Hampshire County Council

Statement of Accounts

2012/13

Hampshire County Council

Contents

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Summary Statement of Accounts 2012/13

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 2012/13 and where the money came from to pay for them.

	2012/13 £000 Expenditure	2012/13 £000 Income	2012/13 £000 Net expenditure
Operating income and expenditure			
Cultural, environmental and planning services	120,963	-23,516	97,447
Education and children's services	1,096,302	-837,042	259,260
Highways and transport services	111,246	-19,156	92,090
Adult social care	448,409	-137,369	311,040
Other services, corporate and non-distributed costs	200,345	-141,791	58,554
Total operating income and expenditure	**1,977,265**	**-1,158,874**	**818,391**
Taxation and non-specific grant income			
Non-ringfenced government grants			-20,237
Non domestic rates			-173,882
Council tax income			-533,607
Capital grants and contributions			-99,122
Taxation and non-specific grant income			**-826,848**
Surplus on the provision of services			**-8,457**

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 -£102.9 million.

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

	£000
General Fund Balance at 31 March 2012	-17,897
Surplus on the provision of services	-8,457
Net adjustment	-102,931
Balance before transfers to earmarked reserves	-129,285
Transfers to earmarked reserves	94,490
General Fund Balance at 31 March 2013	**-34,795**

3 Financial position of the Council

The Balance Sheet presents the Council's financial position at 31 March 2013 and the value of its assets and liabilities. It shows what the Council owns, owes and is owed.

	2012/13	2012/13
	£000	£000
Land, buildings, vehicles, equipment and infrastructure		3,573,506
Money owed to the Council:		
Within 12 months	445,112	
After 12 months	146,914	
Money owed by the Council:		
Within 12 months	-273,822	
After 12 months	-573,269	
Net borrowing		-255,065
Pension fund net liability		-1,040,600
Total net assets		**2,277,841**
Financed by:		
Cash-backed reserves		-418,761
Non-cash-backed reserves*		-1,859,080
Total net worth		-2,277,841

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

4 Capital expenditure

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

	2012/13 £000
Adult Services	4,402
Childrens Services	56,992
Environment	86,154
Policy and Resources	19,979
Total	**167,527**
Financed by:	
Capital receipts	-41,790
Grants and other income	-78,375
Loans	-16,347
Revenue (main contribution)	-17,087
Revenue (reserves)	-13,928
	-167,527

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.

	2012/13 £000
Pension contributions	216,739
Transfers in from other pension funds	14,138
Benefits paid	-197,429
Payments to and on account of leavers	-20,037
Administrative expenses	-2,782
Net additions from dealings with members and employers	**10,629**
Returns on investments	562,935
Investment management expenses and taxes on income	-10,187
Increase in the net assets available for benefits during the year	**563,377**
Add opening net assets of the Fund	3,777,241
Closing net assets of the Fund	**4,340,618**

Explanatory Foreword

1 Introduction

This document contains Hampshire County Council's Statement of Accounts for the year ended 31 March 2013. 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 2012/13 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 2012/13 are set out on pages 12 to 150.

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 2013 compared with 31 March 2012
- 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

Since the introduction of the new schools funding arrangements in 2006/07, most of the County Council's income comes from the Dedicated Schools Grant, general Government Grants and the council tax. 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 table below.

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

	2011/12 %	2012/13 %
Council tax	28	28
National business rates	7	9
General Government grant	3	1
Fees, charges and interest	16	18
Specific Government grants	46	44
	100	**100**

4 What the money is spent on

Type of expenditure	2011/12 %	2012/13 %
Staff costs	50	49
Running expenses	44	46
Capital financing	6	5
	100	**100**

Service shares of gross revenue expenditure	2011/12 %	2012/13 %
Children's services and education	63	61
Adult social care	23	25
Highways, roads and transport	6	6
Cultural, environmental and planning services	7	7
Other services	1	1
	100	**100**

5 Employees

At 31 March 2013, the County Council employed 36,979 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 24,025 at 31 March 2013, 722 lower than at 31 March 2012. School-based staff were 567 lower than at 31 March 2012 as a number of schools became academies. There were reductions of 155 FTEs across all other departments as a result of the recruitment controls and savings programme introduced during 2010/11 to facilitate the achievement of substantial budget reductions in 2012/13.

Full-time equivalent employees	March 2012	March 2013
School - based	15,103	14,536
Other children's services	2,606	2,443
Adult Services	2,774	2,777
Economy, Environment and Transport	672	693
Culture, Communities and Business Services	2,641	2,312
Central services	951	1,264
	24,747	**24,025**

6 Summary of the year – Revenue account

The financial year 2012/13 was the second year of the significantly reduced grant settlement announced in October 2010. These reductions in Government grant were required to reduce the structural deficit within the public finances and the County Council's medium term financial strategy took this into account. There will be a reduction of 28.8% in formula grant in real terms over the period 2011/12 to 2014/15. This is 'frontloaded' with a reduction of 20% taking place in the first two years. As a floor authority, the County Council expected a maximum reduction in Government grant. The reduction for 2011/12 was 14.3% followed by a reduction of 10.4% in 2012/13.

The budget requirement for 2012/13 was set at £711.6 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 £13.2 million. It also planned to contribute £16.9 million to general reserves and working balances. A budget at this level included unavoidable increases in expenditure from inflation and social care demographic pressures and allowed for other risk contingencies and also included an ambitious cost reduction and efficiency programme to realise savings of £45 million representing a reduction of 8% in service budgets in addition to the 8% made in 2011/12.

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

At the end of 2012/13, service net expenditure was £8.9 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 £21.1 million were achieved largely as a result of improved treasury management activity and unused contingencies relating to waste management, concessionary fares, adult social care and other risks. This has been transferred to the corporate risk reserves. Other variations are offset by transfers to and from reserves.

General Balances at 31 March 2013 are £34.8 million allowing for the budgeted 2012/13 contribution to balances of £16.9 million. This represents just under 5% of the County Council's Budget Requirement in line with the current policy and the best practice range of between 2.5% and 5%.

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

Budget	Revised budget £million	Actual £million	Variation from revised £million
Cost of services	**797.5**	**771.4**	**-26.1**
Loss/(gain) on disposal of assets	-6.9	-6.9	0
Net interest payable and investment property income	28.2	25.4	-2.8
Investment property gains/ losses	6.1	6	-0.1
Pension interest cost and expected return on pensions assets	18.1	23.7	5.6
(Surpluses)/ deficits on trading units	0.3	-1.3	-1.6
Net operating and financing expenditure	**843.3**	**818.3**	**-25.0**
Amount to be met from non-specific Government grant and local taxpayers			
Council tax precept income	-533.6	-533.6	0
General Government grant (including Area based grant)	-18.8	-20.2	-1.4
Non domestic rates	-173.9	-173.9	0
Capital grants and contributions	-69.2	-99.1	-29.9
	-795.5	**-826.8**	**-31.3**
(Surplus)/ Deficit on the provision of services	**47.8**	**-8.5**	**-56.3**
Adjustments between accounting and funding basis under regulations	-89.1	-102.7	-13.6
Contribution to/(from) earmarked reserves	24.4	94.3	69.9
Movement in General Fund Balance	**-16.9**	**-16.9**	**0**
General Fund Balance			
Brought forward 1 April 2012	-17.9	-17.9	0
Carried forward 31 March 2013	-34.8	-34.8	0

7 Summary of the year – Capital expenditure

In 2012/13 the County Council spent £167.5 million on capital projects, £13.7 million less than the revised budget. Capital receipts of £40.7 million were received. This was marginally higher than the estimate of £40.3 million.

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 £120.2 million. In accordance with the agreed criteria for the use of borrowing, £51.8 million was borrowed from internal resources. Adding planned revenue contributions to capital of £63.9 million gave a total of £235.9 million. This has allowed £35.5 million of prudential borrowing to be repaid and a transfer of £32.9 million to reserves to fund future capital expenditure.

Potential outstanding borrowing for capital purposes to be serviced by the County Council now amounts to £670.6 million at 31 March 2013, together with extra debt of £34.5 million for services transferred to the unitary and other authorities. The Council may borrow on a day-to-day basis from internal resources, such as the revenue account and earmarked reserve balances. Internal resources were higher in 2012/13 than in the previous year, so that net of investments, £111.3 million (a reduction of £100.9 million on the previous year) was owed to external lenders at 31 March 2013.

8 Pension Fund liability

The County Council's net pension liability has increased from £978.2 million at 31 March 2012 to £1,040.6 million at 31 March 2013. This overall actuarial loss arises because of changes in assumptions underlying the present value of pension liabilities, (including a lower discount rate, higher inflation and higher rate of increase in pensions in payment) offset by a higher than expected increase in the value of pension fund assets. 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 32 to the accounts.

9 Changes

There were no significant changes to the County Council's range of functions in 2012/13, however during the year a number of schools became academies/foundation schools. This has resulted in a transfer of cash balances of £2.8 million. In addition building and furniture and equipment assets valued at £155 million and net pension liabilities of £4.6 million have been transferred. These transfers are not cash backed and increase the total deficit on the Comprehensive Income and Expenditure Statement by £150.4 million. This represents a movement in unusable reserves and there is no impact on the General Fund balance.

The 2012/13 Code of Practice on Local Authority Accounting introduced one main change relating to the disclosures of transfers of financial assets. The disclosures of transfers of financial assets are included in note 9.

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.

Movement in Reserves Statement

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

	General Fund Balance £000	Earmarked Reserves £000	Capital Grants Unapplied Reserve £000	Total Usable Reserves £000	Unusable Reserves £000	**Total Reserves £000**
Balance at 31 March 2011	**-21,031**	**-204,277**	**-10,052**	**-235,360**	**-2,343,021**	**-2,578,381**
Surplus (-) or deficit on provision of services (accounting basis)	-14,752	-	-	**-14,752**	-	**-14,752**
Other comprehensive expenditure and income	-	-	-	**-**	217,745	**217,745**
Total comprehensive expenditure and income	**-14,752**	**-**	**-**	**-14,752**	**217,745**	**202,993**
Adjustments between accounting basis & funding basis under regulations (note 6)	-57,261	-	-	**-57,261**	57,261	**-**
Net increase(-) / decrease before transfers to earmarked reserves	**-72,013**	**-**	**-**	**-72,013**	**275,006**	**202,993**
Transfers to(-)/ from earmarked reserves (note 8)	75,147	-40,165	-34,982	**-**	-	**-**
Increase (-) / decrease in Year	**3,134**	**-40,165**	**-34,982**	**-72,013**	**275,006**	**202,993**
Balance at 31 March 2012	**-17,897**	**-244,442**	**-45,034**	**-307,373**	**-2,068,015**	**-2,375,388**

Movement in Reserves Statement

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

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

2011/12 Gross expenditure £000	Gross income £000	**Net expenditure £000**	See note		2012/13 Gross expenditure £000	Gross income £000	**Net expenditure £000**
6,820	-2,625	**4,195**		Central services to the public	8,468	-3,140	**5,328**
53,691	-12,812	**40,879**		Cultural and related services	51,014	-11,433	**39,581**
57,230	-7,666	**49,564**		Environmental and regulatory services	58,575	-9,526	**49,049**
9,905	-2,844	**7,061**		Planning and development services	11,374	-2,557	**8,817**
1,182,553	-898,651	**283,902**		Education & children's services	1,096,302	-837,042	**259,260**
110,109	-20,770	**89,339**		Highways and transport services	111,246	-19,156	**92,090**
440,936	-129,114	**311,822**		Adult social care	448,409	-137,369	**311,040**
1,888	-1,259	**629**		Court services	1,528	-1,086	**442**
14,059	-	**14,059**		Corporate and democratic core	12,376	-332	**12,044**
-	-2,456	**-2,456**		Reward grant	-	-251	**-251**
-1,180	-215	**-1,395**		Non-distributed costs	-1,286	-186	**-1,472**
697	-	**697**	15	Change in provisions	-4,504	-	**-4,504**
1,876,708	**-1,078,412**	**798,296**		**Cost of services**	**1,793,502**	**-1,022,078**	**771,424**
				Other operating expenditure			
4,123	-7,814	**-3,691**		Gain on disposal of assets	33,773	-40,674	**-6,901**
137,510	-98,075	**39,435**	9	Total financing and investment income and expenditure	149,990	-96,122	**53,868**
				Taxation and non-specific grant income			
-	-56,997	**-56,997**	25	Non-ringfenced government grants		-20,237	
-	-141,816	**-141,816**		Non domestic rates		-173,882	
-	-531,284	**-531,284**	16f	Council tax income		-533,607	
-	-118,695	**-118,695**	25	Capital grants and contributions		-99,122	
-	**-848,792**	**-848,792**		**Total taxation and non-specific grant income**			**-826,848**
2,018,341	**-2,033,093**	**-14,752**		**Surplus on the provision of services**			**-8,457**
		-136,469		Net gains on revaluation of fixed assets		-100,685	
		129,969		Assets transferred to academy/foundation schools		154,919	
		226,020		Actuarial loss on pension fund assets and liabilities		51,770	
		-1,775		External contribution towards debt outstanding on transferred services		-	
		217,745		**Other comprehensive income and expenditure**			**106,004**
		202,993		**Total Comprehensive Income and Expenditure**			**97,547**

Balance Sheet

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

Balance Sheet

31 March 2012 £000	See Note		£000	31 March 2013 £000
3,677,916	10a	**Property, plant & equipment (PPE)**	**3,545,510**	
46,200	11	Investment property	27,996	
3,724,116		**Total non-current assets**	**3,573,506**	
65,000	-	Long-term investments	110,000	
37,800	12b	Long-term debtors	36,914	
3,826,916		**Total long-term assets**		**3,720,420**
		Current assets		
10,611	14	Current assets held for sale	5,748	
194,736	-	Short-term investments	276,843	
3,534	13	Inventories	3,075	
89,308	12c	Short-term debtors	93,671	
65,679	12a	Cash and cash equivalents	65,775	
363,868		**Total current assets**	**445,112**	
		Current liabilities		
-10,245	12a	Bank overdraft	-9,876	
-227,111	12g	Short-term Creditors	-206,133	
-48,052	12d	Short-term borrowing	-51,539	
-6,211		Deferred liability repayable within one year	-6,274	
-291,619		**Total current liabilities**	**-273,822**	
72,249		**Net current liabilities**		**171,290**
3,899,165		**Total assets less current liabilities**		**3,891,710**
-26,197	15	Provisions	-25,849	
-376,155	12d	Long-term borrowing	-368,658	
-96,991	29	Deferred liabilities	-127,564	
-46,184	12f	Developers' contributions	-51,198	
-545,527		**Total long term liabilities**		**-573,269**
-978,250	32	Net liability related to defined benefit pension schemes		**-1,040,600**
2,375,388		**Total net assets**		**2,277,841**
		Financed by:		
		Usable reserves		
-17,897	7	General Fund	-34,795	
-244,442	8	Earmarked reserves	-308,999	
-45,034	8	Capital grants unapplied reserve	-74,967	
-307,373		**Total usable reserves**		**-418,761**
-2,068,015	16	**Unusable reserves**		**-1,859,080**
-2,375,388		**Total net worth**		**-2,277,841**

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.

2011/12 £000	See note		2012/13 £000
-14,752		Net surplus (-) or deficit (+) on the provision of services	-8,457
-218,262	17a	Adjustments to net surplus or deficit on the provision of services for non-cash movements	-249,884
126,372	17a	Adjustment for items included in the net surplus or deficit on the provision of services that are investing and financing activities	139,679
-106,642		Net cash inflow from Operating Activities	-118,662
99,757	17b	Investing Activities	107,907
-17,364	17c	Financing Activities	10,290
-24,249		Net increase (-) or decrease (+) in cash and cash equivalents	-465
-31,185		Cash and cash equivalents at the beginning of the reporting period	-55,434
-55,434		**Cash and cash equivalents at the end of the reporting period (note 12a)**	**-55,899**

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 2012/13 financial year and its position at the year-end of 31 March 2013. 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 2012/13 and the Service Reporting Code of Practice 2012/13. 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 2013 is estimated at £2.8 million (£3.0 million in 2011/12).
- 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 term's pay and leave entitlement straddles two financial years. An accrual is made by charging children's services for the cost of Easter holiday entitlements earned by teachers but not taken until the next financial year.

Other 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 two separate pension schemes:

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

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

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

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

The change in the net pensions liability is analysed into seven components:

- **Current service cost:** this is the increase in liabilities as a result of the number of years of service earned this year. This is shown as a cost 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.
- **Interest cost:** this is the expected increase in the present value of liabilities during the year as they move one year closer to being paid. This is shown as a financing cost within the Comprehensive Income and Expenditure Statement.
- **Expected return on assets:** this is the annual investment return on the fund assets attributable to the County Council, based on an average of the expected long-term return. This is shown as investment income within the Comprehensive Income and Expenditure Statement.
- **Gains/losses on settlements and curtailments:** this is the result of members of the scheme leaving, joining or stopping their contributions to the scheme. These actions relieve the 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.
- **Actuarial gains and losses:** these are changes in the net pension liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions. These are shown as other income and expenditure within the Comprehensive Income and Expenditure Statement.
- **Contributions paid to the Hampshire County Council pension fund:** these are amounts paid as employer contributions to the pension fund and are not included within the cost of services.

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

Discretionary benefits

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

1.7 Events after the balance sheet date

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

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

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

1.8 Financial instruments

Financial liabilities

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

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

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

Financial assets

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

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

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

Foreign currency translation

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

1.9 Government grants and other contributions

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

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

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

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

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

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

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

1.10 Intangible assets

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

1.11 Interests in companies and other entities

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

1.12 Stock and long term contracts

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

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

1.13 Investment properties

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

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

1.14 Jointly controlled operations

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

1.15 Leases

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

Where an arrangement includes both land and buildings, the land and buildings elements are considered separately for classification and, in general, leases of land are considered to be operating leases. Extremely long leases of land (say over 250 years) could be treated as finance leases.

Lease classifications are determined individually by carrying out a number of qualitative and quantitative tests and then making a judgement based on the overall outcomes of the tests. For the purposes of lease classifications a deminimus level is used of £500,000. In addition, property leases under 25 years are classified as operating leases.

The County Council as lessee:

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

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

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

The County Council as lessor:

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

Lease rentals receivable are apportioned between:

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

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the

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

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

1.16 Overheads and support services

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

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

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

1.17 Property, plant and equipment (PPE)

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

Recognition

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

Measurement

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

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

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

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

Impairment

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

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

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

Depreciation

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

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

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

Depreciation is calculated on the following basis:

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

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

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

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

Disposals and assets held for sale

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

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

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

1.18 Foundation schools and voluntary aided and voluntary controlled schools

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

1.19 Heritage assets

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

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

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

1.20 Private Finance Initiative (PFI) and similar contracts

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

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

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

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

1.21 Provisions

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

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

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

1.22 Carbon reduction commitment scheme

The County Council is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. This scheme is currently in its introductory phase which will last until 31 March 2014. The County Council is required to purchase and surrender allowances, currently retrospectively, on the basis of emissions i.e. carbon dioxide produced as energy is used. As carbon dioxide is emitted (i.e. as energy is used), a liability and an expense are recognised.

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

1.23 Landfill allowances scheme

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

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

1.24 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.

1.25 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.

1.26 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.

1.27 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.

