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Explanatory foreword

1 Introduction

This document contains Hampshire County Council's Statement of Accounts for the year ended 31 March 2007. 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 2006/07 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 2006/07 are set out on pages 8 to 57. They consist of:

- Statement of accounting policies
- Statement on the system of internal control
- Statement of responsibilities for the Statement of Accounts
- Income and Expenditure Account – covers income and expenditure on all services recorded in accordance with UK Generally Accepted Accounting Practice (GAAP)
- Statement of Movement on the General Fund Balance – identifies the adjustments required to the income and expenditure account in arriving at the General Fund Balance for council tax setting purposes
- Statement of Total Recognised Gains and Losses – brings together all the gains and losses in the year that are reflected in the change in net worth
- Balance Sheet - this sets out assets and liabilities at 31 March 2007
- Cash Flow Statement - this summarises all cash coming in or going out for revenue and capital purposes
- Notes to the core financial statements
- Pension Fund accounts - these are the accounts of the Pension Fund, which is operated for employees of the County Council, Hampshire unitary and district councils and other bodies.

3 Where the money comes from

Since the new school-funding arrangements were introduced in 2006/07, most of the County Council's income has come from specific Government grant and the council tax. The national business rate and general Government grant now contribute only 8% of the Council's income, which is less than the charges made to customers for some services. Interest is earned on day-to-day balances.

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

	2005/06	2006/07
	%	%
Council tax	29	29
National business rates	26	7
General Government grant	21	1
Fees, charges and interest	13	13
Specific Government grants	11	50
	100	100

In 2006/07 there was no significant change in the balance of income from local and national taxes and from fees and charges. However, the change in school funding has meant that most of the income from national taxes previously received in the form of national business rates and general Government grant is now received as Dedicated Schools Grant (DSG), a specific ring-fenced grant. Specific grants now account for 50% of the Council's income.

4 What the money is spent on

Type of expenditure	2005/06	2006/07
	%	%
Staff costs	55	56
Running expenses	40	40
Capital financing	5	4
	100	100

Service shares of gross revenue expenditure

	2005/06	2006/07
	%	%
Education	58	58
Social services	27	28
Highways, roads and transport	6	5
Cultural, environmental and planning services	8	8
Other services	1	1
	100	100

5 Employees

In 2006/07 the County Council employed 39,136 people, making it one of the largest employers in the county. Many work part-time. In full-time equivalent (fte) terms, the total number of employees was 26,533 at 31 March 2007.

Full-time equivalent employees

	March 2006	March 2007
School based	15,980	16,417
Other Children's Services	2,316	2,323
Adult Services	3,230	3,243
Environment	796	790
Recreation and Heritage	1,015	996
Central services and internal trading units	2,802	2,764
	26,139	26,533

6 Summary of the year – Revenue Account

2006/07 has been a particularly difficult year in the challenges posed for the management of the County Council's finances, especially in dealing with the impact of increased demands for social care. Actual spending on adult social care in 2005/06 was £11.1 million higher than budgeted, with a substantially higher full-year impact in 2006/07 from additional care packages. The Government also introduced new formulas for the distribution of formula grant in 2006/07 and a different form of presentation known as the four-block model. The new formulas were particularly

disadvantageous to Hampshire County Council and most other county councils in the South East. To cushion the blow, there were transitional damping arrangements. Without them, the County Council would have received £37 million less than its actual grant allocation. The actual allocation, adjusted for the discontinuation of previous specific grants, represented an effective increase of just 0.2% over 2005/06 adjusted grant. Despite the pressures on the budget, the County Council has continued to raise the quality of its services, with improvements in more than half of the Best Value performance indicators. Efficiency improvements assessed at £17.4 million (2.9%) have been identified in 2006/07. Cumulative improvements are well above the 2.5% a year target set in the Gershon review.

The County Council also maintained an excellent rating from the Audit Commission in the Comprehensive Performance Assessment (CPA) for the fifth year running, despite the 'harder test' introduced in the 2005 assessment.

The main components of the 2006/07 budget, revised budget and actual income and expenditure are set out below:

Budget	Original budget £ million	Revised budget £ million	Actual £ million	Variation from revised £ million
Net cost of services	554.6	568.9	559.5	-9.4
(Surpluses)/deficits on trading units	0.4	-1.3	-2.0	-0.7
Net interest payable	19.5	16.5	13.8	-2.7
Pension interest cost and expected return on pensions assets	22.0	14.1	14.1	-
Net operating expenditure	596.5	598.2	585.4	-12.8
Amount to be met from Government grant and local taxpayers				
Council tax precept income	-448.0	-448.0	-448.0	-
General Government grant	-19.5	-19.5	-19.5	-
National business rates	-100.9	-100.9	-100.9	-
Budget requirement	-568.4	-568.4	-568.4	-
Deficit for the year on the Income and Expenditure Account	28.1	29.8	17.0	-12.8
Contribution to capital	28.5	23.1	21.7	-1.4
Excess of depreciation and deferred charges and grants over statutory provision for debt repayment	-39.5	-45.1	-45.1	-
Contribution from pensions reserve	-20.9	-22.9	-22.9	-
Contribution to/(from) earmarked reserves	2.2	8.9	16.7	7.8
Movement in General Fund Balance	-1.6	-6.2	-12.6	-6.4
General Fund Balance				
Brought forward 1 April 2006	-9.8	-4.1	-4.1	-
Carried forward 31 March 2007	-11.4	-10.3	-16.7	-6.4

The budget requirement for 2006/07 was set at £568.4 million, an increase of 5.2% on the adjusted budget for 2005/06. The budget was influenced by the emerging pressures on the adult social care budget in 2005/06 and the impact of the below-average increase in the level of Government support as a result of the formula grant changes. The budget continued the policy of passing on the increases reflected in the Government's spending plans for social care to Adult Services and Children's Services respectively, an increase of £3.4 million above inflation. Cashable efficiency savings of £10.6 million were identified for retention within the relevant services; these helped to meet demand and legislative pressures that were not met within the budget guidelines for services. The previous strategy for the use of the grant equalisation reserve to deal with the impact of grant loss from the previous formula review was revised in order to retain the reserve; this will help to phase in the loss of grant in 2008/09 and later years. The budget was based on an estimated General Fund Balance of £11.4 million at 31 March 2007, £2.7 million more than the equivalent 2005/06 balance, in view of the assessment of risk in the 2006/07 budget.

In June 2006 the final accounts for 2005/06 were reported. Despite higher spending of £11.1 million on Adult Services, net operating expenditure was £1.5 million below the revised budget. However, savings and additional income of £7.2 million were transferred to earmarked reserves, resulting in a reduction of £5.7 million in the General Fund Balance to £4.1 million at 31 March 2006. Allowing for the planned use of the General Fund Balance in the 2006/07 budget to finance non-recurring spending and the carry-forward of small overspendings on services other than adult social care, the General Fund Balance at 31 March 2007 was forecast at £3.5 million, £3.5 million below the minimum targeted level. In view of the continuing implications of higher spending on Adult Services into 2006/07, it was decided not to require Adult Services to carry forward its 2005/06 overspending into 2006/07 and to develop a two-year recovery plan to re-align spending with the budget. In view of the reduced level of the General Fund Balance and the likelihood of adult social care spending significantly exceeding the budget in 2006/07, decisions were taken in July 2006 to increase the General Fund Balance by £14.5 million. This was achieved mainly by transferring £8 million from various earmarked reserves and reducing revenue contributions to capital by £5 million in order to supplement the budgeted contribution of £2.4 million to the General Fund Balance in 2006/07. This in turn sought to cover higher spending of up to £13.4 million on Adult Services, while retaining a General Fund Balance of £7 million.

When services revised their budgets in the autumn, a revised budget was set for Adult Services £10.9 million above the cash limit, £2.5 million lower than had been planned for. Savings of £2.5 million were also achieved from higher interest on balances and capital financing costs of £2.5 million. Moreover, the Department for Transport reimbursed 75% of the abortive costs of promoting South Hampshire Rapid Transit (£3.3 million). This enabled the planned reduction in revenue contributions to capital agreed in July to be deferred to 2008/09, while increasing the planned General Fund Balance by £3.3 million to £10.3 million at 31 March 2007.

At the end of the year, spending on Adult Services was £7.5 million higher than originally budgeted, but £3.4 million lower than assumed in the revised budget. This represented a successful first stage in the recovery plan. Overall net operating expenditure was £12.8 million lower than the revised budget. In addition, the requirement for revenue contributions to capital to finance actual capital expenditure in 2006/07 was £1.4 million below the revised budget. £7.8 million of these savings were transferred to earmarked reserves, resulting in an underspending of £6.4 million against the General Fund compared with the revised budget, equivalent to £4.5 million higher than originally budgeted. The General Fund therefore increased to £16.7 million at 31 March 2007.

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	-3.8	2.3	-1.5
Trading unit surpluses	-0.7	0.7	-
Interest savings	-2.7	-	-2.7
Insurance provision	-2.0	2.0	-
Part - time pensions provision	-0.9	0.9	-
Specific grants	-0.9	-	-0.9
Revenue contributions to capital	-1.4	1.4	-
Other variations	-1.8	0.5	-1.3
	-14.2	7.8	-6.4

After allowing for £1.8 million of the underspending in 2006/07 to be used for additional non-recurring spending in 2007/08, the General Fund Balance at 31 March 2008 is forecast at £19.6 million, £5.2 million higher than the target level based on the risk assessment for 2007/08. This is subject to review in developing the budget strategy for 2008/09 to 2010/11 in autumn 2007.

6 7 Summary of the year – capital expenditure

In 2006/07 the County Council spent £173.2 million on capital projects, £18.9 million less than the revised budget.

Spending on schemes financed from Government grants, supported borrowing, contributions from developers and outside agencies and other scheme-specific funding was £8.0 million lower than forecast. So expenditure on locally resourced projects was £10.9 million lower than estimated.

Capital receipts available to finance capital expenditure in 2006/07 were £2.8 million lower than anticipated, thus reducing the revenue contributions to capital required in 2006/07 by £8.1 million. This enabled unsupported borrowing of £1.8 million taken out in 2005/06 due to a temporary shortfall in local capital resources to be repaid and further unsupported borrowing of £4.9 million planned in 2006/07 to be avoided, with the balance of £1.4 million being transferred to the general capital reserve.

Spending financed from supported borrowing amounted to £39.1 million, supplemented by increased unsupported borrowing of £17.1 million. Repayment of debt amounted to £20.2 million. Potential outstanding borrowing for capital purposes to be serviced by the County Council now amounts to £529.5 million, together with extra debt of £44.7 million for services transferred to the unitary and other authorities. The Council may borrow on a day-to-day basis from internal resources, such as the revenue account and earmarked reserve balances. Net of temporary investments, £321.8 million (an increase of £13.6 million on the previous year) was owed to external lenders at 31 March 2007.

