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# Statement of Accounts 2005/06



Hampshire  
County Council



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# Explanatory foreword

## 1 Introduction

This document contains Hampshire County Council's Statement of Accounts for the year ended 31 March 2006. 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 2005/06 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 2005/06 are set out on pages 8 to 54. They consist of:

- Statement of accounting policies
- Statement on the system of internal control
- Statement of responsibilities for the Statement of Accounts
- Consolidated Revenue Account - this covers income and expenditure on all services
- Consolidated Balance Sheet - this sets out the financial position at 31 March 2006
- Statement of total movements in reserves - this sets out how reserves have changed and been used during the year
- Cash flow statement - this summarises all cash coming in or going out for revenue and capital purposes
- Pension Fund accounts - these are the accounts of the Pension Fund, which is operated for employees of the County Council, Hampshire unitary and district councils and other bodies.

## 3 Where the money comes from

Most of the County Council's income comes from general Government grant, a share of national business rates and the council tax. In addition, specific Government grants pay directly for certain services, and fees are charged to customers for some services. Interest is earned on day-to-day balances.

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

	2004/05	2005/06
	%	%
Council tax	29	29
National business rates	23	26
General Government grant	24	21
Fees, charges and interest	12	13
Specific Government grants	12	11
	<b>100</b>	<b>100</b>

There was no significant change in the balance of income from local and national taxes or from fees and charges in 2005/06. However, general Government grant was reduced to compensate for increased income from the national business rate pool.

#### 4 What the money is spent on

Type of expenditure	2004/05 %	2005/06 %
Staff costs	57	55
Running expenses	39	40
Capital financing	4	5
	<b>100</b>	<b>100</b>
<b>Service shares of gross revenue expenditure</b>		
Education	58	58
Social services	26	27
Highways, roads and transport	6	6
Cultural, environmental and planning services	8	8
Other services	2	1
	<b>100</b>	<b>100</b>

#### 5 Employees

In 2005/06 the County Council employed 38,849 people, making the Council one of the largest employers in the county. Many of these employees work part-time, and in full-time equivalent (fte) terms, the total number of employees was 26,139 at 31 March 2006. The March 2005 data has been adjusted for an under-recording of school-based employees by 438 fte and reanalysed to reflect the new structure of Adult and Children's Services. Additional school-based employees, funded from schools' delegated budgets, account for most of the increase in 2005/06.

Full-time equivalent employees	March 2005	March 2006
School-based	15,358	15,980
Other Children's Services	2,271	2,316
Adult Services	3,152	3,230
Environment	784	796
Recreation and Heritage	1,025	1,015
Central services and internal trading units	2,875	2,802
	<b>25,465</b>	<b>26,139</b>

#### 6 Summary of the year – Revenue Account

2005/06 has again been a challenging year for the management of County Council finances, particularly in dealing with the effect of increased demand for social care during the year. The initial organisational changes required for providing education and social services by the Children Act were also implemented during the year. For the second year running, the Government allocated additional Revenue Support Grant on a non-recurring basis. This enabled the County Council to set a budget with the lowest increase in its local tax for 35 years. Despite the pressures on the budget, the County Council has continued to improve the quality of its services and improvements have been made in more than half of the Best Value performance indicators. The County Council has also met nearly half of the stretching targets in the first Local Public Service Agreement, generating reward grant of approximately £10 million. Efficiency improvements assessed at £18 million (3.1%) have been identified in 2005/06 and incorporated in the Annual Efficiency Statement.

The County Council also was rated a Four Star authority by the Audit Commission in the Comprehensive Performance Assessment (CPA) achieving the highest category for the fourth year running, despite the 'harder test' introduced in the 2005 assessment.

The main components of the 2005/06 budget, revised budget and actual income and expenditure are set out below:

<b>Budget</b>	<b>Original budget</b>	<b>Revised budget</b>	<b>Actual</b>	<b>Variation from revised</b>
	<b>£ million</b>	<b>£ million</b>	<b>£ million</b>	<b>£ million</b>
<b>Net cost of services</b>	<b>1,176.0</b>	<b>1,207.3</b>	<b>1,209.5</b>	<b>2.2</b>
Trading unit surpluses (+)/deficits (-)	-0.4	0.2	0.1	-0.1
Asset Management Revenue Account surplus	-85.4	-94.6	-98.2	-3.6
Pensions interest cost and expected return on Pension Fund assets	20.9	19.0	19.0	-
<b>Net operating expenditure</b>	<b>1,111.1</b>	<b>1,131.9</b>	<b>1,130.4</b>	<b>-1.5</b>
Contribution to capital	36.4	35.5	35.5	-
Contribution from other authorities	-2.2	-2.2	-2.2	-
Contribution from Capital Financing Account	-3.6	-13.8	-13.8	-
Deferred charges	-3.0	-19.7	-19.7	-
Contribution from pensions and other reserves	-26.4	-16.6	-9.4	7.2
<b>Amount to be met from Government grant, local taxpayers and balances</b>	<b>1,112.3</b>	<b>1,115.1</b>	<b>1,120.8</b>	<b>5.7</b>
Council tax precept income	-422.3	-422.3	-422.3	-
General Government grant	-304.8	-304.3	-304.3	-
National business rates	-380.8	-380.8	-380.8	-
<b>Budget requirement</b>	<b>-1,107.9</b>	<b>-1,107.4</b>	<b>-1,107.4</b>	<b>-</b>
<b>Variation in Revenue Account balance</b>	<b>-4.4</b>	<b>-7.7</b>	<b>-13.4</b>	<b>-5.7</b>
<b>Revenue Account balance</b>				
Brought forward 1 April 2005	13.1	17.6	17.6	-
Carried forward 31 March 2006	8.7	9.9	4.2	-5.7

The budget requirement for 2005/06 was set at £1,107.9 million, an increase of 4.7% on the adjusted budget for 2004/05. The budget was influenced by the continued gradual removal of Education damping designed to limit the effect of the new grant distribution formula introduced in 2003/04 on schools, which resulted in the County Council again receiving a below-average increase in Government support. As a result of the additional non-recurring grant announced by the Chancellor of the Exchequer in December 2004, the increase in council tax in 2005/06 was kept to 3.5%. As before, the budget passed on the increases reflected in the County Council's formula spending share for schools and social services to those services; this represented an increase of £19.6 million above the cost of inflation. For other services, cashable efficiency savings of £7.6 million were retained within the relevant service; this was a way of meeting the pressures of legislation and extra demand unmet by the budget guidelines. The overall budget incorporated efficiency improvements and other savings of £16.1 million. The budget incorporated a contribution of £5.9 million from the Grant Equalisation Reserve. This was proportionate to grant loss and it phased in the effect of grant loss on the council tax. It included a contribution to a new Modernisation, Restructuring and Efficiency Plan Reserve of £12.7 million, partly funded from increased balances as a result of savings achieved in 2003/04 and 2004/05.

In June 2005 the final accounts for 2004/05 were reported. Net operating expenditure was £11.7 million below the revised budget. Half the savings in service cash-limited budgets, the reduction in the insurance provision, uncommitted council tax second homes income and additional trading unit surpluses were transferred to earmarked reserves, totalling £7.2 million. This meant that the Revenue Account balance was £4.5 million higher than forecast at 31 March 2005 at £17.6 million. Additional non-recurring expenditure of £0.9 million was agreed in 2005/06, leaving the remaining £3.6 million to be retained in balances in view of the uncertain prospects for 2006/07 and 2007/08, together with £0.6 million from the carry forward of service overspendings from 2004/05. This resulted in estimated balances of £12.9 million at 31 March 2006.

When services revised their budgets in the autumn, savings of £0.6 million on Children's Services, Environment and Policy and Resources were earmarked to be carried forward for use in 2006/07. Management action was planned to contain Adult Social Care spending pressures; but the risk of an overspending of up to £4 million was also identified and contingency provision was made in the 2006/07 budget to recover a potential overspend. Savings of £3.1 million on non cash-limited budgets were also forecast, mainly as a result of lower interest rates and higher interest on balances. These savings were partly offset by the need to allow for a £0.4 million reduction in Government grant as a result of an amending report being issued for 2005/06. A decision was also taken to contribute £5.7 million to the Pay and Benefits Transitional Cost Reserve, increasing to £10 million the sum earmarked for back-pay costs. The effect of these changes was to reduce the forecast Revenue Account balance at 31 March 2006 by £3 million to £9.9 million.

After the revised budget was approved, monitoring of the Adult Social Care budget indicated that spending pressures were higher than forecast and that management action would not contain spending. A projected overspending of £10 million or more was reported in February 2006. At the end of the year, despite an Adult Services overspending of £11.1 million, net operating expenditure was £1.5 million below the revised budget. Part of the reduction in the insurance provision plus income from sale of landfill allowances and Public Service Agreement reward grant were transferred to earmarked reserves, a total of £7.2 million. The resulting overspending of £5.7 million led the Revenue Account balance to fall to £4.2 million at 31 March 2006.

The table below analyses the main factors:

	Over/ under-spending £ million	Contribution to/from reserves £ million	Net over/ under-spending £ million
Service cash-limited spending	11.3	-	11.3
Highway winter maintenance	0.6	-	0.6
Interest savings	-3.6	-	-3.6
Insurance provision	-2.9	1.2	-1.7
Public Service Agreement grant	-2.5	2.5	-
Landfill allowances trading scheme	-3.5	3.5	-
Business rate incentive scheme	-0.7	-	-0.7
Other variations	-0.2	-	-0.2
	<b>-1.5</b>	<b>7.2</b>	<b>5.7</b>

Allowing for the planned use of balances in the 2006/07 budget to finance non-recurring spending and the carry forward of small overspendings on services other than Adult Social Care, balances at 31 March 2007 are forecast at £3.5 million, £3.5 million below the target level. It was decided not to carry forward the Adult Social Care overspending as part of the recovery plan for the service.



## 7 Summary of the year – capital expenditure

In 2006/07 the County Council spent £184.8 million on capital projects, £2 million less than the revised budget.

Spending on schemes financed from Government grants, supported borrowing and contributions from developers and outside agencies was £3.4 million lower than forecast. Payments on locally resourced projects were £1.4 million higher than estimated.

Capital receipts available to finance capital expenditure in 2005/06 were £5.2 million higher than expected and £3.6 million more was spent on projects financed from revenue reserves and unsupported borrowing. So the requirement to use unsupported borrowing to cover a temporary shortfall in local capital resources in 2005/06 was £7.4 million lower than anticipated at £1.9 million.

Spending financed from supported borrowing amounted to £40.9 million, supplemented by increased unsupported borrowing of £12.5 million. Repayment of debt amounted to £18.8 million. Potential outstanding borrowing for capital purposes to be serviced by the County Council now amounts to £493.5 million, together with extra debt of £46.8 million for services transferred to unitary and other authorities. The Council is able to borrow on a day-to-day basis from internal resources, such as the Revenue Account and earmarked reserve balances. Net of temporary investments, £302.1 million (an increase of £36.7 million on the previous year) was owed to external lenders at 31 March 2006.

## 8 Pension liability

The County Council's pension liability has reduced very marginally from £597.0 million to £588.8 million and but for the fact that the County Council is no longer the employer of Magistrates Courts Committee staff, the liability would have increased marginally. This is despite the fact that the market value of the Hampshire Pension Fund increased significantly during 2005/06 and the assets attributable to the County Council as an employer increased by approximately £200 million. Counteracting the increase in asset values is the effect of lower interest rates payable on AA rated corporate bonds which increases the present value of the County Council's pension liabilities. The deficit on the Pension Reserve reduces the County Council's overall reserves from £2.5 billion to £1.9 billion.

## 9 Changes

The County Council ceased to contribute to the costs of the Magistrates' Courts Committee when responsibility for funding passed to the Department for Constitutional Affairs from 1 April 2005.

## 10 Further information

You can get more information about the accounts, and the related companies, from -

The County Treasurer,  
Hampshire County Council,  
The Castle, Winchester SO23 8UB  
telephone (01962) 847533  
email [budget@hants.gov.uk](mailto:budget@hants.gov.uk)

## Statement of accounting policies

### 1 General principles

The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice (SORP) 2005, the Accounts and Audit Regulations 2003 and the proposed Urgent Issue Taskforce (UITF) Abstract Emission Rights (May 2003, covering landfill allowances). Compliance with the principal accounting policies is explained in the following notes.

### 2 Debtors and creditors

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

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 2006 is estimated at £2.8 million (£2.6 million in 2004/05).
- Electricity and other utility companies' quarterly payments are accounted for at the dates of meter readings rather than being shared between financial years.
- Income of the Pension Fund 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.

### 3 Reserves and provisions

Variations to earmarked reserves are shown in the notes to the Consolidated Revenue Account. Expenditure on items for which the reserves were originally created is shown as service expenditure, with a corresponding contribution from the reserves to the Consolidated Revenue Account.

The main reserves are as follows:

- The Consolidated Revenue Account balance is the surplus of revenue income over expenditure. It can be used to supplement income in future years. In the balance sheet it is shown separately from reserves that are earmarked for specific purposes.
- The Schools Reserve is the cumulative unspent portion of schools' locally administered budgets. These were set up under the Local Management of Schools arrangements required by the Education Reform Act 1988.
- The Capital Reserve is used to help pay for future years' capital expenditure.
- The Landfill Allowances Trading Scheme Reserve contains income from the sale of surplus allowances. The Reserve is to be used to reduce cost pressures from the existing waste contract and for further investment in waste infrastructure. This Government scheme operates from 1 April 2005 to 31 March 2020. The scheme allocates tradable landfill allowances to each Waste Disposal Authority (WDA) up to their 'cap'. The WDA can use its allowances to meet its liability for actual landfill usage or sell allowances to another WDA.
- Public Service Agreement Reward Grant Reserve contains the cash reward from the Government for meeting the targets set in the first Public Service Agreement.
- The Invest-to-Save Reserve is used to finance future capital and revenue investment in initiatives that are expected to generate a payback that can be recycled into the Reserve.
- The Designated Underspending Reserve enables services to carry forward underspendings to aid their budgets in future years.
- The surplus from on-street car parking charges was held as a reserve and was used in accordance with Section 55 of the Road Traffic Regulation Act 1984.



