessment confirms that the County Council's financial management arrangements conform with the governance requirements of the CIPFA Statement as outlined below:

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

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

A Scheme for Member remuneration and allowances has been effectively maintained during 2014-15 in accordance with legislative provisions and established robust governance practices. The current Scheme was approved by the County Council in February 2014 for the years 2014/15, 2015/16, 2016/17 and 2017/18.

The Scheme is included in the County Council's Constitution and published on the web <http://www3.hants.gov.uk/constitution.htm/>

The IRP have met informally on several occasions during 2014-15 and continue to attend formal committee meetings for the purpose of observation on an ad hoc basis. Advice to the IRP is provided as and when required by the Head of Democratic & Member Services and the Head of Governance. The IRP has been appointed for a four-year term of office which is due to expire in February 2018.

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

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

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

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

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

An effective Conduct Advisory Panel is in place, which is responsible for the initial assessment (and where appropriate investigation and determination) of complaints against Members of the County Council. A Member's Code of Conduct was adopted by the County Council in July 2012. The Code contains provisions in respect of the mandatory registration and disclosure of Disclosable Pecuniary Interests, required by law, together with provisions for voluntary registration and disclosure of non pecuniary interests and gifts and hospitality.

Major corporate partnerships have terms of reference and receive regular performance updates.

#### **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's Constitution requires that openness in individual Executive Members decision making goes beyond the minimum statutory requirements by ensuring that, subject to confidential items, all such decisions are made in public.



## Annual Governance Statement

A Report Writing Guide and Decision Making Guidance are available on the intranet which informs those preparing reports. All decision reports whether to the Executive or to a committee are submitted in advance for both legal and financial consideration. A decision making record clearly documents the decision(s) made together with other considerations in accordance with legislative requirements. All decision reports and decision records are published on dedicated pages on the web in accordance with well established business practices. Executive Decisions made by Officers are now published in accordance with statutory requirements. Exemptions from publication in the case of confidential or exempt reports are approved by the Head of Governance.

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

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

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

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

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

The County Council has five scrutiny 'Select Committees', arranged thematically, which are independent of the Executive functions of the County Council. All agendas and papers are published in accordance with legislative requirements on transparency, and each Select Committee is responsible for managing its own work-

programme, determining which decisions they wish to scrutinise, including the utilisation of call-in procedures. Additionally, any Member can make a request for an issue to be added to a Select Committee's Agenda through 'Councillor Call for Action'.

Members are able to make recommendation to improve the Council's performance through items heard during formal meetings, working groups held to discuss selected topics, and in-depth scrutiny reviews. The Scrutiny function is reviewed regularly with the relevant Chairmen to ensure resources focus on those issues that have the most significant impact. There is a well established Reporting Concerns at Work (whistle blowing) Policy in place which is published on the County Council's Web site.

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

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

#### **4.5 Developing the capacity and capabilities of Members and Officers to be effective**

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

The capacity and capability of Members and officers is directly aligned to the shaping Hampshire Plan 2013-17. This is driven through the compilation of People Priority Plans by HR Bops in conjunction with Departmental Management Teams which are updated on a regular basis and shaped by emerging health and wellbeing together with workforce development themes.

From a workforce development perspective, key themes are:

- Leadership and management development
- Driving change
- Raising performance

The County Council is committed to safeguarding and enhancing the health and wellbeing of its staff to optimise their contribution to the Council and its customers and to improve their quality of life. Current strategic focus is around identifying hot spot areas where indicators demonstrate specific needs e.g. high turnover, low

attendance. A key focus of the strategy is to build overall workforce resilience and embed preventative measures. This is undertaken through a range of measures working with managers and empowering staff to seek help.

All elements of the workforce development offer, stem from these core elements and are delivered in a wide variety of methods including bespoke team development, visioning sessions for senior teams, coaching and mentoring, utilisation of public and private sector partnership expertise.

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

Members are encouraged to complete a development and training assessment form from which skills development can be identified and appropriate support provided. The MDG has recently reviewed and updated the assessment form which has been sent to all Members. The County Council's internal training and development team provide professional advice to all Members.

A Corporate Governance e-learning module was developed and launched in July 2010. The e-learning module is available to all County Council staff and forms part of the mandatory corporate induction programme.

The Hampshire Pension Fund Governance Policy Statement confirms that Members of the Pension Fund Panel have opportunities to attend training courses and seminars on pension fund matters when necessary and appropriate. A training plan for Members of the Panel has been prepared and training logs for individual Members are maintained.