8 Pension Fund liability

The County Council's pension liability has increased marginally from £588.8 million at 31 March 2006 to £609.0 million at 31 March 2007. The deficit has increased mainly for two reasons: the interest cost associated with the scheme deficit; and the gap between employer contributions and current service cost not having narrowed as much as expected, partly because of the Government's decision to defer the removal of the rule of 85 for existing scheme members unaffected by the transitional arrangements, from October 2006 to April 2008. The deficit on the Pension Reserve reduces the County Council's net worth from £2.6 billion to £2.0 billion.

9 Changes

There are no significant changes to the County Council's range of functions in 2006/07. However, the presentation of the Statement of Accounts is affected by two changes in 2006/07: firstly to school funding; and secondly to accounting policy as required by the 2006 Accounting Code of Practice – charges for notional interest had to be removed from the net cost of services.

From 1 April 2007, spending on services within the schools block of the Education Service is determined by the Government, subject to the local authority having the power to top up the funding level from council tax, with Government support being entirely in the form of specific grant. This is primarily through the DSG, which has taken the place of the majority of the general funding from national taxes provided through Revenue Support Grant and national business rates. The DSG is treated as a specific source of funding for schools. This accounts for a reduction of £610 million in the net cost of services in 2006/07 compared with 2005/06 with a commensurate reduction in general grant.

The 2006 Accounting Code of Practice removes the requirement to make an interest charge for the use of assets within the net cost of services which was credited to an Asset Management Revenue Account. This is because the code regards it as a notional charge that does not comply with UK GAAP. Depreciation charges to services are also offset by the amortisation of grants and contributions applied to the funding of capital expenditure, which were also previously credited to the Asset Management Revenue Account. The 2005/06 comparatives in the Income and Expenditure Account have been adjusted for these changes, reducing the net cost of services by £113 million but having a neutral impact on net operating expenditure; this would previously have received the credit from the Asset Management Revenue Account, which is now no longer required.

The presentation of the Statement of Accounts has also changed in 2006/07, mainly as a result of the introduction of two separate statements in place of the former Consolidated Revenue Account and a Statement of Recognised Gains and Losses in place of the Statement of Total Movements in Reserves. These changes bring the published accounts more into line with UK GAAP, while continuing to recognise the importance of the General Fund Balance as the basis on which council tax decisions are made. The primary statements (excluding the Pension Fund accounts) are also now presented consecutively, followed by a single set of notes.

10 Further information

You can get more information about the accounts from The County Treasurer, Hampshire County Council, The Castle, Winchester SO23 8UB, telephone (01962) 847533, e-mail 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 (2006) (SORP) and the Accounts and Audit Regulations 2003. 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 2007 is estimated at £2.9 million (£2.8 million in 2005/06)
- electricity and other utility companies' quarterly payments are accounted for at the date of meter reading rather than being shared between financial years
- Pension Fund income includes dividends declared in the income tax year.

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

3 Reserves and provisions

Specific amounts are set aside as reserves for future policy purposes or to cover contingencies. Reserves are created by transferring amounts in the Statement of Movement on the General Fund Balance. Expenditure on items for which the reserves were originally created is shown as service expenditure in the Income and Expenditure Account matched by the reserve being transferred back into the General Fund Balance statement. Hence there is no net charge against council tax for this expenditure. Details of variations to earmarked reserves are shown in the notes to the accounts.

The main reserves are as follows:

- The General Fund 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 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 which can be recycled into the reserve.
- The Designated Underspending Reserve enables services to carry forward underspendings to aid their budgets in future years.
- The Insurance Reserve is maintained to provide for the reinstatement of fire damage and in case the settlement of claims for past liabilities is higher than expected (This includes the continuing liability to meet claims in respect of former County Council services in Southampton and Portsmouth incurred before 31 March 1997).
- 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 which started in 2004/05.
- The Modernisation, Restructuring and Efficiency Plan Reserve was established in 2005/06 to assist in funding 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.
- The Segensworth Units Reserve enables annual tenant contributions towards repairs to be earmarked for periodic major repair liabilities to infrastructure.

Provisions are made in respect of legal liabilities, where the amount or date of payment is uncertain. They are charged to the Income and Expenditure Account in the year they are recognised.

4 Fixed assets

All expenditure on the acquisition, creation or enhancement of a fixed asset that yields benefits for more than one year can be treated as capital expenditure in the accounts. Spending on IT assets and intangible assets (such as software licences) typically yields benefits for a period of less than five years. Such expenditure is capitalised only if it yields benefits of five years or more, which is not in accordance with recommended practice. This does not have a material effect 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.
- Infrastructure assets (eg roads) and community assets (eg 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 on the assets on 1 April 1994 plus expenditure since then. Vehicles and equipment are also valued at depreciated historic cost.
- Purchased intangible assets are valued 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

In accordance with SORP 2006, the accounts need no longer show a notional interest charge to represent the opportunity cost of the capital employed.

Depreciation charges are made on all fixed assets except land and non-operational assets in accordance with Financial Reporting Standard 15, tangible fixed assets (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 between 5 and 10 years

6 Deferred charges

Deferred charges are payments capitalised on the grounds that 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 spending on foundation schools.

The Council's policy is to write down deferred charges fully in the year in which they are incurred unless some lasting benefit controlled by the Council itself can be shown.

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 makes provision 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 set by a service level agreement

9 Basis of valuation

Investments

Investments are shown in the Balance Sheet at cost. Investments in the Pension Fund Net Asset Statement are shown at market value at 31 March 2007.

Landfill allowances

Surplus landfill allowances are valued at the lower of cost and net realisable value.

Stocks and stores

Stocks worth £2.0 million are included in the Balance Sheet. There are various bases of valuation for these stocks, according to their differing natures and purposes. For example, County Supplies stock of £1.1 million is valued at the latest buying price. The rest are mainly on an historical cost basis. Spending on consumable items is accounted for in the year of purchase.

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 FRS17.

11 Specific revenue 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 Income and Expenditure 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 sometimes uses operating leases for vehicles or equipment as an alternative to ownership. The rentals on the leases are charged to the Income and Expenditure 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. This responsibility extends to the administration of the Hampshire Pension Fund which is undertaken by the Pension Fund Panel. The Panel, which meets regularly, is comprised of County Councillors and also co-opted members from other employer organisations and pensioners and contributors' representatives. The Panel is also advised by an external, independent pensions adviser.

The 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 2006/07.

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 Authority's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

One of the key elements of the corporate governance regime and the production of the statement of internal control is the methodology applied to obtain the necessary assurance. Briefly, this involves a detailed questionnaire being sent every two years to all chief officers and also to other officers who undertake a significant corporate role. The questionnaire, which is revised and updated on each occasion, covers a wide range of corporate governance issues. It will refer to the existence, knowledge and application within departments of governance policies generally but will also concentrate on specific issues that have been identified as having greater significance to the Council.

The responses to these questionnaires are then tested in detail over the next following two year period by the Council's team of internal auditors. This testing is a significant piece of work for the internal audit team, which, on average over the past four years has utilised 100 days per annum.

The results of the internal audit teams work will deliver a report to the relevant chief officer or senior corporate manager for any follow up work necessary. It will also be sent to the Council's monitoring officer, who will use the report to assess the Council's future corporate governance priorities and also to compile the Statement of Internal Control

The system of internal control has been in place within the Authority for the year ended 31 March 2007 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 priorities through the Corporate Strategy and Corporate Business Plan.

In 2006 the Cabinet reviewed its aims and refined the previous six aims into a set of three priorities, introducing a greater emphasis on selecting priorities in the face of significant resource constraints.

The corporate business plan sets out the key outcomes, activities and performance measures.

This establishes a benchmark position, targets for improvement and the people who are accountable for delivering them. These targets are drawn from more detailed corporate policies and plans and cascaded through service plans and Individual Performance Plans. The resources to deliver the Corporate Strategy are summarised in the Workforce Plan, the Asset Management Strategy and the revenue and capital budgets.

The Corporate Strategy draws heavily from the Hampshire Community Strategy, which expresses the aims the Council shares with strategic partners in Hampshire and the Local Area Agreement (which incorporates the Local Public Service Agreement).

The Corporate Strategy and Business Plan set out in one document the main messages about what the Council stands for and how we aim to achieve them. They show how the 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 Council's policy framework alongside the Community Strategy and Performance Plan. The Corporate Strategy sets priorities for the life of the administration and the Business Plan is reviewed annually. This is informed by the outcomes of consultation, performance results, review programmes and external inspections and factors such as local and national policies and initiatives. The priorities and business plan are published on the Council's website alongside the Performance Plan and in hard copy for circulation internally and to key partners. Communication of the priorities is supported by other promotional activities including posters and a flash video and provide a cornerstone for all internal and external communication activities.

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 and priorities.

The Corporate Performance and Efficiency Group has responsibility 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 help establish these corporate priorities the County Council has a corporate consultation plan agreed by CMT and Cabinet annually which sets out proposals to consult with staff, residents and other stakeholders and partners. The research findings are published, in summary, on the Council's website. The results help inform the development of the Corporate Strategy and are disseminated through CMT/Cabinet, DMTs, senior managers seminars (Success through People) and other staff communications mechanisms to inform service planning.

The County Council has an agreed corporate communications strategy, currently under review, which is driven by the corporate priorities and is underpinned by specific communications plans for individual activities and documents e.g. Comprehensive Performance Assessment (CPA) etc. These plans are produced for agreement with the appropriate CMT and Cabinet member.

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 and audit 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 also contain a range of Codes and Protocols including those on Financial Regulations, Contract Standing Orders, Codes of Conduct for members and officers and a Protocol for member/officer relations. Financial limits within these documents have been recently reviewed and updated by the County Council at its meeting on 28 May 2007.

The financial management of the Authority is led by the County Treasurer and is integrated with and influenced by the processes set out 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.

In order 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 excising its functions, and to provide effective performance management and reporting.

Review of effectiveness of internal control

Statutory roles of 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) have close working relationships both between themselves and the Standards Committee and the Governance Committee. The Standards Committee has responsibility for maintaining high standards of probity amongst members through the provision of advice and training and by carrying out investigations 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. It also acts as the Audit Committee 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 within the Practice have regular meetings with major clients to assess performance, review future demands and identify new legislative requirements. The External Auditor's Annual Audit and Inspection letter confirms satisfaction with the Council's arrangements (Annual Audit Letter).

Internal Audit provide independent and objective assurances across the whole range of the Council's activities.

Internal Audit is required to comply with the Chartered Institute of Public Finance and Accountancy (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, ISO quality accreditation assessors, and specialist inspectors of services within the education and social care fields who need to place reliance on the work of internal audit.