1.28 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.

1.29 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.

2 Critical judgements in applying accounting policies

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

2.1 Asset classifications

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

2.2 Lease classifications

The County Council has made judgements on whether its lease arrangements are operating leases or finance leases. These judgements are based on a series of tests designed to assess whether the risks and rewards of ownership have been transferred from the lessor to the lessee. These tests include the following assumptions in the classification of operating leases:

- Land leases under 250 years
- Property leases under 25 years
- All leases below £330,000

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

2.3 Providing for potential liabilities

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

2.4 Future funding for local government

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

2.5 Production of group accounts

The 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 included in a disclosure note.

3 Uncertainties relating to assumptions and estimates used

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

There is one item in the County Council's Balance Sheet at 31 March 2013 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 pensions liability of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption for funded liabilities would result in a decrease in the pension liability of £210.9 million. However, the assumptions interact in complex ways. During 2012/13, the County Council's actuaries advised that for funded liabilities, the net pension liability had decreased by £1.0 million as a result of estimates being corrected as a result of experience and increased by £164.2 million attributable to updating of the assumptions.

4 Accounting standards issued not yet adopted

A revised IAS 19 will come into force for accounting periods beginning on or after 1 January 2013. If this revised IAS 19 were adopted for the accounting period ending 31 March 2013 then this will increase the expenses recognised for funded benefits from £76.31 million to £99.30 million. There is no effect on the Balance Sheet.

Amendments to IFRS 7 - Financial Instruments: Disclosures (Transfer of financial assets) applies from 1 April 2012 and is not expected to have a material impact on the financial statements of the County Council.

Amendments to IAS 1 relate to the presentation of financial statements. The changes relate to the gains and losses on revaluations currently shown within Other Comprehensive Income and Expenditure. As these changes are presentational there is no impact on the reported amounts.

5 Events after the Balance Sheet date

The Statement of Accounts was authorised by the Chief Financial Officer on 26 September 2013. In the period since 31 March 2013 until the date the accounts were authorised, 5 schools have transferred to academy status. The balance sheet at 31 March 2013 included assets and liabilities relating to these schools that will transfer during 2013/14. This includes plant, property and equipment valued at £36.6 million at 31 March 2013 and cash backed reserves of £0.4 million. However, the actual value of transfers will be agreed as at the date of transfer.

New arrangements for the retention of business rates come into effect on 1 April 2013, and from that date local authorities will assume the liability for refunding successful rate appeals, including amounts relating to prior years. No liability rests with the County Council on 31 March 2013, however, from 1 April 2013 the County Council will be liable for its share of outstanding appeals. This has been estimated by billing authorities at £3.4 million.

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.

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

2011/12	Usable reserves General Fund Balance	Capital Receipts Reserve	Unusable Reserves
	£000	£000	£000
Reversal of items included in the Comprehensive Income and Expenditure Statement but required by statute to be excluded when determining the surplus or deficit on the general fund for the year.			
Depreciation and impairment of non-current assets	-214,699	-	214,699
Movement in the market value of investment property	772	-	-772
Revenue expenditure funded by capital under statute	-14,091	-	14,091
Book value of non-current assets sold	-4,091	-	4,091
Capital grants and contributions applied	83,713	-	-83,713
Transferred to Capital Adjustment Account	**-148,396**	**-**	**148,396**
Transfer cash proceeds from sale of non-current assets	7,814	-6,698	-1,116
Use of capital receipts to finance capital expenditure	-	6,698	-6,698
Council tax income accrual transferred to Collection Fund Adjustment Account	1,351	-	-1,351
Net charges relating to retirement benefits transferred to the Pensions Reserve	-68,962	-	68,962
Effective interest on soft loans transferred to the Financial Instruments Adjustment Account	79	-	-79
Employee benefits accrual transferred to the Accumulated Absences Account	1,948	-	-1,948
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	33,871	-	-33,871
Contribution from other authorities for the repayment of debt	-1,746	-	1,746
Capital expenditure funded from the General Fund	46,088	-	-46,088
Transferred from Capital Adjustment Account	**78,213**	**-**	**-78,213**
Employer's contributions payable to the pension Fund transferred from the Pension Reserve	70,692	-	-70,692
Total adjustments	**-57,261**	**-**	**57,261**

7 General Fund

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

8 Transfers to/from earmarked reserves

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

	See note	Balance at 1 April 2011 £000	Movement in 2011/12 £000	**Balance at 31 March 2012 £000**	Movement in 2012/13 £000	**Balance at 31 March 2013 £000**
Fully Committed to Existing Spend Programmes						
Capital Grants Unapplied	a	-10,052	-34,982	**-45,034**	-29,933	**-74,967**
Revenue Grants Unapplied	b	-6,579	-6,952	**-13,531**	-4,917	**-18,448**
General Capital Reserve	c	-18,066	-38,331	**-56,397**	-32,919	**-89,316**
Street Lighting Reserve	d	-1,289	-1,133	**-2,422**	27	**-2,395**
Other	e	-9,183	6,880	**-2,303**	753	**-1,550**
		-45,169	**-74,518**	**-119,687**	**-66,989**	**-186,676**
Departmental / Trading Reserves						
Trading Accounts	f	-12,753	-1,508	**-14,261**	481	**-13,780**
Departmental Cost of Change	g	-17,669	-10,033	**-27,702**	-2,899	**-30,601**
		-30,422	**-11,541**	**-41,963**	**-2,418**	**-44,381**
Risk Reserves						
Insurance	h	-16,725	-964	**-17,689**	-4,354	**-22,043**
Local Government resource review	i	-	-6,150	**-6,150**	-	**-6,150**
		-16,725	**-7,114**	**-23,839**	**-4,354**	**-28,193**
Corporate Reserves						
Grant Equalisation	j	-18,680	-13,500	**-32,180**	-16,280	**-48,460**
Invest To Save	k	-3,318	-2,752	**-6,070**	-4,084	**-10,154**
Corporate Policy	l	-2,408	713	**-1,695**	-284	**-1,979**
Corporate Efficiency	m	-10,340	-8,411	**-18,751**	9,516	**-9,235**
Organisational Change	n	-3,511	-4,608	**-8,119**	-1,899	**-10,018**
		-38,257	**-28,558**	**-66,815**	**-13,031**	**-79,846**
County Council reserves		**-130,573**	**-121,731**	**-252,304**	**-86,792**	**-339,096**
Schools Reseves	o	-36,574	-598	**-37,172**	-7,698	**-44,870**
Total Earmarked Reserves and Balances		**-167,147**	**-122,329**	**-289,476**	**-94,490**	**-383,966**
General Fund Balance		-21,031	3,134	-17,897	-16,898	-34,795
Total Reserves and Balances		**-188,178**	**-119,195**	**-307,373**	**-111,388**	**-418,761**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

9 Financing and investment income and expenditure

	2011/12				2012/13	
Gross Expenditure £000	Gross Income £000	**Net Expenditure £000**		Gross Expenditure £000	Gross Income £000	**Net Expenditure £000**
27,511	-6,192	**21,319**	Interest	32,315	-6,266	**26,049**
-	-772	**-772**	Investment property gains(-) and losses	7,549	-1,483	**6,066**
389	-913	**-524**	Investment property transactions	416	-1,045	**-629**
109,610	-	**109,610**	Pension interest cost	109,710	-	**109,710**
-	-89,840	**-89,840**	Expected return on pension assets	-	-86,050	**-86,050**
-	-358	**-358**	Surplus on trading undertakings	-	-1,278	**-1,278**
137,510	**-98,075**	**39,435**	**Total**	**149,990**	**-96,122**	**53,868**

10a Property, plant and equipment

The movements in property plant and equipment during 2012/13 were as follows:

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

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

The comparative movements in PPE during 2011/12 were as follows

	Other land and buildings £000	Vehicles, plant and equipment £000	Infra-structure assets £000	Comm-unity assets £000	Surplus Assets £000	Assets under const-ruction £000	**Total Property, Plant and Equipment £000**
Cost or valuation at 31 March 2011	**3,733,941**	**128,857**	**649,340**	**14,255**	**16,214**	**37,035**	**4,579,642**
Additions	58,605	6,556	60,314	65	269	12,034	**137,843**
Disposals	-597	-92	-	-	-31	-	**-720**
Transfers to other classes	3,911	-38	366	-654	366	-13,450	**-9,499**
Transfers to foundation schools	-	-	-	-	-	-	**-**
Changes in certified valuations	480	-	-	-	328	-	**808**
Adjustment to prior year revaluations	-141,165	-2,902	-	-	-	-	**-144,067**
Gross book value (GBV) at 31 March 2012	**3,655,175**	**132,381**	**710,020**	**13,666**	**17,146**	**35,619**	**4,564,007**
Accumulated depreciation and impairment at 31 March 2011	**-601,758**	**-74,033**	**-136,635**	**-1**	**-9,614**	**-**	**-822,041**
Depreciation for the year	-75,711	-11,820	-23,165	-	-	-	**-110,696**
Impairment losses	-103,693	-	-	-	-126	-	**-103,819**
Disposals- accumulated depreciation	273	80	-	-	-	-	**353**
Depreciation on transfers	437	12	11	-3	-20	-	**437**
Deprecation on transfers to foundation schools	-	-	-	-	-	-	**-**
Revaluations- write back depreciation	135,576	-	-	-	-	-	**135,576**
Prior year revaluations - depreciation write back	12,046	2,053	-	-	-	-	**14,099**
Accumulated depreciation at 31 March 2012	**-632,830**	**-83,708**	**-159,789**	**-4**	**-9,760**	**-**	**-886,091**
Net book value of fixed assets at 31 March 2011	**3,132,183**	**54,824**	**512,705**	**14,254**	**6,600**	**37,035**	**3,757,601**
Net book value of fixed assets at 31 March 2012	**3,022,345**	**48,673**	**550,231**	**13,662**	**7,386**	**35,619**	**3,677,916**
Nature of asset holding							
Owned	2,920,316	48,673	550,231	13,662	7,386	35,619	**3,575,887**
PFI/service concessions (see note 29)	102,029	-	-	-	-	-	**102,029**
	3,022,345	**48,673**	**550,231**	**13,662**	**7,386**	**35,619**	**3,677,916**

10b Capital commitments

Commitments for major contracts entered into up to 31 March 2013 are estimated at £41.9 million (£12.7 million in 2011/12). This comprises £1.9 million (£3.8 million in 2011/12) for highways and £40 million (£8.9 million in 2011/12) for buildings.

10c Valuation of assets

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

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

Valuation	Other land and buildings £000	Vehicles, plant and equipment £000	Infra-structure £000	Comm-unity assets £000	Surplus assets £000
Valued at historic cost	-	43,793	604,274	14,543	-
Pre 2008/09	72	-	-	-	-
2008/09	351,283	-	-	-	435
2009/10	394,304	-	-	-	948
2010/11	590,625	-	-	-	1,786
2011/12	534,183	-	-	-	1,990
2012/13	961,424	-	-	-	2,608
Total	**2,831,891**	**43,793**	**604,274**	**14,543**	**7,767**

10d Impairment losses

During 2012/13, the County Council has recognised impairment losses of £97.4m (£104m in 2011/12). Of this, £0.2m relates to assets held for sale reflecting a fall in the anticipated market value, £0.9m relates to land and buildings valued on the basis of existing use, again reflecting changes in market conditions and £96.3m relates to land and buildings that are valued on a depreciated replacement cost (DRC) basis. DRC is based on the instant build of a modern equivalent asset, depreciated to reflect its age and physical deterioration. As such the DRC valuation can be lower than the initial recognition of actual capital expenditure.

10e Foundation and aided school assets

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

On 31 March 2013 there were 13 foundation schools (17 in 2011/12).

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

On 31 March 2013 there were 52 aided schools (55 in 2011/12).

10f Heritage assets

Land/building heritage assets

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

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

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

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

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

Museum collections

Archaeology

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

Art and design

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

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

Social and industrial history

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

Natural science

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

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

Records, access and collecting policy

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

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

The collection and disposal policy is available through the County Council's website: http://www3.hants.gov.uk/museums-collecting-policy.pdf

Archives

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

The archives have been designated by the Museums, Libraries and Archives Council as an outstanding collection of national and international importance. Their scope and importance is summarised in the following document: http://www.hants.gov.uk/rh/archives/designation-statement.pdf. The Winchester Bishopric Pipe Rolls are on the UNESCO UK Memory of the World Register. Many of the items in the archives are not owned by the County Council, but have been deposited with the Record Office by a range of public bodies and private institutions and individuals.

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

The County Council takes all reasonable precautions to preserve the assets from loss, theft or damage, but does not insure its archive collection. Insurance for any items deposited in the Record Office is the responsibility of the owner. It is the

County Council's policy not to value these items, due to their unique and irreplaceable nature.

Access to the records is available at the Record Office, which is open six days a week: http://www3.hants.gov.uk/archives/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 2011: http://www.nationalarchives.gov.uk/accessions/2011/11returns/11ac41.htm

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.

	2011/12 £000	2012/13 £000
Rental income from investment property	-913	-1,045
Direct operating expenses arising from investment property	389	416
Net (gain)	**-524**	**-629**

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

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

	2011/12	2012/13
	£000	£000
Balance at start of the year	46,168	46,200
Additions:		
- purchases	-	-
- construction	-	-
- subsequent expenditure	116	-29
Disposals	-420	-23,462
Net gains/losses from fair value adjustments	772	-6,066
Transfers:		
- to/from Inventories	-250	-
- to/from Property, Plant and Equipment	-186	11,353
Balance at end of the year	**46,200**	**27,996**

12 Financial instruments

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

		Long term		Current	
		31 March	31 March	31 March	31 March
	see	2012	2013	2012	2013
	note	£000	£000	£000	£000
Loans and receivables at amortised cost:					
Cash & cash equivalents	12a	-	-	55,434	55,899
Debtors	12b12c	1,456	2,399	82,188	86,464
Investments		65,000	110,000	194,736	276,843
Loans and receivables at amortised cost		**66,456**	**112,399**	**332,358**	**419,206**
Financial liabilities at amortised cost:					
Borrowing	12d	-376,155	-368,658	-48,052	-51,539
Developers' contributions	12f	-46,184	-51,198	-	-
Deposits	12h	-	-	-881	-961
Creditors and receipts in advance	12i	-	-	-226,230	-205,172
PFI & finance lease liabilities	29	-96,991	-127,564	-6,211	-6,274
Financial liabilities at amortised cost		**-519,330**	**-547,420**	**-281,374**	**-263,946**

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

12a Cash and cash equivalents

Cash comprises cash in hand and call accounts.

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

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

	31 March 2012 £000	31 March 2013 £000
Cash in hand	3,229	3,323
Call accounts (same day access funds)	62,450	62,452
Total cash and cash equivalents	**65,679**	**65,775**
Bank overdraft	-10,245	-9,876
Net cash and cash equivalents	**55,434**	**55,899**

12b Long-term debtors

	31 March 2012 £000	31 March 2013 £000
Car loans to staff	916	1,079
Other	540	1,320
	1,456	**2,399**
Transferred debt	36,344	34,515
	37,800	**36,914**

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. £31.7 million remains to be repaid by the cities of Portsmouth and Southampton, £1.5 million by the Office of the Police and Crime Commissioner for Hampshire and, £1.3 million by colleges of further education and magistrates' courts.

The other long-term debtors figure of £2.4 million (£1.5 million in 2011/12) is classified as a loans and receivables financial instrument.

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

12c Debtors

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

	31 March 2012 £000	31 March 2013 £000
Government departments	11,373	11,713
Other local authorities	15,847	18,319
NHS bodies	3,420	66
Sundry debtors	51,548	56,366
	82,188	**86,464**
Payments in advance	7,120	7,207
Total debtors and prepayments	**89,308**	**93,671**

12d Borrowing

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

	Long term		Short term	
	31 March 2012 £000	31 March 2013 £000	31 March 2012 £000	31 March 2013 £000
Loans at amortised cost:				
-Public Works Loan Board (PWLB) principal	-302,967	-295,595	-9,545	-11,571
-Market loans	-73,188	-73,063	-2,769	-2,673
-Other short-term borrowing	-	-	-35,738	-37,295
	-376,155	**-368,658**	**-48,052**	**-51,539**

12e Fair values

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

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

	31 March 2012	31 March 2013
	£000	£000
Financial Liabilities		
PWLB loans - principal	-314,675	-306,135
PWLB loans - interest	-1,143	-1,032
Market loans - principal	-73,313	-73,188
Market loans - interest	-2,644	-2,548
Total amortised cost	**-391,775**	**-382,903**
Fair Value	**-479,503**	**-489,431**
Financial Assets		
Long-term investments - principal	65,000	110,000
Long-term investments - interest	722	922
Total amortised cost	**65,722**	**110,922**
Fair Value	**66,381**	**111,584**

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.

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.

	2011/12			2012/13		
	Highways	Other	Total	Highways	Other	Total
	£000	£000	£000	£000	£000	£000
Balance at 1 April	-39,496	-5,441	-44,937	-41,363	-4,821	-46,184
Income	-8,935	-6,044	-14,979	-10,961	-4,515	-15,476
Contributions applied	7,068	6,664	13,732	6,326	4,136	10,462
Balance at 31 March	**-41,363**	**-4,821**	**-46,184**	**-45,998**	**-5,200**	**-51,198**

12g Short-term creditors

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

12h Deposits

	31 March 2012 £000	31 March 2013 £000
Capital deposits and unapplied contributions	-695	-834
Other	-186	-127
	-881	**-961**

12i Creditors and receipts in advance

	31 March 2012 £000	31 March 2013 £000
HM Revenue and Customs and Government departments	-70,970	-58,015
NHS Bodies	-8,247	-9,845
Other local authorities	-17,322	-17,261
Sundry creditors	-129,691	-120,051
	-226,230	**-205,172**

12j Nature and extent of risks arising from financial instruments

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

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

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

The main risks covered are:

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

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

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

Credit risk

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

A limit of £75m of the total portfolio is placed on the amount of money that can be invested with a single counterparty. No more than £150m in total can be invested for a period longer than one year.

The County Council's maximum exposure to credit risk in relation to its investments in banks and building societies of £283 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 2013 that this was likely to crystallise.

The table below summarises the value of the Council's investment portfolio at 31 March 2013, and confirms that all investments were made in line with the Council's approved credit rating criteria:

Counterparty	Credit rating criteria met		Balance invested as at 31 March 12/13					
	when investment placed? Yes/ No	on 31 March ? Yes/ No	Call Accounts	Up to 1 month	> 1 month and < 6 months	> 6 months and < 12 months	> 12 months	Total
			£000	£000	£000	£000	£000	£000
Banks - UK	Yes	Yes	62,452	5,135	140,360	30,033	-	237,980
Building Societies - UK	Yes	Yes	-	-	20,022	25,047	-	45,069
Other local authorities	Yes	Yes	-	-	32,291	23,033	110,922	166,246
Total			**62,452**	**5,135**	**192,673**	**78,113**	**110,922**	**449,295**

Invoiced debtors risk

The invoiced debtors have been reviewed by age to determine an appropriate provision for debts that are likely to be uncollectable. A provision of £3.8 million (£4.9 million in 2011/12) has been estimated.