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

In February 2015, Cabinet approved the Council's Consultation Policy. The Policy establishes five principles for carrying out consultations, and governs all consultations undertaken in the name of the Council. The five principles are:

1. We will consult on key issues and proposals
2. We will consult in good time
3. We will be inclusive but within clear and appropriate limits
4. We will consult using clear, simple information
5. We will ensure responses are taken into account when decisions are made.

## Annual Governance Statement

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

In its communications, the Council draws on a number of channels and approaches to engage and communicate with residents:

- Hantsweb (the County Council's website) and other online social media
- Encouraging residents to sign up for email updates
- *Hampshire Now* publication
- Public meetings and events (where applicable)
- Printed media (where appropriate)
- Targeted communications plans, campaigns and strategies, including press activity.

The Council's website, Hantsweb, is the most-visited local authority website in the UK, with approximately 60 million page views from 8 million visits last year alone.

Annual updates on the County Council's budget and related performance information is published in the Council's magazine *Hampshire Now* and on Hantsweb.

Advance notice of public engagement opportunities in service decisions are provided in the 'Shaping services for the future' engagement schedules, published in the 'Have your say' area of the County Council's website.

A wide range of documents are published to ensure that the County Council can be held to account:

- County Council and partnership strategies and plans
- *Shaping Hampshire* Plan performance updates and annual performance report
- *Transformation to 2015* update reports
- *Transformation to 2017* update reports
- Financial statements and accounts
- Select Committee reports
- Audit reports
- The publication of transparency and other open data.

The Council recently published the Organisational Management Chart as required under recent Government Transparency Regulations. Plans are in place to continue to develop this chart to include the 'extended organisation', to better explain how the Council delivers key services for, or works in partnership with, to deliver projects.

The County Council has made a public commitment to openness, accountability and transparency through its Transparency Policy Statement, which it publishes on its website. It has published a wide range of information in accessible formats as "open data", including details of salaries, spending and contracts

## **5 Identify principal risks to achievement of objectives**

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

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

Major transformation programmes have been initiated in response to key risk areas identified by CMT. Opportunity assessments have been undertaken to assist in prioritisation. Risks to the delivery of the objectives to these change programmes are identified and managed as part of programme and project management processes.

Performance standards are used to improve the delivery and effectiveness of risk management, using a maturity matrix. The latest assessment 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
- risk with partners is managed consistently for all key areas and across organisational boundaries
- there is clear evidence that risk management is being effective and leading to the production of good results.

The County Council benchmarks the performance of its risk management arrangements with other public sector organisations through participation in the CIPFA/Alarm benchmarking club.

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

Performance risks are identified and mitigated in line with the established corporate risk management framework. In addition, the Performance Management Framework establishes a transparent cycle of reporting, including quarterly reporting of progress against the *Shaping Hampshire* Plan and an annual self-assessment, completed by departments.

## **6 Identify key controls to manage risk**

### **6.1 The Authority has robust systems of internal control which includes systems and procedures to mitigate principal risks.**

The financial management of the County Council is led by the Director of Corporate Resources, and is integrated with and influenced by the processes set out above. It includes processes for forward planning and expenditure, consultation on budget proposals, setting and monitoring income and budgets, and completion of final accounts. All are intended to be accurate, informative, timely and within statutory requirements.

The Cabinet and County Council approve the annual Treasury Management and Investment Strategy together with the mid year review and outturn report and Arlingclose Limited, the County Council's Treasury Management advisors have confirmed that the County Council fully complies with the Prudential Code. The Audit Committee is responsible for challenging and scrutinising treasury management activity and practices.

Financial Regulations and Contract Standing Orders are regularly reviewed and Changes to these will be taken to County Council in July 2015 and will reflect a subtle change in emphasis from traditional control mechanisms to those that are more fit for purpose within the current working environment. This is linked to the implementation of the Integrated Business Centre that aligns and standardises HR, financial and procurement authorisation limits across the organisational structure which reflects the new processes that have been introduced. The changes that have been introduced seek to reduce the burden of authorisation processes but at the same time ensure that trust and personal accountability are highlighted as key principles within the new systems.

Financial Procedure Rules will also be updated to reflect changes in Financial Regulations and Contract Standing Orders and also to ensure that they stay in line with the new systems and procedures following the introduction of the integrated business centre.

There has been significant activity associated with the introduction of the integrated business centre during 2014/15, in particular the challenges to the business and suppliers related to compliance to the control framework. In control terms, there are two main issues which have resulted affected performance: firstly whilst the County Council had always had in place three-way matching since SAP was introduced back in 2001, this was never robustly managed in a way that forced users and suppliers to comply 100% with the three-way matching process, secondly the standard invoice payment terms historically are a standard 30 days, informal arrangements were in

place to amend these for particular invoices this has been regularised through the use of new standard payment terms where appropriate.

