Hampshire County Council

Statement of Accounts

2017/18

Contents

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Narrative Report

The Statement of Accounts has been prepared in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA). It therefore aims to provide information so that members of the public, including electors and residents of Hampshire, Council Members, partners, stakeholders and other interested parties can:

- Understand the overarching financial position of the County Council and the outturn position for 2017/18;
- Have confidence that the public money with which the County Council has been entrusted has been used and accounted for in an appropriate manner; and
- Be assured that the financial position of the County Council is sound and secure.

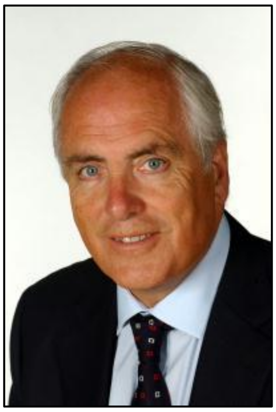
The style and format of the accounts, complies with CIPFA standards and is broadly similar to that of previous years. The information contained within these accounts is presented as simply and clearly as possible. However, the accounts of such a large and diverse organisation as Hampshire County Council are, by their nature, both technical and complex.

This Narrative Report has been structured to help enable readers to understand the County Council, its operating environment, and to assist in the understanding and interpretation of the Statement of Accounts. The report provides information about Hampshire, including the key issues affecting the Authority and its accounts. It also provides a summary of the financial position at 31 March 2018 and is structured as set out below:

- Statement from the Leader of Hampshire County Council
- Introduction from the Chief Financial Officer
- An Introduction to Hampshire
- The County Council’s Non-Financial Performance
- Financial Performance of the County Council 2017/18
- Corporate Risks
- Summary Position
- Where you can get Further Information

This is followed by an explanation of the Financial Statements, including information on changes during 2017/18.

Statement from the Leader of Hampshire County Council



"As Leader of the County Council, I am delighted to be able to present to you the Statement of Accounts for 2017/18. The County Council has always had a strong track record of financial management and stewardship and this continues to be evident as we progress through this extended period of tight spending control."

"The County Council has always been willing to play its part to get the country's finances back in balance and up to the year 2017/18 we will have reduced spending by over £340 million since 2008, whilst at the same time being recognised as one of the top performing county councils in the country."

"Since the start of the decade as the Government have been focused on reducing the deficit nationally and funding has been cut, we have worked diligently to stretch every penny – delivering savings, reinvesting in new, more efficient ways of working, making prudent use of our reserves, and delivering more with less. Residents have told us they support this approach, and it has proven effective – and by 2019/20 the total savings we will have removed from the budget will rise further to £480 million. We have fewer buildings, fewer staff and are making much greater use of new technology."

"This has only been possible due to our scale, capacity, financial resources and strong leadership. We have planned well ahead of time for the grant reductions that we knew would be required to reduce public spending and have used our reserves wisely to support the continuing significant change programme across the Authority and to ensure we have adequate time to implement changes properly and safely in order to minimise the impact on residents wherever possible."

"The Statement of Accounts this financial year have been produced in accordance with the new statutory timescales which came into force this year. This is an enormous achievement that has required a collective effort across the organisation and I would like to take this opportunity to thank all of our staff for their contribution. This is the culmination of work throughout the year which ensures the careful management of our finances and enables us to make fully informed decisions about the appropriate use of County Council resources and deliver the quality of services that residents have quite rightly come to expect."

"We are well placed to face the future financial challenges that are forecast to the end of the decade, and beyond, and the financial information contained in this Narrative Report and the accounts themselves once again serve to highlight the continuing strength and success of this great County."

Councillor Roy Perry – Leader of Hampshire County Council

Introduction from the Chief Financial Officer

The Statement of Accounts for 2017/18 draws to a close another challenging but successful financial year for the County Council. Financial performance has been strong across all departments despite reducing budgets and growing demand pressures in all areas, but notably within adults' and children's social care.

This Narrative Report is designed to help readers better understand the Authority, its operating environment, and to assist in the understanding and interpretation of the Statement of Accounts themselves.

It contains background information about the County Council and outlines some of the key financial issues in areas such as revenue and capital spending, reserves and treasury management. As Chief Financial Officer to the County Council I also have responsibility for the Pension Fund and further information is provided to help explain the current position on the Fund and its investments.

The accounts themselves are very complex and technical in nature, but I hope you will take the time to look through them and in particular, read the Narrative Report which provides an excellent summary of what has happened during the financial year and outlines the financial standing of the County Council as at 31 March 2018.

If you would like more information on the accounts or have any questions on the content then contact information is contained within this Narrative Report.

Carolyn Williamson FCPFA
Deputy Chief Executive and Director of Corporate Resources

An Introduction to Hampshire

Hampshire is notable for housing the birthplaces of the Royal Navy, British Army and the Royal Air Force. It is bordered by Dorset to the west, Wiltshire to the north-west, Berkshire to the north, Surrey to the north-east, and West Sussex to the east. The southern boundary is the coastline of the English Channel and the Solent, facing the Isle of Wight. Hampshire is in the top ten of the largest counties by land area (covering approximately 1,400 square miles).