Outstanding debt raised in	Outstanding balance due at 31 March 2013	Individually assessed impairment	Collectively assessed impairment	Total provision
	£000	£000	£000	£000
2012/13	33,669	-	842	842
2010/11 & 2011/12	2,482	1,219	768	1,987
before 2010/11	950	271	652	923
	37,101	**1,490**	**2,262**	**3,752**

Liquidity risk

The County Council has ready access to borrowing at favourable rates from the Public Works Loan Board and other local authorities, and at higher rates from banks and building societies. There is no perceived risk that the County Council will be unable to raise finance to meet its commitments. It is however exposed to the risk that it will need to refinance a significant proportion of its borrowing at a time of unfavourably high interest rates. This risk is managed by maintaining a spread of fixed rate loans, limiting the amount of the County Council's borrowing that matures in any one financial year.

The maturity analysis of the principal sums borrowed at 31 March 2013 was as follows:

	Outstanding 31 March 2012 £000	Outstanding 31 March 2013 £000
Not over one year	-8,526	-10,665
Between one and two years	-10,526	-14,602
Between two and five years	-38,267	-37,619
Between five and 10 years	-48,284	-43,437
Between 10 and 15 years	-44,308	-49,000
Between 15 and 20 years	-58,308	-67,000
Between 20 and 25 years	-107,462	-105,000
More than 25 years	-69,000	-52,000
Total	**-384,681**	**-379,323**

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

Market risk

Interest rate risk

The County Council is exposed to risks arising from movements in interest rates. The Treasury Management Strategy aims to mitigate these risks by setting upper limits on its net exposures to fixed and variable interest rates. At 31 March 2013, £437.8 million of principal borrowed was at fixed rates and £113.1 million in variable rates. The County Councils investments with less than one year to maturity (£338.4

million at 31 March 2013) are classed as being held in variable rates and exposed to interest rate risk.

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

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

	£000
Increase in interest payable on variable rate borrowing	1,131
Increase in interest receivable on variable rate investments	-3,384
Net cost/(saving)	**-2,253**

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

Price risk

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

Foreign exchange risk

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

13 Inventories

	31 March 2012	Purchases	Expense in the year	Written off balances	31 March 2013
	£000	£000	£000	£000	£000
Stocks					
Catering stock	448	7,818	-7,756	-5	505
County Supplies general	1,580	7,067	-7,294	-24	1,329
Retail stock at County Council visitor attractions	263	594	-602	-28	227
Salt stock	240	106	-113	-26	207
Other (including landfill allowances)	402	5,699	-5,649	-35	417
	2,933	**21,284**	**-21,414**	**-118**	**2,685**
Construction contracts	Work not recharged at	Value of new work done		Income received in	Value of work not recharged
	2012	2012/13		2012/13	2013
	£000	£000		£000	£000
Highway rechargeable works	587	513		-715	385
Other	14	-		-9	5
	601	**513**		**-724**	**390**
Total stocks and work in progress	**3,534**	**21,797**	**-21,414**	**-842**	**3,075**

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

14 Assets held for sale

	2011/12	2012/13
	£000	£000
Balance outstanding at start of year	13,766	10,611
Assets newly classified as held for sale:		
- property, plant and equipment	-	896
- other assets/liabilities in disposal groups	250	-
Revaluation gains and losses	84	-462
Impairment losses	-184	-210
Assets declassified as held for sale	-	-
Assets sold	-3,305	-5,087
Balance outstanding at year-end	**10,611**	**5,748**

15 Change in provisions

		31 March 2012	Use of Provision In Year	Increase or decrease in 2012/13 Central Provision	Service Provision	31 March 2013
		£000	£000	£000	£000	£000
Insurance claims	a	-7,752	-	4,504	-3,582	-6,830
Contract terminations	b	-249	-	-	-	-249
Non school employee related expenditure	c	-6,023	168	-	-1,583	-7,438
School employee related expenditure	c	-5,673	-	-	-1,079	-6,752
Tax liabilities	d	-5,521	707	-	1,237	-3,577
Other	e	-979	-	-	-24	-1,003
Provisions identified In the Balance Sheet		**-26,197**	**875**	**4,504**	**-5,031**	**-25,849**
Provision for doubtful debts		-4,870	1,118	-	-	-3,752
Net change included in the Comprehensive Income and Expenditure Statement		**-**	**-**	**4,504**	**-5,031**	**-**

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

Liabilities

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

Property

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

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

Additional cover

Personal accident of staff on duty
Fidelity guarantee
Vessels

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

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

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

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

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 2012 £000	Net Movement in the year £000	Balance 31 March 2013 £000
Reserve				
Revaluation reserve	16a	-797,424	-26,708	-824,132
Capital adjustment account	16b	-2,253,713	169,062	-2,084,651
Financial instrument adjustment account	16c	-	3,168	3,168
Pensions reserve	16d	978,250	62,350	1,040,600
Deferred capital receipts reserve	16e	-1,116	1,116	-
Collection fund adjustment account	16f	-8,007	755	-7,252
Accumulated absences account	16g	13,995	-808	13,187
		-2,068,015	**208,935**	**-1,859,080**

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.

	2011/12 £000		2012/13 £000
Balance at 1 April	-719,507		-797,424
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	-136,469		-100,685
Difference between fair value depreciation and historical cost depreciation	20,346	23,014	
Adjustments to prior year	-	-1,650	
Write off net gains for assets transferred to Academy/Foundation schools	38,040	46,283	
Accumulated gains on assets sold, scrapped or transferred to/from current assets	166	6,330	
Amount written off to the Capital Adjustment Account	**58,552**		**73,977**
Balance at 31 March	**-797,424**		**-824,132**

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:

	2011/12 £000	2012/13 £000
Balance brought forward 1 April	**-2,386,840**	**-2,253,713**
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	214,699	213,088
Revenue expenditure funded from capital under statute	14,091	6,671
Assets disposals current value	4,091	33,754
Assets transferred to Academy/Foundation schools current value	129,969	154,919
	-2,023,990	**-1,845,281**
Adjusting amounts written out of Revaluation Reserve:		
Excess of current value depreciation over historic cost depreciation	-20,346	-23,014
Adjustments to prior year	-	1,650
Write off net gains for assets transferred to Academy/Foundation Schools	-38,040	-46,283
Write out revaluations on asset disposals and transfers to/from current assets	-166	-6,330
	-58,552	**-73,977**
Net amount written out of the cost of assets consumed in the year	**-2,082,542**	**-1,919,258**
Capital financing applied in the year		
Capital receipts applied	-6,698	-41,790
Statutory minimum revenue provision for capital financing	-33,871	-31,295
Debt outstanding on transferred services	-1,775	-
External contribution to minimum revenue provision	1,746	1,829
Revenue contributions to capital expenditure	-46,088	-31,015
Capital grants and contributions applied	-83,713	-69,188
	-170,399	**-171,459**
Movement in the market value of investment properties	-772	6,066
Balance as at 31 March	**-2,253,713**	**-2,084,651**

16c Financial instruments adjustment account

The balance on the financial instruments adjustment account at the end of the financial year represents the amount that would have been charged to the Comprehensive Income and Expenditure Statement in accordance with proper accounting practice, but which statutory provisions allow or require to be deferred over future years. The County Council used the account to offset the effective interest rate charged to the Comprehensive Income and Expenditure Statement in respect of one soft loan. This accounting adjustment was completed in 2011/12.

During 2012/13 the premium that was paid relating to the early repayment of a Public Works Loans Board (PWLB) loan was moved to this account. The premium is being charged to the Comprehensive Income and Expenditure Statement (CIES) over the life of the replacement loans.

	2011/12 £000	2012/13 £000
Balance brought forward 1 April	79	-
PWLB premium	-	3,306
Effective interest credited to CIES	-79	-
PWLB Premium charged to CIES		-138
Balance at 31 March	**-**	**3,168**

16d Pensions reserve

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

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

	2011/12 £000	2012/13 £000
Balance at 1 April	753,960	978,250
Actuarial losses on pensions assets and liabilities	226,020	51,770
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	68,962	77,106
Employer's pensions contributions and direct payments to pensioners payable in the year	-70,692	-66,526
Balance at 31 March	**978,250**	**1,040,600**

16e Deferred capital receipts reserve

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

	2011/12 £000	2012/13 £000
Balance at 1 April	-	-1,116
Capital receipts agreed, not yet received	-1,116	-
Transfer to the capital receipts reserve upon receipt of cash	-	1,116
Balance at 31 March	**-1,116**	**-**

16f Collection fund adjustment account

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

	2011/12 £000	2012/13 £000
Balance at 1 April	-6,656	-8,007
Accrued income in the Comprehensive Income and Expenditure account	-531,284	-533,607
Amount calculated in accordance with statutory requirements	529,933	534,362
Balance at 31 March	**-8,007**	**-7,252**

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.

	2011/12	2012/13	
	£000	£000	£000
Balance at 1 April	15,943		13,995
Settlement or cancellation of accrual made at the end of the preceding year	-15,943	-13,995	
Amounts accrued at the end of the current year	13,995	13,187	
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	-1,948		-808
Balance at 31 March	**13,995**		**13,187**

17a Cash Flow Statement – operating activities

The cash flows for operating activities includes the following items:

	2011/12	2012/13
	£000	£000
Interest paid	27,534	32,604
Interest received	-7,454	-6,744
	20,080	**25,860**

Adjustments to net surplus or deficit on the provision of services for non-cash movements		
Depreciation	-110,696	-115,704
Impairments and downward revaluations	-104,003	-97,384
Increase/decrease in impairment for provision of bad debt	-2,670	1,118
Decrease in creditors	19,770	11,739
Increase in debtors	3,227	5,818
Increase/decrease in inventory	328	-459
Pension Liability	1,730	-10,580
Carrying amount of non-current assets sold	-4,091	-33,754
Adjustment for provisions	-13,381	348
Movement in the value of investment properties	772	-6,066
PPE written off as REFCUS	-9,248	-1,654
Amortisation of loan redemption premium	-	-3,306
Non-cash movement	**-218,262**	**-249,884**

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	7,814	40,674
Capital grants and contributions	118,695	99,122
Interest on developer contributions	-137	-117
Investing/financing cash flows	**126,372**	**139,679**

17b Cash Flow Statement – investing activities

	2011/12	2012/13
	£000	£000
Cash outflows		
Purchase of property, plant and equipment	123,861	119,130
Purchase of short-term and long-term investments	78,565	929,960
Cash inflows		
Proceeds from the sale of property, plant and equipment	-5,841	-42,712
Proceeds from the sale of short-term and long-term investments	-	-802,460
Capital grants	-96,828	-96,011
Other income	-	-
Net cash outflow from investing activities	**99,757**	**107,907**

17c Cash Flow Statement – financing activities

	2011/12	2012/13
	£000	£000
Cash outflows		
Cash payments for the reduction of the outstanding liabilities relating to PFIs	6,381	5,010
Repayments of short- and long-term borrowing	-	132,265
Other payments for financing activities	-	-
Cash inflows		
Cash receipts of short and long-term borrowing	-21,999	-125,156
Other receipts from financing activities	-1,746	-1,829
Net cash outflow from financing activities	**-17,364**	**10,290**

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 2011/12	Children's Services Schools block	Children's Services Non Schools	Adult Services	Environment	Policy and Resources	Total 2012/13
	£000	£000	£000	£000	£000	£000	£000
Expenditure							
Employee costs	896,482	528,474	79,405	90,559	30,001	96,284	824,723
Premises Related Expenditure	68,979	41,425	1,739	3,315	5,162	16,851	68,492
Transport Related Expenditure	39,272	3,372	25,803	5,639	1,389	2,130	38,333
Supplies & Services	216,512	83,491	13,845	12,038	60,091	50,725	220,190
Third Party Payments	411,845	60,824	60,106	283,196	30,916	3,353	438,395
Transfer Payments	19,794	2	2,251	19,060	179	120	21,612
Support Services	93,705	34,951	12,407	1,121	1,180	3,826	53,485
Income							
Other Grants Reimbursements and Contributions	-67,834	-18,326	-11,536	-30,831	-2,069	-5,892	-68,654
Sales	-20,778	-14,877	-194	-16	-549	-1,917	-17,553
Fees and Charges	-145,400	-33,309	-9,270	-63,306	-13,460	-31,944	-151,289
Rents	-9,439	-703	-275	-32	-1,383	-2,286	-4,679
Interest	-19	-36	26	-	-2	-7	-19
Other							
Transfer to/ from business unit reserves	525	-	-33	-	-	-	-33
Recharges between departments	-69,723	2,905	-15,483	-1,466	-11,633	-37,908	-63,585
Service analysis total	**1,433,921**	**688,193**	**158,791**	**319,277**	**99,822**	**93,335**	**1,359,418**

Reconciliation between the service analysis and the cost of services 2012/13

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.

	2011/12	2012/13	2012/13
	£000	£000	£000
Service analysis total	1,433,921		1,359,418
Net expenditure of services and support service not included in the service analysis			
Winter Maintenance	4,531	5,179	
Flood Levy	553	552	
Coroners	1,447	1,065	
	6,531		6,796
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the service analysis			
Specific Grants	-854,898	-809,116	
Current pension cost adjustment	1,044	8,937	
Past pension cost adjustment	-10,143	-8,592	
Depreciation and impairment of assets	223,212	218,997	
Landfill Allowances Trading Scheme Income	-163	-241	
School catering support	-481	-91	
Transfer to/ from provisions	697	-4,505	
Employee benefit accrual	-1,948	-808	
	-642,680		-595,419
Amounts in the analysis not included in the Comprehensive Income and Expenditure Statement cost of services			
Income on investment properties	913		1,045
Expenditure on investment properties	-389		-416
Cost of Services in Comprehensive Income and Expenditure Statement	**798,296**		**771,424**

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

	Total 2011/12	Service Analysis £000	Services not in Analysis £000	Not reported to mgmt £000	Not included in Comprehensive Income and Expenditure Statement £000	Net Cost of Services £000	Amounts reported below net cost of services £000	Total £000
Fees, charges & other service income	-176,126	-173,522	-1,087	-241	1,045	-173,805		-173,805
Interest and investment income (including expected return on pension assets)	-96,409	-20				-20	-93,594	-93,614
Income from council tax	-531,284						-533,607	-533,607
Government grants and contributions	-1,240,240	-68,653		-809,116		-877,769	-293,241	-1,171,010
Net investment property gains and losses	-1,296						5,437	5,437
Gain on Disposal of Fixed Assets	-3,691						-6,901	-6,901
Total Income	**-2,049,046**	**-242,195**	**-1,087**	**-809,357**	**1,045**	**-1,051,594**	**-921,906**	**-1,973,500**
Employee expenses	886,059	824,723	553	-464		824,812		824,812
Other service expenses	762,698	787,021	7,330	-91	-416	793,844		793,844
Support Service recharges	23,982	-10,098				-10,098		-10,098
Depreciation and impairment of assets	223,212			218,997		218,997		218,997
Interest Payments	137,121						142,025	142,025
Total operating expenses	**2,033,072**	**1,601,646**	**7,883**	**218,442**	**-416**	**1,827,555**	**142,025**	**1,969,580**
Transfers to/ from reserves and provisions	**1,222**	**-33**		**-4,504**		**-4,537**		**-4,537**
Surplus (-) / deficit on the provision of services	**-14,752**	**1,359,418**	**6,796**	**-595,419**	**629**	**771,424**	**-779,881**	**-8,457**

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 £1,278,000 (2011/12 overall surplus of £358,000) as follows:

		2011/12 £000	2012/13 £000
Former Direct Services Organisation			
- provides catering and cleaning	Turnover	-26,999	-29,298
services to schools and some	Expenditure	27,568	28,964
non-educational sites in Hampshire and supplies vehicles to departments of the County Council.	**Deficit/Surplus(-)**	**569**	**-334**
Education Business Units			
- provide support services principally	Turnover	-27,969	-19,272
to schools but also to other departments and other local	Expenditure	27,407	19,305
authorities.	**Deficit/Surplus(-)**	**-562**	**33**
Information Technology Services - note i			
- provided to County Council	Turnover	-48,959	-
departments and some other local	Expenditure	48,565	-
authorities.	**Deficit/Surplus(-)**	**-394**	**-**
County Supplies			
- operate the central purchasing	Turnover	-11,086	-11,548
warehouse and arrange direct delivery	Expenditure	10,999	11,232
and other contracts for County Council departments, other local authorities and voluntary organisations.	**Deficit/Surplus(-)**	**-87**	**-316**
Eight other smaller trading units			
- including a surplus of £21,000	Turnover	-6,304	-7,502
(£53,000 surplus in 2011/12) on the	Expenditure	6,420	6,841
management of the River Hamble.	**Deficit/Surplus(-)**	**116**	**-661**
	Total Deficit/Surplus(-)	**-358**	**-1,278**

note i - In 2012/13 Information Technology Services ceased being a trading unit and is incorporated within the Corporate Services department.

20 Pooled budgets

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

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 under Section 75 of the National Health Service Act 2006.

The partner bodies are:
Hampshire County Council (host partner) and NHS Hampshire

	2011/12		2012/13	
	£000	£000	£000	£000
Gross income				
Hampshire County Council	-1,811		-1,682	
NHS Hampshire	-8,133	-9,944	-8,585	-10,267
Expenditure		9,944		10,109
Surplus		**-**		**-158**
Council's share of the net surplus arising on the pooled budget		-		-26

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

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

	2011/12		2012/13	
	£000	£000	£000	£000
Gross income				
Hampshire County Council	-83		-87	
Hampshire Primary Care Trust	-884	-967	-790	-877
Expenditure		814		677
Surplus		**-153**		**-200**
Council's share of the net surplus arising on the pooled budget		-17		-24

21 Members' allowances

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

	2011/12	2012/13
	£000	£000
Allowances	1,288	1,316
Expenses	82	80
Total	**1,370**	**1,396**

22a Officer remuneration

The number of employees whose remuneration was £50,000 or more, in bands of £5,000, is shown below, excluding those that are senior employees at 31 March 2013 (see note 22b). Remuneration includes all amounts paid to an employee, including the taxable value of expenses.

Including termination payments	Number of employees					
	2011/12			2012/13		
	Schools	Other	**Total**	Schools	Other	**Total**
£50,000 - £54,999	231	127	**358**	195	73	**268**
£55,000 - £59,999	187	114	**301**	183	127	**310**
£60,000 - £64,999	126	32	**158**	112	36	**148**
£65,000 - £69,999	65	57	**122**	51	31	**82**
£70,000 - £74,999	23	40	**63**	34	47	**81**
£75,000 - £79,999	16	10	**26**	17	5	**22**
£80,000 - £84,999	9	13	**22**	8	14	**22**
£85,000 - £89,999	6	9	**15**	7	4	**11**
£90,000 - £94,999	7	-	**7**	6	-	**6**
£95,000 - £99,999	6	6	**12**	3	5	**8**
£100,000 - £104,999	1	9	**10**	1	5	**6**
£105,000 - £109,999	2	1	**3**	-	1	**1**
£110,000 - £114,999	-	2	**2**	1	-	**1**
£115,000 - £119,999	-	2	**2**	-	1	**1**
£120,000 - £124,999	-	2	**2**	-	2	**2**
£125,000 - £129,999	-	4	**4**	-	-	**-**
£130,000 - £134,999	-	1	**1**	-	-	**-**
	679	**429**	**1,108**	**618**	**351**	**969**

Excluding termination payments	Number of employees					
	2011/12			2012/13		
	Schools	Other	**Total**	Schools	Other	**Total**
£50,000 - £54,999	229	116	**345**	194	68	**262**
£55,000 - £59,999	186	97	**283**	182	123	**305**
£60,000 - £64,999	124	27	**151**	112	31	**143**
£65,000 - £69,999	64	47	**111**	51	28	**79**
£70,000 - £74,999	23	37	**60**	33	41	**74**
£75,000 - £79,999	16	8	**24**	16	3	**19**
£80,000 - £84,999	9	12	**21**	8	13	**21**
£85,000 - £89,999	6	3	**9**	7	2	**9**
£90,000 - £94,999	6	-	**6**	6	-	**6**
£95,000 - £99,999	6	4	**10**	3	5	**8**
£100,000 - £104,999	1	4	**5**	1	4	**5**
£105,000 - £109,999	1	1	**2**	-	1	**1**
£110,000 - £114,999	-	2	**2**	1	-	**1**
£115,000 - £119,999	-	-	**-**	-	1	**1**
£120,000 - £124,999	-	1	**1**	-	2	**2**
	671	**359**	**1,030**	**614**	**322**	**936**

22b Senior employees' remuneration

This statement covers the remuneration of Chief Officers.