The Governance Committee has approved the Internal Audit Plan for 2006/07 and 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 provide a further source of assurance by reviewing and reporting upon the 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 2007 (based on data from 2005/06) commented positively on the Council. 'The Council has continued to perform strongly and to improve the services that matter most to its residents.' The External Auditor pointed out some areas for improvement but judged that the Council's overall corporate governance arrangements are satisfactory.

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

The Council has a well-developed Risk Management Strategy and Risk Management Framework, the details of which can be found on the intranet at <http://intranet-staging.hants.gov.uk/riskmanagement.htm>

The Council has adopted a Corporate Strategy for Managing Risk and Improvement Plan for 2007-2010. Underpinning this is a comprehensive performance management framework for risk.

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. can be found on the intranet site.

Risk registers are maintained in all departments, with regular reports to DMTs. Information on risk is collated corporately and reported to the Corporate Risk Management Board and the Governance Committee on a regular basis.

The methodology for assessing risks has been reviewed and amended. Following this, workshops were held with all departments to raise awareness and provide training in the use of the methodology. Copies of the slides used at the presentation are available on the intranet site.

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 purchased. One of the benefits of the integrated system should be to enable audit to link its work to risks identified by departments. It should also provide for better monitoring of risks and identification of cross cutting risks.

Following 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 was filled 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 achieved. As part of the CPA in 2006, the Council maintained its score of 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 Authority is expected to comply.

The Council has complied with the 2003 CIPFA Code of Practice relating to 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 councillors and co-opted members.

The Standards Committee has met in the last financial year. The Committee had two complaints referred to it by the Standards Board for investigation and determination, one of which resulted in a hearing. A sub committee of the Standards Committee was appointed to hear this complaint and consisted of a majority of independent members one of whom undertook the role of Chairman.

Governance Committee is charged with governance responsibilities.

A Governance Committee was established so as to give enhanced focus on corporate governance issues. This is reflected in the Committee's terms of reference and by it being chaired by the Leader of the Council and with representation from the Leaders of the two opposition parties. The full role of the Committee 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 continues to be developed. The business plan element of the Corporate Strategy has introduced high profile accountability for targets, and departments are using the plan as the basis for developing departmental service plans and individual performance plans for 2007/08, so that the 'golden thread' between these core documents is strengthened and visible. At the strategic level the relationship between the targets and activities in the Corporate Strategy, expressed in the business plan, are being aligned with the Corporate Budget and Workforce Plan. Work is ongoing at the operational level to identify the resource implications of focusing on the new priorities. This supports the work to respond to audit recommendations to improve cost benchmarking, while the 'integrated' approach is working to embed performance management in the culture of the organisation.

Clear terms of reference are set for the preparation of service plans and guidance is accessible on the performance management website, which incorporates a mechanism to reflect corporate priorities within service plans. The guidance also cross-references budget planning and workforce planning and is available as an e-learning package. A 'Corporate Threads Portal' has been developed and is being launched during 2007, which supports service managers in taking account of corporate priorities in the planning and delivery of their services.

Departments have developed their own regimes for approving and monitoring objectives and targets set in service plans. Service reviews are now instigated through the Service Planning regime, 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 and responsibility allocated through the service planning process.

The corporate performance reporting process covers:

- National performance results – these are incorporated in the corporate performance results: half yearly report in November/December 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 frequently. The process is evaluated by Investors in People accreditation.

Poor performance is 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.

Performance is driven upwards over time primarily by changes to policy or strategy arising from a mix of professional aspirations or experience of senior/service managers, feedback from frontline staff, political aspirations, extensive opinion research, knowledge and analysis of external factors with performance results being added to this array of factors.

The performance plan updates and publishes year-on-year comparison of achievement against performance targets on the website which is accessible internally and externally.

The Audit Commission's report on the 2006 Performance Plan indicates satisfaction that the plan includes those matters prescribed in legislation and statutory guidance and was appropriately published. The Audit Commission had no matters to report to the Council nor any recommendations to make on procedures in relation to the plan.

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 was replaced in 2006 with a new document for the period 2006-2008. This is accessible to all employees of the County Council on its intranet, Hantsnet. Awareness and training sessions to support the Council's procurement agenda have now been delivered to more than seven hundred and fifty staff and further supporting information is available to staff electronically. The new strategy was approved by Members and presentations outlining the key themes in the strategy have been made to all departmental management teams. The Corporate Procurement Network continues to monitor progress against action plans and is developing relevant performance indicators. The Director of Property, Business and Regulatory Services is the Corporate Management Team sponsor for the procurement agenda and 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. A range of procurement reviews identified jointly with departments is now in progress and this will continue through the next financial year.

A Corporate Health and Safety Policy has been formally approved and communicated to all relevant staff.

The current version of the Corporate Health and Safety Policy Statement was issued in March 2004 having been the subject of extensive consultation and after being approved by the Corporate Health and Safety Steering Group, the Chief Executive and the Leader of the Council. This version of the Policy is currently being revised to incorporate the changes introduced by the implementation of the Corporate Review of Health and Safety.

The recent corporate Review of Health and Safety has brought health and safety into the remit of Risk Management and has involved the transfer of the health and safety specialists from Human Resources into the departments or the Chief Executive's department, in the case of the corporate roles.

The Review has also involved changes to the decision making and performance monitoring arrangements with the establishment of a Health and Safety Executive Group, chaired by a senior member of the Legal Practice Team which now formally reports to the Risk Management Board.

The Executive Group is made up of the health and safety lead senior manager from each department and is responsible for health and safety policy and strategy changes as well as ensuring implementation into work practices in departments.

The service delivery departments have taken the opportunity brought about by the Review to strengthen their health and safety professional support and are in the process of recruiting additional specialists specific to the needs of the department.

Work to monitor compliance with the health and safety standards continues in all departments and at a corporate level by audits and by use of a number of performance indicators. Data from the monitoring is published publicly on an annual basis.

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

The corporate complaints policy/procedure produced in 2002 is being reviewed and updated during 2007. A corporate policy for dealing with difficult complainants was endorsed in 2002 but a new draft policy has been produced ready for consultation. Workshops have been set up by Hampshire Learning Centre to offer practical skills to better manage dealing with difficult complainants. This is part of the support to departments now being provided by the Corporate Complaints & Information Compliance Team.

The corporate complaints policy is published as a fact sheet along with a form that the public can use to register complaints. This is being updated, providing details of the processes involved, in consultation with the Communications Team, departmental complaints co-ordinators and legal practice.

The electronic information and complaints form available on Hantsweb will aim to provide clear information to the public about our procedures. Both policies and an e-form are published in Hantsweb and Hantsnet and these will also be updated when any changes are agreed. Equalities monitoring is undertaken using data supplied by complainants with these forms. Copies of the updated fact sheet will be distributed to all departments and copies for the public will be available from reception desks and all Information Centres around the county. Provision is made in departmental induction programmes to raise the awareness of new staff to the complaints policy/procedure. Separate complaints case files are maintained at departmental and corporate levels. A new corporate support group has been created, meeting quarterly in order to discuss current issues, consider training needs and ensure a consistent approach across the Council. Annual reports summarising/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 Investors in People accreditation; its attention to training needs including, for example, the Leading Success programme and the proposed development of Hampshire Apprenticeship schemes; and the implementation of an authority-wide Enterprise Resource Management IT Systems and IT2000 facilities to support staff. Overall planning for Workforce needs to take place through the annual Workforce Plan.

Areas for improvement 2006/2007 – feedback from last year

There is a perceived lack of consistency in the way in which departments implement corporate policies. As a result the Corporate Threads Portal has been developed to offer guidance to service managers on how and when they should implement corporate policies. The content is owned and continuously developed by the owners of the relevant corporate policy. It is constructed to support service managers as they approach trigger events, such as new manager induction, development of a service plan. The launch will take place during Spring/Summer 2007. Liaison between internal audit and corporate performance teams will help establish the focus for internal audit work in this area. Internal audit will examine this area and identify where improvements can be made.

Corporate policies relating to the complaints procedures are currently being reviewed and updated. A draft policy on how the Council deals with difficult and persistent complainants has been produced and is being evaluated through consultation with departments and legal practice. Workshops for handling difficult complainants have been produced by Hampshire Learning Centre and are being delivered during March/April 2007.

During the year, and following an earlier Audit Commission initiative, a further ethical standards self-assessment survey was undertaken with all members. This also embraced other key training needs.

The results were reported to the Governance and Standards Committees in January 2007 and further training and awareness measures identified.

The Monitoring Officer has undertaken four training sessions for members on conduct/ethics issues plus a further session for the Council's co-opted members.

The Monitoring Officer and Chief Internal Auditor have undertaken two sessions for all senior managers within the Council on conduct/ethics issues and also on an anti-fraud culture.

Corporate guidance on partnership arrangements and for the monitoring of effective governance have been published on the County Council's website along with a database of partnerships and evaluation workshops with departments and with partners have been held.

A review of processes for budget setting, budgetary control, and budget monitoring has been implemented within Adult Services to assist in the management of exceptional levels of demand for services.

Areas for improvement 2007/2008

Continued development and communication of Corporate Business Plan.

Continued roll out of Partnership evaluation and refinement of database.

The Council has adopted a new Corporate Strategy for Managing Risk for 2007-2010. Underpinning this is a performance management framework and improvement plan. Key areas of improvement include partnership risk and business continuity planning.

Launch and continuing development of the Corporate Threads Portal. (This went originally to CMT on 23 November 2005 and a further report during 2007 is anticipated to update them on progress.)

There will be significant investment in training and communications to ensure continued improvement in awareness levels of all corporate policies and procedures.

Programme to evaluate significant partnerships – the second phase of work on the partnership portal and continued reviews of governance arrangements.

Completion of Business Continuity Plans at all levels and arrangements for testing of effectiveness.

Review and document the assurance framework in preparation for the introduction of an Annual Governance Statement from 2007/08, which replaces the Statement of Internal Control.

Implement Business Process Review recommendations for Direct Payments to ensure efficient controls underpin significant redeployment of resources as part of the Adult Services recovery plan.



Signed:
Chief Executive



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

2 The County Treasurer's responsibilities

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

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 2007 and its income and expenditure for the year ended 31 March 2007.



J C Pittam BSc CPFA
County Treasurer
20 June 2007

4 The Chairman's statement

I certify that the Statement of Accounts for 2006/07 was considered and approved at the Governance Committee meeting on 28 June 2007.



Chairman

Date 28 June 2007

Independent auditor's report to Hampshire County Council

Opinion on the financial statements

I have audited the financial statements and pension fund accounts of Hampshire County Council for the year ended 31 March 2007 under the Audit Commission Act 1998. The financial statements comprise the Explanatory Foreword, Income and Expenditure Account, Statement of the Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, 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.

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

I report to you my 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.