The new Vendor Invoice Management (VIM) system Introduced as part of the IBC suite of systems, requires full compliance with the three-way matching principles, in particular, if there is no purchase order, there is no payment. This, together with a lack of understanding of how the new system operates between users and suppliers and enforcement of the 30 day payment period have caused some disruption to the payment of suppliers, the majority of which were caused by user or supplier error or misunderstanding rather than issues with the system itself.

However, following a review a renewed focus has commenced on supplier and user education along with the release of system enhancements released at the start of April.

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

The dedicated Governance section headed by the Head of Governance (Monitoring Officer) brings together the County Council's functions relating to the Monitoring Officer and Corporate Law, Corporate Compliance, Member Support and Scrutiny and Emergency Planning and Business Continuity. The Section has facilitated a more integrated approach to Corporate Governance across the County Council.

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

A revised Members Code of Conduct was adopted by the County Council in 2012. Training sessions on the new Code were offered by the Monitoring Officer to all Members including co-opted Members.

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

The County Council's current Corporate Procurement Strategy (CPS) (formally approved by Cabinet) is complimented by a comprehensive Best Practice Guide. The Guide is regularly updated and includes information on the implementation of

the Public Contracts Regulations 2015. The Team held a workshop on the new Regulations in March 2015 as part of its wider commitment to a formal programme of training and development intended to improve capacity and performance. The Council has also made a further investment in its capacity for procurement improvement within the Transformation Team (Strategic Procurement and Category Management). Relevant information on policy and practice is maintained on both the County Council's internal and external websites at:

[http://intranet.hants.gov.uk/corporate\\_procurement.htm](http://intranet.hants.gov.uk/corporate_procurement.htm)

<http://www3.hants.gov.uk/procurement>

The Corporate Procurement Network includes representation from the Council's Legal Services Team, which provides appropriate advice and support across departmental procurement teams and contributes to the content of the Best Practice Guide. Progress on corporate procurement and key issues continues to be considered by Members of the Buildings, Land and Procurement Panel.

The Council has further developed the role of the External Spend Group (chaired by the Director of Policy and Governance) to include the review of contract strategy for key areas of corporate expenditure. Local (departmental) arrangements have been established to review other procurement spend.

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

The County Council supports collaborative procurement with local, regional and national partners. A formal shared procurement service between the County Council, Hampshire Constabulary (HC) and Hampshire Fire and Rescue Service (HFRS) is in place as part of a wider programme of joint working. Other collaboration includes construction (regional frameworks) and commodity goods and services (through the Central Buying Consortium (CBC) and the Hampshire & Isle of Wight Procurement Partnership). CBC is engaged with the Crown Commercial Service on a number of contracts.

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

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

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



## Annual Governance Statement

staff. The Corporate Health and Safety policy and supporting policies are covered in health and safety induction and other relevant training courses.

The County Council has an established Complaints Policy and Procedure, with details of the complaints procedures published on the County Council's website.

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

Data Sharing Agreements are in place for major partnership arrangements that involve the sharing of personal information. For example the joint working between Hampshire County Council, Hampshire Constabulary and Hampshire Fire and Rescue is supported through an Overarching Data Sharing Protocol, which in turn is supported by Operational Agreements and Privacy Impact Assessments, in accordance with Information Commissioner's Office guidance.

Performance risks are considered within the Performance Management Framework. In addition, the Performance Management Framework establishes a transparent cycle of reporting, including quarterly reporting of progress against the County Council Business Plan and an annual self-assessment, to be completed by Departments.

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

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

The Southern Internal Audit Partnership continues to attract new partners from around the county and has been successful in taking on new clients, to the extent that it now provides services to well over 20 different organisations. The Partnership provides for the delivery of an innovative and collaborative internal audit service,

benefiting from strengthened resilience, efficient use of resources across participating authority's and economies of scale in service delivery.

The Anti Fraud and Corruption Policy and Strategy have been revised and endorsed by the Chief Executive and Leader of the County Council. The Audit Committee approved the revised procedures in December 2013 which are available on the website and form part of the 'Corporate Governance' e-learning tool.

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

Funding acquired will contribute to the development of a generic fraud risk assessment framework to inform and educate of key fraud risks and a programme of proactive fraud initiatives. This will be supported by the use of data analytics to more strategically analyse higher risk areas of fraud.