- The Insurance Reserve is maintained in case the settlement of claims for past liabilities is higher than expected (including the continuing liability to meet claims in respect of former County Council services in Southampton and Portsmouth incurred before 31 March 1997) and to provide for the reinstatement of fire damage to County Council property.
- The Trading Account Reserve contains the unapplied surpluses of trading units, which are retained to finance future investment in the trading units, to cover possible future losses or to provide direct benefits to customers.
- The Grant Equalisation Reserve will be used to mitigate the effect on council tax payers of the shift in Revenue Support Grant away from the County Council over a period that started in 2004/05.
- The Modernisation, Restructuring and Efficiency Plan Reserve was established in 2005/06 to help fund uncertain future costs associated with the modernisation of the County Council's services restructuring associated with the Children Act, and the achievement of efficiency savings.
- The Job-Evaluation Implementation Reserve will help to meet the transitional costs of restructuring the County Council's pay scales caused by the national single status agreement.

Provisions are made for legal liabilities where the amount or date of payment is uncertain. They are charged to the Revenue Account in the year they are recognised.

#### 4 Fixed assets

All spending on a fixed asset that yields benefits for more than one year is treated as capital expenditure in the accounts.

Fixed assets are valued on the basis recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA) and in accordance with the Statements of Asset Valuation Principles and Guidance Notes issued by the Royal Institution of Chartered Surveyors. Fixed assets are classified into the groupings defined in the Code of Practice on Local Authority Accounting:

- Land, property and other assets used for service provision are called 'operational assets'. They are included in the balance sheet at the open market value for their present use when there is enough evidence to support the value, or at depreciated replacement cost otherwise.
- Assets not used to provide services are called 'non-operational assets' and include investment properties and assets that are surplus to requirements. They are included in the balance sheet at open-market value. Assets under construction are also non-operational assets and included in the balance sheet at historic cost.
- Infrastructure assets (such as roads) and community assets (such as country parks) are included in the balance sheet at historical cost net of depreciation. For this purpose, historical cost is taken to be the debt outstanding on the assets on 1 April 1994 plus expenditure since then. Vehicles and equipment are also valued at depreciated historic cost.
- Purchased intangible assets (such as software licences covering a period of more than one year and where the costs are capitalised) are included in the balance sheet at historic cost net of depreciation.

Surpluses arising on the initial valuation of fixed assets have been credited to the Fixed Asset Restatement Account. Subsequent revaluations of fixed assets occur on a five-year rolling programme.

Material changes to asset valuations will be adjusted in the interim as they occur. Capital expenditure that increases the value of assets is added to the capital values of the assets pending revaluation.

Income from the disposal of fixed assets is accounted for in the year in which it occurs and is used to finance capital payments in the year.

## 5 Basis of charges for use of fixed assets

Notional interest charges are based on asset valuations at the start of the financial year. The interest rate used is prescribed by the CIPFA/Local Authority (Scotland) Accounts Advisory Committee (LASAAC) Joint Committee. In 2005/06 an interest rate of 3.5% was used for assets carried at current value; for assets carried at historical cost - that is, infrastructure and community assets - the rate applied was 4.95%.

Depreciation charges are made on all fixed assets except land and non-operational assets, in accordance with Financial Reporting Standard (FRS) 15. The depreciation is calculated on a straight-line basis over each asset's useful economic life as follows:

- Buildings - are mostly depreciated over 57 years provisionally assessed when FRS 15 was introduced in 2000/01 but when buildings are revalued their lives are reassessed to reflect the average useful economic life of their components as follows:
 

- traditional building structure	60 years
- industrial-type structures	50 years
- system build and timber frame	35 years
- temporary buildings	30 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
- Furniture and equipment 10 years
- Vehicles 5-10 years

## 6 Deferred charges

Deferred charges are payments that are capitalised because they provide long-term benefits but do not involve the creation of a tangible fixed asset or an intangible asset. They include grants to external organisations and capital payments on foundation schools.

The Council's policy is to write down deferred charges fully in the year in which they are incurred.

## 7 Redemption of debt

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

The Council provides for the redemption of debt in accordance with the requirement that a minimum revenue provision be set aside from revenue. This must be at least equal to 4% of the Capital Financing Requirement at the start of the year.

## 8 Central support services

Costs of support services are allocated over all services as follows:

- Office accommodation - on the basis of area occupied
- Central departments - on the basis of time spent on behalf of other departments, or in accordance with a basis of allocation stated in a service level agreement.

## 9 Basis of valuation

### *Investments*

Investments are shown in the Consolidated Balance Sheet at cost. Investments in the Pension Fund Balance Sheet are shown at market value at 31 March 2006.

### *Landfill allowances*

In accordance with the proposed UITF Abstract Emission Rights, landfill allowances are valued at the lower of cost and net realisable value.

### *Stocks and stores*

Stocks worth £1.8 million are included in the Consolidated Balance Sheet. There are various bases of valuation for these stocks, according to their differing natures and purposes. For example, County Supplies' stock of £0.9 million is valued at latest buying price. The rest are valued mainly on an historical cost basis. Spending on consumable items is accounted for in the year of purchase.

## 10 Pension arrangements

The County Council participates in two pension schemes that meet the needs of employees in particular services. Both schemes provide members with defined benefits related to pay and service. The costs of providing pensions for employees are charged to the accounts in accordance with FRS 17 - retirement benefits.

## 11 Specific Government grants

Government grants for specific purposes are included in the accounts on the basis of the relevant percentage of eligible expenditure or the total grant awarded for the year, depending on the grant conditions that apply. These grants are shown in a separate column in the Consolidated Revenue Account.

## 12 Capital grants and contributions

The Code of Practice provides for capital grants and contributions to be credited, initially, to a Government grants deferred account. Amounts are released to revenue to offset the charges for depreciation on the related assets. The amount of each year's capital grants and contributions is released to revenue over the life of the assets.

## 13 Leasing

The Council, on occasions, uses operating leases for vehicles or equipment as an alternative to ownership. The rentals on the leases are charged to the Revenue Account of the service that uses the assets.

# Statement of internal control for Hampshire County Council

## 1 Scope of responsibility

Hampshire County Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

The County Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the Council's functions and which includes arrangements for the management of risk.

In accordance with the requirements in the Accounts and Audit Regulations 2003, this statement sets out how the Council has sought to meet these requirements during 2005/06.

## 2 The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it 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 occurring and the impact should they occur; and to manage them efficiently, effectively and economically.

The system of internal control has been in place at the Council for the year ended 31 March 2006 and up to the date of approval of the annual report and accounts. The next section outlines the internal control environment in which the Council operates and reviews the effectiveness of the controls.

## 3 The internal control environment

The key elements of control are as follows:

- The Council sets out its objectives through the Corporate Strategy. Linked to this are service plans and individual performance plans, the workforce plan, the Asset Management Strategy and the revenue and capital budgets.

The Corporate Strategy is also linked to the Local Area Agreement (which incorporates the Local Public Service Agreement) and the Hampshire Community Strategy.

The Corporate Strategy sets out in one document the main messages about what the County Council stands for and how it expects to achieve these corporate aims. It shows how the County Council responds to changes and challenges, identifies common aims with partners, linking to the Local Area Agreement, and sets priorities and targets for improvement. The Corporate Strategy is approved by the Corporate Management Team (CMT), Cabinet and full Council and forms the



major part of the County Council's policy framework alongside the Community Strategy and performance plan. The Corporate Strategy is reviewed regularly and is informed by the outcomes of consultation, performance results, review programmes and external inspections and factors such as local and national policies and initiatives. It is published on the County Council's website, Hantsweb, alongside the performance plan and in paper copy for circulation internally and to key partners. The Strategy is supported by other promotional activities including posters and is the cornerstone of all internal and external communications.

The County Council has published guidance on its integrated planning process which links workforce, budget and service planning into the County Council's Corporate Strategy. The Corporate Performance and Efficiency Group is responsible for overseeing service planning and reporting on performance, in relation to the targets set in the Corporate Strategy, on a six-month basis to Departmental Management Teams (DMTs) and Executive Members, CMT and Cabinet through the corporate performance results report.

To establish these corporate objectives the County Council has a corporate consultation strategy agreed by CMT and Cabinet annually which sets out plans to consult staff, residents and other stakeholders and partners. The research findings are summarised on Hantsweb. The results help inform the development of the Corporate Strategy and are disseminated through CMT and Cabinet, DMTs, senior managers' seminars (success through people) and other staff communications to inform service planning.

The County Council has an agreed communications strategy, currently under review, which is driven by the Corporate Strategy key aims and includes specific communications plans for individual activities and documents such as Cabinet priority work and CPA. These plans are produced for agreement by CMT and Cabinet.

- The County Council has a Constitution, originally adopted with effect from 1 September 2001, which sets out in full the processes by which its policies are made and decisions taken. It sets out clearly the role of the Council, the Leader, Cabinet, arrangements for the performance of regulatory functions and the Standards Committee. It also identifies the role of the Governance Committee established to give added focus on governance issues.

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 those on Financial Regulations, Contract Standing Orders, Codes of Conduct for county councillors and officers and a protocol for councillor/officer relations.

- The financial management of the Council is led by the County Treasurer and is integrated with and influenced by the processes above. It includes processes for forward planning of 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 approaches taken are summarised annually in the financial management policy included in the Council's budget book.
- To ensure compliance with policies, procedures and statutory requirements the Council has a range of controls and processes in place, as set out and reviewed below. These processes also help the Council to ensure the economical, effective and efficient use of resources, to secure continuous improvement in exercising its functions, and to provide effective performance management and reporting.

### Review of effectiveness of internal control

**Statutory roles of the Monitoring Officer and Section 151 Officer to ensure internal control procedures are efficient and effective and are being complied with on a routine basis to ensure legality and sound financial standing.**

The Monitoring Officer (the Head of Corporate and Legal Services) and the Chief Internal Auditor (for the Section 151 Officer) work closely together and with the Standards Committee and the Governance Committee. The Standards Committee is responsible for maintaining high standards of probity among county councillors by providing advice and training and by carrying out investigations referred to it by the Standards Board. The Governance Committee is responsible for monitoring, reviewing and reporting to the Cabinet the governance arrangements for the County Council.

The Council, Cabinet, Executive Members, committees and chief officers have a full range of professional officer (including legal and finance) advice to enable them to carry out their functions effectively and in compliance with statutory requirements. The Council's Legal Practice has a central role in this respect. The Legal Practice obtained the Law Society's quality accreditation (Lexcel) in 1999 and has retained it since. Senior lawyers in the Practice have regular meetings with major clients to assess performance, review future demands and identify new legislative requirements.

The External Auditor is satisfied with the Council's arrangements (annual Audit letter 2004/05).

**Internal Audit provides independent and objective assurances across the full range of the County Council's activities.**

Internal Audit must comply with the CIPFA Code of Practice for Internal Audit in Local Government in the UK 2003 and its prescribed professional standards. External assurance that these standards are met is provided through regular inspections by the Audit Commission, International Standards Organisation (ISO) quality accreditation assessors, and specialist inspectors of services in the education and social care fields who need to rely on Internal Audit's work.

The Governance Committee has approved the Internal Audit plan for 2005/06. It continued to monitor performance and the progress of significant issues including the implementation of audit recommendations.

The Chief Internal Auditor has provided an annual statement of assurance on the effectiveness of the control framework which is considered in conjunction with the final accounts.

**External Audit provides a further source of assurance by reviewing and reporting on the County Council's internal control processes and any other matters relevant to their statutory functions and codes of practice.**

The annual Audit and Inspection letter for 2004/05 commented positively on the Council's excellent performance assessment and stated that it is "well placed to continue to improve the way it works and what it achieves". The External Auditor pointed out some areas for improvement but judged that the Council's overall corporate governance arrangements are satisfactory and that arrangements for maintaining internal control are sound.

Risk management policies and procedures are in place with the objective of ensuring that the risks facing the County Council in achieving its objectives are evaluated, regularly reviewed and mitigation strategies developed.

The County Council has a well-developed Risk Management Strategy and risk management framework. Details are on the intranet (Hantsnet) at <http://hantsnet2000.hants.gov.uk/TC/riskmanagement/index.html>

A Corporate Risk Management Board and Risk Management Steering Group exist. The former is chaired by the Chief Executive and the latter by the Head of Resources in the Chief Executive's Department. The terms of reference etc are on Hantsnet.

The method for assessing risks has just been reviewed and amended. Afterwards, workshops were held with all departments to raise awareness and provide training in using the method. Copies of the slides used at the presentation are available on Hantsnet.

During 2005 a specification was drawn up for an integrated corporate risk management and audit management system. Following a tendering exercise a new system has been bought which will be implemented during 2006. One of the benefits of the integrated system will be to enable Audit to link its work to risks identified by departments. The system will also enable better monitoring of risks and identification of cross-cutting risks.

After a review of the management of health and safety, it has also been agreed to bring this within the remit of risk management at a corporate level. A new post of Corporate Risk Manager has been developed and recruitment will occur in 2006.