Hampshire County Council is one of three local authorities in Hampshire (along with Portsmouth City Council and Southampton City Council) that provide 'upper tier' services, such as social care and education to residents of the county. In addition, there are 11 district councils and 261 parish and town councils providing a range of services to businesses and residents.

The county also contains two national parks; the first covering the New Forest, and therefore governance of this area is carried out by a national park authority as well as the New Forest District Council, the second the newer national park for the South Downs which covers the chalk downlands from Winchester eastwards which embraces a large number of local council areas across three counties, Hampshire, West and East Sussex.

Key Facts about Hampshire

There are a number of factors which affect the County Council's services and its finances. Detailed below are some of the key facts and figures having a major impact on the Authority's financial position in both the short and medium term and further detail is available on the web describing the environment in which the County Council operates:

(http://www3.hants.gov.uk/factsandfigures/keyfactsandfigures.htm)

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Population 1.32 million (2011 Census) expected to grow to 1.43 million by 2024 - an increase of over 8.1%	85% of Hampshire is defined as rural and over a third of the county's area is within National Parks or Areas of Outstanding Natural Beauty	545,000 households, of which 71% are owner-occupied (2011 Census)
Hampshire (county) has 65,000 businesses and approximately 689,000 people in work, of whom 114,600 work part-time and 101,900 are self-employed (ONS)	The Hampshire (county) economy is worth approximately £35.4 billion; £46.5 billion including Portsmouth and Southampton (ONS)	Tourism is worth almost £3 billion annually to the Hampshire economy and each year Hampshire is visited by 4.5 million staying visitors and a further 52 million day visitors
The County Council teaches around 137,000 pupils in its maintained schools with an additional 36,000 pupils in academies	Hampshire has 5,300 miles (8,600 kilometres) of road and 193 miles (310 kilometres) of railway track, incorporating 49 stations	The population aged 65 and over in Hampshire increased by 21% between 2001 and 2011, nearly double the national increase (11%)
Hampshire has more cars than any other county and two-thirds of commuters in Hampshire travel by car (2011 Census)	One in every 46 children educated in England is taught in Hampshire	The number of very old people in Hampshire (those aged 85 and over) grew by 35% between 2001 and 2011,

Hampshire County Council is responsible for 80% of spend on council services in Hampshire and provides a wide range of services which make a difference to residents' lives on a daily basis, including education, transport, planning, social care, libraries, waste management and trading standards.

As the County Council continues with the delivery of its next transformation programme – Transformation to 2019 – the need for a robust, strategic narrative is crucial. Central Government continues to reduce the amount of funding it gives to the County Council and at the same time, demand for County Council services is increasing. As a result, the County Council needs to deliver a further £140m savings by 2019 – bringing the Authority's cumulative spending reductions to nearly half a billion pounds by the end of the decade.

Our Strategic Plan for 2017 – 20

In this context, the County Council requires a strategic narrative that will support the Authority to make tough, but necessary, choices about future services. The 'Serving Hampshire - Strategic Plan 2017 – 2021' is intended to guide decision-making to ensure that Hampshire taxpayers' money is targeted where it is needed most, and where it can make the greatest difference.

Hampshire County Council is one of the country's leading local authorities, with many services rated as 'excellent' and the Authority's ambition is to continue to transform and shape services for the future, in line with the Authority's evolving financial strategy. This means doing things more efficiently and providing high quality, responsive services that meet the needs of our customers and improve the quality of life for the residents of Hampshire.

Our plan to achieve this focuses on four strategic aims, which bring together a number of priorities under the following themes, to form the overarching framework for our services:

- **Hampshire maintains strong and sustainable economic growth and prosperity** – The first strategic aim relates to Hampshire's future economic growth and prosperity.
- **People in Hampshire live safe, healthy and independent lives** – The second strategic aim is about supporting people to live safe, healthy and independent lives by focusing the County Council's resources where need is greatest, and where they can make the biggest difference.
- **Hampshire enjoys a rich and diverse environment** – The third strategic aim balances the first by ensuring that Hampshire's economic success does not come at the expense of the county's environment and heritage.
- **Hampshire enjoys strong, inclusive communities** – This strategic aim is about recognising the resources, skills and strengths that exist in local communities and that, when utilised, can help reduce the demand and dependency on County Council services.

Reductions in central funding to councils combined with rising demand for care services mean that our corporate strategy and medium term financial plan focus on targeting resources at the most vulnerable people while becoming more efficient in the delivery of our services. The County Council recognises that its ability to continue to deliver front line services will depend on its capacity to generate new funding streams, streamline the way that residents access services and support and encourage self-sufficiency, whilst protecting the most vulnerable.