I review whether the statement on internal control reflects compliance with CIPFA's guidance, 'The Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit Regulations 2003' published on 2 April 2004. I report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the statement on internal control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures

I 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. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

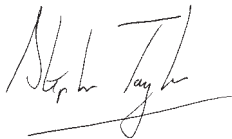
I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the 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.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me 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 my opinion I 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 2007 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 2007, and the amount and disposition of the fund's assets and liabilities as at 31 March 2007, other than liabilities to pay pensions and other benefits after the end of the scheme year.



S Taylor,
District Auditor
Audit Commission,
North Wing,
Southern House,
Sparrowgrove,
Otterbourne,
Winchester, SO21 2RU
Date: September 2007

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.

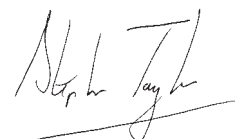
Under the Local Government Act 1999, the Authority is required to prepare and publish a best value performance plan summarising the authority's assessment of its performance and position in relation to its statutory duty to make arrangements to ensure continuous improvement in the way in which its functions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

Auditor's Responsibilities

I am 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 me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

I am 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 I have done so;
- stating whether I 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 2007.

Best Value Performance Plan

I issued my statutory report on the audit of the Authority's best value performance plan for the financial year 2006/07 on 14 December 2006. 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.

S Taylor,
District Auditor
Audit Commission,
North Wing,
Southern House,
Sparrowgrove,
Otterbourne,
Winchester, SO21 2RU
Date: September 2007

Income and expenditure Account

This account summarises the resources that have been consumed and generated in providing services and managing the Council during the last year. It includes all day-to-day expenses and related income on an accruals basis, as well as transactions measuring the value of fixed assets actually consumed and the real projected value of retirement benefits earned by employees in the year. The net cost of services is presented using the service expenditure analysis set out in the Best Value Accounting Code of Practice.

2005/06 Net expenditure £'000	Expenditure and income	Gross expenditure £'000	Income			2006/07 Net expenditure £'000
			Specific grants £'000	Other income £'000	Total £'000	
3,742	Central services to the public	4,770	-	-1,738	-1,738	3,032
91,504	Cultural, environmental and planning services	125,149	-1,699	-24,591	-26,290	98,859
656,947	2 Education	885,128	-699,525	-86,762	-786,287	98,841
65,862	Highways, roads and transport services	75,455	-1,973	-6,954	-8,927	66,528
267,862	Social services	430,334	-63,773	-81,796	-145,569	284,765
481	Court services	1,321	-	-905	-905	416
13,016	Corporate and democratic core	12,968	-	-	-	12,968
-3,216	Reward grant	-	-3,561	-	-3,561	-3,561
2,328	3 Non-distributed costs	1,186	-	-	-	1,186
-	Exceptional item	-	-	-	-	-
-2,290	4 Reduction in provisions	-3,505	-	-	-	-3,505
1,096,236	Net cost of services	1,532,806	-770,531	-202,746	-973,277	559,529
75	5 Surplus/deficit on trading undertakings					-2,009
15,138	Interest	23,146		-9,364		13,782
18,960	6d Pensions interest cost and expected return on pensions assets					14,090
-	7 Loss/gain on disposal of assets					-
1,130,409	Net operating expenditure					585,392
	Amount to be met from Government grant and local taxpayers					
-304,349	Revenue Support Grant					-19,472
-380,761	National business rates					-100,871
-420,454	Council tax income					-444,717
-1,846	Surplus on collection funds					-3,300
22,999	Deficit for the year on the Income and Expenditure Account					17,032

Statement of Movement on the General Fund Balance

The Income and Expenditure Account shows the County Council's actual financial performance for the year, measured in terms of the resources consumed and generated over the last financial year. However, the Council is required to raise council tax on a different accounting basis, the main differences being:

- capital investment is accounted for as it is financed, rather than when the fixed assets are consumed
- retirement benefits are charged as amounts become payable to pension funds and pensioners, rather than as future benefits are earned.

The General Fund Balance compares the Council's spending against the council tax it raised for the year, taking into account the use of reserves built up in the past and contributions to reserves earmarked for future expenditure.

The Reconciliation Statement summarises the differences between the outturn on the Income and Expenditure Account and the General Fund Balance

2005/06 £'000		2006/07 £'000
22,999	Deficit on the Income and Expenditure Account for the year	17,032
-9,545	Net additional amount required by statute and non-statutory proper practices to be credited to the General Fund Balance for the year (this is shown in detail overleaf)	-29,607
13,454	(Increase)/decrease in General Fund Balance for the year	-12,575
-17,621	Balance brought forward 1 April	-4,167
-4,167	Balance carried forward at 31 March	-16,742

Reconciling items for the Statement of Movement on the General Fund Balance

2005/06 £'000		2006/07 £'000
	<small>See note</small>	
	Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the General Fund surplus of deficit for the year	
-54,953	10 Depreciation, amortisation and impairment of fixed assets	-69,848
-19,686	10 Deferred charges written down	-9,324
20,152	8 Government grants deferred amortisation	13,936
-	7 Net loss on sale of fixed assets	-
-71,287	6d Net charges made for retirement benefits in accordance with FRS17	-73,906
-125,774		-139,142
	Amounts not included in the Income and Expenditure Account but required by statute to be included when determining the General Fund surplus or deficit for the year	
20,988	9 Statutory provision for repayment of debt	22,322
35,552	11 Capital expenditure financed from the General Fund	21,697
-2,203	44 Contribution from other authorities	-2,131
44,657	6d Employer's contributions payable to the Pension Fund	50,986
98,994		92,874
	Transfers to or from the General Fund Balance that are required by statute to be taken into account when determining the General Fund surplus or deficit for the year	
17,235	24 Transfers to earmarked reserves	16,661
-9,545		-29,607

Statement of Total Recognised Gains and Losses (STRGL)

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

2005/06 £'000		2006/07 £'000
-22,999	Deficit for year on the Income & Expenditure Account	-17,032
521,165	Net gains on revaluation of fixed assets	84,306
-53,082	Transfer to Magistrates' Courts' assets	
392	Release of grants on assets transferred	17,672
22,210	Actuarial gain on Pension Fund assets and liabilities	2,700
12,629	Transfer to Magistrates' Courts' net pension liability	
169	External contribution towards debt outstanding on transferred services	165
-240	Movement on other balances	174
480,244		87,985

Balance Sheet

31 March 2006 £'000	See note		31 March 2007 £'000
10 Tangible fixed assets			
Operational assets			
2,701,196		Land and buildings	2,810,307
55,175		Vehicles plant and equipment	54,749
333,645		Infrastructure assets	365,819
12,319		Community assets	11,378
Non-operational assets			
53,884		Assets under construction	65,098
57,543		Surplus assets, held for disposal	60,541
3,213,762		Total fixed assets	3,367,892
46,967	12	Long-term debtors	45,005
3,260,729		Total long-term assets	3,412,897
Current assets			
2,776	13	Stocks and work in progress	2,894
48,848	14	Debtors	65,442
9,151		Payments in advance	7,017
97,556	15	Short-term investments	71,690
6,116	16	Cash in hand	5,968
164,447			153,011
Current liabilities			
-7,524	17	Deposits	-3,710
-120,933	18	Creditors	-129,435
-39,147	19	Receipts in advance	-39,987
-100,330	20	Borrowing repayable within one year	-85,333
-18,426	21	Cash overdrawn	-11,115
-286,360			-269,580
-121,913		Net current liabilities	-116,569
3,138,816		Total assets less current liabilities	3,296,328
-287,000	22	Long-term borrowing	-297,000
-344,537	8	Deferred contributions and Government grants	-383,986
-30,010	23	Developers' contributions	-31,398
-6,023	4	Provisions	-4,493
-667,570			-716,877
-588,820	6e	Net liability related to defined benefit pension schemes	-609,040
1,882,426		Total net assets	1,970,411
Financed by:			
-2,090,757	24	Fixed Asset Restatement Account	-2,168,507
-283,550	24	Capital Financing Account	-284,595
588,820	24	Pensions Reserve	609,040
-92,946	24	Earmarked reserves	-109,607
174	24	Other balances	-
-4,167	24	General Fund	-16,742
-1,882,426		Total net worth	-1,970,411

Cash Flow Statement

	2005/06 £'000	2006/07 £'000
Revenue activities		
Cash outflows		
Cash paid to and on behalf of employees	816,565	850,434
Other operating costs	582,098	599,367
	1,398,663	1,449,801
Cash inflows		
Rents	-4,027	-4,512
Precepts	-420,454	-444,717
National business rates	-380,761	-100,871
Revenue Support Grant	-304,349	-19,472
Collection fund surpluses	-1,846	-3,300
Charges for goods and services	-93,131	-83,229
Specific Government grants	-171,424	-770,563
Other income	-108,506	-109,503
	-1,484,498	-1,536,167
Net cash inflow from revenue activities (see note 25)	-85,835	-86,366
Returns on investments and servicing of finance		
Cash outflows - interest paid	19,347	23,257
Cash inflows - interest received	-6,018	-11,598
Net cash outflow from servicing of finance activities	13,329	11,659
Capital activities		
Cash outflows		
Fixed assets	168,570	159,252
Deferred charges	19,686	13,935
	188,256	173,187
Cash inflows		
Sale of fixed assets	-11,101	-24,172
Capital grants (see note 26)	-46,520	-50,358
Other income	-21,427	-10,244
	-79,048	-84,774
Net cash outflow from capital activities	109,208	88,413
Net cash outflow before financing (see notes 27 and 28)	36,702	13,706
Financing		
Borrowing repayable over periods of one year or more:		
Repayments	4,000	8,000
New loans	-52,000	-18,000
Borrowing repayable within one year:		
Repayments	479,083	717,129
New loans	-457,871	-702,132
Net cash inflow(-)/outflow(+)	9,914	18,703

Notes to the core financial statements

I Prior-period adjustment

In the 2006/07 Statement of Accounts, the Council has adopted three significant new accounting policies that affect the comparative figures for 2005/06 in the Income and Expenditure Account:

- capital charges for the use of fixed assets are no longer made to service revenue accounts, support services and trading accounts
- credits for Government grants deferred are now posted to service revenue accounts, support services and trading accounts rather than credited to the Asset Management Revenue Account
- gains and losses on the disposal of fixed assets are recognised in the Income and Expenditure Account.

These changes have had the following effect the comparative figures for 2005/06 compared with those published in the 2005/06 Statement of Accounts.