Senior Employees 2011/12	Salary, (Including fees and allowances)	Other emoluments	Benefits in Kind	Compensation for Loss of Office	Pension contribution	Total remuneration including pension contributions
	£	£	£	£	£	£
Chief Executive						
Andrew Smith	207,372	-	-	-	27,166	234,538
Director of Children's Services and Deputy Chief Executive						
John Coughlan	167,734	-	-	-	21,973	189,707
County Treasurer						
Carolyn Williamson	155,000	-	-	-	20,305	175,305
Director of Economy, Transport and Environment	138,876	-	-	-	18,193	157,069
Director of Community, Culture and Business Services	138,876	-	-	-	18,193	157,069
Director of Adult Services	134,910	-	-	-	17,673	152,583
Director of Human Resources	124,533	-	-	-	16,314	140,847

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

22c Termination agreements

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

Schools 2011/12

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	231	5	236	1,084,402
£20,001 - £40,000	15	-	15	392,578
£40,001 - £60,000	-	-	-	-
£60,001 +	-	-	-	-
	246	**5**	**251**	**1,476,980**

Non schools 2011/12

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	50	661	711	5,691,777
£20,001 - £40,000	1	146	147	3,925,792
£40,001 - £60,000	-	20	20	970,989
£60,001 +	-	2	2	127,936
	51	**829**	**880**	**10,716,494**

Schools 2012/13

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

Non schools 2012/13

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

23 External audit fees

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

	2011/12 £000	2012/13 £000
Code of Audit Practice	238	141
Grant Claims	7	2
National Fraud Initiative	2	4
	247	**147**

24 Dedicated Schools Grant

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

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

Details of the deployment of DSG receivable for 2012/13 are as follows:

	Central expenditure £000	Individual Schools Budget £000	Total £000
Final DSG for 2012/13 before Academy recoupment			821,315
Academy figure recouped for 2012/13			134,780
Total DSG after Academy recoupment for 2012/13			686,535
Brought forward from 2011/12			20,885
Carry forward to 2013/14 agreed in advance			-17,482
Final budgeted distribution in 2012/13	**64,212**	**625,726**	**689,938**
Less Actual central expenditure	64,212		64,212
Less Actual ISB deployed to schools		625,997	625,997
Plus Local authority contribution for 2012/13	-	271	271
Carry forward to 2013/14	**-**	**-**	**17,482**

25 Grant and contribution income

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

	2011/12 £000	2012/13 £000
Credited to Taxation and Non Specific Grant Income		
Non-ringfenced Government grants	-56,997	-20,237
Capital Grants and Contributions:		
Improving the Home Care Environment	-118	-
Common Assessment Framework	-495	-687
Community Capacity Building	-2,417	-1,212
Local Sustainable Transport Fund Grant	-449	-1,296
Local Transport Capital Block Funding Grant	-27,620	-31,427
Sustainable Transport Grant	-163	-122
Communities Infrastructure Fund Grant	-3,765	-
Winter Damage Grant	-6,017	-
Transport for South Hampshire Grant	-500	-
Better Bus Area Fund	-	-14
Other Highways, Roads and Transport Grants	-156	-
Bordon Eco Town Grant	-	-5
Standards Fund	-19,857	-10,259
Capital Maintenance Grant	-23,952	-19,762
Basic Needs Grant	-18,462	-24,661
Education Funding Agency Capital Works Grant	-155	-
2 Year Old Entitlement Grant	-	-1,652
Aiming High for Disabled Children	-825	-400
Havant Academy	-6,346	-3,192
Other Children's Services and Education Grants	-3,613	-998
Co-Location Funding	-3,573	-
Lottery Funding	-54	-
Solent Business Forum	-	-176
Other cultural services funding	-7	-
Developer's contributions	-12,271	-9,323
Other contributions	-853	-621
Contributions from other Local Authorities	-5,923	-2,502
Less: Capital income used to fund revenue expenditure under statute	**18,896**	**9,187**
Total	**-175,692**	**-119,359**

	2011/12 £000	2012/13 £000
Credited to services		
Community Safety / HIV Grant	-	-476
Learning Disability / Health Reform Grant	-41,858	-42,939
Warm Homes Healthy People Grant	-196	-346
Drug Interventions Programmes	-213	-196
Other Adult Services Grants	-20	-33
PFI Street Lighting Grant	-9,373	-9,373
Department for Transport Grant	-38	-
Bikeability Training Grant	-274	-260
Local Sustainable Transport Funds	-391	-1,078
Flood & Water Management Grant	-88	-361
Eco Town funding	-	-141
Safer and Stronger Communities Grant	-95	-
Department for Energy & Climate Change Grant	-	-15
Section 31 Flood Management Grant	-190	-
Support for Community Transport Grant	-539	-
Local Services Support Grant	-2,064	-1,274
New Homes Infrastructure Grant	-1,217	-
School Meals Grant	-986	-989
Dedicated School's Grant	-741,868	-689,938
Standards Fund Grant	-7,255	-
Pathfinder Grant	-80	-165
Additional Schools Grant	-575	-317
Early Intervention Grant	-38,357	-42,020
MOD Support Fund	-242	-
Social Worker Grant	-	-140
14-19 Diploma Grant	-72	-
Unaccompanied Asylum Seeking Children Grant	-745	-615
Supporting Troubles Families Grant	-	-1,589
Public Health Grants	-	-348
EU Milk Subsidy	-210	-
Pupil Premium grant	-8,916	-17,749
Education Funding Agency Grant	-10,848	-7,669
Music Education Grant	-1,476	-1,462
Other Children's Services and Education Grants	-375	-149
Police & Crime Panel Home Office Grant	-	-34
Museums, Libraries & Archives Council Funding	-1,576	-
Heritage Lottery Fund	-150	-120
Arts Council Funding	-15	-629
Other Cultural Grants	-75	-275
Other Countryside Grants	-294	-466
Developers Contributions	-649	-620
Add: Capital income used to fund revenue expenditure under statute	**-18,896**	**-9,187**
Total	**-890,216**	**-830,973**

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 2012 £000	31 March 2013 £000
Capital grants receipts in advance		
Department of Health Community Capacity Grant	-	-1,270
Common Assessment Framework Grant	-1,388	-677
Standards Fund	-13,333	-2,803
Short Breaks for Disabled Children	-	-425
Hampshire Partnerships Panel (MOD)	-	-11
Bordon Eco Town Grant	-214	-209
Transport Support Grant	-12	-12
Other countryside grants (Lepe)	-21	-21
Devolved Formula Capital	-3,927	-7,504
BSF Havant Academy Grant	-832	-
Department for Transport Grant	-4,285	-3,072
Total	**-24,012**	**-16,004**

	31 March 2012 £000	31 March 2013 £000
Revenue grants receipts in advance		
Dedicated Schools Grant	-20,885	-17,482
Pupil Premium	-47	-75
Adoption Improvement Grant	-	-60
Children's Workforce Development Council	-1,499	-1,169
Childrens Improvement Board Development Programme	-	-65
Other Children's Services and Education Grants	-47	-56
Warm Homes Health People Fund	-143	-76
Flood management	-120	-312
Single Farm Payments European Grant	-557	-544
Bordon Rail Link Study Grant	-15	-
Eco Towns - project funding	-684	-558
Department of Energy and Climate Change Grant	-	-369
Museums, Libraries and Archives Council Funding	-8	-
Young People's Learning Agency Grant	-1,241	-1,461
Rural Payments Agency	-92	-100
Other Countryside Grants	-154	-130
SHIOW funding	-908	-
Arts Council Funding	-84	-172
Gypsies & Travellers Grants	-	-5
Other Cultural Grants	-105	-119
Total	**-26,589**	**-22,753**

26 Related party transactions

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

Central Government

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

Members

Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2012/13 is shown in note 21. Before every decision making meeting, members are required to disclose any conflicts of interest. There were 35 related party transactions totalling £53,257.57 arising from disbursements from members' devolved budgets. All such payments were counter signed by a member other than the budget-holding member.

Officers

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

Other Public Bodies

The County Council administers the Hampshire Pension Fund on behalf of its non-teaching employees, those of other local authorities in the county area and 259 other contributing scheduled, admitted, community admission, transferee admission, and resolution bodies (234 in 2011/12).

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

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

Transactions with these related parties are shown below:

	2011/12	2012/13
	£000	£000
Pension Fund		
Administration charge	-2,504	-2,665
Hampshire Fire and Rescue Authority		
Interest (received)/paid	35	29
Temporary investments/borrowing 31 March	-2,068	-2,848

27 Capital financing

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

	2011/12 £000	2012/13 £000
Opening capital financing requirement	747,584	720,015
Capital spending on fixed assets	137,959	153,323
Revenue expenditure funded by capital under statute	23,738	14,204
	909,281	887,542
Funded by:		
Capital receipts	-6,698	-41,790
Grants and other income	-102,609	-78,375
Revenue		
- main contribution	-42,545	-17,087
- reserves	-3,543	-13,928
Minimum revenue provision	-33,871	-31,295
Closing capital financing requirement	**720,015**	**705,067**
Explanation of movements in year		
Increase/decrease (-) in underlying need for borrowing (supported by government financial assistance)	-20,742	-23,184
Increase/decrease (-) in underlying need for borrowing (unsupported by government financial assistance)	-15,550	-22,400
Increase/decrease (-) in underlying need for borrowing related to PFI contracts	8,723	30,636
Increase/decrease (-) in Capital Financing Requirement	**-27,569**	**-14,948**

28a Leases – operating leases – County Council as lessee

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

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

	2011/12			2012/13		
	Other land and buildings	Vehicles, plant and equipment	Total	Other land and buildings	Vehicles, plant and equipment	Total
	£000	£000	£000	£000	£000	£000
Not later than one year	3,092	2,399	5,491	3,209	1,611	4,820
Later than one year and not later than five years	8,754	2,049	10,803	7,585	1,573	9,158
Later than five years	12,711	7	12,718	12,224	3	12,227
Total payments	**24,557**	**4,455**	**29,012**	**23,018**	**3,187**	**26,205**

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

	2011/12	2012/13
	£000	£000
Minimum lease payments	6,415	5,405
Contingent rents	0	0
(Sublease payments receivable)	-446	-302
Total net expenditure	**5,969**	**5,103**

28b County Council as lessor

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

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

	2011/12	2012/13
	£000	£000
Not later than one year	3,486	3,583
Later than one year and not later than five years	7,352	7,139
Later than five years	45,887	45,529
	56,725	**56,251**

28c Leases – finance leases

At 31 March 2013 the County Council has not taken or granted any material finance leases.

29 PFI and service concessions

Project Integra

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

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

The contract has three phases. During phases 1 and 2 the contractor planned, financed and constructed the three Energy Recovery Facilities, two Material Reprocessing Facilities and two composting sites. The contract is currently in Phase 3 covering the provision of waste disposal services in relation to the newly constructed facilities ending in 2024/25. The contract price mechanism is structured with an annual re-pricing each January linked to the retail price index in the previous October and a step-change increase in the contract price midway through the contract. There have been no major variations to the contract or additional investment in facilities during the 2012/13 financial year.

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

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

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

	2011/12	2012/13
Gross book value	£000	£000
At 1 April	95,227	95,227
Additions	-	-
Disposals	-	-
Revaluations	-	-
Gross book value at 31 March	95,227	95,227
Depreciation		
At 1 April	-16,914	-22,552
Depreciation for the year	-5,638	-5,638
Impairments	-	-
Depreciation at 31 March	-22,552	-28,190
Net book value at 1 April	78,313	72,675
Net book value at 31 March	**72,675**	**67,037**

The movement in the deferred liability was:

	31 March 2012 £000	31 March 2013 £000
Balance brought forward 1 April	-82,071	-78,341
Principal repayment in the year	3,730	4,025
Balance at 31 March	**-78,341**	**-74,316**
Finance lease repayable in one year	-4,025	-4,350
deferred liability	-74,316	-69,966
Balance at 31 March	**-78,341**	**-74,316**

The waste management contract has 13 years to run. The expected payments are shown below.

	Principal repayment £000	Interest £000	Service Charge £000	Total £000
Next year	4,350	5,945	38,716	49,011
Years two to five	21,171	20,009	178,231	219,411
Years six to 10	37,028	13,945	269,103	320,076
Years 11 to 13	11,767	1,326	84,176	97,269
	74,316	**41,225**	**570,226**	**685,767**

The South Coast Street Lighting PFI

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

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

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

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

An annual re-pricing review is undertaken on the anniversary of the start of the contract, 1 April, and this is linked to retail price index. Over the first 5 years of the contract (the investment period) the annual cost of the contract reflects the investment programme which steadily rises until it reaches a peak at year 6 and then stabilises. From year 6 to year 25 the annual cost is determined by inflation and amendments to the inventory. No major changes to the contract occurred during the 2012/13 financial year.

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

The movement in the asset values were as follows:

	2011/12	2012/13
Gross book value	£000	£000
At 1 April	14,741	29,845
Additions	15,104	35,646
Disposals	-	-
Revaluations	-	-
Gross book value at 31 March	29,845	65,491
Depreciation		
At 1 April	-	-491
Depreciation for the year	-491	-939
Impairments	-	-
Depreciation at 31 March	-491	-1,430
Net book value at 1 April	14,741	29,354
Net book value at 31 March	**29,354**	**64,061**

The movement in the deferred liability was:

	31 March 2012	31 March 2013
	£000	£000
Balance brought forward 1 April	-12,408	-24,861
Principal repayment in the year	2,651	985
Capital expenditure incurred in the year	-15,104	-35,646
Balance at 31 March	**-24,861**	**-59,522**
Finance lease repayable in one year	-2,186	-1,924
Deferred liability	-22,675	-57,598
Balance at 31 March	**-24,861**	**-59,522**

The street lighting contract has 22 years to run. The expected payments are shown below:

	Principal repayment £000	Interest £000	Service Charge £000	Total £000
Next year	1,924	5,864	5,898	13,686
Years two to five	12,825	28,571	26,326	67,722
Years six to 10	21,619	30,674	39,298	91,591
Years 11 to 15	29,054	23,238	46,790	99,082
Year 16 to 20	39,047	13,246	54,727	107,020
Year 21 to 22	19,150	1,767	24,219	45,136
	123,619	**103,360**	**197,259**	**424,237**

A PFI grant of £9 million was received from the Department of Transport to the County Council in 2012/13 with a balance of £207 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 £97 million.

30 Undischarged obligations

Hampshire Public Services Network

A contract for Hampshire Public Service Network2 (HPSN2) has been entered onto with NTL Telewest. Building on the foundation of the existing HPSN service. HPSN2 will offer improved data, voice and service networks for major partners and affordable solutions for town and parish councils and up to 800 schools. The contract has an initial period of seven years, with an option to extend for a further 3 years. At 31 March 2013 the payments remaining under the contract are estimated to be £6.3m.

31 Contingent liabilities

The County Council self-insures and therefore handles all its own liability claims. The liabilities are uncertain but to cover them a provision is maintained for known liability claims, assessed at £6.8 million at 31 March 2013 (see note 15) and a reserve earmarked for potential future claims, £22m at 31 March 2013 (see note 8).

The County Council has received claims under part 1 of the Land Compensation Act 1973 following the first anniversary of the opening of the Bus Rapid Transit route in Gosport. It is unlikely that these claims will be resolved until later in 2013/14 so it is not possible to quantify reliably the potential liability associated with them.

32 Pensions

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

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

32a Teachers' Pension Scheme

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

In 2012/13 total employer's contributions were £40.30 million representing 14.1% of pensionable pay (£44.91 million representing 14.1% of pensionable pay in 2011/12).

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

32b Local Government Pension Scheme

This is a funded defined benefit scheme, administered by the Council. Employers and employees pay contributions into a fund at a level estimated to balance pension liabilities with investment assets. Enhanced pensions awarded by the Council are described as unfunded benefits. This is because they are not funded by the assets of the Pension Fund but by the Council when they are paid. In 2012/13, Pension Fund assets and liabilities have been included in the Balance Sheet based on a formal actuarial valuation for 31 March 2010. This valuation has been updated using the assumptions below

Principal financial assumptions

	2011/12 % per year	2012/13 % per year
Rate of discount for scheme liabilities - funded pensions	4.7	4.4
Rate of discount for scheme liabilities - unfunded pensions	4.6	4.1
Rate of increase in salaries	4.8	4.4
Rate of increase in pensions in payment - funded pensions	2.3	2.5
Rate of increase in pensions in payment -unfunded pensions	2.1	2.35
Rate of increase in deferred pensions	2.3	2.5
Proportion of employees opting to take a commuted lump sum:		
for pre 1 April 2010 service	25	25
for post 31 March 2010 service	75	75
RPI inflation - funded pensions	3.3	3.4
RPI inflation - unfunded pensions	3.1	3.25
CPI inflation - funded pensions	2.3	2.5
CPI inflation - unfunded pensions	2.1	2.35

Principal demographic assumptions

Post retirement mortality	2011/12	2012/13
Men		
Base table	Standard SAPS Normal Health Light Amounts	Standard SAPS Normal Health Light Amounts
Scaling to above base table rates	100%	100%
Improvements to base table rates	CMI_2009 with a longterm rate of improvement of 1.25% p.a.	CMI_2009 with a longterm rate of improvement of 1.25% p.a.
Future lifetime from age 65 (currently aged 65)	23.9	24.0
Future lifetime from age 65 (currently aged 45)	25.6	25.7

Women		
Base table	Standard SAPS Normal Health Light Amounts	Standard SAPS Normal Health Light Amounts
Scaling to above base table rates	100%	100%
Improvements to base table rates	CMI_2009 with a longterm rate of improvement of 1.25% p.a.	CMI_2009 with a longterm rate of improvement of 1.25% p.a.
Future lifetime from age 65 (currently aged 65)	24.9	25.0
Future lifetime from age 65 (currently aged 45)	26.8	26.9

Expected return on assets

The Council employs a building block approach in deciding the rate of return on Fund assets. It studies historical markets, and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed rate of return on each asset class is set out below. The overall expected rate of return on assets is derived by aggregating the expected return for each asset class over the actual asset allocation for the Fund at 31 March 2013.