As a result, the County Council has had to make some tough decisions and whilst service improvement remains at the heart of everything the County Council does, increasingly services will be targeted at those who most depend on them – particularly children at risk of abuse and neglect, and adults who cannot look after themselves.

Looking Towards 2020

Central Government continues to reduce the amount of funding it gives to the County Council. At the same time, demand for County Council services is increasing.

The County Council reviews its budgetary position annually and produces a rolling three year plan, known as the Medium Term Financial Strategy (MTFS). This plan considers the financial climate at both the local and national level together with available resources and budgetary pressures in arriving at a financial strategy.

The County Council's MTFS was approved by the County Council in November 2017 (Agenda Item 40). The report considered detailed savings proposals from departments as part of the Transformation to 2019 (Tt2019) Programme, set out the financial context; including the Council's approach to commercial activity and detailed the outcomes of the 'Serving Hampshire – Balancing the Budget' public consultation.

Up to the end of 2017/18, some £340m has already been removed from budgets and plans are in place to save a further £140m by 2019/20, taking the total to almost half a billion. In many cases those savings have been required to provide additional resources to meet rising demand for the services we deliver to the most vulnerable, as well as to address our falling funding.

These forecasts include significant cost pressures relating to social care for both adults and children and also allow for pay and inflationary pressures across other services including other key factors such as new highways and increased waste disposal costs as a result of new development and housebuilding across the county.

The key challenge for the County Council looking forward is to balance the budget over this period, whilst minimising the impact on service users and at the same time maintaining and even improving service outcomes and performance.

Beyond 2017/18, Hampshire County Council will need to implement its Tt2019 Programme and as part of the MTFS, sufficient funding has been identified to bridge the anticipated budget deficit in 2018/19 in order to allow the current strategy of two year savings targets to continue. Funding has also been allocated to cash flow the safe delivery of the Tt2019 Programme which will extend beyond 2019/20; recognising that it becomes successively more difficult to deliver savings on top of what has been generated so far.

The Tt2019 Programme is progressing well and to plan, but it is clear that a further £140m of savings will be extremely difficult to achieve and will take significantly longer to deliver to avoid service disruption. The Chief Executive’s report on Transformation to 2019: Report No. 3 was presented to Cabinet in April 2018 (Agenda Item 6) and outlined the positive progress being made.

Taking up to four years to safely deliver service changes rather than being driven to deliver within the two year financial target requires the careful use of reserves as part of our overall financial strategy to allow the time to deliver and also to provide resources to invest in the transformation of services. This further emphasises the value of our reserves strategy.

There is no doubt from all of the work completed by departments to date, that Tt2019 is set to test the County Council like no other programme ever has before - redesigning services and developing new operating models for services consistent with the reducing financial envelope. However, whilst Tt2019 represents an immense challenge, the County Council does have significant capacity, capability and experience to tackle the task.

Capital investment plans over the medium term period are dominated by the need to provide additional school places for Secondary School children. The Capital Programme delivers schemes totalling £520m over the three years from 2017/18 to 2019/20. It will provide:

- £179m of investment in new and extended school buildings in Hampshire in 2017/18 to 2019/20 to ensure there is a school place for every child in Hampshire, providing a big boost for the local economy through jobs and construction materials.

- £109m for structural maintenance of roads and bridges in Hampshire over the next three years.
- £100m for integrated transport schemes including seven major infrastructure schemes, totalling £85m, of which six are expected to start in 2018/19.
- £122m for major improvements of school and other County Council buildings over the next three years.

The Treasury Management Strategy over the period will continue to build on existing policies and practices, in particular protecting investment capital whilst at the same time looking at longer term products to generate a better rate of return. Interest rates are expected to move during this time and the County Council will need to be careful to commence long term borrowing activity at the correct time, following a long period of 'internally borrowing' rather than seeking funds from the market.

Key Facts about Hampshire County Council

All of the factors in the section above help to shape the County Council's priorities and provide a challenging environment for the organisation to operate in, potentially increasing demand on services and impacting the funding available to meet these demands. Charged with directing the outcomes, priorities and policies of the County Council are the Councillors who are elected every four years.

The County Council's role is to act strategically and implement policy as determined by Cabinet. This means delivering services to the people of Hampshire (and sometimes beyond) in an open and cost-effective way. Hampshire County Council acts in the best interests of Hampshire and its residents.

The County Council has 78 Councillors (also known as Members) who decide the budgets and policies for the vital local services provided by Hampshire County Council and following local government elections in May 2017 the political composition is now as follows:

- 56 Conservative
- 19 Liberal Democrats
- 2 Labour Party
- 1 the Community Campaign (Hart)

The turnout for the 2017 County Council elections was 36% of the electorate.

Under the County Council's Constitution, the Authority manages its affairs by way of a Leader with Cabinet model. The Leader is appointed by the County Council and they in turn appoint the Cabinet.