	2005/06 Published Consolidated Revenue Account	Removal of capital financing charges	Reallocation of Government grants deferred credits	Recognition of gains and losses on disposal of fixed assets	2005/06 comparatives in Income and Expenditure account
	£'000	£'000	£'000	£'000	£'000
Central services to the public	3,742	-	-	-	3,742
Cultural, environmental and planning services	99,726	-7,291	-931	-	91,504
Education services	734,372	-64,709	-12,716	-	656,947
Highways, roads and transport services	85,180	-15,554	-3,764	-	65,862
Social services	276,210	-5,607	-2,741	-	267,862
Court services	481	-	-	-	481
Corporate and democratic core	13,016	-	-	-	13,016
Reward grant	-3,216	-	-	-	-3,216
Non-distributed costs	2,328	-	-	-	2,328
Reduction in provisions	-2,290	-	-	-	-2,290
Net cost of services	1,209,549	-93,161	-20,152	-	1,096,236
Internal trading accounts	75	-	-	-	75
Asset Management Revenue Account	-98,175	93,161	20,152	-	15,138 *
Pensions interest cost and expected return on assets	18,960	-	-	-	18,960
Net operating expenditure	1,130,409	-	-	-	1,130,409

*This relates to net interest payable

2a Disclosure of change in basis of Government support for schools

For 2006/07, the arrangements for Government support for school funding changed. Previously funds were provided as part of the Council's overall Revenue Support Grant. In 2006/07, the Council has received a specific grant – the DSG. £610 million has therefore been credited against the education service outturn as a specific grant in the Income and Expenditure Account that would previously have been treated as general Government grant. The difference between 2006/07 figures and comparative figures for 2005/06 for these two lines is explained mainly by this change.

The insurance provision represents an assessment of the likely cost of liability claims known to the County Council at 31 March 2007. The risks covered are as follows:

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

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

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 the computer suite, and for cash on premises and in transit (limits depending on location).

Additional cover

Personal accident of staff on duty
Fidelity guarantee
Vessels

32

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

A House of Lords' decision enables some part-time employees to claim retrospective membership of the Hampshire Pension Fund. This provision covers the potential liability of the County Council for retrospective employers' contributions, but no contributions will now be payable.

5 Internal trading accounts

The trading units had an overall surplus of £2,009,000 (2005/06 overall deficit of £75,000) as follows:

		2005/06 £'000	2006/07 £'000
Former Direct Services Organisation - provides catering and cleaning services to schools and some non-educational sites in Hampshire and supplies vehicles to departments of the County Council.	Income	-23,345	-24,809
	Expenditure	23,231	24,639
	Surplus(-)	-114	-170
Education Business Units - provide support services mainly to schools but also to other departments and other local authorities.	Income	-26,992	-28,016
	Expenditure	26,532	27,506
	Surplus(-)	-460	-510
Information Technology Services - provided to County Council departments and some other local authorities.	Income	-31,471	-33,650
	Expenditure	32,432	32,608
	Deficit(+)/Surplus(-)	961	-1,042

County Supplies - operate the central purchasing warehouse and arrange direct delivery and other contracts for County Council departments, other local authorities and voluntary organisations.	Income	-9,236	-9,702
	Expenditure	9,120	9,542
	Surplus(-)	-116	-160
Hampshire Printing Services - provide printing and reprographic services to County Council departments.	Income	-2,345	-2,294
	Expenditure	2,313	2,288
	Surplus(-)	-32	-6
Six other smaller trading units - including a surplus of £77,000 (£83,000 surplus in 2005/06) on the management of the River Hamble.	Income	-1,468	-1,714
	Expenditure	1,304	1,593
	Surplus(-)	-164	-121
	Total deficit(+)/surplus(-)	75	-2,009

6 Pensions

As part of the terms and conditions of employment of its staff, the County Council provides retirement benefits. These will be paid only when employees retire but the Council has a commitment to make the payments that need to be disclosed (in accordance with FRS17) at the time employees earn their future entitlement.

The County Council participates in two pension schemes:

- a The Teachers' Pension Scheme for teachers – this is a defined benefit scheme that is unfunded, which means that the pensions of past employees are paid out of current revenues. Scheme liabilities cannot be attributed to individual local authorities on a consistent reasonable basis. So, in accordance with FRS17, 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 Income and Expenditure Account in accordance with FRS17. In 2006/07, pension assets and liabilities have been included in the Balance Sheet based on a formal actuarial valuation for 31 March 2004. This valuation has been rolled forward to 31 March 2007. A formal valuation will be carried out later in 2007.

6a Teachers' Pension Scheme

This is a defined benefit scheme administered by the Department for Children, Schools and Families (DCSF). The scheme is unfunded. The DCSF has established a notional fund as the basis of calculating the employers' contribution. Contributions were at the rate of 13.5% until December 2006, and have been 14.1% since January 2007 (13.5% for the whole of 2005/06). In 2006/07 total employers' contributions were £43.4 million (£41.8 million in 2005/06).

6b Local Government Pension Scheme current service cost

The current service cost is an estimate, at today's prices, of the true economic cost of employing people in a financial year, earning years of service that will eventually entitle them to a lump sum and pension when they retire. This is included in the net cost of services in the Income and Expenditure Account. However, the charge met by taxpayers is based on employer's contributions payable in the year. This is achieved by adjusting the Income and Expenditure Account balance in the General Fund reconciliation on page 26.

The LGPS fund's actuary has said that the current service cost of pensions in 2006/07 is £58.6 million (£50.0 million in 2005/06). In 2006/07 the County Council paid an employer's contribution £46.0 million into the Hampshire County Pension Fund (£39.8 million in 2005/06). This was 16.5% of pensionable pay (15.0% in 2005/06).

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.

6c Past-service cost of pensions

Past-service costs arise from decisions taken in the current year, but whose financial effect is derived from years of service earned in earlier years. This includes added years (now replaced by augmentation of service) awarded on early retirement.

The actuary has said that the past-service cost for early retirements in 2006/07 is £1.98 million (£2.5 million in 2005/06). This includes £0.6 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 Income and Expenditure Account, in accordance with BVACOP, but a charge of £1.2 million (£2.3 million in 2005/06) has been made after adjusting for the difference between actuarial assumptions and estimated cashflow in 2006/07.

The past-service cost for early retirements in previous years is assessed by the actuary at £39.5 million in respect of teachers' pensions (£38.62 million in 2005/06) and £29.1 million in respect of unfunded benefits to former employees in the LGPS (£28.61 million in 2005/06). This is added to the pension liability in the Balance Sheet.

However, as for current service costs, the charge for tax-setting purposes is based on the cash paid in the year. In 2006/07 contributions paid to cover the cost of early retirements were:

	LGPS £'000	Teachers £'000	2006/07 Total £'000
Early retirements in 2006/07	1,047	475	1,522
Early retirements in previous years for which payments are still being made	2,160	2,160	4,320
Total payments in 2006/07	3,207	2,635	5,842

6d Adjustments to the Income and Expenditure Account in accordance with FRS17 are set out below.

	2005/06 £'000	2006/07 £'000
Included in the Income and Expenditure Account:		
Current service cost of pensions	50,000	58,630
Charge to non-distributed costs for early retirement in the year	2,327	1,186
Interest cost on pension liabilities (note i)	72,890	77,520
Expected return on Pension Fund assets (note ii)	-53,930	-63,430
	71,287	73,906
Excluded from the Income and Expenditure Account:		
Employers' contributions to the Local Government Pension Scheme	-39,800	-46,045
Added years and early-retirement cash flows in the year	-4,857	-4,941
	-44,657	-50,986
Net adjustment to the Income and Expenditure Account offset by pension reserve contribution	26,630	22,920

note i - interest cost is the amount needed to unwind the discount applied in calculating the current service cost. As members of the scheme are one year older and one year closer to receiving their pension, the provisions made at present value in previous years for their retirement costs need to be uplifted by a year's discount to keep pace with current values

note ii - the expected return is a measure of the return (income from dividends, interest etc) expected in the long term on the investment assets held by the scheme for the year.

6e Assets and liabilities relating to retirement benefits

An independent actuary (Hewitt, Bacon & Woodrow) assessed the share of the assets and liabilities of the Hampshire LGPS scheme 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.

	31 March 2006 £million	31 March 2007 £million
Estimated liabilities in the scheme:		
Hampshire Pension Scheme	1,500.8	1,601.3
Unfunded liabilities:		
Teachers	38.6	39.5
Other staff	28.6	29.1
	1,568.0	1,669.9
Estimated assets in the scheme	979.2	1,060.8
Net liability	588.8	609.1

The net deficit on the LGPS will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary.

6f Basis for estimating assets and liabilities

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:

	2005/06 % per year	2006/07 % per year
Rate of discount for scheme liabilities	4.9	5.3
Rate of increase in salaries	4.5	4.7
Rate of increase in pensions in payment	3.0	3.2
Rate of increase in deferred pensions	3.0	3.2
Proportion of employees opting to take a commuted lump sum	50.0	50.0
Rate of inflation	3.0	3.2
Rate of return on equities (shares)	7.3	7.7
Rate of return on bonds	4.3	5.3
Rate of return on property	6.3	6.7
Rate of return on other assets	4.6	5.6
Average long term expected rate of return	6.5	6.9

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

	31 March 2006 %	31 March 2007 %
Equities	70.3	67.2
Bonds	20.6	20.7
Property	4.0	4.5
Corporate bonds	0.0	2.7
Other assets	5.1	4.9
	100.0	100.0

6g Net actuarial gain/(loss) on pensions

The actuarial gains identified as movements on the Pensions Reserve in 2006/07 can be analysed into the following categories, measured in absolute amounts and as a percentage of assets or liabilities at 31 March 2007:

	2002/03 £'000	2003/04 £'000	2004/05 £'000	2005/06 £'000	2006/07 £'000
Difference between expected and actual return on assets	-194,800 35.6%	70,660 10.4%	27,240 3.4%	130,120 13.3%	-1,420 0.1%
Difference between actuarial assumptions about liabilities and actual experience	-12,800 1.4%	-1,410 0.1%	65,530 4.7%	1,470 0.1%	-3,280 0.2%
Changes in assumptions underlying the present value of pension liabilities	-1,100 0.1%	2,310 0.2%	-252,180 18.1%	-109,380 7.0%	7,400 0.4%
	-208,700	71,560	-159,410	22,210	2,700

6h Movement on Pension Reserve

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

	31 March 2006 £million	31 March 2007 £million
Net deficit at start of year	-584	-589
Movements in the year:		
current-service cost	-50	-59
past-service cost	-3	-2
contributions	45	52
expected return on pension assets	54	63
interest on pension liabilities	-73	-77
actuarial (loss)/gain	22	3
Net deficit at 31 March	-589	-609

7 Net loss/gain on disposal of assets

	2005/06 £'000	2006/07 £'000
Sale proceeds	10,720	24,228
less net book value of assets sold	10,720	24,228
net loss/gain	-	-
Costs of sale (charged to the Income and Expenditure Account)	38	35

8 Government grants and contributions deferred

	2005/06 £'000	2006/07 £'000
Balance at 1 April	-280,004	-344,537
Financing of expenditure in the year	-85,077	-71,056
Release of grants resulting from the depreciation of assets	20,152	13,936
Release of grants resulting from the disposal of assets	392	17,671
Balance at 31 March	-344,537	-383,986

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

9 Statutory provision for the repayment of debt

The Local Government Act 2003 requires the Council to make provision 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.