Insurance policies and funds are in place and are regularly reviewed to ensure the Council is adequately safeguarded.

***Provision of effective, efficient and responsive systems of financial management.***

The Council's Financial Management Strategy is incorporated annually in the budget book. Progress against it is reviewed annually with the final accounts report. Procedures have been reviewed to ensure that the timetable for earlier completion of final accounts is met. As part of the revised 'harder test' CPA in 2005, the Council received three out of four for its policies and procedures in relation to use of resources. New and revised Financial Regulations were implemented from 1 September 2001, within the Constitution. Internal Audit monitor the effectiveness and level of compliance as part of their work during the year. This has confirmed that they continue to operate successfully.

***Codes of practice are issued by external bodies in respect of services and processes, with which the County Council is expected to comply.***

The Council has complied with the 2003 CIPFA Code of Practice on Capital Finance and Treasury Management. The County Council's Cabinet monitors policies, practices and activities through regular reports on debt management and investment strategy.

***The role of the Standards Committee is to promote and maintain high standards of conduct by county councillors and co-opted members.***

The Standards Committee has met regularly in the last financial year.

***Governance Committee is charged with governance responsibilities.***

A Governance Committee was established so as to focus better on corporate governance. This is reflected in the Committee's terms of reference and by its being chaired by the Leader of the Council and with representation from the Leaders of the two opposition parties. The Committee's full role is clearly referred to in the Council's Constitution at Part 1: Chapter 10.





***Performance management processes are in place to measure progress against objectives and to provide for remedial action where appropriate.***

The entire performance management framework is not yet fully developed. Responding to recommendations from External Audit and Inspection, the Council is developing its sound building blocks of performance management into an integrated approach, which it is working to embed in the organisation's culture. Particular attention is being paid to making sure officers are accountable for meeting targets. Progress on targets is monitored regularly. Service planning is integrated with financial and workforce planning, so that resources follow strategic priorities.

Clear terms of reference are set for the preparation of service plans. Guidance is available on the performance management part of Hantsweb, which includes a method of reflecting corporate objectives within service plans. The guidance also cross-references guidance for budget planning and workforce planning. It is available as an e-learning package.

Half-yearly reports, initially within departments, were set against the objectives and targets in service plans. Service reviews are now instigated through the service planning process, while the corporate review programme focuses on cross-cutting and strategic issues, paying attention to efficiency and value for money. All performance measures, both national and local, are known. Responsibility is allocated through the service planning process.

The process of reporting on corporate performance covers:

- national performance results - these are incorporated in the corporate performance results: half-yearly report in October/November and full-year report in May/June
- results against Corporate Strategy targets/priorities - these form the major part of the corporate performance results
- reports against departmental/service targets/priorities - reports go to DMTs and Cabinet portfolio holders half-yearly and should be monitored regularly by service managers and DMT-level managers
- individual performance reports - every line manager considers performance results at least on an annual basis, though usually more often. The process is evaluated by Investor in People (IiP) accreditation.

Reports of poor performance are escalated through performance reporting to the managerial/political level, which can agree remedial action. Once remedial action is agreed, it should be implemented through service plans.

Over time, performance is improved mainly by changes to policy or strategy arising from a mix of professional aspirations, the experience of senior/service managers, feedback from frontline staff, political aspirations, extensive opinion research, and knowledge and analysis of external factors. Performance results are added to this array of factors.

The performance plan updates and publishes year-on-year comparisons of achievement against performance targets on Hantsweb.

The performance frameworks are regularly reviewed and updated to take account of changes in organisational structure, new Government initiatives, new internal performance measures and other factors including external or internal review of the arrangements.

***A corporate procurement policy has been formally approved and communicated to all relevant staff.***

The County Council produced its first formal Corporate Procurement Strategy in 2003 and this document is accessible to all County Council employees as part of the procurement information published on Hantsnet. Awareness and training sessions to support the Council's procurement agenda have now been delivered to more than 600 staff. Further supporting information has been produced, for example '*Purchasing: A Brief Guide for Staff*'. A draft version of our second Corporate Procurement Strategy was circulated to senior managers in March 2006, reported to the CMT in April and to county councillors in June for final approval.

The current strategy is supported by a detailed action plan. Progress against these actions and against the milestones of the National Procurement Strategy for Local Government is regularly monitored by the Corporate Procurement Network. The Director of Property, Business and Regulatory Services is the CMT sponsor for the procurement agenda. Progress reports are made both to CMT and to the Buildings, Land and Procurement Panel, which is chaired by the Deputy Leader of the County Council. Over the next 12-18 months, attention will be given to collecting information against a set of corporate performance indicators and to a framework of corporate reviews.

***A corporate health and safety policy has been formally approved and communicated to all relevant staff.***

The most recent corporate health and safety policy statement was issued in March 2004. It had been the subject of extensive consultation and approval by the Corporate Health and Safety Steering Group, the Chief Executive and the Leader of the Council.

The policy was published in full electronically, both on Hantsweb and on the health and safety part of Hantsnet. A policy extract has been issued to departments for display on safety notice boards.

The corporate health and safety policy, along with the corporate topic-based policy statements and standards documents, form the basis of the departmental health and safety management systems and documentation. Each department is required to produce documents to comply with the corporate standards and have audit programmes to monitor compliance with their own arrangements. The Corporate Health and Safety Team has a programme to audit each department's health and safety management system and arrangements.

Statistical information on health and safety performance is collected and considered regularly at departmental and corporate forums. Annually, information is published to all via Hantsweb.

***A corporate complaints policy/procedure has been formally approved, communicated to all relevant staff, the public and other stakeholders. It is regularly reviewed.***

The corporate complaints policy/procedure was last reviewed and revised in 2002, having been previously reviewed in 1999. A corporate policy for dealing with difficult complainants was also endorsed in 2002. The corporate complaints policy is published as a factsheet along with a form that the public can use to make complaints. Both policies and an e-form are published on Hantsweb and Hantsnet. Equalities monitoring is undertaken using data supplied by complainants with these forms. Copies of the factsheet have been distributed to all departments. Copies for the public are available from County Council reception desks and information centres. Departmental induction programmes raise the awareness of new staff to the complaints policy/procedure. Separate complaints case files are maintained at departmental and corporate levels. Annual reports summarising and analysing complaints received, decisions made and actions taken to improve service delivery are presented by individual departments to appropriate Policy Review committees. Similarly an annual report providing a corporate overview of complaints goes to Cabinet.



**Reports received from external agencies and inspectorates. Relevant external inspection reports.**

The Council was rated a Four Star authority in the CPA 'harder test' in December 2005, the fourth year in a row the Council has achieved the highest category.

**Delivery of services by trained, skilled and experienced personnel.**

The Council has demonstrated its commitment through IIP accreditation. Its attention to training needs included the Leading Success programme, the proposed development of Hampshire Apprenticeship schemes, and the implementation of Authority-wide enterprise resource management IT systems and IT2000 facilities to support staff. Overall planning for workforce occurs through the annual workforce plan.

**Areas for improvement**

There is a perceived lack of consistency in the way departments implement corporate policies. Internal Audit will examine this area and identify areas for improvement.

Corporate policies relating to the complaints procedures will be reviewed, including how the Council deals with difficult and persistent complainants.

More training for county councillors on governance, risk management, and the latest guidance on conduct/ethics issues will be provided.

A programme of targeted training will raise the levels of awareness of staff on issues of conduct and the policies related to an anti-fraud culture.

Corporate guidance on partnership arrangements and the monitoring of effective governance will continue to be developed.

There will be a review of the process for budget setting, budgetary control, and budget monitoring within Adult Services. This will help to manage exceptional levels of demand for services.

Chief Executive

Leader

# 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 secure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the County Treasurer
- to manage its affairs so as to secure economic, efficient and effective use of resources and safeguard its assets
- to approve the Statement of Accounts.

## 2 The County Treasurer's responsibilities

The County Treasurer is responsible for the preparation of 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 ('the SORP').

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

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

The County Treasurer has also:

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

## 3 The County Treasurer's statement

I certify that the Statement of Accounts presents fairly the financial position of the County Council as at 31 March 2006 and its income and expenditure for the year ended 31 March 2006.



J C Pittam BSc CPFA  
County Treasurer  
22 June 2006

## 4 The Chairman's statement

I certify that the statement of accounts for 2005/06 was considered and approved at the Governance Committee meeting on 28 June 2006.



Ken Thornber  
Chairman  
28 June 2006





## Independent auditor's report to Hampshire County Council

### Opinion on the financial statements

We have audited the financial statements and pension fund accounts of Hampshire County Council for the year ended 31 March 2006 under the Audit Commission Act 1998. The financial statements comprise the Consolidated Revenue Account, the Consolidated Balance Sheet, the Statement of Total Movements in Reserves, the Cash Flow Statement, and the related notes. The pension fund accounts comprise the Fund Account, the Net Assets Statement, and the related notes. The financial statements and pension fund accounts have been prepared under the accounting policies set out within them.

This report is made solely to Hampshire County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

### Respective responsibilities of the Chief Finance Officer and auditors

The Chief Finance Officer's responsibilities for preparing the financial statements, including the pension fund accounts, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005 are set out in the Statement of Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements and the pension fund accounts present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005:

- the financial position of the Authority and its income and expenditure for the year; and
- the financial transactions of its pension fund during the year and the amount and disposition of the fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.

We review whether the statement on internal control reflects compliance with CIPFA's guidance (The Statement on Internal Control in Local Government, 2004). We report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered, whether the statement on internal control covers all risks and controls. We are also not required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

We read other information published with the financial statements, and consider whether it is consistent with the audited financial statements. This other information comprises only the Explanatory Foreword. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

### Basis of audit opinion

We conducted our audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

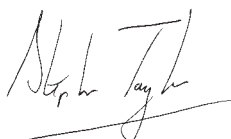
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### Opinion

#### *In my opinion:*

*The financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005 the financial position of the Authority as at 31 March 2006 and its income and expenditure for the year then ended; and*

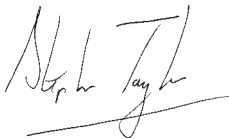
*The pension fund accounts present fairly, in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005, the financial transactions of the Pension Fund during the year ended 31 March 2006, and the amount and disposition of the fund's assets and liabilities as at 31 March 2006, other than liabilities to pay pensions and other benefits after the end of the scheme year.*



Stephen Taylor,  
District Auditor

Audit Commission,  
North Wing, Southern House,  
Sparrowgrove,  
Otterbourne,  
Winchester, SO21 2RU

29 September 2006



Stephen Taylor,  
District Auditor

Audit Commission,  
North Wing, Southern  
House,  
Sparrowgrove,  
Otterbourne,  
Winchester, SO21 2RU

29 September 2006

## Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

### Authority's Responsibilities

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

Under the Local Government Act 1999, the authority is required to prepare and publish a best value performance plan summarising the authority's assessment of its performance and position in relation to its statutory duty to make arrangements to ensure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

### Auditor's Responsibilities

We are required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the authority 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 in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. We report if significant matters have come to our attention which prevent us from concluding that the authority has made such proper arrangements. 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.

We are required by section 7 of the Local Government Act 1999 to carry out an audit of the authority's best value performance plan and issue a report:

- certifying that we have done so;
- stating whether we believe that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Local Government Act 1999 and statutory guidance; and
- where relevant, making any recommendations under section 7 of the Local Government Act 1999.

### Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and I am satisfied that, having regard to the criteria for principal local authorities specified by the Audit Commission and published in July 2005, in all significant respects, Hampshire County Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2006.

### Best Value Performance Plan

I issued my statutory report on the audit of the authority's best value performance plan for 2005 on 25 November 2005. I did not identify any matters to be reported to the authority and did not make any recommendations on procedures in relation to the plan.

### Certificate

*I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.*

# Consolidated Revenue Account

2004/05 Net expenditure £'000	Expenditure and income  See note	Gross expenditure £'000	Income			2005/06 Net expenditure £'000
			Specific grants £'000	Other income £'000	Total £'000	
2,246	Central services to the public	5,443	-	1,701	1,701	3,742
97,627	Cultural, environmental and planning services	124,051	641	23,684	24,325	99,726
692,054	Education services	919,361	92,334	92,655	184,989	734,372
77,329	Highways, roads and transport services	93,093	1,857	6,056	7,913	85,180
258,986	Social services	423,069	74,305	72,554	146,859	276,210
429	Court services	1,257	-	776	776	481
11,987	Corporate and democratic core	13,016	-	-	-	13,016
-	Reward grant	-	3,216	-	3,216	-3,216
1,897	8 Non-distributed costs	2,328	-	-	-	2,328
-439	Exceptional item	-	-	-	-	-
-3,469	4 Reduction in provisions	-2,290	-	-	-	-2,290
<b>1,138,647</b>	<b>Net cost of continuing services</b>	<b>1,579,328</b>	<b>172,353</b>	<b>197,426</b>	<b>369,779</b>	<b>1,209,549</b>
5,005	Magistrates' courts	-	-	-	-	-
<b>1,143,652</b>	<b>Net cost of services</b>	<b>1,579,328</b>	<b>172,353</b>	<b>197,426</b>	<b>369,779</b>	<b>1,209,549</b>
-761	13 Internal trading accounts					75
-84,562	10 Asset Management Revenue Account					-98,175
22,830	7 Pensions interest cost and expected return on Pension Fund assets					18,960
<b>1,081,159</b>	<b>Net operating expenditure</b>					<b>1,130,409</b>
24,245	Revenue contribution to capital expenditure					35,552
-2,277	19 Contribution from other authorities					-2,203
-14,819	11 Contribution from Capital Financing Account					-13,813
-19,145	Deferred charges written down					-19,686
-32,320	7 Contribution to (+)/from (-) Pensions Reserve					-26,630
9,205	12 Contribution to (+)/from (-) other reserves					17,235
<b>1,046,048</b>	<b>Amount to be met from Government grant and local taxpayers</b>					<b>1,120,864</b>
-334,004	Revenue Support Grant					-304,349
-311,621	National business rates					-380,761
-402,458	Precept					-420,454
-2,987	Surplus on collection funds					-1,846
<b>-5,022</b>	<b>Increase (-)/reduction (+) in Revenue Account balance for the year</b>					<b>13,454</b>
-12,599	Balance brought forward 1 April					-17,621
<b>-17,621</b>	<b>Balance at 31 March</b>					<b>-4,167</b>

## 1 Format

The Consolidated Revenue Account brings together income and expenditure on all services. The net cost of services is presented using the service expenditure analysis set out in the Best Value Accounting Code of Practice (BVACOP). This helps comparison between authorities.