	2011/12	2012/13
	% per year	% per year
Rate of return on equities (shares)	8.1	7.8
Rate of return on Government bonds	3.1	2.8
Rate of return on property	7.6	7.3
Rate of return on corporate bonds	3.7	3.8
Rate of return on cash	1.8	0.9
Rate of return on other assets (hedge funds, futures etc.)	8.1	7.8
Average long-term expected rate of return	6.4	6.3

The actual return on scheme assets in the year was £203.92 million (£76.09 million in 2011/12).

32c Transactions relating to pension benefits

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

	2011/12	2012/13
	£000	£000
Included in the Comprehensive Income and Expenditure Statement:		
Current service cost of funded LAPS pensions	51,510	56,250
Charge to non-distributed costs for early retirement in the year (note i)	3,762	1,816
Settlement costs	-6,080	-4,620
Interest cost on pension liabilities		
LGPS funded liabilities	106,390	106,870
LGPS unfunded liabilities	1,340	1,190
Teachers' unfunded liabilities	1,880	1,650
	109,610	109,710
Expected return on Pension Fund assets	-89,840	-86,050
Total post employment benefits charges to the surplus/deficit on the provision of services	**68,962**	**77,106**
Actuarial (gains) / losses	226,020	51,770
Total post employment benefits charges to the Comprehensive Income and Expenditure Statement	**294,982**	**128,876**
Movement in reserves statement		
Reversal of net changes made to the surplus/deficit for the provision of services for post employment benefits in accordance with the Code	-224,290	-62,350
Actual amount charged against the General Fund Balance for pensions in the year		
Employer's contributions payable to the fund	-62,671	-60,528
Added years and early retirement cash flows in the year:		
LGPS	-5,291	-3,099
Teachers	-2,730	-2,899
	-294,982	**-128,876**

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to the 31 March 2013 is a loss of £51.8 million.

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

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

Period ended 31 March 2012	LGPS funded £000	LGPS Unfunded £000	Teachers' Unfunded £000	Total £000
Opening present value of liabilities	**-1,967,590**	**-25,340**	**-35,490**	**-2,028,420**
Current service cost	-51,510	-	-	**-51,510**
Interest cost	-106,390	-1,340	-1,880	**-109,610**
Contributions by participants	-21,050	-	-	**-21,050**
Actuarial gains/(losses) on liabilities	-207,510	-2,100	-2,660	**-212,270**
Net benefits paid out (note i)	74,230	1,970	2,720	**78,920**
Past service cost	-6,780	-	-	**-6,780**
Settlements (note ii)	14,700	-	-	**14,700**
Closing present value of liabilities	**-2,271,900**	**-26,810**	**-37,310**	**-2,336,020**

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

32e Changes to the fair value of assets during the accounting period

	31 March 2012 £000	31 March 2013 £000
Opening fair value of assets	**1,274,460**	**1,357,770**
Expected return on assets	89,840	86,050
Actuarial gains/(losses) on assets	-13,750	117,870
Contributions by employer	73,710	68,570
Contributions by participants	21,050	19,660
Net benefits paid out (note i)	-78,920	-80,710
Settlements (note ii)	-8,620	-5,980
Closing fair value of assets	**1,357,770**	**1,563,230**

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

32f Scheme history

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

	31 March 2009 £000	31 March 2010 £000	31 March 2011 £000	31 March 2012 £000	31 March 2013 £000
Present value of liabilities in the scheme:					
LGPS funded	-1,523,940	-2,074,760	-1,967,590	-2,271,900	-2,535,240
Unfunded Liabilities:					
LGPS	-27,020	-29,090	-25,340	-26,810	-28,250
Teachers	-37,310	-40,430	-35,490	-37,310	-40,340
	-1,588,270	**-2,144,280**	**-2,028,420**	**-2,336,020**	**-2,603,830**
Fair value of assets in the scheme	860,700	1,180,950	1,274,460	1,357,770	1,563,230
Deficit	**-727,570**	**-963,330**	**-753,960**	**-978,250**	**-1,040,600**

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

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

The total contributions expected to be made to the LGPS by the council in the year to 31 March 2014 is £61.28 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 2012 %	31 March 2013 %
Equities	55.1	57.6
Government bonds	27.0	24.9
Property	7.7	7.8
Corporate bonds	1.5	1.3
Cash	4.1	2.3
Other (hedge funds, currency holdings, futures)	4.6	6.1
	100.0	100.0

32g Net actuarial gain/loss on pensions

The actuarial gains/loss (-) identified as movements on the Pensions Reserve in 2012/13 can be analysed into the following categories, measured in absolute amounts and as a percentage of assets or liabilities at 31 March 2013:

	2008/09	2009/10	2010/11	2011/12	2012/13
	£000	£000	£000	£000	£000
Difference between expected and actual return on assets	-288,800	239,540	-16,800	-13,750	117,870
	33.6%	20.3%	-1.3%	-1.0%	7.5%
Difference between actuarial assumptions about liabilities and actual experience					
LGPS funded	-5,870	16,660	-26,750	-40,480	1,020
	-0.4%	0.8%	-1.4%	-1.8%	0.0%
LGPS unfunded	-220	1,320	430	-650	-230
	-0.8%	4.5%	1.7%	-2.4%	-0.8%
Teachers unfunded	-400	1,640	240	-630	-1,340
	-	4.1%	0.7%	-1.7%	-3.3%
TOTAL	-6,490	19,620	-26,080	-41,760	-550
	-0.4%	0.9%	1.3%	-1.8%	0.0%
Changes in assumptions underlying the present value of pension liabilities					
LGPS funded	23,690	-449,550	23,010	-167,030	-164,200
	1.6%	-21.7%	1.2%	-7.4%	-6.5%
LGPS unfunded	-230	-3,640	440	-1,450	-2,010
	-0.9%	-12.5%	1.7%	-5.4%	-7.1%
Teachers unfunded	-360	-5,080	660	-2,030	-2,880
	-1.0%	-12.6%	1.9%	-5.4%	-7.1%
TOTAL	23,100	-458,270	24,110	-170,510	-169,090
	1.5%	21.4%	1.2%	-7.3%	-6.5%
Net actuarial gain/loss (-)	**-272,190**	**-199,110**	**-18,770**	**-226,020**	**-51,770**

33 Trust funds

The Council has acted as sole trustee for 23 trust funds (23 in 2011/12) and as administrator for 12 other trust funds (12 in 2011/12). They include educational prize funds for financing improvements in education, social care and museum establishments, and musical and sports scholarship funds. The trusts are mainly invested in specialist pooled funds for charities and cash held on deposit with the County Council.

	Balance at 31 March 2012 £000	Balance at 31 March 2013 £000
Sole trustee funds		
Educational trusts		
Dayas Music Scholarship	-99	-102
Michael Austin Harlick Memorial	-263	-261
Mace Educational Trust	-109	-109
Other	-16	-16
Total	**-487**	**-488**
Social Care trusts		
Hampshire Mentally Ill Persons Holiday Organisation	-43	-43
Hampshire Old Industrial and Reformatory Schools	-74	-75
Green Meadows Older Persons Home	-18	-18
Total	**-135**	**-136**
Museums trusts		
Allen Curtis Museum Trust	-23	-23
Red House Museum Trust	-50	-50
Total	**-73**	**-73**
Libraries trust		
Julian Davies Foundation	-2	-2
Other		
Hillier Arboretum trust *	-350	-444
Total - sole trustee trusts	**-1,047**	**-1,143**
Administrator funds		
The Eggars Grammar School Alton Site Foundation	-2,047	-2,114
Hampshire Foundation for Young Musicians	-68	-69
Other	-27	-27
Social care trusts	-6	-6
Total administrator trusts	**-2,148**	**-2,216**
Total trust funds	**-3,195**	**-3,359**

* Hillier Arboretum trust's balance at 31 March 2012 restated as per Hillier Arboretum published accounts.

Pension Fund Accounts

Fund Account	See note	2011/12 £000	2012/13 £000
Dealings with members, employers and others directly involved in the Fund			
Contributions	7	228,540	216,739
Transfers in from other pension funds	8	31,388	14,138
		259,928	**230,877**
Benefits	9	-201,410	-197,429
Payments to and on account of leavers	10	-9,963	-20,037
Administration expenses	11	-2,632	-2,782
		-214,005	**-220,248**
Net additions from dealings with members		**45,923**	**10,629**
Returns on investments			
Investment income	12	88,332	88,742
Taxes on income	13	-855	-954
Profits and losses on disposal of investments and changes in the market value of investments	15a	94,407	474,193
Investment management expenses	14	-8,986	-9,233
Net return on investments		**172,898**	**552,748**
Net increase in the net assets available for benefits during the year		**218,821**	**563,377**

Net Assets Statement	See Note	31 March 2012 £000	31 March 2013 £000
Investment assets	15	3,582,683	4,180,476
Cash deposits	15	60,421	17,090
		3,643,104	**4,197,566**
Long term debtors	22	13,692	10,649
Investment liabilities	15	-2,228	-5,660
Current assets	20	130,521	151,474
Current liabilities	21	-7,848	-13,411
Net assets of the Scheme available to fund Benefits at the period end		**3,777,241**	**4,340,618**

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 2012/13 and the underlying statutory powers underpinning the Scheme, namely the Superannuation Act 1972 and the Local Government Pension Scheme (LGPS) Regulations.

a) General

The Fund is governed by the Superannuation Act 1972. The Fund is administered in accordance with the following secondary legislation:
- the LGPS (Benefits, Membership and Contributions) Regulations 2007 (as amended)
- the LGPS (Administration) Regulations 2008 (as amended)
- the LGPS (Management and Investment of Funds) Regulations 2009.

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

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

b) Membership

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

Organisations participating in the Hampshire Pension Fund include:

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

There are 273 employer organisations within the Hampshire Pension Fund including the County Council itself, as detailed below:

Hampshire Pension Fund	31 March 2012	31 March 2013
Number of employers with active members	248	273
Number of employees in Scheme		
County Council	20,911	21,279
Other employers	24,722	25,040
Total	**45,633**	**46,319**
Number of pensioners		
County Council	14,163	14,668
Other employers	18,029	18,781
Total	**32,192**	**33,449**
Deferred pensioners		
County Council	22,587	24,398
Other employers	23,029	24,572
Total	**45,616**	**48,970**

The increase in employer organisations is partially a result of additional state schools converting to academy status during 2012/13, which are subsequently treated as separate employers to the County Council.

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2007 and range from 5.5% to 7.5% of pensionable pay for the financial year ending 31 March 2013. Employee contributions are matched by employers’ contributions which are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2010. During 2012/13, employer contribution rates for most employers ranged from 19.1% to 20.1% of pensionable pay.

d) Benefits

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

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

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

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

2 Basis of preparation

The Statement of Accounts summarises the Fund's transactions for the 2012/13 financial year and its position at year-end at 31 March 2013. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2012/13* 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 at Note 19 of these accounts.

3 Summary of significant accounting policies

Fund Account – revenue recognition

a) Contribution income

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

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

b) Transfers to and from other schemes

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

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

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

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

c) Investment income

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

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

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

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

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

Fund Account – expense items

d) Benefits payable

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

e) Taxation

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

f) Administration expenses

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

g) Investment management expenses

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

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

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

Net Assets Statement

h) Financial assets

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

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

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

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

iii) Unquoted investments

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

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

iv) Limited partnerships

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

v) Pooled investment vehicles

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

vi) Freehold and leasehold properties

The properties were valued on 31 March 2013 by an external valuer, Paul Willis, BSc MRICS of Colliers International. The valuations were in accordance with the requirements of the Royal Institute of Chartered Surveyors' Valuation – Professional Standards and the International Valuation Standards. The valuation of each property was on the basis of fair value, as defined by the International Accounting Standards Board. All the properties are held for investment purposes and were valued on the assumption that the properties would be sold subject to any existing leases. The valuer's opinion of fair value was primarily derived using comparable recent market transactions on arm's length terms.

i) Foreign currency transactions

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

j) Derivatives

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

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

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

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

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

k) Cash and cash equivalents

Cash comprises cash in hand and demand deposits.

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

l) Financial liabilities

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

m) Actuarial present value of promised retirement benefits

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

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

n) Additional voluntary contributions

Hampshire Pension Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the Pension Fund. The Fund has appointed Prudential and Zurich as its AVC providers. AVCs can also be paid to Equitable Life, but only if they are invested in its building society fund or for an additional death-in-service grant.

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

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

4 Critical judgements in applying accounting policies

Unquoted private equity investments

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward-looking estimates and judgements involving many factors. The convention for valuing unquoted private equities uses standardised methods developed by the British Venture Capital Association and European Venture Capital Association (who have subsequently harmonised their valuation guidelines into the International Private Equity and Venture Capital Valuation (IPEV) guidelines). The value of unquoted private equity investments at 31 March 2013 was £152 million (£164 million at 31 March 2012).

Pension fund liability

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

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

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

The items in the Financial Statement at 31 March 2013 for which there is a risk of adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of approximately £460 million. A 0.25% increase in assumed earnings inflation would increase the value of liabilities by approximately £50 million, and a one-year increase in assumed life expectancy would increase the liability by approximately £120 million.
Debtors	At 31 March 2013, the Fund had a balance of debtors and prepayments of £65.621 million. A review of debtor balances suggested that an impairment of £0.005 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 £0.005 million to be set aside as an allowance.
Private equity	Private equity investments are valued at fair value in accordance with the International Private Equity and Venture Capital Valuation (IPEV) guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statements are £152 million. There is a risk that this investment may be under- or overstated in the accounts.
Hedge funds	Hedge funds are valued at the sum of the fair values provided by the administrators of the funds plus adjustments that the funds' directors or independent administrators judge necessary. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total hedge fund value in the financial statements is £103 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 +/- £5.2 million.

6 Events after the Balance Sheet date

There have been no events since 31 March 2013, and up to the date when these accounts were authorised, that require any adjustments to these accounts.

7 Contributions receivable

By category

	2011/12 £000	2012/13 £000
Employers	173,994	163,962
Members	54,546	52,777
Total	**228,540**	**216,739**

By authority

	2011/12 £000	2012/13 £000
Scheduled bodies	218,487	207,826
Admitted bodies	4,236	4,126
Community admission bodies	950	1,248
Transferee admission bodies	3,920	2,568
Resolution bodies	947	971
Total	**228,540**	**216,739**

8 Transfers in from other pension funds

	2011/12 £000	2012/13 £000
Group transfers	15,213	2,181
Individual transfers	16,175	11,957
Total	**31,388**	**14,138**

9 Benefits payable

By category

	2011/12 £000	2012/13 £000
Pensions	145,021	159,213
Commutation and lump sum retirement benefits	52,640	34,530
Lump sum death benefits	3,749	3,686
Total	**201,410**	**197,429**

By authority

	2011/12 £000	2012/13 £000
Scheduled bodies	193,606	188,418
Admitted bodies	4,710	5,196
Community admission bodies	1,372	1,584
Transferee admission bodies	1,037	1,577
Resolution bodies	685	654
Total	**201,410**	**197,429**

10 Payments to and on account of leavers

	2011/12 £000	2012/13 £000
Refunds to members leaving service	22	16
Payments for members joining state scheme	-17	-5
Group transfers	0	8,475
Individual transfers	9,958	11,551
Total	**9,963**	**20,037**

11 Administration expenses

	2011/12 £000	2012/13 £000
Pension administration costs	2,472	2,640
External audit fees	43	29
Internal audit fees	33	25
Actuarial fees	56	45
Other	28	43
Total	**2,632**	**2,782**

12 Investment income

	2011/12 £000	2012/13 £000
Fixed interest securities	5,849	6,079
Equity dividends	58,949	52,893
Pooled property investments	3,537	3,278
Pooled investments – unit trusts and other managed funds	1,016	904
Property (see note 12a)	14,205	15,439
Interest on cash deposits	1,479	952
Alternative investment income	2,671	8,268
Stock lending	449	281
Other	177	648
Total	**88,332**	**88,742**

a) Property income

	2011/12 £000	2012/13 £000
Rental income	14,205	15,439
Direct operating expenses	-922	-1,562
Net income	**13,283**	**13,877**

13 Taxes on income

	2011/12 £000	2012/13 £000
Withholding tax – fixed interest securities	13	0
Withholding tax – equities	842	954
Total	**855**	**954**

14 Investment management expenses

	2011/12 £000	2012/13 £000
Management fees	7,085	6,811
Property managers' expenses	1,140	1,762
Custodian fees	311	310
Actuary fees – investment consultancy	4	0
Other	446	350
Total	**8,986**	**9,233**

15 Investments

	Market value 31 March 2012 £000	Market value 31 March 2013 £000
Investment assets		
Fixed interest securities	175,963	211,893
Equities	1,736,856	1,747,732
Pooled investments	1,180,216	1,597,401
Pooled property investments	69,152	61,504
Alternative investments	206,874	297,819
Property	208,790	259,160
Derivative contracts:		
- Futures	425	322
- Forward currency contracts	4,258	2,978
- Purchased/written options	149	459
- Spot foreign exchange contracts	0	1
- Adjustment to variation margins	0	1,207
Cash deposits	60,421	17,090
Total investment assets	**3,643,104**	**4,197,566**
Investment liabilities		
Derivative contracts:		
- Futures	-399	-1,529
- Forward currency contracts	-1,394	-3,898
- Purchased/written options	-390	-233
- Spot foreign exchange contracts	-19	0
- Adjustment to variation margins	-26	0
Total investment liabilities	**-2,228**	**-5,660**
Net investment assets	**3,640,876**	**4,191,906**

a) Reconciliation of movements in investments and derivatives

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

	Market value 1 April 2011	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Market value 31 March 2012
	£000	£000	£000	£000	£000
Fixed interest securities	170,157	357,227	-357,838	6,417	175,963
Equities	2,011,143	618,065	-803,295	-89,057	1,736,856
Pooled investments	764,452	240,549	-6,201	181,416	1,180,216
Pooled property investments	74,228	5,482	-4,948	-5,610	69,152
Alternative investments	185,603	38,839	-25,330	7,762	206,874
Property	189,090	25,885	0	-6,185	208,790
	3,394,673	**1,286,047**	**-1,197,612**	**94,743**	**3,577,851**
Derivative contracts:					
- Futures	-30	12,867	-363	-12,448	26
- Forward currency contracts	-3,427	23,321	-26,851	9,821	2,864
- Purchased/written options	-328	3,649	-5,853	2,291	-241
	-3,785	**39,837**	**-33,067**	**-336**	**2,649**
Other investment balances:					
- Cash deposits	50,465				60,421
- Spot foreign exchange contracts	0				-19
- Adjustment to variation margin	0				-26
Net investment assets	**3,441,353**			**94,407**	**3,640,876**

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

b) Analysis of investments (excluding derivative contracts)

	31 March 2012 £000	31 March 2013 £000
Fixed interest securities		
UK		
Public sector quoted	5,637	5,777
Corporate quoted	8,491	8,964
Overseas		
Public sector quoted	115,050	152,309
Corporate quoted	46,785	44,843
	175,963	**211,893**
Equities		
UK		
Quoted	876,124	744,859
Overseas		
Quoted	860,732	1,002,873
	1,736,856	**1,747,732**
Pooled funds – additional analysis		
UK		
Fixed income unit trusts	880,867	928,598
Unit trusts	293,397	545,613
Overseas		
Unit trusts	5,952	123,190
	1,180,216	**1,597,401**
Pooled property investments	69,152	61,504
Alternative investments	206,874	297,819
Property	208,790	259,160
	484,816	**618,483**
	3,577,851	**4,175,509**

Analysis of derivatives

Objectives and policies for holding derivatives

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

All of 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 potentially greater returns available from investing in equities but wishes to minimise the risk of loss of value through adverse equity price movements.

i) Futures

Outstanding exchange traded futures contracts are as follows:

Type	Expires	Economic exposure	Market value 31 March 2012	Economic exposure	Market value 31 March 2013
		£000	£000	£000	£000
Assets					
UK Fixed Income Futures	Less than one year	0	0	10,809	104
UK Equity Futures	Less than one year	0	0	0	0
UK Cash Futures	Less than one year	0	0	0	0
UK Cash Margined Options	Less than one year	0	0	0	0
Overseas fixed income futures	Less than one year	35,973	301	27,389	127
Overseas fixed income margined options	Less than one year	0	0	0	0
Overseas equity futures	Less than one year	0	0	0	0
Overseas cash futures	Less than one year	48,852	124	18,051	91
Total assets			**425**		**322**
Liabilities					
UK cash futures	Less than one year	0	0		
UK cash margined options	Less than one year	0	0		
Overseas fixed income futures	Less than one year	-57,030	-399	-117,233	-1,529
Overseas fixed income margined options	Less than one year	0	0		
Total liabilities			**-399**		**-1,529**
Net futures			**26**		**-1,207**

ii) Open forward currency contracts

At 31 March 2013, the Fund had open forward currency contracts in place with a net unrealised loss of £0.920 million.