10a 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
Gross book value (GBV) at 31 March 2006	2,836,143	85,172	388,531	12,320	57,614	53,884	-	3,433,664
Less accumulated depreciation/impairment	-134,947	-29,997	-54,886	-1	-71	-	-	-219,902
Net book value of fixed assets at 31 March 2006	2,701,196	55,175	333,645	12,319	57,543	53,884	-	3,213,762
Movement in 2006/07								
Additions	72,467	7,557	39,802	403	4,501	43,579	4,916	173,225
Transfers	17,550	294	4,506	-67	5,674	-32,365	4,408	-
Disposals								
Write-off of accumulated depreciation	3,406	1,005	-	-	-	-	-	4,411
Write-off GBV	-17,003	-1,298	-111	-1,254	-8,973	-	-	-28,639
Revaluations								
Write-off of accumulated depreciation	3,098	-	-	-	-	-	-	3,098
Change in certified valuations	78,305	-	1,129	-23	1,796	-	-	81,207
Impairment losses due to revaluations	-238	-	-	-	-	-	-	-238
Impairment losses for past year	-	-	-	-	-	-	-	-
Depreciation for year	-48,474	-7,984	-13,152	-	-	-	-	-69,610
Deferred charges written off	-	-	-	-	-	-	-9,324	-9,324
Net book value at 31 March 2007	2,810,307	54,749	365,819	11,378	60,541	65,098	-	3,367,892
Gross Book Value at 31 March 2007	2,987,462	91,725	433,857	11,379	60,612	65,098	-	3,650,133
Accumulated depreciation/impairment	-177,155	-36,976	-68,038	-1	-71	-	-	-282,241
Net Book Value at 31 March 2007	2,810,307	54,749	365,819	11,378	60,541	65,098	-	3,367,892

There was a net increase in asset values of £154.1 million in 2006/07. This was the result of additions in the year of £173.2 million offset by deferred charges of £9.3 million, and a net increase from revaluations of £84.3 million partly offset by depreciation of £69.8 million, and disposals of £24.2 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 2007 there were 20 foundation schools (20 schools in 2005/06).

10b Valuation of assets

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.

FRS15 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-operational properties £'000
Valued at historic cost		54,749	365,819	11,378	
Valued at current value in					
2001/02	39				5
2002/03	169,020				7,194
2003/04	376,836				7,680
2004/05	405,887				3,557
2005/06	1,253,365				23,924
2006/07	601,810				18,181
Total	2,806,957	54,749	365,819	11,378	60,541

10c Fixed assets held at 31 March

	2006	2007
Land		
Total land holding (acres)	16,790	16,803
Buildings		
Area of all buildings (million metres ²)	2	2
Floor area of net usable office space (000s metres ²)	56	57
Number of buildings		
Early Years Centres	3	3
Primary schools	433	430
Secondary schools	71	71
Special schools	27	26
Education centre schools	7	7
Activity centres	5	5
Print works	1	1
Stores warehouses	2	2
Central and area offices	61	61
Waste disposal sites and recycling centres	28	28
Libraries	54	54
Museums	19	19
Countryside sites	83	83
Record office	1	1
Arts centres	4	4
Residential homes - Adult Services	42	43
Residential homes - Children's Services	12	12
Day centres - Adult Services	23	23
Day centres - Children's Services	9	8
County road length (km)	8,543	8,538
Vehicles and plant		
Hampshire Transport Management	52	28

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

11 Capital financing

Capital spending on fixed assets and deferred charges totalled £173.2 million (£184.8 million in 2005/06). It was financed as follows:

	2005/06 £'000	2006/07 £'000
Capital receipts	-10,720	-24,228
Grants and other income	-85,077	-71,056
Loans	-53,411	-56,244
Revenue		
- Main contribution	-30,660	-17,861
- Reserves	-4,892	-3,836
	-184,760	-173,225

Commitments for major contracts entered into up to 31 March 2007 are estimated at £32 million (£55 million in 2005/06). This comprises £6 million (£5 million in 2005/06) for highways and £26 million (£50 million in 2005/06) for buildings.

12 Long-term debtors

	2006 £'000	31 March 2007 £'000
Car loans to staff	805	712
Home Computer Salary Sacrifice Scheme	451	569
Transferred debt	45,369	43,404
Other	342	320
	46,967	45,005

Transferred debt represents amounts of capital advances due to be repaid after statutory transfers of former services to independent bodies. £40.5 million remains to be repaid by the cities of Portsmouth and Southampton, £0.1 million by the Higher Education Funding Council, and £2.8 million by the Hampshire Police Authority.

13 Stocks and work in progress

	2006 £'000	31 March 2007 £'000
Stocks		
Catering stock	277	292
County Supplies general	948	1,190
Recreation and Heritage sales stocks	314	285
Other (including landfill allowances)	252	279
	1,791	2,046
Work in progress		
Highway rechargeable works	942	796
Other	43	52
	985	848
Total stocks and work in progress	2,776	2,894

Closing stock valuations have been assessed using the latest purchase price. This does not accord with the Statement of Standard Accounting Practice (SSAP) 9 - Stocks and Long Term Contracts which requires stock to be valued at the lower of the original purchase price and current value but the differences in the valuations are not material.

14 Debtors	31 March	
	2006 £'000	2007 £'000
Government departments	8,911	10,122
Other local authorities	8,690	8,288
Sundry debtors	31,247	47,032
	48,848	65,442

15 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 2006/07 is the pooling of surplus Hampshire Pension Fund and Hampshire Police Authority cash for treasury management purposes and the value of the sums lent by those bodies to the County Council.

16 Cash in hand	31 March	
	2006 £'000	2007 £'000
The balance shown comprises:		
- Schools' local bank accounts	5,256	5,141
- Petty cash	860	827
	6,116	5,968

Schools' local bank accounts include the balances held by 19 schools (21 in 2005/06) which have elected to have separate bank accounts. Petty cash consists of 814 imprest accounts (821 in 2005/06) for minor day-to-day expenses which are held by establishments, including schools across the whole county.

17 Deposits	31 March	
	2006 £'000	2007 £'000
NHS nursing care contribution	-4,432	-1,200
Other capital deposits and unapplied contributions	-2,253	-2,000
Other	-839	-510
	-7,524	-3,710

18 Creditors	31 March	
	2006 £'000	2007 £'000
HM Revenue and Customs and Government departments	-27,594	-32,175
Other local authorities	-6,574	-16,601
Sundry creditors	-86,765	-80,659
	-120,933	-129,435

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

19 Receipts in advance	31 March	
	2006	2007
	£'000	£'000
Education Standards Fund and devolved capital grants	-24,848	-18,945
Other receipts and contributions	-14,299	-21,042
	-39,147	-39,987

20 Borrowing repayable within one year	31 March	
	2006	2007
	£'000	£'000
Long-term borrowing repayable within one year	-8,000	-8,000
Temporary deposits by Hampshire Pension Fund, Hampshire Police Authority, and Hampshire Fire and Rescue Authority.	-87,242	-68,765
Other short-term borrowing	-5,088	-8,568
	-100,330	-85,333

21 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.

22 Long-term borrowing

Range of interest rates payable	Source of loan	Outstanding 31 March	
		2006	2007
		£'000	£'000
3.8%-9.875%	Public Works Loan Board	-231,000	-233,000
2.7%-5%	Lender's option/borrower's option loans	-56,000	-64,000
		-287,000	-297,000
An analysis of loans by maturity is:			
	Maturing between one and two years	-8,000	-4,000
	Maturing between two and five years	-12,000	-13,000
	Maturing between five and 10 years	-32,000	-35,000
	Maturing between 10 and 25 years	-147,000	-153,000
	Maturing in 25 or more years	-88,000	-92,000
		-287,000	-297,000

23 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.

24 Movement on Reserves

Reserve	Balance 1 April 2006 £'000	Net movement in the year £'000	Balance 31 March 2007 £'000	See note
Fixed Asset Restatement Account	-2,090,757	-77,750	-2,168,507	24a
Capital Financing Account	-283,550	-1,045	-284,595	24b
Pensions Reserve	588,820	20,220	609,040	6h
Earmarked Reserves	-92,946	-16,661	-109,607	24c
Other balances	174	-174	-	24d
General Fund	-4,167	-12,575	-16,742	
	-1,882,426	-87,985	-1,970,411	

24a Fixed Asset Restatement Account

This represents a store of net gains on revaluation of fixed assets, written down by net book value of asset disposals. The reserve is not cash backed as it relates to unrealised assets. The movement in the account is analysed below:

	2005/06 £'000	2006/07 £'000
Balance brought forward 1 April	-1,633,394	-2,090,757
Net gain on valuation of fixed assets	-521,165	-84,306
Transfer of Magistrates Courts' assets	53,082	-
Release of grants on assets transferred to magistrates' courts	-	-17,672
Book value of assets sold	10,720	24,228
Balance at 31 March	-2,090,757	-2,168,507

24b Capital Financing Account

The Capital Financing Account contains expenditure financed from revenue and capital receipts together with the statutory amount required to provide for the repayment of external loans less the amounts included for depreciation and writing down deferred charges. The reserve is not cash backed. The movement in the account is analysed below:

	2005/06 £'000	2006/07 £'000
Balance brought forward 1 April	-272,420	-283,550
Revenue contributions	-35,552	-21,697
Capital receipts applied	-10,720	-24,228
Minimum revenue provision	-20,988	-22,322
Depreciation	54,953	69,848
Deferred charges	19,686	9,324
Deferred government grants and contributions released	-20,544	-13,936
External contribution to minimum revenue provision	2,035	1,966
Balance as at 31 March	-283,550	-284,595

24c Earmarked reserves

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

	31 March 2006 £'000	Net movement in the year £'000	31 March 2007 £'000
Schools	-33,388	-4,651	-38,039
Capital	-	-1,432	-1,432
Landfill allowances	-3,538	703	-2,835
Local Public Service Agreement Reward Grant	-2,712	-3,353	-6,065
Insurance	-7,300	1,285	-6,015
Designated underspendings	-3,565	-2,823	-6,388
Grant equalisation	-23,750	-1,200	-24,950
Modernisation, restructuring and efficiency	-3,505	3,505	-
Job evaluation implementation	-10,400	-8,090	-18,490
Trading accounts	-4,286	-568	-4,854
Invest-to-save	-253	-8	-261
Other	-249	-29	-278
	-92,946	-16,661	-109,607

24d Other balances

Largely internal recharges between the main County Council accounts and schools with local bank accounts.