## 2 Pooled budgets

The County Council is a partner in the Hampshire Children's Trust. The purpose of this is to establish a Children's Trust for Child and Adolescent Mental Health Services in Hampshire under Section 31 of the Health Act 1999.

The partner bodies are:

- Hampshire County Council (host partner)
- North Hampshire Primary Care Trust (PCT)
- Blackwater Valley and Hart PCT
- Mid Hampshire PCT
- East Hampshire PCT
- Fareham and Gosport PCT
- Eastleigh and Test Valley PCT
- New Forest PCT

The gross income for 2005/06 is £1,708,221 (£853,040 for 2004/05) and expenditure £903,436 (£383,347 in 2004/05), giving a surplus of £804,785 (£469,693 in 2004/05).

The County Council's contribution was £774,640 (£500,000 in 2004/05 including contributions in kind of £32,040).

## 3 Local Authorities (Goods and Services) Act 1970

Services are provided to other local authorities and public bodies under the Local Authorities (Goods and Services) Act 1970. In 2005/06 income from this source was £9.5 million (£11.1 million in 2004/05), which covered the costs involved.

## 4 Change in provisions

	2004/05 £'000	2005/06 £'000
Corporate contributions were:		
Provision for doubtful debts	447	576
Provision for known insurance liabilities	-3,766	-2,866
Provision for part-time pensions	-150	-
	<b>-3,469</b>	<b>-2,290</b>

See note 15 to the balance sheet for further information on provisions.

## 5 Undischarged obligations

### *Project Integra*

Project Integra is being implemented as the long-term solution to household waste management in Hampshire. It is a partnership between the County Council, the unitary and district councils in Hampshire and the private contractor Hampshire Waste Services (HWS). The partnership is underpinned by a long-term contract with HWS which is jointly administered by the County Council and Portsmouth and Southampton unitary authorities. The contract began in January 1996 and will run until 2024/25. At 31 March 2006 the payments remaining under the contract are estimated to be £1,502 million of which £1,162 million will be charged to the County Council.

### **Hampshire Public Service Network**

A seven-year contract for a new integrated voice and data network was signed with Unisys at the end of 1999. This has now been extended to November 2009. At 31 March 2006 the payments remaining under the contract are estimated at £20.79 million (£4.85 million at 31 March 2005).

### **6 Discretionary expenditure**

The County Council used to rely on Section 137 of the Local Government Act 1972 for the power to incur expenditure of up to £1.90 per head of population on activities or projects "in the interests of the area or some of its inhabitants" which are not specifically authorised in other powers. Most of this power was repealed and replaced with a "well-being" power in the Local Government Act 2000 with effect from 18 October 2000. Section 137 remains as a power only for contributions to charities and not-for-profit bodies.

In 2005/06 spending under Section 137 amounted to £146,391 or 12p a head (£110,187 or 9p a head in 2004/05).

Most was spent on grants to voluntary organisations which could not be made under any other statutory power.

### **7 Pensions**

As part of the terms and conditions of employment of its staff, the County Council provides retirement benefits. These will not be payable until employees retire but the Council has a commitment to make the payments that need to be disclosed (in accordance with FRS 17), at the time that employees earn their future entitlement.

The County Council participates in two pension schemes:

- a The Teachers' Pension Scheme for teachers - this is an unfunded defined benefit scheme. However, scheme liabilities cannot be attributed to individual local authorities on a consistent and reasonable basis. So, in accordance with FRS 17, pension costs are recorded as if the scheme was a defined contribution scheme.
- b The Local Government Pension Scheme (LGPS) for other employees - this is a funded defined benefit scheme, administered by the County Council. Employers and employees pay contributions into a fund at a level estimated to balance pension liabilities with investment assets. Since 2003/04, pension costs have been charged to the Consolidated Revenue Account in accordance with FRS 17.

#### **Current service cost of pensions**

The Pension Fund's actuary has advised that the current service cost of pensions in 2005/06 is £50.0 million (£45.17 million in 2004/05). This is included in the net cost of services in the Consolidated Revenue Account. However, the charge met by taxpayers is based on employers' contributions payable in the year. This is achieved by adjusting the Consolidated Revenue Account after net operating expenditure.

In 2005/06 the County Council paid an employers' contribution of £39.8 million into the Pension Fund (£33.3 million in 2004/05). This was 15.0% of pensionable pay (13.5% in 2004/05).

The contribution rate is determined by the Pension Fund's actuary (Hewitt, Bacon & Woodrow), based on valuations every three years. The actuarial valuation of the Fund as at 31 March 2004 resulted in the actuary recommending a phased increase in the employers' rate. The rate was 225% of employees' contributions in 2004/05, 250% in 2005/06 rising to 275% in 2006/07, and 295% in 2007/08.

**Past service cost of pensions**

The actuary has advised that the past service cost for early retirements in 2005/06 is £2.5 million (£1.6 million in 2004/05). This includes £1.03 million for teachers as the County Council is responsible for all pension payments relating to added years awarded by the County Council and for meeting the additional cost of early retirement. This is included in non-distributed costs in the Consolidated Revenue Account, in accordance with BVACOP, but a charge of £2.3 million (£1.8 million in 2004/05) has been made after adjusting for the difference between actuarial assumptions and estimated cash flow in 2005/06.

The past service cost for early retirements in previous years is assessed by the actuary at £38.62 million in respect of teachers' pensions (£37.13 million in 2004/05) and £28.61 million in respect of unfunded benefits to former employees in the LGPS (£27.24 million in 2004/05). This is added to the pension liability in the Consolidated Balance Sheet. However, as for current service costs, the charge for council tax-setting purposes is based on the cash paid in the year. In 2005/06 contributions paid to cover the cost of early retirements were:

	LGPS £'000	Teachers £'000	Total £'000
Early retirements in 2005/06	526	60	586
Early retirements in previous years for which payments are still being made	2,538	2,534	5,072
<b>Total payments in 2005/06</b>	<b>3,064</b>	<b>2,594</b>	<b>5,658</b>

Other pension transactions included in the Consolidated Revenue Account are set out below. For 2004/05, Magistrates' Courts Committee figures are shown separately to allow the Hampshire County Council figures to be comparable with the 2006 figures.

**Pensions interest cost and expected return on Pension Fund assets**

	2004/05			2005/06
	Magistrates' Courts Committee £'000	Hampshire County Council £'000	Total £'000	Total £'000
Interest cost on pension liabilities	1,630	68,230	69,860	72,890
Expected return on Pension Fund assets	-1,180	-45,850	-47,030	-53,930
	<b>450</b>	<b>22,380</b>	<b>22,830</b>	<b>18,960</b>
<b>Contribution from Pensions Reserve</b>				
Current service cost of pensions	1,040	45,170	46,210	50,000
Employers' contributions to the LGPS	-758	-33,300	-34,058	-39,800
	<b>282</b>	<b>11,870</b>	<b>12,152</b>	<b>10,200</b>
Added years and early retirement cash flows in the year	-121	-4,438	-4,559	-4,857
Charge to non-distributed costs for early retirement in the year	123	1,774	1,897	2,327
	<b>2</b>	<b>-2,664</b>	<b>-2,662</b>	<b>-2,530</b>
Pensions interest cost and return on Pension Fund assets	450	22,380	22,830	18,960
<b>Total charge to net operating expenditure</b>	<b>734</b>	<b>31,586</b>	<b>32,320</b>	<b>26,630</b>
Contribution from Pensions Reserve	-734	-31,586	-32,320	-26,630
<b>Net effect on Consolidated Revenue Account</b>			-	-

### Teachers' Pension Scheme

This is a defined benefit scheme administered by the Department for Education and Skills (DfES). The scheme is unfunded, which means that the pensions of past employees are paid for by present employers' and employees' contributions. However, the DfES has established a notional fund as the basis of calculating the employers' contribution. Contributions are at the rate of 13.5% (13.5% in 2004/05). In 2005/06 the net cost was £41.8 million (£40.4 million in 2004/05).

### 8 Non-distributed costs

In accordance with the BVACOP, the additional pension costs for added years and early retirements are not charged to individual services; they are aggregated as non-distributed costs.

### 9 Publicity account

Section 5 of the Local Government Act 1986 requires local authorities to keep a separate account of expenditure on publicity. In 2005/06 the Council spent £4.2 million on this (£5.0 million in 2004/05).

	2004/05 £'000	2005/06 £'000
<b>These are the main components:</b>		
Advertising for staff	3,104	2,295
Corporate communications team costs (including staffing)	816	810
Promotion of tourism	125	163
Publicising public transport services	231	218
Road safety publicity	173	169
Promotion of economic development and investment in Hampshire	71	71
Early education publicity	98	73
Waste management publicity	85	105
Planning policy promotion	137	61
Social services publicity	73	108

### 10 Asset Management Revenue Account

The balance on this account reflects the difference between capital charges levied on services (which represent a realistic economic cost of using assets in the delivery of services) less the cost to the Council of financing assets from borrowing and depreciation suffered on the assets during the year:

	2004/05 £'000	2004/05 £'000	2005/06 £'000	2005/06 £'000
Capital charges to services		-131,026		-148,114
Depreciation provision	46,390		54,953	
Less Government grant released	-13,114	33,276	-20,152	34,801
Net interest payable		13,188		15,138
<b>Asset Management Revenue Account surplus</b>		<b>-84,562</b>		<b>-98,175</b>

## 11 Contribution from Capital Financing Account

The contribution from Capital Financing Account comprises:	2004/05 £'000	2005/06 £'000
Provision for repaying loans	18,457	20,988
Depreciation provision (net of Government grants released)	-33,276	-34,801
<b>Contribution from Capital Financing Account</b>	<b>-14,819</b>	<b>-13,813</b>

The Local Government Act 2003 requires the Council to make provision in its Revenue Account to repay external debt. The provision is defined as a percentage of the County Council's Capital Financing Requirement. The current provision rate is the minimum, 4%. The debt arises from borrowing to finance previous years' capital programmes.

## 12 Earmarked reserve accounts

Variations in reserve accounts are as follows:	2004/05 £'000	2005/06 £'000
Schools	2,410	2,635
Capital	-4,787	-3,615
Landfill allowances trading scheme	-	3,538
Public Services Agreement reward grant	-	2,712
Insurance	541	665
Designated underspendings	1,534	-791
On-street-parking	-210	-
Grant equalisation	7,857	2,825
Modernisation, restructuring and efficiency plan	-	3,505
Job evaluation implementation	750	5,650
Trading accounts	873	202
Invest-to-save	239	-75
Other	-2	-16
	<b>9,205</b>	<b>17,235</b>

## 13 Internal trading accounts

The trading units had an overall deficit of £75,000 (2004/05 overall surplus of £761,000) as follows:

	2004/05 £'000	2005/06 £'000
<i>Former Direct Services Organisation</i>		
provides catering and cleaning services to schools and some non-educational sites in Hampshire and supplies vehicles to departments of the County Council.		
Income	23,027	23,345
Expenditure	22,823	23,231
Surplus	<b>204</b>	<b>114</b>
<i>Education Business Units</i>		
provide support services mainly to schools but also to other departments and other local authorities.		
Income	29,042	26,992
Expenditure	28,899	26,532
Surplus	<b>143</b>	<b>460</b>



	2004/05 £'000	2005/06 £'000
<i>Information Technology Services</i>		
are provided to County Council departments and some other local authorities.		
Income	31,887	31,471
Expenditure	31,771	32,432
Surplus (+)/deficit (-)	<b>116</b>	<b>-961</b>
<i>County Supplies</i>		
operates the central purchasing warehouse and arranges direct delivery and other contracts for County Council departments, other local authorities and voluntary organisations		
Income	9,505	9,236
Expenditure	9,359	9,120
Surplus	<b>146</b>	<b>116</b>
<i>Hampshire Printing Services</i>		
provides printing and reprographic services to County Council departments.		
Income	2,531	2,345
Expenditure	2,497	2,313
Surplus	<b>34</b>	<b>32</b>
<i>Five other smaller trading units</i>		
including a surplus of £83,000 (£80,000 surplus in 2004/05) on the management of the River Hamble.		
Income	1,386	1,468
Expenditure	1,268	1,304
Surplus	<b>118</b>	<b>164</b>
<b>Total surplus (+)/deficit (-)</b>	<b>761</b>	<b>-75</b>

#### 14 County councillors' expenses

The totals of councillors' allowances paid in the year was £1,244,000 (£1,147,000 in 2004/05).