The Chief Internal Auditor's Annual Report and opinion for the Hampshire Pension Fund states that "Based on internal audit work completed 'Substantial Assurance' can be placed on Hampshire County Council (Pension Services) framework of governance, risk management and management control and audit testing has demonstrated controls to be working in practice".

## **7 Obtain assurances on the effectiveness of key controls**

### **7.1 Appropriate assurance statements are received from designated internal and external assurance providers**

Key controls relating to risks, internal control (including financial management), and governance processes are identified by managers as part of the governance framework and recorded on regular returns. These are consolidated into the risk registers at corporate and departmental level. Internal Audit, as part of its planned review of internal controls regularly evaluates the key controls to determine their adequacy and also carries out tests to confirm the level of compliance. Together the results of each review enable an audit opinion on effectiveness to be provided to management, and any actions for improvement to be agreed. This assurance is given to each manager in respect of the controls they are responsible for in the form of an audit report and regular summaries are provided for Chief Officers and the Audit Committee to ensure each level of the County Council's management is kept informed of findings and opinions.

External sources of assurance include the annual opinion and value for money conclusion by external auditors, and statutory inspections of adults social care

services, and children's services. These reports are subject to consideration by senior management and Members of the County Council, and appropriate response to any recommendations for improvements are agreed. These reports and responses are normally approved in public and published.

## **8 Evaluate assurances and identify gaps in control/assurance**

### **8.1 The County Council has made adequate arrangements to identify, receive and evaluate reports from the defined internal and external assurance providers to identify weaknesses in controls.**

The County Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the officers within the County Council who have responsibility for the development and maintenance of the governance environment, the Chief Internal Auditor's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

The Head of Governance and the Chief Internal Auditor have evaluated the reports from the internal and external assurance providers which have also been reported to the Audit Committee. This Annual Governance Statement sets out the County Council's arrangements for receiving reports and identifying weaknesses in Internal control.

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

- Continued focus during 2015/16 to support suppliers and users in the adoption of business change coupled with ensuring that the enhancements support this strategy.
- Governance arrangements in respect of joint working will continue to be reviewed in light of the on-boarding of new partners and the introduction of the Operational Forum into the formal governance arrangements.
- A review of Financial Regulations and Contract Standing Orders will be carried out to ensure that these are in keeping with the more modern practices that the County Council is currently introducing.
- The Information Governance Framework of the County Council will be reviewed and updated, including the role of the SIRO, the Risk Management Board, the Information Data Security Group and the guidance available to officers
- A review will be undertaken of the County Council's Risk Management Strategy

## Annual Governance Statement

- The County Council will publish further open data in line with any changes arising from the Code of Recommended Practice for Local Authorities on Data Transparency published by the Department for Communities and Local Government
- Progress against the Transformation to 2015 and 2017 programmes will continue to be monitored throughout the year, representing the two single biggest change programmes the County Council has ever implemented.
- New arrangements for effective public consultation on budget proposals and supporting documentation will be developed and implemented during the year.
- To maintain a clear overview and focus the County Council is developing a combined assurance model which will be a record of assurances against critical activities and risks. It will provide an overview of assurance provided across the whole of the County Council making it possible to identify where assurance is present, its source, and where there are potential assurance 'unknowns or gaps'.
- Customer access and digital strategy development. Plans include: the re-writing of selected corporate policies relating to consultation and resident engagement; the potential re-design of Hantsweb; learning from Hantsdirect and Hantsdirect Local Services to inform customer experiences of using the Council's services; and exploring the potential of social media to enhance public engagement and customer service delivery. Plans for regular research-based engagement are also being developed for potential roll-out in 2015.
- The County Council has a high performing cadre of leaders who have driven delivery of the County Council's strategy over the last few years and continue to do so. However, the context of the Council is evolving and the leadership challenges faced by senior officers are changing. As a result, the County Council is facing a critical point where it needs to build new capabilities as leaders. In recognising the importance of developing our staff, a unique investment is being made to refresh the County Council's Leadership development approach. This will result in a redesign of existing offers, and launching new opportunities that align to the changing context.
- The Digital strategy is key to a range of initiatives underway across the County Council. A review of the Council's IT function has taken place and as part of this a skills assessment will be undertaken in the autumn. This will facilitate a targeted development plan to be put in place, with a focus on the technologies and skill sets required.