25 Reconciliation of Income and Expenditure Account deficit to net cash inflow from revenue activities

	2005/06 £'000	2006/07 £'000
Net surplus(-)/deficit(+) on the Income and Expenditure Account	22,999	17,032
Net cash outflow from servicing of finance activities	-13,329	-11,659
Variation in stocks	-255	118
Variation in deposits	-116	331
Variation in debtors	-2,847	9,275
Variation in long-term debtors	-2,218	3
Variation in payments in advance	992	-2,134
Increase in creditors	-3,954	-8,463
Increase in receipts in advance	-3,832	-840
Decrease in provisions	1,686	1,530
Variation in other balances	240	-174
	-10,304	-354
Non-cash transactions		
Transfers from reserves	-17,235	-16,661
Variation in doubtful debts provision	-576	356
Interest on developer contributions	-1,305	-1,454
Provision for loan and lease repayments	-20,988	-22,322
Contribution to capital outlay	-35,552	-21,697
	-75,656	-61,778
Net additional amount required by statutory and non-statutory proper practices to be credited to the General Fund Balance	-9,545	-29,607
Net cash inflow from revenue activities	-85,835	-86,366

26 Analysis of capital grants (Revenue grants are analysed in the Income and Expenditure Account)

	2005/06	2006/07
	£'000	£'000
Capital grants		
Department for Children, Schools and Families	40,313	40,177
Department of Health	352	317
Department for Transport	2,941	6,786
Department for Communities and Local Government	2,646	2,910
Other bodies	268	168
	46,520	50,358

27 Movement in net debt

	at 1 April 2006 £'000	at 31 March 2007 £'000	Movement in the year £'000
Cash			
Cash in hand	6,116	5,968	-148
Cash overdrawn	-18,426	-11,115	7,311
Short-term investments	97,556	71,690	-25,866
Cash outflow	85,246	66,543	-18,703
Financing			
Borrowing repayable within one year	-100,330	-85,333	14,997
Long-term borrowing	-287,000	-297,000	-10,000
Total borrowing	-387,330	-382,333	4,997
Net debt	-302,084	-315,790	-13,706

28 Reconciliation of movement in net debt to cash flow statement

	2005/06 £'000	2006/07 £'000
Cash inflow/outflow	-9,914	-18,703
Repayment of amount borrowed	4,000	8,000
New loans	-52,000	-18,000
Net increase in temporary borrowing	21,212	14,997
	-36,702	-13,706

29 Operating leases

Authority as lessee

Some vehicles, items of equipment and property are financed under operational leases. The annual sum payable for leased vehicles and items of equipment is £3.8 million (£2.4 million in 2005/06). For property it is £3.2 million (£3.2 million in 2005/06).

The amount paid in 2006/07 is shown below. The amount payable in 2007/08 is also shown together with an analysis of the year of expiry.

	Paid in 2006/07 £'000	Payable in 2007/08 £'000	Expires in that year £'000	Expires in second to fifth year £'000	Expires in over five years £'000
Other land and buildings	3,255	3,451	577	1,048	1,826
Vehicles, plant and equipment	3,778	3,792	1,013	2,393	386
	7,033	7,243	1,590	3,441	2,212

Future obligations under operational leases payable in 2007/08 and subsequent years total £34.1 million (£28.1 million in 2005/06).

Authority as lessor

The annual rent received from leased properties is £2.6 million (£2.5 million in 2005/06).

The value as at 31 March 2007 of assets held for use in operating leases is shown below:

	£'000
Gross book value	15,901
Accumulated depreciation	-490
Net book value	15,411

Under the Home Computer Salary Sacrifice Scheme, in 2004/05 the County Council bought assets to the value of £984,000 which were leased to staff. Net of repayments in the year the deferred debtor is £569,000 at 31 March 2007.

Finance leases

At 31 March 2007 there were no outstanding obligations on finance leases.

30 Related-party transactions

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

	2005/06	2006/07
	£'000	£'000
Central Government		
Receipt of Government grants		
- Revenue	857,463	890,874
- Capital	46,520	50,358
	903,983	941,232
Levy paid to the Environment Agency	742	403

The County Council administers the Hampshire Pension Fund on behalf of its non-teaching employees, those of other local authorities in the county area and 214 other scheduled and admitted bodies (214 in 2005/06). 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 2006/07 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:

	2005/06	2006/07
	£'000	£'000
Pension Fund		
Interest paid	2,668	4,336
Temporary investments 31 March	-73,252	-60,597
Administration charge	1,539	1,633
Hampshire Police Authority		
Interest paid	838	1,189
Temporary investments 31 March	-8,383	-8,168
Hampshire Fire and Rescue Authority		
Interest paid	206	208
Temporary investments 31 March	-5,607	760

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

31 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.

32 Members' expenses

The total of members' allowances paid in the year was £1,243,000 (£1,244,000 in 2005/06).

33 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	
			2005/06	2006/07
£50,000	-	59,999	214	321
£60,000	-	69,999	63	75
£70,000	-	79,999	26	30
£80,000	-	89,999	1	9
£90,000	-	99,999	6	8
£100,000	-	109,999	3	3
£110,000	-	119,999	1	-
£120,000	-	129,999	1	-
£130,000	-	139,999	1	2
£140,000	-	149,999	3	1
£150,000	-	159,999	-	3
£160,000	-	169,999	-	-
£170,000	-	179,999	-	-
£180,000	-	189,999	-	-
£190,000	-	199,999	1	-
£200,000	-	209,999	-	1
			320	453

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34 Publicity account

Section 5 of the Local Government Act 1986 requires local authorities to keep a separate account of expenditure on publicity. In 2006/07 the Council spent £4.4 million on this (£4.2 million in 2005/06).

	2005/06	2006/07
	£'000	£'000
Advertising for staff	2,295	2,438
Corporate Communications Team costs (including staffing)	810	820
Promotion of tourism	163	124
Publicising public transport services	218	272
Road-safety publicity	169	176
Promotion of economic development and investment in Hampshire	71	78
Early Education publicity	73	61
Waste Management publicity	105	78
Planning policy promotion	61	77
Adult Services publicity	108	88

35 Pooled budgets

The County Council is a partner in two Section 31 partnerships. The County Council is a partner in the Hampshire Children's Trust. The Trust's purpose is associated with 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)
- Hampshire Primary Care Trust (PCT)

From October 2006 Hampshire PCT replaced the following separate trusts

- 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 2006/07 is £1,895,232 (£1,708,221 for 2005/06) and expenditure £1,142,686 (£903,436 in 2005/06) giving a surplus of £752,546 (£804,785 in 2005/06).

The County Council's contribution was £817,256 (£774,640 in 2005/06)

The Mid Hampshire Mental Health Services pooled budget began in October 2006. Its objective is to jointly commission modern health and social care resources that meets the needs of adults with severe mental health problems and promote their independence.

The partner bodies are:

- Hampshire County Council (host partner)
- Hampshire PCT

The gross income for 2006/07 is £400,000 and expenditure is £367,000 giving a surplus of £33,000.

The County Council's contribution was £32,000.

36 External Audit fees

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

	2005/06 £'000	2006/07 £'000
Code of Audit Practice	248	246
Grant Claims	17	23
Inspection	6	14
Childrens Partnership Work	7	-
National Fraud Initiative	-	1
Other	5	-
	283	284

37 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 2006/07 income from this source was £10.5 million (£9.5 million in 2005/06), which covered the costs involved.

38 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 £4.3 million at 31 March 2007 (see note 4).

The County Council has set aside a reserve of £18.5 million to meet the transitional costs of implementing the single-status agreement. This will reflect the outcome of the job evaluation undertaken as part of the Pay and Benefits review, including potential equal-pay compensation costs. At the Balance Sheet date, no equal-pay claims had been made.

39 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 will be fully euro-compliant.

40 Post-Balance Sheet events

As at 20 September 2007, when the accounts were authorised for issue by the County Treasurer, there were no material post-Balance Sheet events that require disclosure.

41 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 were 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 2006/07 spending under section 137 amounted to £170,306 or 13p per head (£146,391 or 12p per head in 2005/06).

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

42 Trust funds

The Council acts as sole trustee for 28 trust funds (29 in 2005/06) and as administrator for 13 other trust funds (15 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 2006 £'000	Income £'000	Expenditure £'000	Balance at 31 March 2007 £'000
Sole trustee funds				
Educational trusts				
Butlocks Heath/Netley Abbey School	290	18	-18	290
Dayas Music Scholarship	82	5	-3	84
Michael Austin Harlick Memorial	250	15	-12	253
Shipton Bellinger School	41	2	-2	41
Mace Educational Trust	114	7	-8	113
Spitfire Mitchell Memorial	183	9	-	192
Other	21	1	-	22
Total	981	57	-43	995
Social services trusts				
Hampshire Mentally Handicapped Persons Holiday Organisation	38	2	-	40
Hampshire Old Industrial and Reformatory Schools	61	4	-3	62
Green Meadows Old Peoples Home	15	1	-1	15
Total	114	7	-4	117

Trust funds continued	Balance at 31 March 2006 £'000	Income £'000	Expenditure £'000	Balance at 31 March 2007 £'000
Museums trusts				
Allen Curtis Museum Trust	24	4	-4	24
The Flora Twort Trust	41	3	-3	41
Red House Museum Trust	50	4	-4	50
Total	115	11	-11	115
Libraries trust				
Julian Davies Foundation	2	-	-	2
Other				
Hillier Arboretum Trust	13	1	-7	7
Total - sole trustee trusts	1,225	76	-65	1,236
Administrator funds				
The Eggars Grammar School Alton Site Foundation	1,636	68	-3	1,701
Hampshire Foundation for Young Musicians	66	4	-4	66
Other	24	2	-	26
Social services trusts	6	-	-	6
Total administrator trusts	1,732	74	-7	1,799
Total trust funds	2,957	150	-72	3,035

43 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 2007 the payments remaining under the contract are estimated to be £1,841 million of which £1,441 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 made with Unisys at the end of 1999. This has now been extended to November 2009. At 31 March 2007 the payments remaining under the contract are estimated at £14.08 million (£20.79 million at 31 March 2006).

Enterprise Licence

During 2006/07 the Council made an agreement with IBM to implement an IBM Enterprise Licence. Implementation is expected to take up to five years. It will deliver a range of benefits including improved security, a fully integrated information-management system and integration of the wide variety of corporate IT systems hosted on Hantsnet. The payments remaining under the contract are £4.58 million at 31 March 2007 with about 4.5 years remaining.

Schools broadband

We have a five year contract with Synetrix to provide broadband lines to schools. The payments remaining under the contract are £2.65 million at 31 March 2007.