Supporting the work of the elected members is the Corporate Management Team (CMT) which comprises of seven Chief Officers and an Assistant Chief Executive and is led by the Chief Executive. CMT work with, and for, the Leader and Cabinet to maximise the capacity and effectiveness of the organisation, in order to protect and build strong, sustainable public services that improve the quality of life for the people of Hampshire. The current make up of CMT is detailed below. Note 8b shows the further detail of people that have been in a strategic post during 2017/18:

- Chief Executive – John Coughlan (CBE)
- Deputy Chief Executive and Director of Corporate Resources – Carolyn Williamson (FCPFA)
- Director of Adults' Health and Care – Graham Allen
- Director of Transformation and Governance – Paul Archer
- Director of Children's Services – Steve Crocker
- Director of Economy, Transport and Environment – Stuart Jarvis
- Director of Culture, Communities and Business Services – Karen Murray
- Assistant Chief Executive – Deborah Harkin

The role of CMT is to lead the officers who work for the County Council, provide the strategic overview for the work of the Council, and manage the many and varied operational services for which the Council is responsible.

At 31 March 2018, the County Council employed 37,702 people, making the County Council one of the largest employers in the county. Many of these employees work part-time. In full-time equivalent (FTE) terms, the total number of employees was 24,739 at 31 March 2018 as shown below:

Full-Time Equivalent Employees	**March 2017**	**March 2018**
Adults' Health and Care	2,737	2,748
Children's Service – Schools	15,593	15,110
Children's Services – Non Schools	2,086	2,154
Economy, Environment and Transport	582	841
Culture, Communities and Business Services	2,375	2,303
Corporate Services	1,464	1,583
Total	**24,837**	**24,739**

This is a net decrease of 98 since 31 March 2017 which is in part due to re-organisations and school amalgamations in response to budget pressures. This is offset by an increase in temporary roles in most departments linked to transformation programmes in addition to some income earning and grant funded posts. There has also been a planned increase in social workers and staff working in the newly opened children's homes.

The County Council's Non-Financial Performance

In Hampshire, we are proud of our strong record of delivering excellent services that provide value for money. Over the last few years we have risen to the challenge of national spending cuts with an ambitious programme of savings and modernisation, while striving to protect frontline services and reduce the impact on those in most need as far as possible.

The County Council's Performance Management Framework (PMF) provides the local governance structure for performance management and reporting to Cabinet. The PMF specifies that Cabinet receives bi-annual reports on the County Council's performance against the strategic priorities set out in the Serving Hampshire plan. Performance information on children's and adults' safeguarding, major change programmes, including Tt2019, and the County Council's financial strategy are reported separately to Cabinet.

In order to report progress against Serving Hampshire, departments are asked to rate performance against success measures on a quarterly basis. For each measure, a simple risk-based 'red, amber, green' rating is applied, informed by the most recent data and management information. Departments are also asked to provide an overview of key achievements and risks / issues against agreed priorities, as well as the results of any recent external assessments.

As agreed by Cabinet in June 2017, the County Council is placing greater emphasis on the outcomes of external assessment and resident feedback in judging the organisation's performance and areas for improvement. Alongside these sources, a robust set of core performance measures continues to be used. These ensure alignment with the Serving Hampshire Strategic Plan and the County Council's Public Health Strategy.

Overall performance against Serving Hampshire remained good during 2017/18, evidencing strong performance in the delivery of core services against measures for which we currently have data. Overall the majority (62%) of measures where we have current data were reported as low performance risk. About half (51%) of the measures showed improvement. In addition to this, almost two thirds (64%) of measures had met the target set by the relevant department.

Based on current data, all measures are considered to present low to medium risk. In cases where targets were not met, departmental improvement plans are in place.

Performance highlights for 2017/18 include:

- In March 2017, the Department for Education (DfE) published an independent evaluation of the Hampshire Innovation Programme evidencing: an increase in the percentage of children's social worker time spent with families from 34% to 58%; estimated notional savings through increased productivity of social workers of £9,000 per social worker; and an increase in the percentage of time spent on the initial engagement of families from 30% to 70% as a result of the new Family Intervention Team.