**10 There is a robust mechanism to ensure than an appropriate action plan is agreed to address identified control weaknesses and is implemented and monitored.**

In response to the Action Plan identified in the 2013-2014 Annual Governance Statement;-

- A review of the government's and financial arrangements in respect of the joint working arrangement with Hampshire Constabulary and Hampshire Fire and rescue service was undertaken during the year and formal documentation in the form of a deed of accession and individual service area accession agreements were sealed by all three organisations during the year.
- New arrangements for monitoring the Transformation to 2015 Programme were put in place during the year including two separate peer review processes.
- Given the predicted budget shortfall of £98 by April 2017 the County Council has undertaken detailed planning of the Transformation to 2017 Programme to ensure that strong and effective governance arrangements are embedded in the process enabling the County Council to continue to deliver its business as usual while it transforms its services. These arrangements have included the development of the Initial Opportunity Assessments with the County Council's Private Sector Partners throughout the second half of the financial year.
- In line with a commitment in the Code of Corporate Governance, Cabinet has agreed a new consultation policy.
- The County Council reviewed its risk management arrangements to more closely align with its Performance Management Framework.
- The County Council published further open data in line with the Local Government Transparency Code issued by the DCLG.
- The actions to be taken forward on External Spend are subject to the governance and monitoring arrangements established for the Council's *Transformation* programmes. Priorities and direction of travel are reviewed in the light of corporate developments around shared services and strategic procurement. The joint working arrangements, including procurement, are reviewed and monitored on behalf of the partner organisations to ensure that business needs are met.
- The implementation of agreed actions relating to procurement identified in Internal Audit reports, is monitored and key corporate resources, such as the Best Practice guidance on procurement will be maintained.
- The Code of Conduct for Members has been updated to include standard provisions relating to personal interests.

## Annual Governance Statement

- A new appraisal process was launched in January 2015, following a pilot during 2014-15. The new framework will better enable assessment of performance against the requirements of the role, together with the ability to identify development areas and measure against competencies. The new model includes a behavioural competency framework which will enable individuals to be assessed by “what” they do as well as “how” they do it. The new appraisal model is part of the Council’s Workforce Development strategy and aims to develop an increasingly high performing culture

### Declaration

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit Committee and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework. The areas already addressed and those to be specifically addressed with new actions planned are set out in this Statement.

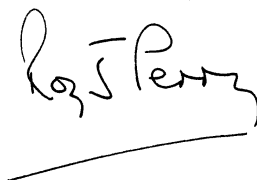
We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as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

Signed:



Date: 25 September 2015  
Chief Executive

Signed:



Date: 25 September 2015  
Leader of the County Council

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

### **Opinion on the Authority's financial statements**

We have audited the financial statements of Hampshire County Council for the year ended 31 March 2015 under the Audit Commission Act 1998 (as transitionally saved). The Hampshire County Council financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, and the related notes 1 to 34.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

This report is made solely to the members of Hampshire County Council, as a body, 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. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of the Chief Financial Officer and auditor**

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities set out on page 161, the Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us 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 financial statements sufficient to give reasonable assurance that the financial 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 Chief Financial Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Hampshire County Council Statement of Accounts 2014/15 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the financial position of Hampshire County Council as at 31 March 2015 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

### **Opinion on other matters**

In our opinion, the information given in the Hampshire County Council Statement of Accounts 2014/15 for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which we report by exception**

We report to you if:

- in our opinion the annual governance statement does not comply with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007 (updated as at December 2012);
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects



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

### **Respective responsibilities of the Authority and auditor**

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.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves 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 us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission in October 2014.

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

### **Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources**

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2014, 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 us to consider under its Code of Audit Practice in satisfying ourselves 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 2015.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we 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 our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2014, we are 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 ended 31 March 2015.

## **Delay in certification of completion of the audit**

We are required to give an opinion on the consistency of the financial statements of the pension fund included in the Pension Fund Annual Report of Hampshire County Council. The Local Government Pension Scheme Regulations 2013 require authorities to publish the Pension Fund Annual Report by 1 December 2015. As the authority has not yet prepared the Annual Report we have not yet been able to conclude on the consistency with these financial statements and we have not issued our report on those financial statements. Until we have done so, we are unable to certify that we have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Maria Grindley  
for and on behalf of Ernst & Young LLP, Appointed Auditor  
Reading  
25 September 2015

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

### **Opinion on the pension fund financial statements**

We have audited the pension fund financial statements for the year ended 31 March 2015 under the Audit Commission Act 1998 (as transitionally saved). The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes 1 to 27. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

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. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the authority and the authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of the Chief Financial Officer and auditor**

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities set out on page 161, the Chief Financial Officer is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us 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 financial statements sufficient to give reasonable assurance that the financial 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 Chief Financial Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Hampshire County

## Auditor's Report on the Pension Fund

Council Statement of Accounts 2014/15 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2015 and the amount and disposition of the fund's assets and liabilities as at 31 March 2015 and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

### **Opinion on other matters**

In our opinion, the information given in the Hampshire County Council Statement of Accounts 2014/15 for the financial year for which the financial statements are prepared is consistent with the financial statements.