#### 15 Officers' emoluments

The number of employees whose remuneration, excluding pension contributions, was £50,000 or more, in bands of £10,000, is as follows:

	Number of employees	
	2004/05	2005/06
£50,000 - £59,999	151	214
£60,000 - £69,999	53	63
£70,000 - £79,999	15	26
£80,000 - £89,999	7	1
£90,000 - £99,999	6	6
£100,000 - £109,999	1	3
£110,000 - £119,999	-	1
£120,000 - £129,999	2	1
£130,000 - £139,999	1	1
£140,000 - £149,999	2	3
£150,000 - £159,999	-	-
£160,000 - £169,999	-	-
£170,000 - £179,999	-	-
£180,000 - £189,999	1	-
£190,000 - £199,999	-	1
	<b>239</b>	<b>320</b>

## 16 Related party transactions

During the year transactions with related parties arose as follows:		2004/05	2005/06
		£'000	£'000
<b>Central Government</b>			
Receipt of Government grants	- revenue	818,092	857,464
	- capital	41,269	46,520
		<b>859,361</b>	<b>903,984</b>
Levy paid to Environment Agency		638	742

The County Council administers the Pension Fund on behalf of its non-teaching employees, and those of other local authorities in the county area together with 214 other scheduled and admitted bodies (204 in 2004/05). The Pension Fund pools its surplus cash balances with the County Council's to gain the benefits of scale. Interest was paid to the Pension Fund in 2005/06 at the average monthly seven-day rate.

The County Treasurer is also the appointed Treasurer of the Hampshire Police Authority and Hampshire Fire and Rescue Authority. These two authorities also pool surplus cash balances with the County Council and are paid interest at the average monthly seven-day rate.

Transactions with these related parties are shown below:		2004/05	2005/06
		£'000	£'000
<b>Pension Fund</b>			
Interest paid		2,686	2,668
Temporary investments 31 March		77,883	73,252
Administration charge		1,396	1,539
<b>Hampshire Police Authority</b>			
Interest paid		1,464	838
Temporary investments 31 March		26,003	8,383
<b>Hampshire Fire and Rescue Authority</b>			
Interest paid		306	206
Temporary investments 31 March		4,826	5,607

There were no other related party transactions involving county councillors or chief officers of the Council.

## 17 Operational leases

The annual sum payable for leased vehicles and items of equipment is £2.4 million (£2.1 million in 2004/05). For property it is £3.2 million (£3.3 million in 2004/05). The annual rent received from leased properties is £2.5 million.

## 18 External audit fees

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

	2004/05	2005/06
	£'000	£'000
Code of Audit Practice	261	248
Grant claims	81	17
Other	22	18
	<b>364</b>	<b>283</b>

## 19 Contribution from other authorities

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

# Consolidated Balance Sheet

31 March 2005 <small>See note</small> £'000		31 March 2006 £'000
	<b>I Tangible fixed assets</b>	
	<b>Operational assets</b>	
2,177,436	Land and buildings	2,701,196
56,951	Vehicles plant and equipment	55,175
303,120	Infrastructure assets	333,645
11,147	Community assets	12,319
	<b>Non-operational assets</b>	
55,299	Assets under construction	53,884
42,325	Surplus assets, held for disposal	57,543
<b>2,646,278</b>	<b>Total fixed assets</b>	<b>3,213,762</b>
51,221	2 Long-term debtors	46,967
<b>2,697,499</b>	<b>Total long-term assets</b>	<b>3,260,729</b>
	<b>Current assets</b>	
3,031	3 Stocks and work in progress	2,776
49,920	4 Debtors	48,848
8,159	Payments in advance	9,151
108,210	5 Short-term investments	97,556
6,703	6 Cash in hand	6,116
<b>176,023</b>		<b>164,447</b>
	<b>Current liabilities</b>	
23,029	7 Deposits	7,524
120,475	8 Creditors	120,933
35,315	9 Receipts in advance	39,147
117,542	10 Borrowing repayable within one year	100,330
19,753	11 Cash overdrawn	18,426
<b>316,114</b>		<b>286,360</b>
<b>140,091</b>	<b>Net current liabilities</b>	<b>121,913</b>
<b>2,557,408</b>	<b>Total assets less current liabilities</b>	<b>3,138,816</b>
243,000	12 Long-term borrowing	287,000
280,004	13 Deferred contributions and Government grants	344,537
27,483	14 Developers' contributions	30,010
7,709	15 Provisions	6,023
<b>558,196</b>		<b>667,570</b>
<b>597,030</b>	25 Net liability related to defined benefit pension schemes	<b>588,820</b>
<b>1,402,182</b>	<b>Total net assets</b>	<b>1,882,426</b>
	<b>Financed by:</b>	
1,633,394	16 Fixed Asset Restatement Account	2,090,757
272,420	17 Capital Financing Account	283,550
-597,030	25 Pensions Reserve	-588,820
75,711	18 Earmarked reserves	92,946
66	19 Other balances	-174
17,621	Revenue Account	4,167
<b>1,402,182</b>	<b>Total net worth</b>	<b>1,882,426</b>



## Ia Fixed assets

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

	Other land and buildings £'000	Vehicles, plant and equipment £'000	Infra- structure £'000	Community assets £'000	Non- operational properties £'000	Assets under construction £'000	Deferred charges £'000	Total £'000
<b>Gross book value at 31 March 2005</b>	<b>2,269,970</b>	<b>82,304</b>	<b>346,212</b>	<b>11,148</b>	<b>42,396</b>	<b>55,299</b>	<b>-</b>	<b>2,807,329</b>
Less accumulated depreciation/impairment	-92,534	-25,353	-43,092	-1	-71	-	-	-161,051
<b>Net book value of fixed assets at 31 March 2005</b>	<b>2,177,436</b>	<b>56,951</b>	<b>303,120</b>	<b>11,147</b>	<b>42,325</b>	<b>55,299</b>	<b>-</b>	<b>2,646,278</b>
Transfer Magistrates' assets to Dept. for Constitutional Affairs								
Write-off of accumulated Depreciation	3,046	-	-	-	-	-	-	3,046
Write-off of gross book value	-56,128	-	-	-	-	-	-	-56,128
<b>Movement in 2005/06</b>								
Additions	80,406	6,990	39,964	1,174	4,728	37,454	14,044	184,760
Transfers	27,695	144	1,407	-	3,981	-38,869	5,642	-
Disposals								
Write-off of accumulated depreciation	975	2,689	-	-	-	-	-	3,664
Write off of gross book value	-17,489	-4,266	-2	-23	-2,955	-	-	-24,735
Revaluations								
Write-off of accumulated depreciation	9,143	-	-	-	-	-	-	9,143
Change in certified valuations	511,937	-	950	21	9,464	-	-	522,372
Impairment losses due to revaluations	-	-	-	-	-	-	-	-
Impairment losses for past year	-	-	-	-	-	-	-	-
Depreciation for year	-35,825	-7,333	-11,794	-	-	-	-	-54,952
Written off to capital financing account	-	-	-	-	-	-	-19,686	-19,686
<b>Net book value at 31 March 2006</b>	<b>2,701,196</b>	<b>55,175</b>	<b>333,645</b>	<b>12,319</b>	<b>57,543</b>	<b>53,884</b>	<b>-</b>	<b>3,213,762</b>
<b>Gross book value at 31 March 2006</b>	<b>2,816,391</b>	<b>85,172</b>	<b>388,531</b>	<b>12,320</b>	<b>57,614</b>	<b>53,884</b>	<b>-</b>	<b>3,413,912</b>
Accumulated depreciation/impairment	-115,195	-29,997	-54,886	-1	-71	-	-	-200,150
<b>Net book value at 31 March 2006</b>	<b>2,701,196</b>	<b>55,175</b>	<b>333,645</b>	<b>12,319</b>	<b>57,543</b>	<b>53,884</b>	<b>-</b>	<b>3,213,762</b>

There was a net increase in asset values of £567.5 million in 2005/06. This was the result of additions in the year of £184.8 million offset by deferred charges of £19.7 million, and a net increase from revaluations of £531.5 million partly offset by depreciation of £55.0 million, and disposals of £74.2 million.

Deferred charges represent expenditure that has been capitalised but does not add to the value of assets controlled by the County Council. The expenditure in the year and the transfer from assets under construction includes grants to third parties and capital payments on foundation schools.

#### Foundation schools

The fixed assets of foundation schools are vested in the governing bodies of the schools, so the value of the assets has not been included in this balance sheet. On 31 March 2006 there were 20 foundation schools (20 schools in 2004/05).

#### Ib Valuation

The freehold and leasehold properties of the Council's property portfolio have been valued, under a rolling programme, by the Estates Practice of the Property, Business and Regulatory Services Department of the County Council.

FRS 15 requires the dates and amounts of valuations to be analysed across each of the classes of assets carried at current value. No analysis is required for assets valued at historic cost.

Valuation		Other land and buildings £'000	Vehicles, plant and equipment £'000	Infra- structure £'000	Community assets £'000	Non-year operational properties £'000
Valued at historic cost			55,175	333,645	12,319	
Valued at current value in	1994/95	653				72
	1995/96	32				-
	1996/97	26				26
	1997/98	108				57
	1998/99	2				13
	1999/00	142				-
	2000/01	2,489				5
	2001/02	56,850				6,471
	2002/03	197,831				13,883
	2003/04	417,500				7,583
	2004/05	448,181				3,981
	2005/06	1,577,382				25,452
<b>Total</b>		<b>2,701,196</b>	<b>55,175</b>	<b>333,645</b>	<b>12,319</b>	<b>57,543</b>

**Ic Fixed assets held at 31 March**

	2005	2006
<b>Land</b>		
Total land holding (acres)	16,780	16,790
<b>Buildings</b>		
Area of all buildings (million sq metres)	1.7	1.7
Floor area of net usable office space (000s sq metres)	52	56
<b>Number of buildings</b>		
Early years' centres	2	3
Primary schools	434	433
Secondary schools	71	71
Special schools	28	27
Education centre schools	7	7
Activity centres	5	5
Print works	1	1
Stores warehouses	2	2
Central and area offices	60	61
Waste disposal sites and recycling centres	28	28
Libraries	54	54
Museums	19	19
Countryside sites	84	83
Record Office	1	1
Arts centres	4	4
Social services – residential homes	52	54
Social services – day centres	33	32
<b>County road length (km)</b>	<b>8,517</b>	<b>8,543</b>
<b>Vehicles and plant</b>		
Hampshire Transport Management	52	52

Community assets not accounted for in the balance sheet comprise:  
Museum exhibits, pieces of art, historic records held by Hampshire Record Office, historic monuments.

**Id Capital financing**

Capital spending on fixed assets and deferred charges totalled £184.8 million (£208.4 million in 2004/05). It was financed as follows:

	2004/05 £'000	2005/06 £'000
Capital receipts	18,469	10,720
Grants and other income	83,366	85,077
Loans	82,358	53,411
Revenue		
- Main contribution	12,450	30,660
- Reserves	11,795	4,892
	<b>208,438</b>	<b>184,760</b>

Commitments for major contracts entered into up to 31 March 2006 are estimated at £55 million (£39 million in 2004/05). This comprises £5 million (£8 million in 2004/05) for highways and £50 million (£31 million in 2004/05) for buildings.

## 1e Leases

At 31 March 2006 there were no outstanding obligations on finance leases. Some vehicles, items of equipment and property are financed under operational leases. The annual sum payable on these is £5.6 million (£5.4 million in 2004/5). The future obligations under operational leases are £28.1 million (£29.7 million in 2004/5) and their profile is as follows:

Operational leases	Paid in 2005/06 £'000	Payable in 2006/07 £'000	Expires in that year £'000	Expires in second to fifth year £'000	Expires in over five years £'000
Other land and buildings	3,265	3,265	722	1,186	1,357
Vehicles plant and equipment	2,367	2,780	677	1,792	311
	<b>5,632</b>	<b>6,045</b>	<b>1,399</b>	<b>2,978</b>	<b>1,668</b>

Under the home computer salary sacrifice scheme, the County Council bought assets to the value of £516,000 which were leased to staff. Net of repayments in the year the deferred debtor is £451,000 at 31 March 2006.

2 Long-term debtors	31 March	
	2005 £'000	2006 £'000
Car loans to staff	919	805
Home computer salary sacrifice scheme	-	451
Transferred debt	49,939	45,369
Other	363	342
	<b>51,221</b>	<b>46,967</b>

Transferred debt represents amounts of capital advances due to be repaid after statutory transfers of former services to independent bodies. £42.2 million remains to be repaid by the cities of Portsmouth and Southampton, £0.1 million by the Higher Education Funding Council, and £3.0 million by the Hampshire Police Authority.

3 Stocks and work in progress	31 March	
	2005 £'000	2006 £'000
Stocks		
- Catering stock	323	277
- County Supplies general	917	948
- Recreation and Heritage sales stocks	247	314
- Other (including landfill allowances)	253	252
	<b>1,740</b>	<b>1,791</b>
Work in progress		
- Highway rechargeable works	1,217	942
- Other	74	43
	<b>1,291</b>	<b>985</b>
<b>Total stocks and work in progress</b>	<b>3,031</b>	<b>2,776</b>

Closing stock valuations have been assessed using the latest purchase price. This does not accord with Statement of Standard Accounting Practice (SSAP) 9 - stocks and long-term contracts, which requires stock to be valued at the lesser of original purchase price or current value but the differences in the valuations are not material.