- A new short-term reablement service at the Hampshire Hospitals NHS Foundation Trust in Basingstoke was introduced by the County Council. The Firs, located within the hospital site, provides specially adapted accommodation for up to 17 people who receive tailored support from social care staff. This additional capacity is helping to reduce the number of delayed hospital discharges by supporting more effective patient flow and discharge through improved multi-professional and multi-agency working.
- 98% of parents were offered a place for their child in one of their three preferred secondary schools for September 2018, with over 92% receiving their first choice of secondary school. Almost 99% of pupils transferring from Infant to Junior school received a place at one of their preferred schools – with 97% obtaining a place at their first choice school (consistent with the previous year).
- 65% of Hampshire's students taking Key Stage 2 assessments in 2017 achieved the expected level in reading, writing and mathematics, compared with 61% nationally. Hampshire outperformed its statistical neighbours in these results.
- Overall attainment in Hampshire secondary schools in 2017 remained above national attainment: 25% of pupils achieved the English Baccalaureate against 24% nationally; 68% of pupils achieved "The Basics" (a Grade 9 to 4 in both English and mathematics) against 64% nationally.
- CO2 emissions from Local Authority operations1 have fallen to 83,992 tonnes in 2017/18 from 86,684 the previous year (a reduction of 33.30% since 2011/12), keeping the County Council on track to meeting its target of 79,080 tonnes by 2020.
- The County Council secured £12.9m funding from Highways England which, together with a £6.6m investment from the County Council, will enable improvements to Junction 9 of the M27 and Parkway South Roundabout, Whiteley.
- £2.8m is being invested in energy programmes, including LED Lighting, Electric Vehicles and Battery Technology, which will deliver at least £450k of revenue savings. The first phase of the LED lighting installation has been completed in 2017/18, with the rest of the programme to be completed in the next two years.

A more extensive list of key performance achievements is included in the *Serving Hampshire* – 2017/18 Performance Report which will be presented to Cabinet on 18 June 2018.

[1] CO2 emissions data relate to emissions by Hampshire County Council only. This includes Hampshire County Council buildings (including schools, although not Academies and Foundation Schools), street lighting and travel (via data from staff mileage claims and the Hampshire Transport Management fleet).

The County Council's Financial Performance

Revenue Position

The deliberate strategy that the County Council has followed to date for dealing with grant reductions during the prolonged period of tight spending control, which involves planning ahead of time, making savings in advance of need and using those savings to help fund transformational change to generate the next round of savings, is well documented.

In line with this financial strategy savings targets for 2017/18 were approved as part of the 2015/16 budget setting process and detailed savings proposals were developed through the Transformation to 2017 (Tt2017) Programme and approved by Executive Members, Cabinet and County Council in September and October 2015. Given this position, no new savings proposals were presented as part of the 2017/18 budget setting process and the Tt2017 Programme was to achieve savings of £98m which were incorporated into the revenue budget.

The County Council set a balanced 2017/18 budget that made provision for further funding within contingencies for children's social care and that addressed the rising cost of adults' social care, as well as providing one off resources that will help the County Council to face its inevitable future financial pressures.

In 2016/17 the government implemented a clear shift in council tax policy and assumed that local authorities would put up their council tax by the maximum permissible each year in the period to 2020.

In line with changes to government policy (including the further flexibilities granted in the local government finance settlement) in recognition of the pressures facing local authorities due to the growing cost of adult social care, a 4.99% increase in council tax was approved at the meeting of Full Council in February 2017.

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

	2016/17 %	2017/18 %
Council Tax	29	30
Business Rates	2	2
General Government Grants	10	7
Fees, Charges and Interest	14	14
Specific Government Grants	45	47
Total	**100**	**100**

Revenue expenses relate to spending on the day to day operations of the County Council. Due to the nature of the services that the County Council provides, much of the cost of services relate to staffing costs. Other running expenses relate to contracts with external providers for major services such as waste disposal, highways maintenance and social care services, together with other non-staffing costs such as transport, premises costs, supplies and services and the cost of borrowing money for financing capital expenditure. The breakdown of these costs is shown in the following table:

	2016/17 %	2017/18 %
Staff Costs	48	50
Running Expenses	50	49
Capital Financing	2	1
Total	**100**	**100**

The County Council is responsible for providing a wide range of services, by far the biggest is education and there are over 500 schools within Hampshire, some of which have converted to Academy status and are not shown in the County Council's accounts. In 2017/18 the split of expenditure across the key service areas was as follows:

	2016/17 %	2017/18 %
Adults' Health and Care	25	25
Children's Services – Schools	47	48
Children's Services – Non Schools	10	9
Economy, Transport and Environment	9	9
Policy and Resources	8	8
Other Services	1	0
Total	**100**	**100**

The budget for 2017/18 was approved by the County Council on 16 February 2017 and the budget requirement (which is the net budget met by council tax, business rates and government grant) for 2017/18 was set at £729.4m.

This reflected the reduction in government grant and the clear shift in council tax policy from the Government who assumed that local authorities would put up their council tax by the maximum permissible without a referendum each year in the period to 2020. For Hampshire County Council this was 4.99% per annum. This included an extra 2% flexibility to pay for the increasing costs of adults' social care further to which greater flexibilities were announced in the local government finance settlement to bring forward some of this increase and to raise the precept by 3% in 2017/18 and 2018/19 within the cap of 6% over the three years to 2020.

More information about the budget originally set for 2017/18 is included in the Revenue Budget and Precept 2017/18 and Capital Programme 2017/18 – 2019/20 Report and in the 2017/18 Budget Book.