Settlements	Currency bought	Local value	Currency sold*	Local value	Asset value	Liability value
		£000		£000	£000	£000
Up to one month	USD	9,577	EUR	-7,379	66	0
One to six months	USD	30,264	GBP	-19,213	746	-21
One to six months	GBP	86,234	EUR	-100,214	1,441	0
One to six months	USD	3,132	SGD	-3,876	5	0
One to six months	GBP	186,627	USD	-287,112	225	-2,745
One to six months	EUR	3,455	GBP	-3,010	0	-86
One to six months	EUR	2,312	USD	-3,017	0	-31
One to six months	USD	3,016	AUD	-2,900	2	0
One to six months	USD	3,020	MXN	-37,480	0	-3
One to six months	PHP	130,491	USD	-3,214	0	-10
One to six months	INR	166,190	USD	-3,065	0	-26
One to six months	BRL	10,997	USD	-5,476	0	-28
One to six months	GBP	4,137	CZK	-123,263	88	0
One to six months	SEK	39,243	GBP	-3,938	34	0
One to six months	GBP	3,773	AUD	-5,760	0	-170
One to six months	GBP	26,179	JPY	-3,837,338	0	-714
One to six months	CAD	5,118	GBP	-3,269	46	0
One to six months	AUD	882	GBP	-578	26	0
One to six months	GBP	2,209	PLN	-10,739	41	0
One to six months	GBP	3,950	SEK	-39,240	0	-22
One to six months	SGD	3,876	GBP	-2,003	55	0
One to six months	MXN	66,630	GBP	-3,339	203	0
One to six months	PLN	11,491	GBP	-2,361	0	-42
Open forward currency contracts at 31 March 2013					**2,978**	**-3,898**
Net forward currency contracts at 31 March 2013						**-920**
Prior year comparative:						
Open forward currency contracts at 31 March 2012					**4,258**	**-1,394**
Net forward currency contracts at 31 March 2012						**2,864**

* List of currencies

AUD = Australian Dollar	BRL = Brazilian Real	CAD = Canadian Dollar
CZK = Czech Koruna	EUR = Euro	GBP = British Pound
INR = Indian Rupee	JPY = Japanese Yen	MXN = Mexican Peso
PHP = Philippine Peso	PLN = Polish Zloty	SEK = Swedish Krona
SGD = Singapore Dollar	USD = United States Dollar	

iii) Purchased/written options

Investment underlying option contract	Expires	Put/call	Notional holding	Market value 31 March 2012	Notional holding	Market value 31 March 2013
			£000	£000	£000	£000
Assets						
Overseas fixed interest purchased	One to three months	Call	1	148	1	159
Overseas cash purchased	One to three months	Put	0	0	11,949	40
Overseas cash purchased	More than three months	Put	0	1	0	0
Overseas cash purchased	One to three months	Call	0	0	15,430	260
Total assets				**149**		**459**
Liabilities						
Overseas fixed interest written	One to three months	Put	0	0	-0	-14
Overseas fixed interest written	One to three months	Call	-1	-390	-0	-34
Overseas cash written	One to three months	Call	0	0	-14,250	-185
Total liabilities				**-390**		**-233**
Net purchased/written options				**-241**		**226**

Investments analysed by fund manager

	Market value 31 March 2012 £000	%	Market value 31 March 2013 £000	%
Aberdeen	873,622	23.1	702,072	16.2
Schroders	546,609	14.5	641,853	14.8
Newton	465,590	12.3	564,354	13.0
Legal & General	566,088	15.0	491,272	11.3
State Street	567,413	15.0	1,096,817	25.3
Western	183,247	4.9	200,199	4.6
CBRE Global Investors	221,020	5.8	271,547	6.2
Other	353,652	9.4	372,504	8.6
Total	**3,777,241**	**100.0**	**4,340,618**	**100.0**

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

Concentration of investments

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

c) Stock lending

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

The Fund lends stock to third parties under a stock-lending agreement with its custodian, Northern Trust. The total amount of stock on loan at the year-end was £132.725 million, and this value is included in the Net Assets Statement to reflect the Fund's continuing economic interest in the stock on loan. The table below summarises the value of stock lent out by the Fund:

	31 March 2012 £000	31 March 2013 £000
Equities – UK	52,980	38,431
Equities – overseas	38,718	45,937
Fixed interest – UK	6,485	1,423
Fixed interest – overseas	11,291	46,934
Total	**109,474**	**132,725**

As security for the stock on loan, the Fund received collateral at 31 March 2013 valued at £146.937 million. This represented 110.7% of the value of stock on loan and comprised 44% equities and 56% government fixed-interest bonds.

The income received from stock-lending activities was £0.281 million net of administrative fees for the year ending 31 March 2013 and is included in the 'Investment income' figure in the Pension Fund Account. This represents a lower income figure than the £0.449 million net of administrative fees generated in 2011/12. Stock lending income from American, French and German equities has fallen particularly significantly, as a result of a combination of weaker borrower demand and the Pension Fund holding fewer dividend paying equities.

d) Property holdings

	Year ending 31 March 2012 £000	Year ending 31 March 2013 £000
Opening balance	189,090	208,790
Additions	25,885	71,091
Disposals	0	-5,424
Net change in market value	-6,185	-15,297
Closing Balance	**208,790**	**259,160**

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

16 Financial instruments

a) 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 by category and Net Assets Statement heading. No financial assets were reclassified during the accounting period.

31 March 2012				31 March 2013		
Designated as fair value through profit and loss £000	Loans and receivables £000	Financial liabilities at amortised cost £000		Designated as fair value through profit and loss £000	Loans and receivables £000	Financial liabilities at amortised cost £000
			Financial assets			
175,963			Fixed interest securities	211,893		
1,736,856			Equities	1,747,732		
1,180,216			Pooled investments	1,597,401		
69,152			Pooled property investments	61,504		
206,874			Private equity/infrastructure	297,819		
208,790			Property	259,160		
4,832			Derivative contracts	4,967		
	139,583		Cash		113,593	
	65,051		Debtors		65,620	
3,582,683	**204,634**	**0**		**4,180,476**	**179,213**	**0**
			Financial Liabilities			
-2,228			Derivative contracts	-5,660		
		-7,848	Creditors			-13,411
-2,228	**0**	**-7,848**		**-5,660**	**0**	**-13,411**
3,580,455	**204,634**	**-7,848**		**4,174,816**	**179,213**	**-13,411**

b) Net gains and losses on financial instruments

31 March 2012 £000		31 March 2013 £000
	Financial assets	
94,743	Fair value through profit and loss	481,002
	Financial liabilities	
-336	Fair value through profit and loss	-6,809
94,407	**Total**	**474,193**

c) 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 2012			31 March 2013	
Carrying value £000	Fair value £000		Carrying value £000	Fair value £000
		Financial assets		
3,582,683	3,582,683	Fair value through profit and loss	4,180,476	4,180,476
204,634	204,634	Loans and receivables	179,213	179,213
3,787,317	**3,787,317**	**Total financial assets**	**4,359,689**	**4,359,689**
		Financial liabilities		
-2,228	-2,228	Fair value through profit and loss	-5,660	-5,660
-7,848	-7,848	Financial liabilities at amortised cost	-13,411	-13,411
-10,076	**-10,076**	**Total financial liabilities**	**-19,071**	**-19,071**

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

d) Valuation of financial instruments carried at fair value

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

Level 1

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

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

Level 2

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

Level 3

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

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

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

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

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2012	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Financial assets				
Financial assets at fair value through profit and loss	3,093,035	282,774	206,874	3,582,683
Loans and receivables	204,634			204,634
Total financial assets	**3,297,669**	**282,774**	**206,874**	**3,787,317**
Financial liabilities				
Financial liabilities at fair value through profit and loss		-2,228		-2,228
Financial liabilities at amortised cost	-7,848			-7,848
Total financial liabilities	**-7,848**	**-2,228**	**0**	**-10,076**
Net financial assets	**3,289,821**	**280,546**	**206,874**	**3,777,241**

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.

a) Market risk

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

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

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

The Fund manages these risks in two ways:

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

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

Other price risk

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

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

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

Other price risk – sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with WM Company plc, the Pension Fund has determined that the following movements in market price risk are reasonably possible for the 2013/14 reporting period:

Asset type	Potential market movements (+/-)
UK equities	13.0%
Overseas equities	11.9%
UK index-linked gilts	8.3%
UK fixed interest bonds	5.5%
Overseas index-linked gilts	3.1%
Overseas fixed interest bonds	2.2%
Property	1.8%
Alternative investments	3.6%
Cash	0.0%

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

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

Asset type	Value at 31 March 2013	Percentage change	Value on increase	Value on decrease
	£000	%	£000	£000
UK Equities	1,290,472	13.0	1,458,362	1,122,582
Global Equities	1,126,063	11.9	1,260,290	991,837
UK index-linked gilts	928,598	8.3	1,006,043	851,153
UK fixed interest bonds	14,741	5.5	15,553	13,929
Overseas index-linked gilts	4,562	3.1	4,703	4,421
Overseas fixed interest bonds	192,590	2.2	196,866	188,314
Property	320,664	1.8	326,436	314,892
Alternatives	297,126	3.6	307,882	286,370
Cash	17,090	0.0	17,092	17,088
Total assets	**4,191,906**		**4,593,227**	**3,790,596**

Asset type	Value at 31 March 2012	Percentage change	Value on increase	Value on decrease
	£000	%	£000	£000
UK Equities	1,169,521	13.0	1,321,675	1,017,366
Global Equities	860,732	11.9	963,331	758,133
UK index-linked gilts	880,867	8.3	954,332	807,403
UK fixed interest bonds	14,128	5.5	14,906	13,349
Overseas index-linked gilts	4,596	3.1	4,738	4,454
Overseas fixed interest bonds	163,191	2.2	166,814	159,568
Property	277,942	1.8	282,945	272,939
Alternatives	209,478	3.6	217,061	201,895
Cash	60,421	0.0	60,427	60,415
Total assets	**3,640,876**		**3,986,229**	**3,295,522**

Interest rate risk

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

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

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

	31 March 2012 £000	31 March 2013 £000
Cash and cash equivalents	79,162	96,503
Cash deposits	60,421	17,090
Fixed interest securities	1,062,782	1,140,491
Total	**1,202,365**	**1,254,084**

Interest rate risk sensitivity analysis

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

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

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

Asset type	Carrying amount as at 31 March 2012	Change in year in the net assets available to pay benefits	
		+1%	-1%
	£000	£000	£000
Cash & cash equivalents	79,162	792	-792
Cash deposits	60,421	604	-604
Fixed interest securities	1,062,782	10,628	-10,628
Total change in assets available	**1,202,365**	**12,024**	**-12,024**

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 2013 and as at the previous period end:

	Asset value at 31 March 2012 £000	Asset value at 31 March 2013 £000
Overseas quoted securities	860,732	1,002,873
Overseas unit trusts	5,952	123,190
Alternative investments	206,874	266,349
Overseas pooled property investments	69,152	46,900
Overseas public sector bonds (quoted)	115,050	152,309
Overseas corporate bonds (quoted)	46,785	44,843
Total overseas assets	**1,304,545**	**1,636,464**

In consultation with WM Company plc, the Pension Fund considers the likely volatility associated with foreign exchange rate movements to be 5.8%.

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

A 5.8% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

	Asset value as at 31 March 2013	Change to net assets available to pay benefits	
		+5.8%	-5.8%
	£000	£000	£000
Total change in assets available	1,636,464	94,915	-94,915

	Asset value as at 31 March 2012	Change to net assets available to pay benefits	
		+5.8%	-5.8%
	£000	£000	£000
Total change in assets available	1,304,545	75,664	-75,664

b) Credit risk

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

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

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

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

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

The Pension Fund has managed its exposure to credit risk, and has had no experience of default or uncollectable deposits. The Fund's cash holding under its treasury management arrangements at 31 March 2013 was £51.230 million (31 March 2012: £91.980 million). This was held with the following institutions:

	Rating as at 31 March 2013	Balances as at 31 March 2012	Balances as at 31 March 2013
		£000	£000
Money market funds			
Ignis	AAA	6,800	4,800
Prime Rate	AAA	5,000	4,800
Insight	AAA	0	4,800
Deutsche	AAA	0	4,800
RBS Global	AAA	0	3,000
Bank deposit accounts			
NatWest	A-	15,180	7,500
HSBC	AA-	5,000	7,030
Lloyds TSB	A	15,000	7,500
Santander UK	A	15,000	0
Barclays	A	10,000	7,000
Nationwide Building Society	A	10,000	0
Deposits with other local authorities			
Newcastle-upon-Tyne CC	-	10,000	0
Total		**91,980**	**51,230**

c) Liquidity risk

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

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

All financial liabilities at 31 March 2013 are due within one year.

Refinancing risk

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

18 Funding arrangements

In line with the LGPS (Administration) Regulations 2008, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place at 31 March 2010. The next valuation will take place at 31 March 2013.

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 25 years from 1 April 2011 and to provide stability in employer contribution rates by spreading any increases in rates over a period of time. Solvency is achieved when the funds held, plus future expected investment returns and future contributions, are sufficient to meet expected future pension benefits payable.

At the 2010 actuarial valuation, the Fund was assessed as 72% funded (77% at the March 2007 valuation). This corresponded to a deficit of £1,256 million (2007 valuation: £891 million) at that time. The actuarial valuation has determined that the contribution rate for the scheduled bodies group of employers will remain unchanged at 19.1% over the three-year period ending 31 March 2014, and the employer contribution rate for the admission bodies group will increase in steps of 0.5% p.a. to 19.6% in 2011/12, 20.1% in 2012/13 and 20.6% in 2013/14.

The valuation of the Fund has been undertaken using the projected unit method 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 2010 actuarial valuation were as follows:

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

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

Commutation assumption:
It is assumed that future retirees will take 25% of the maximum additional tax-free lump sum up to HMRC limits for pre-April 2008 service and 75% of the maximum for post-April 2008 service.

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 liabilities, on an IAS 19 basis, using the same base data as the funding valuation.

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

The actuarial present value of promised retirement benefits at 31 March 2010 was £5,827 million (31 March 2007: £4,468 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 2010 triennial funding valuation (see Note 18) because IAS 19 stipulates a discount rate rather than a rate which reflects market rates.

The principal financial assumptions used by the Fund's actuary for the March 2010 IAS 19 calculation were:

Discount rate	5.50%
RPI inflation/pension increase rate assumption	3.65%
CPI inflation	2.75%
Salary increase rate	5.15%

20 Current assets

	31 March 2012 £000	31 March 2013 £000
Debtors:		
- Contributions due	18,291	20,969
- Sundry debtors	20,847	21,724
	39,138	**42,693**
Prepayments	12,221	12,278
Cash balances	79,162	96,503
Total	**130,521**	**151,474**

Analysis of debtors

	31 March 2012 £000	31 March 2013 £000
Central government bodies	2,276	2,339
Other local authorities	18,453	19,921
NHS bodies	7	1
Public corporations and trading funds	2,611	3,284
Other entities and individuals	15,791	17,148
Total	**39,138**	**42,693**

21 Current liabilities

	31 March 2012 £000	31 March 2013 £000
Sundry creditors	7,848	13,411
Total	**7,848**	**13,411**

Analysis of creditors

	31 March 2012 £000	31 March 2013 £000
Central government bodies	21	302
Other local authorities	305	8,597
NHS bodies	0	11
Other entities and individuals	7,522	4,501
Total	**7,848**	**13,411**

22 Long term debtors

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

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

	31 March 2012 £000	31 March 2013 £000
Magistrates Courts - agreed liability settlement due from central government body	13,692	10,649
Total	**13,692**	**10,649**

23 Additional voluntary contributions

	Market value 31 March 2012 £000	Market value 31 March 2013 £000
Prudential	299	1,499
Zurich	7,893	7,785
Equitable Life	1,462	1,409
Total	**9,654**	**10,693**

During the year, AVC contributions of £1,366 million were paid directly to Prudential (2011/12: £0.297 million), £0.907 million to Zurich (2011/12: £1.494 million), and £0.014 million to Equitable Life (2011/12: £0.024 million).

24 Related party transactions

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

The County Council incurred costs of £2.665 million (2011/12: £2.504 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 £81.420 million to the Fund in 2012/13 (2011/12 £88.539 million).

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

25 Contingent liabilities and contractual commitments

Outstanding capital commitments (investments) at 31 March 2013 totalled £66.978 million (31 March 2012: £88.317 million).

These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the private equity and infrastructure parts of the portfolio. The amounts ‘called’ by these 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 2013.

26 Contingent assets

The Fund had no contingent assets on 31 March 2013.

27 Impairment losses

During 2012/13, the Fund has recognised an impairment loss for bad and doubtful debt of £0.005 million (2011/12: £0.008 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 2013.

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 2013 and its income and expenditure for the year ended 31 March 2013.

Carolyn Williamson
Chief Financial Officer and Section 151 Officer
26 September 2013

4 The Chairman's statement

I certify that the Statement of Accounts for 2012/13 was considered and approved by the Audit Committee on 26 September 2013.

Councillor Keith Evans
Chairman of Audit Committee
26 September 2013

Annual Governance Statement for Hampshire County Council and Hampshire Pension Fund

1 Scope of Responsibility

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

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

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 2012-2013.

2 The purpose of Corporate Governance

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

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

The governance framework has been in place at Hampshire County Council for the year ending 31 March 2013 and up to the date of approval of the annual report and the statement of accounts.