44 Contribution from other authorities

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

Pension Fund accounts

Fund account	See note	2005/06 £'000	2006/07 £'000
Dealings with members and employers			
Contributions receivable			
Employers – normal	4	-103,764	-121,117
Employers – special	4	-3,614	-4,631
Employers – additional	4	-14	-6
Members – normal	4	-41,461	-44,126
Members – additional voluntary	4	-1,030	-1,203
Transfers in			
Individual transfers		-23,250	-16,943
Benefits payable			
Pensions	4	90,813	96,783
Commutation of pensions and lump sum retirement benefits	4	15,476	22,870
Lump sum death benefits	4	1,472	1,989
Payments to and on account of leavers			
Group transfers out		1,162	-
Individual transfers out		19,389	12,194
Refunds of contributions		382	86
State Scheme premiums		203	9
Administrative expenses	5	1,625	1,768
Net additions (-) withdrawals from dealings with members		-42,611	-52,327
Returns on investments			
Investment income			
Interest from fixed-interest securities		-448	-7,223
Dividends from equities		-48,644	-55,815
Income from index-linked securities		-7,015	-46
Income from pooled investment vehicles		-13,938	-10,141
Net rents from properties		-4,870	-5,413
Interest on cash deposits		-4,049	-10,332
Other		-115	-142
Change in market value of investments			
realised		-165,889	-315,414
unrealised		-275,957	242,122
Taxation		4,881	5,382
Investment management expenses	5	4,422	5,563
Net returns on investments		-511,622	-151,459
Net increase (-) / decrease (+) in Fund during the year		-554,233	-203,786
Add opening Fund balance		-2,159,394	-2,713,627
Closing Fund balance		-2,713,627	-2,917,413

Net assets statement		31 March 2006 £'000	31 March 2007 £'000
	See note		
Investments at market value			
Fixed-interest securities	12	9,852	122,115
Index-linked securities	12	291,810	4,865
Equities	7, 10, 12	1,606,834	1,734,964
Pooled investment holdings	8, 12	560,567	593,801
Property	12	103,418	110,950
Property unit trusts	12	-	27,898
Other alternative investments	12	-	1,052
Cash deposits		111,948	291,077
Total invested		2,684,429	2,886,722
Net current assets and liabilities			
Contributions due from employers		9,787	11,003
Other current assets		21,304	21,848
Current liabilities		-1,893	-2,160
Net assets		2,713,627	2,917,413
Reconciliation of net movement in the Fund			
Opening Fund balance		-2,159,394	-2,713,627
Net income available for investment:			
net additions from dealings with members		-42,611	-52,327
investment income less expenses		-69,776	-78,167
Revenue surplus		-112,387	-130,494
Change in market value of investments		-441,846	-73,292
Closing fund balance		-2,713,627	-2,917,413

Notes to the Pension Fund accounts

I 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 2006/07 employees contributed £45.3 million and employers £125.8 million to the Fund. Contributions are calculated as a percentage of salary. 25,666 people were receiving pensions from the Fund at 31 March 2007.

During the year the Fund's investment management arrangements were reviewed. At the end of the year the investments were managed by several companies based in London:

- Aberdeen Asset Management Limited	(19.3%)
- AllianceBernstein	(11.4%)
- Legal & General Investment Management	(9.4%)
- Newton Investment Management	(11.3%)
- Schroder Investment Management	(11.7%)
- SG Asset Management	(8.9%)
- State Street Global Advisors	(9.4%)
- Western Asset Management	(4.8%)
- CB Richard Ellis Investors	(4.1%)
- Goodman Property Investors	(0.4%)

There are also property portfolios managed by CB Richard Ellis (who took over Cordea Savills' portfolio with effect from January 2007) and Arlington.

The Fund also appointed Northern Trust as its first global custodian with effect from August 2006.

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

2 Accounting policies

Accounting standards

The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the UK 2006 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 pension Statement of Recommended Practice (SORP).

Additional voluntary contributions are not included in the Pension Fund accounts in accordance with regulation 5(2)(c) of the Pension Scheme (Management and Investment of Funds) Regulations 1998.

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 2007
- 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 2007 translated into sterling at the rate that day
- the UK property portfolio – open-market value at 31 March 2007 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 was 250% in 2005/06, 275% in 2006/07 and will rise to 295% in 2007/08.

The rate paid by most admitted bodies was 240% in 2005/06, 265% in 2006/07 and will rise to 295% in 2007/08.

The next actuarial valuation of the Fund as at 31 March 2007 is under way.

4 Contributions and benefits

The figures in the revenue account are broken down in the following table:

	2005/06 £'000	2006/07 £'000
Contributions receivable		
Administering authority	55,849	63,099
Scheduled bodies	90,491	103,929
Admitted bodies	3,543	4,055
	149,883	171,083
Benefits payable		
Administering authority	41,250	45,635
Scheduled bodies	63,884	72,396
Admitted bodies	2,627	3,611
	107,761	121,642

5 Administrative and investment management expenses

The figures in the revenue accounts are broken down in the following table:

	2005/06 £'000	2006/07 £'000
Administrative expenses		
Pension administration costs and other overheads	1,539	1,633
Office and other administrative expenses	86	135
	1,625	1,768
Investment management expenses		
Investment management expenses	3,740	4,654
Property managers expenses	296	380
Actuary's and other fees	386	529
	4,422	5,563

6 Investment returns

The return on the Fund in 2006/07 was 5.3%.

In the three years to 31 March 2007 a return of 13.1% a year was achieved.

7 Ten largest UK equity holdings

At 31 March 2007 the 10 largest UK equity (company share) holdings by market value were as follows:

	£'000
Vodafone plc	49,583
HSBC plc	34,922
Royal Bank of Scotland plc	34,218
BP plc	34,018
GlaxoSmithKline plc	33,616
Royal Dutch Shell plc	26,126
BT Group plc	25,237
Barclays plc	24,026
Centrica plc	23,691
British American Tobacco plc	21,381

8 Five largest pooled investment holdings

At 31 March 2007 the five largest pooled investment holdings were as follows:

	£'000
Legal & General Over five-year index-linked gilts	274,637
SSGA Over five-year index-linked gilts	274,158
Aberdeen UK Emerging Companies	12,504
Schroder Institutional UK Smaller Companies	10,385
Aberdeen UK Mid-Cap Companies	8,194

9 Concentration of investments

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

10 Analysis of UK equity investments by industrial sector

	£'000
Oil and gas	83,032
Basic materials (chemicals, mining, forestry)	62,973
Industrials (aerospace, defence, electronics, engineering)	80,340
Consumer goods (vehicles, household goods)	62,587
Health care (health care, pharmaceuticals)	58,929
Consumer services (general retailers, leisure, media)	157,249
Telecommunications (fixed line and mobile)	80,399
Utilities (electricity, gas, water suppliers)	40,000
Financials (banks, insurance, real estate, investment trusts)	224,883
Technology (computer hardware and software)	24,338
	874,730

11 Unlisted investments

There were no unlisted investments held by the Fund.

12 Investment transactions

	Market value at 1 April 2006 £'000	Purchases £'000	Sales £'000	Change in value £'000	Market value at 31 March 2007 £'000
UK fixed interest bonds	9,852	119,363	-116,914	-1,026	11,275
UK index-linked bonds	291,810	86,768	-373,940	-4,638	-
Overseas fixed interest bonds	-	187,835	-75,882	-1,113	110,840
Overseas index-linked bonds	-	9,324	-4,274	-185	4,865
UK equities	1,070,487	381,864	-649,909	72,288	874,730
North America equities	127,867	340,790	-203,673	-2,356	262,628
Japan equities	124,440	143,500	-132,476	-13,847	121,617
Europe equities	236,928	216,099	-167,591	13,107	298,543
Other overseas equities	47,112	204,462	-76,480	2,352	177,446
Unit trusts	560,567	768,299	-737,320	2,255	593,801
Property	103,418	8,211	-10,373	9,694	110,950
Property unit trusts	-	29,177	-	-1,279	27,898
Renewable energy	-	1,238	-	-186	1,052
Total	2,572,481	2,496,930	-2,548,832	75,066	2,595,645

The equivalent figures for purchases and sales in 2005/06 were £1,180.4 million and £1,085.2 million.

13 Contingent liabilities

The Fund had no contingent liabilities on 31 March 2007.

14 Capital commitments

The Fund had the following capital commitments at 31 March 2007:

Fund	Sector	Committed	Invested at 31 March 2007
		£'000	£'000
RREEF UK Property Ventures Fund 3	UK property	10,000	2,727
Doughty Hanson European Real Estate 2	European property	10,000	2,075
Hg Capital Renewable Power Partners	Renewable energy	10,000	1,238
Coller Capital International Partners 5	Private equity	5,094	-
ING Real Estate European Industrial Fund	European property	9,370	2,690
IRUS European Retail Fund	European property	11,994	3,038
Tishman Speyer European Real Estate Venture 6	European property	11,224	4,825
JP Morgan European Property Fund	European property	4,873	-
Goodman Eurozone Fund of Funds	European property	9,370	1,409
Total		81,925	18,002

15 Property

All the Fund's directly owned property is held as freehold.

57

16 Independent property valuer

In December each year the directly held 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.

Glossary

Accruals basis

Accounting for income and expenditure during the financial year in which they are earned or incurred, not when money is received or paid.

Amortisation

The concept of writing off the capital cost of a deferred charge (eg a capital grant to a third party) to the Income and Expenditure Account.

Asset Management Revenue Account

Used in local Government before 2006/07. 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 Income and Expenditure 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 credit balance on the general fund. It is the excess of income over expenditure in the Income and Expenditure Account after adjusting for movements to and from reserves and other non-cash items.

This balance is needed as a cushion against unforeseen events.

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 to service revenue accounts for depreciation, net of any Government grant released. Where appropriate they can also include the writing out of deferred charges.

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 (eg 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

Expenditure 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 local authority 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.

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) allocates tradable landfill allowances to each of the waste disposal authorities (WDAs); 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 the Council money 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 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 lessor (the company leasing out the goods).

Past-service cost

For a defined benefit scheme, the increase in the present value of the scheme 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 discrete fund. The purpose and scope of the fund is agreed at the outset and then used to pay for relevant services and activities.

Post-balance sheet event

Events that occur between the Balance-Sheet date and the date 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
- 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 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 balance on the General Fund. An 'earmarked' reserve is an amount set aside in the Council's accounts for specific purposes.

Residual life

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

Revenue contributions to capital

The use of revenue funds to finance capital expenditure. 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 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 local authority to finance capital expenditure by any form of credit arrangement, such as loans or finance leasing.

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

Unringfenced SCE(R)s authorise the finance of capital expenditure, are not specific to individual services and may be used as the 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 year-end 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 Income and Expenditure Account.

Hampshire County Council



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