During 2017/18 there have been a number of changes to the original approved budget, some of which have already been reported to Cabinet.

The County Council has continued to demonstrate strong financial stewardship over this extremely challenging period. At the end of 2017/18, departmental net expenditure was £10.4m lower than budgeted, against an overall gross budget of approaching £1.9bn, a variance in the region of 0.5%. This position reflects the County Council's continuing successful financial strategy of early delivery of resources from proposals in advance of need which provides funding that can then be used to meet the costs of change, to cash flow the delivery of savings or to offset service pressures in future years.

Further savings of £25.1m were achieved largely as a result of changes to capital financing and treasury management activity (including the achievement a return of more than 4% from higher yielding investments) and unused contingencies. Contingencies were in the main set aside in recognition of the increased risk in the budget due to ongoing pressures within social care, together with the fact that a further £98m was removed from the budget in 2017/18.

This amount has been allocated as follows:

- £6.25m added to the Insurance Reserve to increase the reserve in line with most recent actuarial review
- £0.5m added to the Investment Risk Reserve.
- £1.4m allocated to provide funding to undertake vital remedial work to the county's road network following the prolonged cold and wet period. This additional investment, along with the £0.6m from the 2017/18 winter maintenance budget will complement the Government's one-off pothole grant funding of £3.0m in 2018/19 to provide a total sum of £5m for this purpose.
- The balance of approaching £17m is transferred to the Grant Equalisation Reserve (GER) bringing the unallocated amount in the reserve up to circa £29.4m, in preparation for any future draw required beyond 2020

The overall position is shown in the table overleaf and further information is included in the End of Year Financial Report 2017/18 which will be considered by the County Council's Cabinet on 18 June 2018:

	Final Budget 2017/18 £'000	Outturn 2017/18 £,000	Variance £,000
Adults' Health and Care	368,800	368,800	0
Children's - Schools	790,204	790,204	0
Children's - Non schools	171,150	171,150	0
Economy, Transport and Environment	110,916	105,934	(4,982)
Policy and Resources	109,209	103,758	(5,451)
Departmental Expenditure	**1,550,279**	**1,539,846**	**(10,433)**
Specific Grants	(886,278)	(886,278)	0
Other Costs Not Allocated to Services	40,696	23,757	(16,939)
Total Cost of Services	**704,697**	**677,325**	**(27,372)**
Capital Financing Costs	29,918	22,940	(6,978)
General Grants	(23,090)	(24,389)	(1,299)
Revenue Contributions to Capital	14,708	555	(14,153)
Business Units (Net Trading Position)	260	67	(193)
Net Revenue Budget	**726,493**	**676,498**	**(49,995)**
Contributions to / (from) Reserves and Balances:			
Earmarked Reserves	5,479	55,266	49,787
Trading Unit Reserves	(1,575)	(1,367)	208
General Fund Balance	900	900	0
Budget Requirement	**731,297**	**731,297**	**0**
Funded By:			
Business Rates and Grant	(158,200)	(158,200)	0
Collection Fund Deficits / (Surpluses)	(6,267)	(6,267)	0
Council Tax Requirement	**566,830**	**566,830**	**0**

Capital

The three year capital programme for 2017/18 to 2019/20 was approved by the County Council alongside the revenue budget and precept on 16 February 2017 and more information about this can be found in the Revenue Budget and Precept 2017/18 and Capital Programme 2017/18 – 2019/20 Report and in the 2017/18 Budget Book.

In 2017/18 the County Council spent £208.7m on capital projects, £29.4m less than the revised budget and this spend is summarised overleaf along with the proposed method of financing:

	Actual £'000
Adult Services	25,090
Children's Services	62,261
Economy, Transport and Environment	74,542
Policy and Resources	46,771
Total Capital Expenditure	**208,664**
Funded by:	
Prudential Borrowing:	
For Capital Schemes	32,959
Repayments of Specific Schemes	(12,553)
Capital Grants	93,566
Contributions from Developers and Outside Agencies	66,810
Capital Receipts	27,327
Contributions from Reserves	1,761
Revenue Contributions	12,947
Transfer to the Capital Reserve	(14,153)
Total Capital Financing	**208,664**

In addition to this spend, during 2017/18, the Enterprise M3 Local Enterprise Partnership (EM3 LEP) invested £16.9m in capital projects within the M3 corridor. This spend is matched by grants and included in the annual accounts, as the Council is the Accountable Body for the EM3 LEP.

Good progress is being made given the significant size of the overall capital programme and the proportion of the 2017/18 programme committed in the year, at £221.5m, is higher than the level achieved in 2016/17 of £196.5m.

	2016/17 £m	2017/18 £m
Committed	196.5	221.5
Carried Forward	121.6	134.4
Total Programme	**318.1**	**355.9**
Percentage Committed	61.8%	62.2%

Further information is provided in the End of Year Financial Report 2017/18 which will be considered by the County Council's Cabinet on 18 June 2018.