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

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

The questionnaires, which were revised during 2012-13, 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 revised Internal Audit Strategy adopted by the County Council in December 2007 and updated in December 2010, the key elements of the Corporate Governance framework are risk assessed and reviewed periodically by Internal Audit.

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

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

3 Establishing principal statutory obligations and organisational objectives

3.1 Mechanism established to identify principal statutory obligations

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

- the County Council
- the Leader
- Cabinet

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

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

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

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

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

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

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

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

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

An Officer group comprising the 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. During 2012-2013 the group focused on the Localism Act, the Health and Social Care Act and the Police Reform and Social Responsibility Act.

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

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

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

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

The Corporate Services Review was implemented during 2012 and as part of this, the role of Director of Corporate Resources was created, taking on the Chief Financial Officer role from the old County Treasurer post. The County Council still continues to operate a system of Devolved Finance Units, each with a Finance Business Partner working closely with the relevant Chief Officer and reporting to the

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

3.2 Mechanism in place to identify principal organisational obligations

The County Council remains committed to the three overall priorities set out in the corporate strategy. These priorities are approved by Full Council, and are in place for the life of the administration. Priorities are clearly communicated on the County Council website and through various communications.

A new Performance Management Framework was launched in 2011. As part of this, a new County Council Business Plan was developed, identifying the medium term priorities for the organisation (aligned to the three overarching corporate priorities). The *Open for Business* Plan 2011-13 encompasses the efficiencies and expenditure reduction work streams; major change areas; and the main departmental priorities (e.g. safeguarding). Priorities are also informed through feedback from service users and residents; outcome of inspection; performance benchmarking; and national policies and initiatives. The Plan contains actions across finance, workforce, performance and customer focus/communications – securing full integration.

Activities and targets are drawn from work stream plans and department level business plans; and cascaded through service plans and Individual Performance Plans. The *Open for Business* Plan 2011-13 was approved by the Corporate Management Team (CMT) and Cabinet. Progress against the Plan is monitored on a quarterly basis, with an annual report providing a full evaluation of performance. Areas for improvement will be incorporated in a refresh of the Plan for 2013/14.

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

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

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

Business and Financial Planning take into account the service and budgetary impact of working with external partners. The County Council has recognised that this is an area of increasing risk for the future as partnerships expand and as greater reliance is placed on securing and maintaining partner contributions to support service provision. The 2013/14 budget contains separate contingency provision to reflect this risk and close financial planning is undertaken with key partners, particularly Health given the changes arising from the restructuring of the NHS and the move to Clinical Commissioning Groups (CCG's).

Joint working with Hampshire Constabulary and Hampshire Fire and Rescue Service has been developed during the year that includes 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 accession agreements drawn up by the three authorities.

3.3 Effective Corporate Governance arrangements are embedded within the County Council

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

The 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.

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

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

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

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

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

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

The Audit Committee received the results of the assessment at its meeting in September 2012 reporting full compliance against in excess of 90% of the standards.

For areas of partial compliance an action plan was put in place to stimulate improvement.

During 2012-13 Internal Audit were required to comply with the CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006 and its prescribed professional standards. Assurance that these Standards are met is provided through the annual review of the 'Effectiveness of the System of Internal Audit' and ISO quality accreditation.

The Audit Committee approved the Internal Audit Strategy and Plan for 2012/2013 (March 2012). 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. This plan was based on a revised Internal Audit Strategy for 2011 to 2014, as approved by the Audit Committee at its meeting in December 2010.

The Chief Internal Auditor submitted an Annual Audit Report and Opinion to the June 2013 Audit Committee on the effectiveness of the control framework.

3.4 Performance management arrangements are in place

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

Key components are as follows:

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

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

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

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

In addition, departments have robust mechanisms for performance management.

Performance management arrangements are enhanced by a thorough and fully embedded system of budget forecasting and monitoring which focuses on:
- annually updated three year budget projections and a three year capital programme.
- quarterly budget monitoring reports on revenue and capital to the relevant executive Member.
- additional capital investment of £26.5M as part of the 2013/14 budget process targeting key capital theme areas identified last year.
- 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, together with transparency data which is compliant with the Government's guidance.

Children’s Services Department activities are governed by the operational structures and the Scheme of Delegations. They are controlled through a range of supervisory and quality assurance arrangements. They are validated through a range of performance data and particularly by the external inspection from Ofsted. The external responsibilities are governed through the oversight of the Hampshire Safeguarding Children Board (HSCB) which is independently chaired but reports back to the Children's Trust Board, the Corporate Management Team, the Lead Member and the respective executive arrangements of other statutory partners.

The county wide Efficiency Cost Reduction and Transformation programme began in July 2010 and is the principal means by which the County Council is addressing its grant reduction and improving efficiency. The County Council has or is expecting to achieve £97M of the £100M two year total that was set and separate detailed monitoring which was put in place in 2011-2012 was continued reporting monthly to CMT, and then on to Cabinet in reports in the latter part of the year, ensuring high levels of focus and commitment to securing the savings that had been proposed.

The budget for 2013/14 was set in February 2013, taking account of further grant reductions which were announced in December last year. A budget strategy agreed to the end of the 2014/15 financial year, that gives the County Council the time and capacity to achieve savings from 2015/16 onwards as part of the new ‘Transformation to 2015’ programme.

This reflects the expectation that local government finances will continue to be under severe pressure from 2015/16 onwards and the County Council is once again preparing well in advance for the financial challenges to come, moving from a programme of cost reduction and efficiency to one of key service transformation.

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 *Open for Business 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 vision of the County Council, as embodied in the three priorities, is reviewed with each political administration. The *Open for Business* priorities have been in place for the last two years and will be refreshed for the new administration for 2013 and beyond.

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

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

Other examples include:

- the shadow Health and Well-being Board;
- the Children's Trust;
- the Local Safeguarding Children Board;
- the 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 *Open for Business* 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, as well as the financial position.

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

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

- benchmarking of spend compared with service quality i.e. lower quartile council tax;
- broad achievement of meeting four years worth of CSR 2010 savings within 2 years
- a return to an Annual Efficiency Target of 2% across all Departments in 2013/14 and 2014/15
- integrated planning which links corporate priorities and areas for improvement to the budget setting decision process;
- high levels of capital investment which shows that short term gains are not pursued at the expense of long term value for money and investment in 'invest to save projects' such as extra care and the development of an energy strategy;

The Annual Governance Report 2012 (2011/12 conclusion) presented to the September 2012 Audit Committee concluded 'that the County Council had made proper arrangements to secure economy, efficiency and effectiveness in its use of resources'. The County Council's external auditor stated:
"I expect to conclude that you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources. As a Council you:

- delivered your 2011/12 budget, delivered savings amounting to £55 million and retained a strong level of general fund and earmarked reserves;
- reviewed your structures for service provision as part of your transformation and efficiency programme. In doing so you are delivering on a challenging savings target whilst aiming to maintain the quality of the services you provide;
- received a report from Ofsted in November 2011 highlighting that Children's Services perform excellently and the majority of services, settings and institutions they inspected were assessed as good or better; and
- have sound performance management arrangements in place to monitor performance against target and to take action where performance is below target."

Following the report, these comments were confirmed within the audit certificate that was issued before the statutory deadline.

The Annual Governance Report also identified the importance of the following:

- delivering the efficiencies and savings included in the medium term financial strategy; and
- continuing to robustly monitor performance to ensure the quality of service provided by the County Council is in line with the targets set.

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

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

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

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

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

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

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

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

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

The Members' Allowances Scheme for 2013/14 was approved by the County Council on 21 February 2013 and is published on Hantsweb as part of the Council's Constitution. Administration of the Scheme is overseen by the Head of Member Services and supported by effective and robust business processes.

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

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

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

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

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

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

- Members and Officers Codes of Conduct
- Member/Officer protocol
- Conduct Advisory Panel
- Complaints Procedures
- Anti fraud and corruption policy
- Standing Orders governing the conduct of Council business
- Contract Standing Orders
- Financial Regulations
- Guidance on Partnerships
- Performance Management system
- Investors in People and a system of individual performance plan appraisal.

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

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

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

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

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

A Report Writing Guide is available on the intranet which informs those preparing reports. All decision reports whether to the Executive or to a committee are submitted in advance for both legal and financial consideration. A decision making record clearly documents the decision(s) made together with other considerations in accordance with legislative requirements. All decision reports and decision records are published on dedicated pages on the web in accordance with well established business practices. Arrangements were put in place during 2012/13 for the recording and publication of Executive Decisions made by Officers in accordance with new statutory requirements. Exemptions from publication in the case of confidential or exempt reports are approved by the Head of Governance.

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

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

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

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

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

The maintenance of an effective scrutiny function is supported by a dedicated resource for scrutiny by designated officers located in the Democratic and Member Services Unit. Reviews are regularly shared with Executive Members and partner agencies as appropriate and resulting action monitored. Working arrangements with District Authorities are in place as are wider networks for health overview and scrutiny. Scrutiny of the safeguarding work of the Hampshire Safeguarding Adults Board and the Adult Services Department is provided through the Safe and Healthy Select Committee.

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

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

There is a comprehensive risk management framework in place with effective processes for reporting on risk. Through the Risk Management Board, chaired by the Director of Policy and Governance, risk management is embedded into the culture of the County Council so as to better influence decision making. Regular briefings on risk are made to the Executive Member with responsibility for risk management. Assessments of risk to the County Councils major change programmes are regularly reported to the Cabinet and Executive Members.

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

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

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

The County Council’s Management and Leadership Competencies form the basis of how managers and leaders within the County Council need to develop themselves and others to be even more effective. Implicit within the Competencies is a recognition that to be fully effective, individuals need to be able to positively challenge and scrutinise information presented to them. The "Vision and Direction" and "Stakeholders' and Partnerships” Competencies also identify the need to work with others, particularly when expertise is not available internally. The County Council’s IPP process has been further developed to ensure that individual development needs can be identified and on the basis of this, departmental training plans developed.

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

Corporately, officer development is managed through the learning & development board and significant work is being undertaken on “*Priority Leadership Skills”* which is designed to equip senior managers with the necessary skills to meet the future aspirations of the Country Council.

During 2012-13 a new officer development programme has been developed. “Transforming the Council through you” will focus on the four key themes of people development, performance management, managing change and talent management and will be further developed and implemented during 2013-2014.

The induction programme for Members was overhauled for the 2009 elections and there are now ongoing member briefings to ensure continuous development. Member induction has been significantly strengthened and there are also now Member briefings which address generic development needs.

For Members there are a range of member development events in place and activity continues to be co-ordinated by the Member Development Group which has also overseen the County Council's successful application for charter status for Member development. This is a clear demonstration of the County Council's commitment and strength of approach in this area.

Training for committee members is undertaken as part of the broader member development agenda which is co-ordinated by the Member Development Group.

Skills identification for Members is undertaken via the Member Development Group and the respective leads of each political party. Career structures for members is largely dealt with within the individual political parties.

A detailed programme of induction for new Members following the County Council elections in May 2013 has been developed and informed by a cross-party Members Development Group. This focuses initially on a main induction event and detailed workshops to provide information and support to ensure new Members can be up and running in their role as soon as possible. These events are also open to returning Members to provide a refresher opportunity.

In the following months a range of events such as departmental briefings, a monthly programme of topical briefings for Members and e-newsletters are accessible to all Members.

Members are encouraged to complete a Training Needs Assessment to identify areas of training and personal development. A range of in-house training is provided, such as IT training, equalities and diversity, together with external training for areas such as Chairmanship skills. Individual training and development e-records are maintained. Introduction of a bi-annual training and development report prepared for each Member is proposed to coincide with the start of the new Administration in May 2013

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 Director of Corporate Resources.

For Officers skills are assessed via the role profile/person spec for the role and development needs are individually identified through the Council's IPP process and generically through a range of options e.g. management & leadership competencies. Corporately, officer development has been managed through the learning & development board and significant work is being undertaken on "*Priority Leadership Skills"* which is designed to equip senior managers with the necessary skills to meet the future aspirations of the Council.

Skills identification for officers is undertaken through assessment against the person specification for the role and then annually via the IPP process.

For officers there are succession planning arrangements within departments and talent management arrangements will be addressed as part of the Council's Workforce Development strategy.

The revisions to the Performance Management Framework and the *Open for Business Plan* will be agreed with Member's in 2013/14 and are expected to integrated new workforce development initiatives, building capacity and securing the skills needed to drive transformational change within the County Council.

A Corporate Governance e-learning module was developed and launched in July 2010. The e-learning module is available to all County Council staff and forms part of the mandatory corporate induction programme.

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

The County Council undertakes a programme of consultation with residents, business and other key organisations on a wide range of issues. The findings are disseminated across the whole organisation, influencing policy and the decision-making process.

For both consultation and communications, the County Council draws on a number of strategies and documents:
- Hampshire Now publication
- Communications Strategy
- Best practice consultation standards
- Voice of the Customer
- E-consultation database

Public accountability is further enhanced by the system of publicly accessible scrutiny committees.

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

- Open for Business Performance Updates and Annual Performance Report
- Financial Statements and Accounts
- Select Committee reports
- Annual reporting to the wider public via special articles being published in the Council's newsletter *Hampshire Now.*

The County Council has made a public commitment to openness, accountability and transparency through its Transparency Policy Statement, which it publishes on its website. It has published a wide range of information in accessible formats as “open data”, including details of salaries, spending and contracts

5 Identify principal risks to achievement of objectives

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

The County Council has a comprehensive risk management framework in place, that includes partnership risks, with effective processes for reporting on risk. The County Councils risk management strategy was reviewed and updated in 2012.

A network of risk registers focusing on strategic and operational risk is in place, with regular reporting to senior management at both corporate and departmental levels. Business continuity arrangements are in place for all critical services, and tested.

Performance standards are used to improve the delivery and effectiveness of risk management. Through the Risk Management Board, chaired by the Director of Policy and Governance, risk management is embedded through the culture of the County Council so as to better influence decision making. Regular briefings on risk are made to the Executive Member with responsibility for risk management and regular reports have been made to the relevant scrutiny committees. The County Council has developed and uses a performance management framework that measures the maturity of its risk management arrangements. It provides assurance that:

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

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

The County Council largely self-insures against risk, subject to the availability of catastrophic insurance. There is good evidence that the management of claims within Legal Services is in accordance with the Civil Procedure Rules and that appropriate reserves are placed on claims. The claims management arrangements were subject to external audit by the Travellers Insurance Company Limited in February 2012, receiving an excellence rating. Significant claims are regularly reviewed by Head of Governance with the Head of Litigation. The budget for dealing with these claims, and the contributions to be made to that budget by Departments reflects the sums identified within the reserve figures placed on all claims. There is evidence of monitoring the incidence of successful and unsuccessful claims and of feeding that information into the policy for risk financing accordingly. The system of self insurance is subject to internal audit, and review by external insurers.

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

Performance risks are identified and mitigated in line with the established corporate risk management framework. In addition, the Performance Management Framework establishes a transparent cycle of reporting, including quarterly reporting of progress against the *Open for Business* 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 midyear review and outturn report and Arlingclose Limited, the County Council's Treasury Management advisors have confirmed that the County Council fully complies with the Prudential Code. The Audit Committee is responsible for challenging and scrutinising treasury management activity and practices.

Financial Regulations and Contract Standing Orders are regularly reviewed and a full review was undertaken during 2012 but no significant changes were deemed necessary as a result of the review. A more detailed review will be undertaken as part of the implementation of proposals for the Integrated Business Centre that will need to align the regulations with the business process rules that are being put in place.

Financial Procedure Rules were also refreshed in the early part of 2013 and a separate training module for budget holders and other relevant staff is being rolled out in the new year to raise awareness of key issues and responsibilities in undertaking the financial elements of their roles.

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

Following the Corporate Services Review a dedicated Governance section has been created headed by the Head of Governance (Monitoring Officer). This new section 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 creation of the new Governance section will facilitate a more integrated approach to Corporate Governance across the County Council.

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

A revised Members Code of Conduct was adopted by the County Council in 2012. Training sessions on the new Code were offered by the Monitoring Officer to all Members including co-opted Members.

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

The County Council’s current corporate procurement strategy (CPS) was formally approved by Cabinet in November 2009. A further iteration of the CPS was planned in 2012, but has been deferred to 2013 so that the collaboration between Hampshire Constabulary (HC), Hampshire Fire and Rescue Service (HFRS) and Hampshire County Council (HCC) could be fully recognised in the document. An internal Best Practice Guide for procurement is maintained for staff and was last updated on 4

March 2013. The County Council continued implementation of its Procurement Improvement Plan (PIP) and the first three cohorts of staff completed a formal programme of training and development that is intended to improve capacity and performance (the Licensed Procurement Practitioner programme and assessments set externally leading to the *Award in Public Sector Procurement)*. A second procurement conference for staff has been arranged and the agenda will again feature an update on procurement regulations and best practice.

Relevant information on policy and practice is maintained on both the County Council's internal and external websites at:
http://intranet.hants.gov.uk/corporateprocurement.htm
http://www3.hants.gov.uk/procurement

The actions associated with the CPS and the PIP have been reviewed regularly with departmental representatives at meetings of the Corporate Procurement Network and PIP Steering Group. Progress on the corporate procurement agenda and key issues continue to be considered by Members on the Buildings, Land & Procurement Panel.

Internal audits have been received on *Corporate Procurement Strategy and Governance Arrangements* and on *Contract Management* and these reports have been complemented by further work *(with Home to School Transport, Schools and Children's Services).*

The County Council continues to give significant support to collaborative procurement with local, regional and national partners. Proposals to develop a shared procurement service between the County Council, Hampshire Constabulary (HC) and Hampshire Fire and Rescue Service (HFRS) have been reported to and approved by a Joint Programme Delivery Board and are part of a wider programme of joint working that has received formal approval from all three organisations. The County Council's Chief Executive continues to influence the future of procurement across local government and during the course of the year submitted a draft National Procurement Strategy to the LGA. Other collaboration includes construction (a 'cluster' of neighbouring authorities) and commodity goods and services (through the Central Buying Consortium, Pro5 and the Hampshire & Isle of Wight Procurement Partnership). Pro5 includes four of the major local authority purchasing consortia and is building its work plan in accordance with category management principles. Pro5 is collaborating with the Government Procurement Service on a number of contracts and the County Council's procurement team is making a direct contribution to this work.

Business continuity arrangements have been embedded into the County Council. Potential critical service areas have been identified and prioritised across the County Council's services against guideline criteria described in the Civil Contingencies Act

2004. Business impact analysis within the critical services has been undertaken and appropriate department and service plans developed as appropriate. A suite of business continuity plans consisting of corporate and incident management plans, together with template department incident are service recovery plans have been prepared and are stored within a robust system. A scheduled programme of testing is in place, including recovery arrangements for key IT systems Corporate and Departmental risk registers include control measures, which are reviewed and monitored on a regular basis.

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

The Corporate Health and Safety Policy is regularly reviewed and signed off by both the Leader and the Chief Executive. Partnership health and safety is covered by specific policy arrangement. The Corporate Health and Safety Policy is available electronically on the intranet and is supported by departmental policies and guidance. Audit programmes are in place across the County Council to review compliance against the policies and procedures. The Corporate Health and Safety policy and supporting policies are covered in health and safety induction and other relevant training courses. A suite of training course for health and safety is in place.