4 Debtors	31 March	
	2005 £'000	2006 £'000
Government departments	8,832	8,911
Other local authorities	6,316	8,690
Sundry debtors	34,772	31,247
	<b>49,920</b>	<b>48,848</b>

#### 5 Short-term investments

Surplus cash balances are lent to borrowers on the County Council's approved list. The main reason for the high level of short-term investments in 2005/06 is the pooling of surplus Hampshire Pension Fund, Hampshire Police Authority and Hampshire Fire and Rescue Authority cash for treasury management purposes and the value of the sums lent by those bodies to the County Council.

6 Cash in hand	31 March	
	2005 £'000	2006 £'000
The balance shown comprises:		
- Schools' local bank accounts	5,873	5,256
- Petty cash	830	860
	<b>6,703</b>	<b>6,116</b>

Schools' local bank accounts include the balances held by 21 schools (21 in 2004/05) which have elected to have separate bank accounts. Petty cash consists of 821 imprest accounts (846 in 2004/05) for minor day-to-day expenses which are held by establishments, including schools across the whole county.

7 Deposits	31 March	
	2005 £'000	2006 £'000
NHS nursing care contribution	20,666	4,432
Other capital deposits and unapplied contributions	1,639	2,253
Other	724	839
	<b>23,029</b>	<b>7,524</b>

8 Creditors	31 March	
	2005 £'000	2006 £'000
HM Revenue and Customs and Government departments	25,017	27,594
Other local authorities	6,613	6,574
Sundry creditors	88,845	86,765
	<b>120,475</b>	<b>120,933</b>

The County Council's policy is to pay business creditors within 30 days of the date shown on the invoice.

<b>9 Receipts in advance</b>		31 March
	£'000	£'000
Education Standards Fund and devolved capital grants	21,329	24,848
Other receipts and contributions	13,986	14,299
	<b>35,315</b>	<b>39,147</b>

<b>10 Borrowing repayable within one year</b>		31 March
	2005	2006
	£'000	£'000
Long-term borrowing repayable within one year	4,000	8,000
Temporary deposits by Hampshire Pension Fund, Hampshire Police Authority, and Hampshire Fire and Rescue Authority	108,712	87,242
Other short-term borrowing	4,830	5,088
	<b>117,542</b>	<b>100,330</b>

#### 11 Cash overdrawn

This is the ledger balance of the main bank account and is almost entirely represented by payments drawn but not presented at the bank by the end of the year. The actual bank balance is managed on a daily basis to very modest limits, usually less than £100,000.

#### 12 Long-term borrowing

Range of interest rates payable	Source of loan	Outstanding 31 March	
		2005 £'000	2006 £'000
3.8% - 9.875%	Public Works Loan Board	207,000	231,000
2.7% - 5%	Lender's option/borrower's option loans	36,000	56,000
		<b>243,000</b>	<b>287,000</b>

An analysis of loans by maturity is:

Maturing between one and two years	8,000	8,000
Maturing between two and five years	16,000	12,000
Maturing between five and 10 years	29,000	32,000
Maturing in 10 or more years	190,000	235,000
	<b>243,000</b>	<b>287,000</b>

**13 Government grants and contributions deferred**

	2004/05 £'000	2005/06 £'000
Balance at 1 April	209,753	280,004
Financing of expenditure in the year	83,365	85,077
Release of grants resulting from the depreciation and disposal of assets	-13,114	-20,152
Release of grants on assets transferred to the Department for Constitutional Affairs	-	-392
<b>Balance at 31 March</b>	<b>280,004</b>	<b>344,537</b>

This account contains external grants and contributions that have been used to finance capital expenditure. It will be adjusted for depreciation (written down) to offset depreciation charges generated by the relevant assets, and when these assets are sold.

**14 Developers' contributions**

Developers' contributions arise mainly as a result of agreements under 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.

**15 Provisions**

	2005 £'000	31 March 2006 £'000
Insurance claims	5,313	4,807
Contract terminations	67	85
Grant loss	1,200	-
Part-time pensions	1,100	1,100
Other	29	31
	<b>7,709</b>	<b>6,023</b>

The insurance provision represents an assessment of the likely cost of liability claims known to the County Council at 31 March 2006. The risks covered are:

**Liabilities**

Employer's liability, public liability and professional indemnity up to an aggregate 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**

Buildings owned by the County Council and those leased to the County Council where the lease allows for loss or damage as a result of fire, lightning, explosion and (for schools only) major storm and flood. Contents owned by the County Council for loss or damage as a result of fire, lightning, explosion and theft. All-risk cover for IT equipment in computer suites, cash on premises and in transit (limits depending on location).

**Additional cover**

Personal accident of staff on duty  
Fidelity guarantee  
Vessels

Council departments currently continue to perform services on a contract basis 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.

A provision was established in 2004/05 for the repayment of grant arising from changes in population data agreed after the 2004/05 settlement. The Government has now issued an amending report for 2004/05 and 2005/06 that reduces entitlement to Revenue Support Grant and to national business rates for those years. The sum owing to the Government will be deducted from 2006/07 grant payments and a creditor has been included in the 2005/06 accounts.

A House of Lords' decision provides the opportunity for some part-time employees to claim retrospective membership of the Hampshire Pension Fund. The provision covers the potential liability of the County Council for retrospective employer's contributions.

### 16 Fixed Asset Restatement Account

The Fixed Asset Restatement Account was created to allow assets to be maintained in the accounts at current value. The reserve is written down by the net book value of assets being disposed of. It is also debited or credited with deficits or surpluses when revaluations are made. The movement in the account is explained in notes 2 and 3 to the statement of total movement in reserves.

### 17 Capital Financing Account

The Capital Financing Account contains:

- the amounts that were required by law to be set aside from capital receipts for the repayment of external loans (applied to the disposal of most assets until 1 September 1998)
- the amount of capital expenditure financed from revenue and capital receipts
- the statutory amount required to provide for the repayment of external loans less the amounts included for depreciation and writing down of deferred charges.

The movement in the account is explained in note 4 to the statement of total movement in reserves.

### 18 Earmarked reserves

	2005	31 March
	£'000	2006
		£'000
Schools	30,753	33,388
Capital	3,615	-
Landfill allowances	-	3,538
Local Public Service Agreement reward grant	-	2,712
Insurance	6,635	7,300
Designated underspendings	4,356	3,565
Grant equalisation	20,925	23,750
Modernisation, restructuring and efficiency	-	3,505
Job evaluation implementation	4,750	10,400
Trading accounts	4,084	4,286
Invest-to-save	328	253
Other	265	249
	<b>75,711</b>	<b>92,946</b>

Schools reserves represent the net underspending on budgets managed by governors of schools at 31 March 2006, as adjusted for advances made under the school balances loan scheme. They are not available to the County Council when managing the Council's finances.



## 19 Other balances

The other balances figure is largely internal recharges between the main County Council accounts and schools with local bank accounts. These recharges will be cleared in 2006/07.

## 20 Trust funds

The Council acts as sole trustee for 29 trust funds (29 in 2004/05) and as administrator for 15 other trust funds (14 in 2004/05). They include educational prize funds, funds for the financing of 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 2005 £'000	Income £'000	Expenditure £'000	Balance at 31 March 2006 £'000
<b>Sole trustee funds</b>				
<b>Educational trusts</b>				
Butlocks Heath/Netley Abbey School	392	20	122	290
Dayas Music Scholarship	80	5	2	83
Michael Austin Harlick Memorial	247	15	12	250
Mace Educational Trust	114	7	6	115
Spitfire Mitchell Memorial	174	9	1	182
Other	63	3	5	61
<b>Total</b>	<b>1,070</b>	<b>59</b>	<b>148</b>	<b>981</b>
<b>Social services trusts</b>				
Hampshire Mentally Handicapped Persons Holiday Organisation	37	1	-	38
Hampshire Old Industrial and Reformatory Schools	60	4	3	61
Green Meadows Old People's Home	15	1	1	15
<b>Total</b>	<b>112</b>	<b>6</b>	<b>4</b>	<b>114</b>
<b>Museum trusts</b>				
Allen Curtis Museum Trust	24	3	3	24
The Flora Twort Trust	41	3	3	41
Red House Museum Trust	50	4	4	50
<b>Total</b>	<b>115</b>	<b>10</b>	<b>10</b>	<b>115</b>
<b>Libraries trust</b>				
Julian Davies Foundation	1	-	-	1
<b>Total - sole trustee trusts</b>	<b>1,298</b>	<b>75</b>	<b>162</b>	<b>1,211</b>
<b>Administrator funds</b>				
The Eggars Grammar School Alton Site Foundation	2,437	113	914	1,636
Hampshire Foundation for Young Musicians	67	4	5	66
Hillier Arboretum Trust	36	4	27	13
Other	24	1	1	24
Social services trusts	5	-	-	5
<b>Total administrator trusts</b>	<b>2,569</b>	<b>122</b>	<b>947</b>	<b>1,744</b>
<b>Total trust funds</b>	<b>3,867</b>	<b>197</b>	<b>1,109</b>	<b>2,955</b>

## 21 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 £4.8 million at 31 March 2006 (see note 15). The County Council has set aside a reserve of £10 million to finance ex gratia payments to staff affected by the single-status agreement to reflect the outcome of the job evaluation undertaken as part of the pay and benefits review. At the balance sheet date, no equal pay claims had been lodged with the employment tribunal.

## 22 Related companies

The County Council does not have a controlling or dominant influence in any company under the terms of the Local Government and Housing Act 1989. A dominant influence means that the company operates in accordance with the Council's wishes. The Council does not consider that group accounts are required to accord with the criteria in the Accounting Code of Practice.

## 23 Euro IT costs

No significant IT costs will be incurred if the euro is adopted, as new financial and related business systems have been introduced that are already fully euro-compliant.

## 24 Post balance sheet events

As at 21 September 2006, when the accounts were authorised for issue by the County Treasurer, there were no material post balance sheet events that require disclosure.

## 25 Pensions

As indicated in note 7 to the Consolidated Revenue Account, the County Council participates in two pension schemes. Teachers' Pension costs are recorded as if the scheme was a defined contribution scheme. Other employees are members of the LGPS, which is accounted for as a defined benefit scheme. In 2005/06, pension assets and liabilities have been included in the Consolidated Balance Sheet based on a formal actuarial valuation for 31 March 2004.

An independent actuary (Hewitt, Bacon & Woodrow) assessed the share of the assets and liabilities of the Hampshire LGPS attributable to the County Council and also the unfunded benefits for teachers and LGPS members. The actuary estimated that the following overall assets and liabilities for pension costs should be included in the balance sheet. The 2005 Magistrates' Courts Committee figures are shown separately to allow the Hampshire County Council figures to be comparable with the 2006 figures.

	Magistrates' Courts Committee £ million	Hampshire County Council £ million	31 March 2005 Total £ million	31 March 2006 Total £ million
Estimated liabilities in the scheme				
Hampshire Pension Fund	31.6	1,298.6	1,330.2	1,500.8
Unfunded liabilities:				
Teachers	-	37.1	37.1	38.6
Other staff	-	27.3	27.3	28.6
	<b>31.6</b>	<b>1,363.0</b>	<b>1,394.6</b>	<b>1,568.0</b>
Estimated assets in the scheme	19.0	778.6	797.6	979.2
<b>Net liability</b>	<b>12.6</b>	<b>584.4</b>	<b>597.0</b>	<b>588.8</b>

## 25 Pensions *continued*

Liabilities have been assessed on an actuarial basis using the projected unit method. This estimates the pensions that will be payable in future years, based on assumptions about mortality rates, salary levels etc. The main assumptions are as follows:

	2004/05 % per year	2005/06 % per year
Rate of discount for scheme liabilities	5.3	4.9
Rate of increase in salaries	4.4	4.5
Rate of increase in pensions in payment	2.9	3.0
Rate of increase in deferred pensions	2.9	3.0
Rate of inflation	2.9	3.0
Rate of return on equities (shares)	7.7	7.3
Rate of return on bonds	4.7	4.3
Rate of return on property	6.7	6.3
Rate of return on other assets	4.8	4.6
Average long-term expected rate of return	6.9	6.5

Changes to the LGPS permit employees retiring on or after 6 April 2006 to take an increase in their lump sum payment on retirement in exchange for a reduction in their future annual pension. On the advice of our actuaries it has been assumed that 50% of employees retiring after 6 April 2006 will take advantage of this change to the pension scheme. Our actuaries have advised that this assumption has reduced the value placed on the liabilities for FRS 17 purposes by less than 3%. This has been reflected in the statement of total movement in reserves. The change has not affected the figures in the Consolidated Revenue Account.