Treasury Management and Prudential Indicators

Treasury Management is concerned with managing an authority's long term borrowing and lending activity and managing cash flows on a day to day basis to ensure that sufficient funding exists to pay staff and suppliers throughout the year.

The County Council's treasury management policy requires an annual report to the Cabinet on the exercise of the treasury management function and the Prudential Code for Capital Finance in Local Authorities requires that the County Council reports its actual performance against the Prudential Indicators that were set in its Treasury Management Strategy.

The Treasury Management Strategy is reviewed annually and provides the framework within which authority is delegated to the Director for Corporate Resources to make decisions on the management of the County Council's debt and investment of surplus funds.

All treasury activity has complied with the County Council's Treasury Management Strategy and Investment Strategy for 2017/18, and all relevant statute, guidance and accounting standards. In addition, the County Council has complied with all of the prudential indicators set in its Treasury Management Strategy.

At 31 March 2018 the County Council held £288m of loans, (a decrease of £45m on the previous year) as part of its strategy for funding previous years' capital programmes. The County Council's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the County Council's long-term plans change being a secondary objective.

The County Council has held invested funds representing income received in advance of expenditure plus balances and reserves held. During 2017/18 the County Council's investment balances have ranged between £513m and £659m. Both the CIPFA Code and the government guidance require the County Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The County Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

Further information is provided in the End of Year Financial Report 2017/18 which will be considered by the County Council's Cabinet on 18 June 2018.

Reserves and Balances

The County Council maintains a number of useable reserves, as detailed in the Balance Sheet.

The level and use of local authority reserves has been a regular media topic over a number of years often fuelled by comments from the Government that these reserves should be used to significantly lessen the impact of the measures to reduce the deficit that have seen a greater impact on local government than any other sector.

The County Council has continually explained that reserves are kept for many different purposes and that simply trying to bridge the requirement for long term recurring savings through the use of reserves only seeks to use up those reserves very quickly (and mean that they are not available for any other purposes) and merely delays the point at which the recurring savings are required. The County Council's reserves strategy, is now well rehearsed and continues to be one of the key factors that underpins our ability not only to provide funding for transformation of services, but also to give the time for the changes to be properly planned, developed and successfully implemented.

At the end of the 2017/18 financial year the total reserves held by the County Council together with the general fund balance stand at more than £645.6m an increase of just under £121.5m on the previous year. The increase in reserves is largely due to capital grants unapplied received in advance of spend, for both the County Council and the EM3 LEP, with the latter being part of a deliberate strategy to ensure that major projects are approved based on the outcomes they will deliver rather than the speed at which funding provided by the Government can be spent.. It also reflects the continued strategy of achieving savings early and then using those savings to fund the next phase of savings delivery, as well as an increase in the GER to enable the County Council to continue its financial strategy, and to allow delivery of the more complex savings to be achieved within the Tt2019 Programme over the two years.

The net impact of the changes in the revenue account during 2017/18 mean that the GER will stand at almost £74.9m, which is in line with the financial strategy of supporting the revenue spend position as savings are developed and delivered on a two year cycle. Provision is being made for a draw in 2018/19 in order to give the County Council the time and capacity to implement the Tt2019 Programme and to cash flow the safe delivery of the programme so as we can complete the transformation to take us to 2019/20, and plan sensibly for future years.

In the period to 2021/22, the unallocated amount remaining in the reserve will be £29.4m in preparation for any future draw required beyond 2020.

The current strategy that the County Council operates works on the basis of a two-year cycle of delivering departmental savings to close the anticipated budget gap, providing the time and capacity to properly deliver major savings programmes every two years with deficits in the intervening years being met from the GER. Building the provision within the GER will support the revenue position in future years, as set out in the MTFS, in order to give the County Council the time and capacity to implement the next phase of transformation to take us to 2021/22.

The table below summarises the forecast position for the GER before any requirement to balance the budget in 2020/21 or to provide corporate funding to cash flow the next stage of transformation which is likely, given the experience of Tt2019; although the scale is unknown at this stage:

	GER £'000
Balance at 31/03/2018	74,870
2018/19 Draw as per Approved Budget	(26,435)
Further Budgeted Additions:	
MRP "Holiday"	21,000
Planned use:	
Cash Flow Tt2019	(40,000)
Unallocated Balance	**29,435**

Where possible, the County Council will continue to direct spare one off funding into this reserve as part of its overall longer term risk mitigation strategy, which has served it very well to date

Departmental reserves have increased by almost £1.2m, representing the net early achievement of savings against the Tt2019 Programme after substantial transformation costs have been met in year. These reserves will be used to help fund the necessary changes and investment required to deliver the savings plans over the course of the current financial year and to cash flow the delivery of savings or offset service pressures.