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

The Risk and Safety Executive Group, the Risk Management Board and CMT receive reports on health and safety performance including incidents and positive indicators. The overall health and safety management performance is measured annually against standards defined by the HSE.

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

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

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 Information Management Board. The County Councils IT service holds ISO27001 compliance for its information security management system. The County Councils Information Governance Toolkit self-assessment for 2012/13 in respect of the Public Health function showed an overall score of 66% (in the “satisfactory” range under Department of Health ratings).

As described above, guidance and the database of partnerships helps to identify and register risks in partnerships. Additionally, major corporate partnerships are included in the risk register. Performance risks are identified and mitigated in line with the established corporate risk management framework. In addition, the Performance Management Framework establishes a transparent cycle of reporting, including quarterly reporting of progress against the County Council Business Plan and an annual self-assessment, to be completed by departments.

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

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

In February 2012 a new shared internal audit service commenced with Southampton City Council. Its early success has led to Havant Borough Council and East Hampshire District Council joining the Partnership, as well as interest from other district councils. The Partnership has further been successful in securing work within the HE sector. The Partnership provides for the delivery of an innovative and collaborative internal audit service, benefiting from strengthened resilience, efficient use of resources across both authorities and economies of scale in service delivery.

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

The Chief Internal Auditor’s Annual Report and opinion for the Hampshire Pension Fund states that “ Based on internal audit work completed ‘Substantial Assurance’ can be placed on Hampshire County Council (Pension Services) framework of governance, risk management and management control and audit testing has demonstrated controls to be working in practice".

7 Obtain assurances on the effectiveness of key controls

7.1 Appropriate assurance statements are received from designated internal and external assurance providers

Key controls relating to risks, internal control (including financial management), and governance processes are identified by managers as part of the governance framework and recorded on regular returns. These are consolidated into the risk registers at corporate and departmental level. Internal Audit, as part of its planned review of internal controls regularly evaluates the key controls to determine their adequacy and also carries out tests to confirm the level of compliance. Together the results of each review enable an audit opinion on effectiveness to be provided to management, and any actions for improvement to be agreed. This assurance is given to each manager in respect of the controls they are responsible for in the form of an audit report and regular summaries are provided for Chief Officers and the Audit Committee to ensure each level of the County Council's management is kept informed of findings and opinions.

External sources of assurance include the annual opinion and value for money conclusion by external auditors, and statutory inspections of adults social care services, and children's services. These reports are subject to consideration by senior management and Members of the County Council, and appropriate response to any recommendations for improvements are agreed. These reports and responses are normally approved in public and published.

8 Evaluate assurances and identify gaps in control/assurance

8.1 The County Council has made adequate arrangements to identify, receive and evaluate reports from the defined internal and external assurance providers to identify weaknesses in controls

The County Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the officers within the County Council who have responsibility for the development and maintenance of the governance environment, the Chief Internal Auditor's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

The Head of Governance and the Chief Internal Auditor have evaluated the reports from the internal and external assurance providers which have also been reported to the Audit Committee. This Annual Governance Statement sets out the County Council's arrangements for receiving reports and identifying weaknesses in internal control.

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

- The County Council's existing Procurement Improvement Programme will complete in 2013/14. In order to face the challenging corporate environment and further financial pressure, the County Council has established a *Transforming the Council (TtC) programme*, which contains a significant further emphasis on a review of the Council's spend with external bodies (particularly commissioning and contract management). Additional resources have been put in place to deliver the programme and an external consultant has been engaged to undertake an assessment of opportunities that will be incorporated into the *TtC External Spend* workstream. Delivery of the plans approved by the Corporate Management Team and Members will commence in 2013/14.

- The Joint Working arrangement with Hampshire Constabulary and Hampshire Fire and Rescue Service is expected to deliver efficiency savings, improved resilience and service quality for all organisations and, subject to final approvals, the service is expected to move from an interim to a fully integrated structure in 2014/15.

- The County Council's Anti fraud and corruption policy will be reviewed by the Chief Internal Auditor during 2013-2014 to reflect best practice detailed in the National Fraud Authority's publication 'Fighting Fraud Locally - The Local Government Fraud Strategy' ensuring best practice standards are maintained.

- In 2013 significant changes will be made to the way in which officers are developed with the implementation of the Council's Workforce Development strategy "Transforming the Council through you"

- Greater consistency is required in identifying development needs of Officers and then the appropriate development plans being put in place. This will be dealt with as part of the implementation of the Council's Workforce Development strategy during 2013/14 and 2014/15

- A review of the County Council's Complaints Processes will be undertaken during 2013/14 by the Hantsdirect and Customer Access Board.

- A further review of Financial Regulations and procedure rules will be undertaken as part of the implementation of the IBC to ensure that the regulations and business processes are fully aligned.

- The Head of Governance will review the Officer's Code of Conduct during 2013-14 along with the process for recording Officer's interests in contracts and gifts and hospitality received.

- The Head of Governance and the Chief Internal Auditor will review the County Council's Code of Corporate Governance in the light of the outcome of the Corporate Services Review and implementation of the Integrated Business Centre.

- The Corporate Equality group will, building on an internal audit of the Equality Impact Assessment process, develop an action plan to take forward the promotion of the Equality across the County Council.

- The review of the County Council's suite of Governance Documentation referred to in the 2012-2013 Annual Governance Statement will be undertaken during 2013-14.

10 There is a robust mechanism to ensure than an appropriate action plan is agreed to address identified control weaknesses and is implemented and monitored

The Action Plan is kept under regular review by the Officer Corporate Governance Group. In response to the Action Plan identified in the 2011-2012 Annual Governance Statement:

- Implementation of the recommendations contained in the Council's Procurement Improvement Programme progressed well during 2012/13. Reports on progress and on procurement issues are made to elected Members. Implementation and reporting to Elected Members is expected to continue in 2013/14.
- The Council's Transformation to 2015 programme is subject to comprehensive governance and monitoring arrangements. The actions to be taken forward on External Spend, including those from the work on procurement that is being undertaken by external consultants, will be subject to these arrangements. Priorities will again be reviewed in the light of corporate developments around strategic procurement and shared services, including procurement, with other public bodies in Hampshire. The joint working arrangements, including procurement, will be reviewed and monitored by the Joint Working Programme Delivery Board. The implementation of agreed actions relating to Internal Audit reports is routinely monitored and corporate Best Practice guidance on procurement will be maintained.
- A review of the Members' Induction Programme has been undertaken with reports to the former Chief Executive's SMG and CMT and full involvement of the Members' Development Group. The Review focussed on feedback from new Members following the 2009 programme and other stakeholder feedback. The Review considered Member induction in the context of the current challenging and ever-changing environment the County Council now operates within which has changed considerably since the 2009 elections.
- The Elections Working Group met initially in June 2012 and has met on a monthly basis since September 2012. In addition to the original membership set out in the 2011-12 Annual Governance Statement, the Deputy Head of Governance, the Head of Performance & Communications or their deputies also attend the Group. Previous procedures and protocols were reviewed having particular regard to the

Performance Standards for Deputy Returning Officers that have been introduced by the Electoral Commission and to which the Deputy Returning Officers authorised by the County Returning Officer are subject to.

- A review of the suite of Democratic protocols was commenced during 2012 however, subsequently in 2012 a Member's Working Group was established to review the County Council's governance arrangements in light of the provisions in the Localism Act of 2011. The review of the protocols was therefore suspended whilst the review of governance arrangements was being carried out.
- Financial regulations were reviewed during 2012-13 and no significant changes were required.
- The review of the scheme of delegation referred to in the 2011-12 Action will be undertaken during 2013-14 following the completion of the Corporate Services Review.
- The Assurance process for the production of the Annual Governance Statement has been reviewed and updated by aligning it with the Departmental Self Assessment process as outlined in this statement.

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:	Signed:
Date: 12 August 2013	Date: 12 August 2013
Chief Executive	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 2013 under the Audit Commission Act 1998. The financial statements comprise the *Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet and the Cash Flow Statement* and the related notes 1 to 33. 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 2012/13.

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

Respective responsibilities of the Chief Financial Officer and auditor

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities set out on page 150, 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 2012/13, 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 Statement of Accounts 2012/13 to identify material inconsistencies with the audited financial statements. 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 2013 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 2012/13.

Opinion on other matters

In our opinion, the information given in the Statement of Accounts 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 reflect compliance with ‘Delivering Good Governance in Local Government: a Framework’ published by CIPFA/SOLACE in June 2007;
- 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.

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 audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in November 2012, 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 the 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 2013.

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 November 2012, 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 2013.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the authority’s Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

Kate Handy
Director
for and on behalf of Ernst & Young LLP, Appointed Auditor
Southampton
30 September 2013

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 2013 under the Audit Commission Act 1998. 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 2012/13.

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 pages 150, 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 2012/13, 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 Statement of Accounts

2012/13 to identify material inconsistencies with the audited financial statements. 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 2013 and the amount and disposition of the fund’s assets and liabilities as at 31 March 2013, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Opinion on other matters

In our opinion, the information given in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

Peter O’Neill
Partner
for and on behalf of Ernst & Young LLP, Appointed Auditor
Reading
30 September 2013

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.

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

Additional voluntary contributions (AVCs)
Additional voluntary contributions are paid by a contributor who decides to supplement his or her pension by paying extra contributions to the Scheme's AVC providers (Zurich and Equitable Life).

Best Value Accounting Code of Practice (BVACOP)
The code of practice containing a standard definition of services and total cost so that spending comparisons can be consistent between local authorities.

Budget requirement
Planned spending to be met from council tax, general Government grant and national business rates.

Capital adjustment account
An account that reflects the difference between the cost of fixed assets consumed and the capital financing set aside to pay for them.

Capital expenditure
Expenditure on the acquisition or creation of a fixed asset or expenditure that adds to and does not merely maintain the value of an existing fixed asset.

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

Chartered Institute of Public Finance and Accountancy (CIPFA)
The professional accountancy body for public services which recommends accounting practice for the preparation of local authority accounts.

Community asset
An asset that the Council intends to hold forever, that has no determinable useful life, and that may have restrictions on its disposal. An example of a community asset is parkland.

Comprehensive Income and Expenditure Statement (CIES)
Statement that shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices.

Contingent asset
A potential asset that is uncertain because it depends on the outcome of a future event.

Contingent liability
A potential liability that is uncertain because it depends on the outcome of a future event.

Continuing services
Services that the Council will continue to provide in the following financial year.

Corporate and democratic core
Activities that local authorities carry out specifically because they are elected, multi-purpose authorities. The cost of these activities is not split between services.

Council tax
A domestic property tax based on capital values with a personal element (a 25% discount for single-adult households). Each property is allocated to one of eight tax bands according to its capital value.

Creditor
An individual or body to which the Council owes money at the Balance Sheet date.

Current asset
An asset that is realisable or disposable within less than one year without disruption to services.

Current liability
A liability that is due to be settled within one year.

Current service costs
The increase in the present value of pension liabilities expected to arise from employee service in the current period.

Custodian
A bank that looks after Pension Fund investments, implements investment transactions as instructed by the Fund's managers and provides reporting, performance and administrative services to the Fund.

Debtor
An individual or body that owes money to the Council at the Balance Sheet date.

Dedicated Schools Grant (DSG)
A Government grant that can only be used to fund expenditure within the schools' budget.

Deferred liability
An amount owed by the Council that will be repaid over a significant period of time. For example, the Council holds a deferred liability to pay for assets constructed as part of the waste and street lighting PFI contracts, which will reduce over the life of the assets.

Defined benefit pension scheme
A pension scheme in which a pensioner's benefits are specified, usually relating to their length of service and final salary.

Deposit
Receipt held that is repayable in prescribed circumstances.

Depreciated historical cost
The valuation of fixed assets at their original cost less depreciation charged to date.

Depreciated replacement cost
Relating to fixed assets, the current replacement costs adjusted for depreciation. This method of valuation is used when it is not practical to estimate the open market value for the existing use of a specialised property.

Depreciation
The measure of the wearing out, consumption, or other reduction in the useful economic life of a fixed asset, whether arising from use, the passage of time or obsolescence through technological or other changes.

Developers' contribution
If a development derives special benefit from highway works, developers can be required to contribute towards the costs. They arise mainly as a result of agreements under section 278 of the Highways Act 1980.

Discretionary increase in pension payments
This increase arises when an employer agrees to the early retirement of an employee other than for reasons of ill health and agrees to pay pension benefits based on more years than he or she actually worked.

Dividends
Income to the Pension Fund on its holdings of UK and overseas shares.

Doubtful debt
A debt that the Council is unlikely to recover because something has happened since the debt was raised. An assessment of the reduction in recoverable debt is made both individually (for individually significant debts) and collectively. This reduction is charged to the Income and Expenditure Account.

Earmarked reserve
See Reserve.

Emoluments
Sums paid to employees, including any expenses or non-monetary benefits, which are taxable, but excluding pension contributions made by the employee.

Equities
Shares in UK and overseas companies.

Exceptional item
An item identified separately in the accounts because of its exceptional nature to make sure the presentation of the accounts is fair.

Fair value
The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's-length transaction.

Finance lease
Under this type of lease, the risks and rewards of ownership of the leased goods transfer to the lessee.

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

Fixed asset
An asset that yields benefits to the local authority and the services it provides for a period of more than one year.

Foundation schools
A category of school that receives its funding from the County Council, but are run by their own governing body, which employs the staff and sets the admissions criteria. Land and buildings are usually owned by the governing body or a charitable foundation

General Fund
The accumulated credit balance on the General Fund. It is the excess of income over expenditure in the Income and Expenditure Account after adjusting for movements to and from reserves and other non-cash items. This balance is needed as a cushion against unforeseen expenditure.

Gross book value (GBV)
The original or revalued cost of an asset before the deduction of depreciation.

Gross expenditure
The total cost of providing the Council's services before deducting income from Government grants, or fees and charges for services.

Hedge fund
A specialist fund that seeks to generate consistent returns in all market conditions by exploiting opportunities resulting from inefficient markets.

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

Historical cost
The amount originally paid for a fixed asset.

Impairment loss
A loss arising from an event that significantly reduces an asset's value. An example is physical damage or a fall in market value.

Infrastructure assets
Fixed assets that cannot be taken away or transferred, and whose benefits can only be obtained by continued use of the asset created. Examples of infrastructure assets are highways and footpaths.

Intangible assets
Assets that do not have physical substance but are identifiable and controlled by the Council and bring benefits to the Council for more than one year. Typical examples include software licences, internally developed software and websites developed to deliver services rather than information about services.

Internal trading account
A service within the Council that operates on a trading basis with other parts of the Council.

International Financial Reporting Standards (IFRS)
International accounting standards that govern the treatment and reporting of income and expenditure in an organisation's accounts, which came fully into effect from 1 April 2010.

Inventories
Goods that are acquired in advance of their use in the provision of services or their resale. At the year-end inventories are a current asset in the balance sheet and they will be charged to the CIES in the year they are consumed or sold.

Investment property
Property (land or buildings) that are held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both.

Landfill Allowances Trading Scheme (LATS)
The LATS allocates tradable landfill allowances to each of the waste disposal authorities (WDA). These allowances can be used for disposal of biodegradable waste or sold to other WDAs.

Lessee
The party that leases an asset that is owned by another party.

Lessor
The owner of an asset which is leased to another party.

Local Government Pension Scheme (LGPS)
The LGPS is a nationwide scheme for employees working in local government or working for other employers participating in the Scheme and for councillors.

Long-term asset
An asset that may be held indefinitely for the provision of services or is realisable over a longer period than one year.

Long-term borrowing
A loan repayable in more than one year from the Balance Sheet date.

Long-term debtor
An individual or body that owes money to the Council that is not due for payment within one year from the Balance Sheet date.

Minimum revenue provision (MRP)
The minimum amount (as specified in statute) which must be charged to the CIES each year and set aside as a provision for repaying external loans and meeting other credit liabilities.

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

Net assets
The amount by which assets exceed liabilities (same as net worth).

Net assets statement
A statement showing the net assets of the Pension Fund.

Net book value (NBV)
The value of an asset as recorded in the accounts. This usually equates to the net current replacement or original cost less any depreciation charged against the asset over its life to date.

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

Net worth
The amount by which assets exceed liabilities (same as net assets).

Non-distributed costs
Overheads for which no direct user now benefits and which are therefore not split between services.

Non-ringfenced government grants
Amounts received from central Government towards funding the Council’s activities that are not required to be spent on a particular service.

Operating lease
Under this type of lease, the risks and rewards of ownership of the leased goods remain with the lessor.

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

Past service cost
For a defined benefit pension scheme, the increase in the present value of the scheme's liabilities related to employee service prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

Payment in advance
A payment for a service due to be received in a future financial year.

Pooled budget
Partners contribute a set amount of money to form a separate budget. The purpose and scope of the budget is agreed at the outset and then used to pay for relevant services and activities.

Precept
The demand made by the County Council on the collection funds maintained by the district councils for council taxpayers' contribution to its services.

Private equity
Mainly specialist pooled partnerships that invest in private companies not normally traded on public stock markets – these are often illiquid (i.e. not easily turned into cash) and higher-risk investments that should provide high returns over the long term.

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

Projected unit method
One of the common methods used by actuaries to calculate a contribution rate to the LGPS, which is usually expressed as a percentage of the members' pensionable pay.

Provisions
An estimated figure within the accounts for liabilities that are known to exist but cannot be measured accurately.

Public Works Loan Board (PWLB)
A central government agency that provides loans to local authorities at a slightly higher rate than the Government is able to borrow. In most cases, the interest rates offered are lower than local authorities can achieve in the open market. The amounts and purposes for which PWLB loans can be obtained are tightly controlled by the Government.

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

Related party
An organisation, body or individual that has the potential to control or significantly influence the Council, or to be controlled or influenced by the Council.

Reserve
The Council's reserves fall into two categories. The 'unearmarked' reserve is the balance on the General Fund. An 'earmarked' reserve is an amount set aside in the Council's accounts for specific purposes.

Revaluation reserve
Records unrealised net gains from asset revaluations made after 1 April 2007.

Revenue contributions to capital
The use of revenue funds to finance capital expenditure.

Revenue expenditure
The operating costs incurred by the Council during the financial year in providing its day-today services. It is distinct from capital expenditure on projects that benefit the Council over a period of more than one financial year.

Revenue expenditure funded from capital under statute (REFCUS)
Expenditure that is classified as capital expenditure under statutory provisions, but does not result in the creation or enhancement of fixed assets owned by the County Council. Such expenditure incurred during the year is treated as revenue expenditure and charged to the relevant service in the CIES.

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

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

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

Short-term investments
An investment that is readily realisable within one year.

Specific grants
Central Government grants to finance a particular service.

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

Surplus assets
Fixed assets held by the Council but not directly occupied, used or consumed in the delivery of services. These are assets that do not meet the criteria to be classified as either investment property or assets held for sale.

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

Transferred debt
Debt serviced by bodies that are independent of the Council following the transfer of services formerly provided by the Council.

Trust fund
A fund set up under a trust deed in which the Council is a trustee.

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

Voluntary aided schools (VA schools)
Mainly religious or 'faith' schools, although anyone can apply for a place. As with foundation schools, the governing body employs the staff and sets the admissions criteria

Voluntary controlled schools (VC schools)
Similar to voluntary aided schools, but are run by the local authority. As with community schools, the local authority employs the school's staff and sets the admissions criteria

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