Assets are valued at fair value, mainly market value for investments, and consist of the following categories, by proportion:

	31 March 2005 %	31 March 2006 %
Equities	69.0	70.3
Bonds	22.2	20.6
Property	4.0	4.0
Other assets	4.8	5.1
	<b>100.0</b>	<b>100.0</b>

The movement in the net pension liability for the year is as follows:

	Magistrates' Courts Committee £ million	Hampshire County Council £ million	31 March 2005 Total £ million	31 March 2006 Total £ million
Net deficit (-) at start of year	-8.3	-397.0	-405.3	-584.4
Movements in the year:				
current service cost	-1.0	-45.2	-46.2	-50.0
past service cost	-	-1.6	-1.6	-2.5
contributions	0.8	37.5	38.3	44.9
expected return on pension assets	1.1	45.9	47.0	53.9
interest on pension liabilities	-1.6	-68.2	-69.8	-72.9
actuarial loss (-)/gain (+)	-3.6	-155.8	-159.4	22.2
<b>Net deficit (-) at 31 March</b>	<b>-12.6</b>	<b>-584.4</b>	<b>-597.0</b>	<b>-588.8</b>

## Statement of total movement in reserves

31 March 2005 £'000		31 March 2006 £'000
	<b>Surplus (+)/deficit (-) for the year</b>	
5,022	Revenue Account	-13,454
9,205	Earmarked reserves (see note 12 of Consolidated Revenue Account)	17,235
62	Other balances	-240
<b>14,289</b>	<b>Total increase (+)/decrease (-) in revenue resources</b>	<b>3,541</b>
-	<b>Total increase (+)/decrease (-) in realised capital resources (note 1)</b>	-
<b>114,345</b>	<b>Total increase in unrealised value of fixed assets (note 2)</b>	<b>531,515</b>
<b>-16,869</b>	<b>Value of assets sold, disposed of or decommissioned (note 3)</b>	<b>-74,152</b>
<b>6,642</b>	<b>Movement on capital financing account (note 4)</b>	<b>11,130</b>
-	Net pension liability transferred to Department for Constitutional Affairs	12,630
-159,410	Net actuarial gain (+)/loss (-) on pensions (note 5)	22,210
-32,320	Adjustment to Consolidated Revenue Account to reconcile with pension contributions and early retirement cash flow	-26,630
<b>-191,730</b>	<b>Net pension loss reflected in Pensions Reserve</b>	<b>8,210</b>
<b>-73,323</b>	<b>Total recognised gains (+) and losses (-)</b>	<b>480,244</b>

**1 Movement in realised capital resources**

	31 March 2006
	Usable capital receipts £'000
Amount receivable in 2005/06	10,720
Amounts applied to finance new capital investment in 2005/06	-10,720
<b>Change in realised capital resources in 2005/06</b>	-
Balance bought forward at 1 April 2005	-
Balance carried forward at 31 March 2006	-

The usable capital receipts reserve is cash-backed, so it was available to help finance capital expenditure in 2005/06. The receipts arise from the sale of fixed capital assets.

**2 Movements in unrealised value of fixed assets**

	31 March 2006
	Fixed Asset Restatement Account £'000
Gains (+)/losses (-) on revaluations of fixed assets in 2005/06	531,515
Impairment losses on fixed assets arising from revaluations in 2005/06	-
<b>Total increase in unrealised capital resources in 2005/06</b>	<b>531,515</b>

**3 Value of assets sold, disposed of or decommissioned**

Assets sold	-21,071
Assets transferred to Department for Constitutional Affairs	-53,081
<b>Amounts written off fixed asset balances for disposals in 2005/06</b>	<b>-74,152</b>
Total movements on reserve in 2005/06	457,363
Balance brought forward at 1 April 2005	1,633,394
<b>Balance carried forward at 31 March 2006</b>	<b>2,090,757</b>

The Fixed Asset Restatement Account was created in order to allow assets to be maintained in the accounts at current value. The reserve is not cash backed as it relates to unrealised assets.

#### 4 Movement in amounts set aside to finance capital investment

	31 March 2006
	Capital Financing Account £'000
<b>Capital receipts received and set aside in 2005/06</b>	<b>10,720</b>
Revenue resources set aside in 2005/06	
- capital expenditure financed from revenue	35,552
- reconciling amount for provision for loan repayment	-35,534
<b>Total revenue resources set aside</b>	<b>18</b>
<b>Release of grants on assets transferred to the Department for Constitutional Affairs - on 1 April 2005</b>	<b>392</b>
<b>Total increase in amount set aside to finance capital investment</b>	
Total movement on reserve in 2005/06	11,130
Balance brought forward on 1 April 2005	272,420
<b>Balance carried forward on 31 March 2006</b>	<b>283,550</b>

Both the Capital Financing Account and the Government grants and contributions deferred account represent amounts applied to finance capital expenditure. Therefore neither is a cash-backed reserve.

#### 5 Net actuarial gain (+)/loss (-) on pensions

The actuarial gains identified as movements on the Pensions Reserve in 2005/06 can be analysed into the following categories, measured in absolute amounts and as a percentage of assets or liabilities at 31 March 2006:

	2002/03		2003/04		2004/05		2005/06	
	£'000	%	£'000	%	£'000	%	£'000	%
Difference between expected and actual return on assets	-194,800	35.6	70,660	10.4	27,240	3.40	130,120	13.3
Difference between actuarial assumptions about liabilities and actual experience	-12,800	1.4	-1,410	0.1	65,530	4.70	1,470	0.1
Changes in assumptions underlying the present value of pension liabilities	-1,100	0.1	2,310	0.2	-252,180	18.10	-109,380	7.0
	<b>-208,700</b>		<b>71,560</b>		<b>-159,410</b>		<b>22,210</b>	

## Cash flow statement

	2004/05 £'000	2005/06 £'000
<b>Revenue activities</b>		
<b>Cash outflows</b>		
Cash paid to and on behalf of employees	775,091	816,565
Other operating costs	541,614	582,098
	<b>1,316,705</b>	<b>1,398,663</b>
<b>Cash inflows</b>		
Rents	-4,346	-4,027
Precepts	-402,458	-420,454
National business rates	-313,904	-380,761
Revenue Support Grant	-332,926	-304,349
Collection fund surpluses	-2,987	-1,846
Cash received for goods and services	-77,186	-93,131
Specific Government grants	-172,468	-171,424
Other income	-80,591	-108,506
	<b>-1,386,866</b>	<b>-1,484,498</b>
<b>Net cash inflow from revenue activities (note 1)</b>	<b>-70,161</b>	<b>-85,835</b>
<b>Returns on investments and servicing of finance</b>		
<b>Cash outflows – interest paid</b>	14,652	16,105
<b>Cash inflows – interest received</b>	-3,009	-2,776
<b>Net cash outflow from servicing of finance activities</b>	<b>11,643</b>	<b>13,329</b>
<b>Capital activities</b>		
<b>Cash outflows</b>		
Fixed assets	181,796	168,570
Deferred charges	17,077	19,686
	<b>198,873</b>	<b>188,256</b>
<b>Cash inflows</b>		
Sale of fixed assets	-18,817	-11,101
Capital grants (note 2)	-41,972	-46,520
Other income	-55,087	-21,427
	<b>-115,876</b>	<b>-79,048</b>
<b>Net cash outflow from capital activities</b>	<b>82,997</b>	<b>109,208</b>
<b>Net cash outflow before financing (notes 3 and 4)</b>	<b>24,479</b>	<b>36,702</b>
<b>Financing</b>		
<b>Borrowing repayable over periods of one year or more:</b>		
Repayments	8,000	4,000
New loans	-39,000	-52,000
<b>Borrowing repayable within one year:</b>		
Repayments	412,361	479,083
New loans	-438,415	-457,871
<b>Net cash inflow(-)/outflow(+)</b>	<b>-32,575</b>	<b>9,914</b>



1 Reconciliation of Consolidated Revenue Account surplus to net cash inflow from revenue activities

	2004/05 £'000	2005/06 £'000
<b>Net surplus (-)/deficit (+) on the Consolidated Revenue Account</b>	<b>-5,022</b>	<b>13,454</b>
<b>Net cash outflow from servicing of finance activities</b>	<b>-11,643</b>	<b>-13,329</b>
Variation in stocks	495	-255
Variation in deposits	7	-116
Variation in debtors	6,472	-2,847
Decrease in long-term debtors	-813	-2,218
Increase in payments in advance	1,606	992
Increase in creditors	-11,160	-3,954
Variation in receipts in advance	156	-3,832
Decrease in provisions	3,279	1,686
Variation in other balances	-62	240
	<b>-20</b>	<b>-10,304</b>
<b>Non-cash transactions</b>		
Transfers from reserves	-9,205	-17,235
Increase in doubtful debts provision	-447	-576
Interest on developer contributions	-1,122	-1,305
Provision for loan and lease repayments	-18,457	-20,988
Contribution to capital outlay	-24,245	-35,552
	<b>-53,476</b>	<b>-75,656</b>
<b>Net cash inflow from revenue activities</b>	<b>-70,161</b>	<b>-85,835</b>

2 Analysis of capital grants

(Revenue grants are analysed in the Consolidated Revenue Account)

	2004/05 £'000	2005/06 £'000
<b>Capital grants</b>		
Department for Education and Skills	35,923	40,313
Department for Constitutional Affairs	319	-
Department of Health	696	352
Department for Transport	3,867	2,941
Department for Communities and Local Government	1,004	2,646
Other bodies	163	268
	<b>41,972</b>	<b>46,520</b>

## 3 Movement in net debt

	at 1 April 2005 £'000	at 31 March 2006 £'000	Movement in the year £'000
<b>Cash</b>			
Cash in hand	6,703	6,116	-587
Cash overdrawn	-19,753	-18,426	1,327
Investments	108,210	97,556	-10,654
<b>Cash outflow</b>	<b>95,160</b>	<b>85,246</b>	<b>-9,914</b>
<b>Financing</b>			
Borrowing repayable within one year	-117,542	-100,330	17,212
Long-term borrowing	-243,000	-287,000	-44,000
<b>Total borrowing</b>	<b>-360,542</b>	<b>-387,330</b>	<b>-26,788</b>
<b>Net debt</b>	<b>-265,382</b>	<b>-302,084</b>	<b>-36,702</b>

## 4 Reconciliation of movement in net debt to cash flow statement

	2004/05 £'000	2005/06 £'000
Cash inflow(-)/outflow(+)	32,575	-9,914
Repayment of amount borrowed	8,000	4,000
New loans	-39,000	-52,000
Net increase (-)/decrease (+) in temporary borrowing	-26,054	21,212
	<b>-24,479</b>	<b>-36,702</b>

## Pension Fund accounts

<b>Fund account</b>	See note	2004/05 £'000	2005/06 £'000
<b>Dealings with members and employers</b>			
<b>Contributions receivable</b>			
Employers – normal	4	88,134	103,764
Employers – special	4	2,742	3,614
Employers – additional	4	13	14
Members – normal	4	39,225	41,461
Members – additional voluntary	4	904	1,030
<b>Transfers in</b>			
Individual transfers		16,776	23,250
		<b>147,794</b>	<b>173,133</b>
<b>Less:</b>			
<b>Benefits payable</b>			
Pensions	4	84,930	90,813
Commutation of pensions and lump sum retirement benefits	4	13,737	15,476
Lump sum death benefits	4	1,629	1,472
<b>Payments to and on account of leavers</b>			
Group transfers out		-	1,162
Individual transfers out		12,389	19,389
Refunds of contributions		546	382
State Scheme premiums		215	203
<b>Administrative expenses</b>	5	1,555	1,625
		<b>115,001</b>	<b>130,522</b>
<b>Net additions (+)/withdrawals (-) from dealings with members</b>		<b>32,793</b>	<b>42,611</b>
<b>Returns on investments</b>			
<b>Investment income</b>			
Interest from fixed-interest securities		4,016	448
Dividends from equities		38,247	48,644
Income from index-linked securities		6,227	7,015
Income from pooled investment vehicles		6,568	13,938
Net rents from properties		4,986	4,870
Interest on cash deposits		4,233	4,049
Other		174	115
<b>Change in market value of investments</b>			
Realised		73,057	165,889
Unrealised		71,622	275,957
<b>Taxation</b>		-3,742	-4,881
<b>Investment management expenses</b>	5	-3,922	-4,422
<b>Net returns on investments</b>		<b>201,466</b>	<b>511,622</b>
<b>Net increase (+)/decrease (-) in fund during the year</b>		<b>234,259</b>	<b>554,233</b>
<b>Add opening net assets of the scheme</b>		1,925,135	2,159,394
<b>Closing net assets of the scheme</b>		<b>2,159,394</b>	<b>2,713,627</b>

<b>Net assets statement</b>	See Note	31 March 2005 £'000	31 March 2006 £'000
<b>Investments at market value</b>			
Fixed interest securities	12	10,209	9,852
Index-linked securities	12	248,819	291,810
Equities	7,10,12	1,280,379	1,606,834
Pooled investment vehicles	8,12	409,950	560,567
Property	12	86,335	103,418
Cash deposits		106,404	111,948
<b>Total invested</b>		<b>2,142,096</b>	<b>2,684,429</b>
<b>Net current assets and liabilities</b>			
Contributions due from employers		6,508	9,787
Other current assets		13,166	21,304
Current liabilities		-2,376	-1,893
<b>Net assets – balance of fund</b>		<b>2,159,394</b>	<b>2,713,627</b>
<b>Reconciliation of net movement of assets of the fund</b>			
Opening net assets		1,925,135	2,159,394
Net income available for investment:			
Net additions from dealings with members		32,793	42,611
Investment income less expenses		56,787	69,776
<b>Revenue surplus</b>		<b>89,580</b>	<b>112,387</b>
Change in market value of investments		144,679	441,846
<b>Closing net assets</b>		<b>2,159,394</b>	<b>2,713,627</b>

## 1 Operations and management

The Hampshire Pension Fund covers employees of Hampshire County Council, Portsmouth and Southampton City Councils and all district councils in Hampshire, except teachers, for whom separate arrangements apply. It also covers 214 other scheduled and admitted bodies.

Detailed Government regulations control rates of contribution and scales of benefits. Benefits are normally in the form of a lump sum and annual pension. In 2005/06 employees contributed £42.5 million and employers £107.4 million to the Fund. Contributions are calculated as a percentage of salary. 24,470 people were receiving pensions from the Fund at 31 March 2006.

During the year the Fund's investments were managed by three companies based in London:

- Aberdeen Asset Management Limited (33.5%)
- Schroder Investment Management (39.3%)
- SG Asset Management (19.8%).

There is also a property portfolio managed by Cordea Savills, Chartered Surveyors (3.8%).