Baldeep Singh

for and on behalf of Ernst & Young LLP, Appointed Auditor

Reading

25 September 2015

## Glossary

### **Academies**

Publicly funded independent schools, free from local authority and national government control. Freedoms held by academies include the ability to set their own pay and conditions for staff, freedoms around the delivery of the curriculum, and the ability to change the lengths of terms and school days. The income, expenditure and assets of academies within Hampshire do not form part of the Council's accounts.

### **Accruals basis**

Accounting for income and expenditure during the financial year in which they are earned or incurred, not when money is received or paid.

### **Actuary**

A person or firm who analyses the assets and future liabilities of a pension fund and calculates the level of employers' contributions needed to keep it solvent.

### **Admitted bodies**

These are employers who have been allowed into the Hampshire Pension Fund at the County Council's discretion.

### **Alternative investments**

These are less traditional investments where risks can be greater but potential returns higher over the long term, for example investments in private equity partnerships, hedge funds, commodities, foreign currency and futures.

### **Amortisation**

The process of writing down the cost of an asset or liability through depreciation or repayment of principle over a suitable period of time.

### **Assets held for sale**

Assets that the Council intends to sell within the next year and are actively marketed as such.

### **Additional voluntary contributions (AVCs)**

Additional voluntary contributions are paid by a contributor who decides to supplement his or her pension by paying extra contributions to the Scheme's AVC providers (Zurich and Equitable Life).

### **Best Value Accounting Code of Practice (BVACOP)**

The code of practice containing a standard definition of services and total cost so that spending comparisons can be consistent between local authorities.

### **Budget requirement**

Planned spending to be met from council tax, general Government grant and national business rates.

### **Capital adjustment account**

An account that reflects the difference between the cost of fixed assets consumed and the capital financing set aside to pay for them.

### **Capital expenditure**

Expenditure on the acquisition or creation of a fixed asset or expenditure that adds to and does not merely maintain the value of an existing fixed asset.

## Glossary

### **Capital receipt**

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

### **Chartered Institute of Public Finance and Accountancy (CIPFA)**

The professional accountancy body for public services which recommends accounting practice for the preparation of local authority accounts.

### **Community asset**

An asset that the Council intends to hold forever, that has no determinable useful life, and that may have restrictions on its disposal. An example of a community asset is parkland.

### **Comprehensive Income and Expenditure Statement (CIES)**

Statement that shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices.

### **Contingent asset**

A potential asset that is uncertain because it depends on the outcome of a future event.

### **Contingent liability**

A potential liability that is uncertain because it depends on the outcome of a future event.

### **Continuing services**

Services that the Council will continue to provide in the following financial year.

### **Corporate and democratic core**

Activities that local authorities carry out specifically because they are elected, multi-purpose authorities. The cost of these activities is not split between services.

### **Council tax**

A domestic property tax based on capital values with a personal element (a 25% discount for single-adult households). Each property is allocated to one of eight tax bands according to its capital value.

### **Creditor**

An individual or body to which the Council owes money at the Balance Sheet date.

### **Current asset**

An asset that is realisable or disposable within less than one year without disruption to services.

### **Current liability**

A liability that is due to be settled within one year.

### **Current service costs**

The increase in the present value of pension liabilities expected to arise from employee service in the current period.

### **Custodian**

A bank that looks after Pension Fund investments, implements investment transactions as instructed by the Fund's managers and provides reporting, performance and administrative services to the Fund.

### **Debtor**

An individual or body that owes money to the Council at the Balance Sheet date.

## Glossary

### **Dedicated Schools Grant (DSG)**

A Government grant that can only be used to fund expenditure within the schools' budget.

### **Deferred liability**

An amount owed by the Council that will be repaid over a significant period of time. For example, the Council holds a deferred liability to pay for assets constructed as part of the waste and street lighting PFI contracts, which will reduce over the life of the assets.

### **Defined benefit pension scheme**

A pension scheme in which a pensioner's benefits are specified, usually relating to their length of service and final salary.

### **Deposit**

Receipt held that is repayable in prescribed circumstances.

### **Depreciated historical cost**

The valuation of fixed assets at their original cost less depreciation charged to date.