The Pension Fund Panel directs the management of the Fund. This consists of nine county councillors. There is also a representative of the two city unitary authorities (Portsmouth and Southampton), and a representative of the 11 district councils and other employers in Hampshire co-opted to the Panel. Both these representatives have full voting rights. Two representatives of the Fund's pensioners and contributors are co-opted to the Panel, also with full voting rights. There is also an independent adviser who attends Panel meetings. The Panel meets the managers twice a year to discuss performance and approve their management strategies.

## 2 Accounting policies

### *Accounting standards*

The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the UK 2005 issued by CIPFA. The accounts summarise the transactions and net assets of the Fund. They do not take account of future liabilities to pay pensions and other benefits. See note 3 for the actuarial position of the Fund, which does take account of such liabilities.

### *Basis of preparation*

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

### *Investments*

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

- FTSE-100 and Reserve List stocks are valued using the SETS last traded price
- other listed securities and securities on other domestic markets – mid-market price at the close of business on 31 March 2006
- unlisted securities - using latest dealings, professional valuations, asset values and other appropriate financial information
- investments held in overseas securities - mid-market price at the close of dealing on 31 March 2006 translated into sterling at the rate that day
- the UK property portfolio - open market value at 31 March 2006 as estimated by the Fund's property advisers.

### *Acquisition costs*

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

### 3 Actuarial position

Investment policy for the Fund is to maximise the growth in its value and to ensure that its future liabilities can be met while keeping employers' contribution rates stable.

The actuary completed a valuation of the Fund at 31 March 2004 during 2004/05. The actuary calculated that a phased increase in the employers' contribution rates paid by both scheduled and admitted bodies would be necessary to meet the Fund's long-term liabilities. The rate paid by scheduled bodies in 2005/06 was 250%, and will rise to 275% in 2006/07 and 295% in 2007/08. The rate paid by admitted bodies in 2005/06 was 240%, and will rise to 265% in 2006/07, and 295% in 2007/08.

The next actuarial valuation of the Fund is due at 31 March 2007.

### 4 Contributions and benefits

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

	2004/05 £'000	2005/06 £'000
<b>Contributions receivable</b>		
Administering authority	47,610	55,849
Scheduled bodies	80,151	90,491
Admitted bodies	3,257	3,543
	<b>131,018</b>	<b>149,883</b>
<b>Benefits payable</b>		
Administering authority	38,770	41,250
Scheduled bodies	59,026	63,884
Admitted bodies	2,500	2,627
	<b>100,296</b>	<b>107,761</b>

### 5 Administrative and investment management expenses

The figures in the Revenue Accounts are broken down in the following table:

	2004/05 £'000	2005/06 £'000
<b>Administrative expenses</b>		
Pension administration costs and other overheads	1,396	1,539
Office and other administrative expenses	159	86
	<b>1,555</b>	<b>1,625</b>
<b>Investment management expenses</b>		
Investment management expenses	3,290	3,740
Property manager's expenses	240	296
Actuary's and other fees	392	386
	<b>3,922</b>	<b>4,422</b>

### 6 Investment returns

The return on the Fund in 2005/06 (as measured by Mellon Analytical Solutions) was 24.0%.

In the three years to 31 March 2006 a return of 19.2% a year was achieved.

## 7 Ten largest UK equity holdings

At 31 March 2006 the ten largest UK equity (company share) holdings by market value were as follows:

	£'000
BP plc	66,482
GlaxoSmithKline plc	62,773
Royal Dutch Shell plc	59,632
HSBC plc	55,436
Vodafone plc	53,554
Royal Bank of Scotland Group plc	42,251
Barclays plc	35,424
Rio Tinto plc	25,828
AstraZeneca plc	22,917
Prudential plc	22,236

## 8 Five largest pooled investment holdings

At 31 March 2006 the five largest pooled investment holdings were as follows:

	£'000
Aberdeen Funds Index Linked Bond Fund	118,622
Schroder North American Equity Fund	105,731
Aberdeen Fixed Income Sterling Credit Fund	57,697
Schroder Unit Trusts All Maturities Corporate Bond Fund	51,951
Société Générale Japan Core Alpha Fund	37,890

## 9 Concentration of investments

During the year, no individual investment reached 10% of the value of the Fund's net assets.

## 10 Analysis of UK equity investments by industrial sector

	£'000
Oil and gas	153,518
Basic materials (chemicals, mining, forestry)	59,170
Industrials (aerospace, defence, electronics, engineering)	94,775
Consumer goods (vehicles, household goods)	93,776
Health care (health care and pharmaceuticals)	87,789
Consumer services (general retailers, leisure, media)	156,271
Telecommunications (fixed line and mobile telecommunications)	77,641
Utilities (electricity, gas and water supplies)	33,521
Financials (banks, insurances, real estates, investment trusts)	297,971
Technology (computer hardware and software)	16,055
	<b>1,070,487</b>

## 11 Unlisted investments

The Fund had no unlisted investments at 31 March 2006.

**12 Investment transactions**

	Market value at 1 April 2005 £'000	Purchases £'000	Sales £'000	Change in value £'000	Market value at 31 March 2006 £'000
Fixed-interest bonds	10,209	634	-1,260	269	9,852
Index-linked bonds	248,819	319,923	-292,190	15,258	291,810
Equities	1,280,379	638,930	-640,515	328,040	1,606,834
Pooled investments	409,950	215,462	-151,207	86,362	560,567
Property	86,335	5,402	-	11,681	103,418
<b>Total</b>	<b>2,035,692</b>	<b>1,180,351</b>	<b>-1,085,172</b>	<b>441,610</b>	<b>2,572,481</b>

The equivalent figures for purchases and sales in 2004/05 were £1,003.8 million and £935.9 million.

**13 Contingent liabilities**

The Fund had no contingent liabilities at 31 March 2006.

**14 Capital commitments**

The Fund had no capital commitments at 31 March 2006.

**15 Property**

All the Fund's property is held as freehold.

**16 Independent property valuer**

In December each year the properties in the UK property portfolio are independently valued by Colliers CRE, Chartered Surveyors.

**17 Rent reviews**

All properties held in the UK property portfolio are subject to upward-only rent reviews every five years.

**18 Pension Fund's annual report**

Further information on the Fund's actuarial valuation, investment management arrangements and Statement of Investment Principles are contained in the Hampshire Pension Fund's Annual Report. A copy is available on request from Dave Wilson, Principal Accountant, Corporate Finance, County Treasurer's Department, Hampshire County Council, The Castle, Winchester SO23 8UB.



Glossary

## Glossary

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**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.

**Asset Management Revenue Account**

An account under the system of capital accounting that allows the cost of services to include the cost of the use of assets. The account brings together charges to services and actual financing charges incurred. The difference between them is a negative item in the Consolidated Revenue Account. This means that the charge for the use of assets does not affect the amount that has to be raised from local taxation.

**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.

**Balances**

The accumulated excess of income over expenditure in the Consolidated Revenue Account. This balance is needed as a cushion against unforeseen expenditure.

**Best Value**

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

**Best Value Accounting Code of Practice (BVACOP)**

The code of practice containing a standard definition of services and total cost so that spending comparisons can be consistent between local authorities.

**Book value**

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

**Budget requirement**

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

**Capital charges**

Charges made to services for the use of fixed assets in providing the service.

**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 Financing Account**

An account that reflects the extent to which fixed assets have been financed from revenue contributions or capital receipts and the provision for the repayment of external loans.

**Capital programme**

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

**Capital receipt**

Proceeds from the sale of capital assets (such as land, buildings and equipment).

**Capitalisation**

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

**Cash limit**

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

**Central support services**

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

**Collection fund**

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

**Community asset**

An asset that the Council intends to hold forever, that has no determinable useful life, and that may have restrictions on its disposal. Examples of community assets are parks and historic buildings.

**Comprehensive Performance Assessment (CPA)**

This considers how well the Council delivers services and how well the Council is run, as this will affect how services are delivered in the future.

**Contingency provision**

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

**Contingent liabilities**

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

**Continuing services**

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

**Corporate and democratic core**

Activities that local authorities carry out specifically because they are elected, multi-purpose authorities. The cost of these activities is not apportioned over 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 a defined benefit scheme's liabilities expected to arise from employee service in the current period.

**Debtor**

An individual or body that owes money to the Council at the balance sheet date.

**Deferred charge**

Spending which may properly be capitalised but which does not result in the creation of a fixed asset in the Council's books. The Council is required to write off deferred charges in the year in which they were incurred.

**Deferred contributions and Government grant account**

An account that reflects the value of fixed assets in the balance sheet that are financed by specific Government grants or external contributions.

**Defined benefit pension scheme**

A pension scheme in which a pensioner's benefits are specified, usually relating to his or her length of service and final salary.

**Deposit**

A receipt held that is repayable in prescribed circumstances.

**Depreciated replacement cost**

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.

**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.

**Doubtful debt**

A debt that the Council is unlikely to recover. A provision is made in the accounts for doubtful debts each year based on how long debts have been outstanding.

**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.

**Exceptional item**

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

**Financial Reporting Standard (FRS)**

Accounting standards governing the treatment and reporting of income and expenditure in an organisation's accounts.

**Finance lease**

Under this type of lease, the organisation paying the lease is treated as if it owns the goods. It gains the profits that would come with ownership but it also suffers the losses (see operational leases).

**Fixed Asset Restatement Account**

The account created to allow assets to be included in the accounts at their current value.

**Fixed asset**

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

**Formula Spending Share (FSS)**

The Government view of the Council's expenditure "needs" for grant distribution purposes based on a national formula.

**Foundation schools**

A category of school that receives its funding from the Council but owns its land and buildings and employs its own staff.

**General Government grant**

See Revenue Support Grant.

**Government grant released**

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

**Gross revenue expenditure**

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

**Hantsnet**

The County Council's intranet site, only accessible internally.

**Hantsweb**

The County Council's publicly accessible website.

**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. Examples are physical damage or a significant decline in the asset's market value during the year.

**Infrastructure asset**

Fixed assets that cannot be taken away or transferred, and whose benefits can only be obtained by continued use of the asset created. Examples of infrastructure assets are highways and footpaths.

**Internal recharge**

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

**Internal trading account**

A service within the Council that operates on a trading basis.

**Landfill allowances trading scheme (LATS)**

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.

**Long-term asset**

A fixed asset that may be held indefinitely for the provision of services or is realisable over a longer period than one year.

**Long-term borrowing**

A loan repayable in more than one year from the balance sheet date.

**Long-term debtor**

An individual or body that owes money to the Council that is not due for payment within one year from the balance sheet date.

**National business rates**

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

**Net assets**

The amount by which assets exceed liabilities (same as net worth).

**Net assets statement**

A statement showing the net assets of the Pension Fund.

**Net current liabilities**

The amount by which current liabilities exceed current assets.

**Net operating expenditure**

Expenditure net of income but before allowing for contributions to and from reserves, revenue financing of capital and provision for debt repayment.

**Net revenue expenditure**

Gross expenditure less fees and charges for services and specific grants but before the deduction of Revenue Support Grant and national business rates.

**Net worth**

The amount by which assets exceed liabilities (same as net assets).

**Non-distributed costs**

Overheads for which no direct user now benefits and which are therefore not apportioned to services.

**Non-operational asset**

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

**Operational asset**

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

**Operational lease**

Under this type of lease, the risks and rewards of ownership of the leased goods stay with the company providing the goods on lease.

**Past service cost**

For a defined benefit 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 fund. The fund's purpose and scope is agreed at the outset. The fund is then used to pay for relevant services and activities.



**Post balance sheet event**

An event that occurs between the balance sheet date and the date that the Statement of Accounts is authorised for issue.

**Precept**

The demand made by the County Council on the collection funds maintained by the district councils for council taxpayers' contribution to its services.

**Provisions**

An estimated figure within the accounts for liabilities that are known to exist, but that cannot be measured accurately.

**Realised capital resources**

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

**Receipt in advance**

A receipt that is attributable to a future financial year.

**Related companies**

Companies in which the Council has an interest.

**Related party**

Two or more parties are related when, during the financial period:

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

**Reserve**

The Council's reserves fall into two categories. The "unearmarked" reserve is the Consolidated Revenue Account balance. An "earmarked" reserve is an amount set aside in the Council's accounts for specific purposes.

**Residual life**

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

**Revenue contributions to capital**

The use of revenue funds to pay for capital expenditure.

**Revenue expenditure**

The operating costs incurred by the Council during the financial year in providing its day-to-day services. It is distinct from capital expenditure on projects that benefit the Council over a period of more than one financial year.

**Revenue Support Grant (RSG)**

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

**Short-term investments**

An investment that is readily realisable.

**Specific grants**

Central Government grants to finance a particular service.

**Statement of Standard Accounting Practice (SSAP)**

Accounting standards governing the treatment and Practice (SSAP) reporting of income and expenditure in an organisation's accounts.

**Stocks**

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

**Straight-line basis**

Dividing a sum equally between several years.

**Supported Capital Expenditure (Revenue) (SCE(R))**

Central Government authorisation for a local authority to finance capital expenditure by any form of credit arrangement, such as loans or finance leasing.

*Ringfenced SCE(R)s* authorise capital expenditure on a particular service or project.

*Unringfenced SCE(R)s* authorise capital expenditure not specific to individual services and may be used as the County Council wishes.

**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.

**Undischarged obligations**

Spending that the Council has committed itself to but that will be incurred in future years.

**Unrealised capital resources**

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

**Useful life**

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

**Work in progress**

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

**Write-off**

Elimination of an asset or liability over a defined period, usually by means of charging or crediting the Consolidated Revenue Account.



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Statement of Accounts 2005/06



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