### **Depreciated replacement cost**

Relating to fixed assets, the current replacement costs adjusted for depreciation. This method of valuation is used when it is not practical to estimate the open market value for the existing use of a specialised property.

### **Depreciation**

The measure of the wearing out, consumption, or other reduction in the useful economic life of a fixed asset, whether arising from use, the passage of time or obsolescence through technological or other changes.

### **Developers' contribution**

If a development derives special benefit from highway works, developers can be required to contribute towards the costs. They arise mainly as a result of agreements under section 278 of the Highways Act 1980.

### **Discretionary increase in pension payments**

This increase arises when an employer agrees to the early retirement of an employee other than for reasons of ill health and agrees to pay pension benefits based on more years than he or she actually worked.

### **Dividends**

Income to the Pension Fund on its holdings of UK and overseas shares.

### **Doubtful debt**

A debt that the Council is unlikely to recover because something has happened since the debt was raised. An assessment of the reduction in recoverable debt is made both individually (for individually significant debts) and collectively. This reduction is charged to the Income and Expenditure Account.

### **Earmarked reserve**

See Reserve.

### **Emoluments**

Sums paid to employees, including any expenses or non-monetary benefits, which are taxable, but excluding pension contributions made by the employee.

## Glossary

### **Equities**

Shares in UK and overseas companies.

### **Exceptional item**

An item identified separately in the accounts because of its exceptional nature to make sure the presentation of the accounts is fair.

### **Fair value**

The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's-length transaction.

### **Finance lease**

Under this type of lease, the risks and rewards of ownership of the leased goods transfer to the lessee.

### **Financial instruments**

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

### **Fixed asset**

An asset that yields benefits to the local authority and the services it provides for a period of more than one year.

### **Foundation schools**

A category of school that receives its funding from the County Council, but are run by their own governing body, which employs the staff and sets the admissions criteria. Land and buildings are usually owned by the governing body or a charitable foundation

### **General Fund**

The accumulated credit balance on the General Fund. It is the excess of income over expenditure in the Income and Expenditure Account after adjusting for movements to and from reserves and other non-cash items. This balance is needed as a cushion against unforeseen expenditure.

### **Gross book value (GBV)**

The original or revalued cost of an asset before the deduction of depreciation.

### **Gross expenditure**

The total cost of providing the Council's services before deducting income from Government grants, or fees and charges for services.

### **Hedge fund**

A specialist fund that seeks to generate consistent returns in all market conditions by exploiting opportunities resulting from inefficient markets.

### **Heritage assets**

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

### **Historical cost**

The amount originally paid for a fixed asset.



## Glossary

### **Impairment loss**

A loss arising from an event that significantly reduces an asset's value. An example is physical damage or a fall in market value.

### **Infrastructure assets**

Fixed assets that cannot be taken away or transferred, and whose benefits can only be obtained by continued use of the asset created. Examples of infrastructure assets are highways and footpaths.

### **Intangible assets**

Assets that do not have physical substance but are identifiable and controlled by the Council and bring benefits to the Council for more than one year. Typical examples include software licences, internally developed software and websites developed to deliver services rather than information about services.

### **Internal trading account**

A service within the Council that operates on a trading basis with other parts of the Council.

### **International Financial Reporting Standards (IFRS)**

International accounting standards that govern the treatment and reporting of income and expenditure in an organisation's accounts, which came fully into effect from 1 April 2010.

### **Inventories**

Goods that are acquired in advance of their use in the provision of services or their resale. At the year-end inventories are a current asset in the balance sheet and they will be charged to the CIES in the year they are consumed or sold.

### **Investment property**

Property (land or buildings) that are held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both.

### **Landfill Allowances Trading Scheme (LATS)**

The LATS allocates tradable landfill allowances to each of the waste disposal authorities (WDA). These allowances can be used for disposal of biodegradable waste or sold to other WDAs.

### **Lessee**

The party that leases an asset that is owned by another party.

### **Lessor**

The owner of an asset which is leased to another party.

### **Local Government Pension Scheme (LGPS)**

The LGPS is a nationwide scheme for employees working in local government or working for other employers participating in the Scheme and for councillors.

### **Long-term asset**

An asset that may be held indefinitely for the provision of services or is realisable over a longer period than one year.

### **Long-term borrowing**

A loan repayable in more than one year from the Balance Sheet date.

## Glossary

### **Long-term debtor**

An individual or body that owes money to the Council that is not due for payment within one year from the Balance Sheet date.

### **Minimum revenue provision (MRP)**

The minimum amount (as specified in statute) which must be charged to the CIES each year and set aside as a provision for repaying external loans and meeting other credit liabilities.

### **(National) Non-domestic rates (NNDR)**

Charges collected by district councils from non-domestic properties, at a national rate in the £ set by the Government.

### **Net assets**

The amount by which assets exceed liabilities (same as net worth).

### **Net assets statement**

A statement showing the net assets of the Pension Fund.

### **Net book value (NBV)**

The value of an asset as recorded in the accounts. This usually equates to the net current replacement or original cost less any depreciation charged against the asset over its life to date.

### **Net current liabilities**

The amount by which current liabilities exceed current assets.

### **Net worth**

The amount by which assets exceed liabilities (same as net assets).

### **Non-distributed costs**

Overheads for which no direct user now benefits and which are therefore not split between services.

### **Non-ringfenced government grants**

Amounts received from central Government towards funding the Council's activities that are not required to be spent on a particular service.

### **Operating lease**

Under this type of lease, the risks and rewards of ownership of the leased goods remain with the lessor.

### **Operational asset**

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

### **Past service cost**

For a defined benefit pension scheme, the increase in the present value of the scheme's liabilities related to employee service prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

### **Payment in advance**

A payment for a service due to be received in a future financial year.

## Glossary

### **Pooled budget**

Partners contribute a set amount of money to form a separate budget. The purpose and scope of the budget is agreed at the outset and then used to pay for relevant services and activities.

### **Precept**

The demand made by the County Council on the collection funds maintained by the district councils for council taxpayers' contribution to its services.

### **Private equity**

Mainly specialist pooled partnerships that invest in private companies not normally traded on public stock markets – these are often illiquid (i.e. not easily turned into cash) and higher-risk investments that should provide high returns over the long term.

### **Private finance initiative (PFI)**

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

### **Projected unit method**

One of the common methods used by actuaries to calculate a contribution rate to the LGPS, which is usually expressed as a percentage of the members' pensionable pay.

### **Provisions**

An estimated figure within the accounts for liabilities that are known to exist but cannot be measured accurately.

### **Public Works Loan Board (PWLB)**

A central government agency that provides loans to local authorities at a slightly higher rate than the Government is able to borrow. In most cases, the interest rates offered are lower than local authorities can achieve in the open market. The amounts and purposes for which PWLB loans can be obtained are tightly controlled by the Government.

### **Receipt in advance**

A receipt that is attributable to a future financial year.

### **Related party**

An organisation, body or individual that has the potential to control or significantly influence the Council, or to be controlled or influenced by the Council.

### **Reserve**

The Council's reserves fall into two categories. The 'unearmarked' reserve is the balance on the General Fund. An 'earmarked' reserve is an amount set aside in the Council's accounts for specific purposes.

### **Revaluation reserve**

Records unrealised net gains from asset revaluations made after 1 April 2007.

### **Revenue contributions to capital**

The use of revenue funds to finance capital expenditure.

## Glossary

### **Revenue expenditure**

The operating costs incurred by the Council during the financial year in providing its day-to-day services. It is distinct from capital expenditure on projects that benefit the Council over a period of more than one financial year.

### **Revenue expenditure funded from capital under statute (REFCUS)**

Expenditure that is classified as capital expenditure under statutory provisions, but does not result in the creation or enhancement of fixed assets owned by the County Council. Such expenditure incurred during the year is treated as revenue expenditure and charged to the relevant service in the CIES.

### **Scheduled bodies**

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

### **Service concession**

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

### **SAPS**

Self administered pension scheme

### **SETS**

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

### **Short-term investments**

An investment that is readily realisable within one year.

### **Specific grants**

Central Government grants to finance a particular service.

### **Straight-line basis**

Dividing a sum equally between several years.

### **Surplus assets**

Fixed assets held by the Council but not directly occupied, used or consumed in the delivery of services. These are assets that do not meet the criteria to be classified as either investment property or assets held for sale.

### **Transfer value**

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

### **Transferred debt**

Debt serviced by bodies that are independent of the Council following the transfer of services formerly provided by the Council.

### **Trust fund**

A fund set up under a trust deed in which the Council is a trustee.

### **Useful life**

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

## Glossary

### **Voluntary aided schools (VA schools)**

Mainly religious or 'faith' schools, although anyone can apply for a place. As with foundation schools, the governing body employs the staff and sets the admissions criteria

### **Voluntary controlled schools (VC schools)**

Similar to voluntary aided schools, but are run by the local authority. As with community schools, the local authority employs the school's staff and sets the admissions criteria

### **Write-off**

Elimination of an asset or liability over a defined period, usually by means of charging or crediting the CIES.