The following table summarises by purpose the total level of reserves and balances that the County Council holds and compares this to the position reported at the end of 2016/17:

	Balance 31/03/2017 £'000	Balance 31/03/2018 £'000	% of Total %
Revenue Reserves:			
General Fund Balance	(21,498)	(22,398)	3.5
HCC Earmarked Revenue Reserves			
Fully Committed to Existing Spend Programm	(179,302)	(196,571)	30.4
Departmental / Trading Reserves	(98,411)	(99,660)	15.4
Risk Reserves	(22,071)	(27,571)	4.3
Corporate Reserves	(79,392)	(115,653)	17.9
HCC Earmarked Revenue Reserves	(379,176)	(439,455)	68.1
Non HCC Earmarked Revenue Reserves	(48,075)	(41,695)	6.5
Total Revenue Reserves and Balances	**(448,749)**	**(503,548)**	**78.0**
Total Capital Reserves and Balances	**(75,415)**	**(142,069)**	**22.0**
Total Reserves and Balances	**(524,164)**	**(645,617)**	**100.0**

The biggest proportion of reserves are those that are fully committed to existing spending programmes and almost £140m of this funding is required to meet commitments in the approved capital programme.

In addition a further £142m is held within capital reserves and balances, although of this sum more than £36m relates to the EM3 LEP which is included in the annual accounts, as the Council is the Accountable Body. These reserves hold capital grants that have been received in advance of the matched spending being incurred. They are not available for revenue purposes.

Corporate Reserves relate to those reserves which whilst set aside for a specific purpose could be used to limit the impact of savings in services, which is exactly what for example the GER does on a short term basis giving the County Council the time and capacity to properly and safely implement savings programmes. However, trying to prevent savings by using reserves is not sustainable in the long term as the County Council needs recurring savings in order to close the predicted deficits in the budget.

The County Council has no control over Non HCC Earmarked Reserves the majority of which belong to schools, but these must be reflected in the final accounts each year - they do not include the reserves of Academy Schools.

The General Fund Balance is not earmarked for any specific purpose, but represents a minimum level of balances recommended by the Chief Finance Officer to provide a buffer against any significant unexpected losses during the year.

Whilst the overall level of reserves currently exceeds £0.5 billion it is anticipated that reserves will fall at the end of 2018/19 and then rise again in preparation for a large draw to support the budget in 2020/21 with the overall trend showing a decline as we move through the next decade.

The apparent lack of understanding of local authority reserves continues to be a national issue and in response some indicative work by the Local Government Association highlighted that for local government collectively, after earmarked or committed reserves had been excluded, the remaining uncommitted reserves only left enough money to run services for around 25 days. For the County Council the same exercise has been repeated and gives a figure of just over 27 days, highlighting once again that reserves offer no long term solution to the financial challenges we face. Correctly used however, they do provide the time and capacity to properly plan, manage and implement savings programmes as the County Council has demonstrated for many years now.

Further information is provided in Note 4 and in Appendix 8 to the MTFS approved by the County Council in November 2017 (Agenda Item 40), including in more detail the purpose for which the reserves are held and in particular why the majority of these reserves cannot be used for other reasons.

Hampshire Pension Fund

The Hampshire Pension Fund is part of the Local Government Pension Scheme and is administered by Hampshire County Council on behalf of the 333 other employers in the scheme. As at 31 March 2018, the net assets of the Fund were valued at £6.6bn. The Pension Fund's accounts are included as part of the County Council's accounts on page 117.

In line with the Local Government Pension Scheme Regulations 2013, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place at 31 March 2016. In accordance with the regulations the Actuary's triennial valuation is calculated on a different basis to the calculation of employers' individual pension fund liability for inclusion in their accounts under IAS19.

County Council's Pension Fund Liability

The County Council's own net pension liability is included in the balance sheet in accordance with accounting standards. The net liability has increased from £1,2017m at 31 March 2017 to £1,340m at 31 March 2018. Whilst the value of fund assets has increased by £85m, this has been offset by a higher increase in liabilities following changes in the actuary's assumptions reflecting a higher rate of future inflation and increased longevity.

The net loss is shown in the Comprehensive Income and Expenditure Statement and then transferred to the Pension Reserve and does not impact on the General Fund balance. Statutory arrangements for funding the net pension liability mean that the financial position of the Authority remains healthy as the deficit will be covered by increased contributions over the remaining life of employees (i.e. before payments fall due), as assessed by the scheme actuary. Further information can be obtained from Note 24 to the accounts.

Corporate Risks

Hampshire County Council recognises that we live in an uncertain world, where the people, environment and communities of Hampshire may be at risk. Risk Management is the framework by which the County Council can view, manage and respond to risk, both threats and opportunities, in a robust, systematic and documented way.

The County Council has a track record of successful risk management and innovative service delivery initiatives, and has had a mature risk management framework and associated policies for over 15 years.

The County Council has successfully embedded risk management into many of its business as usual practices. Benchmarking exercises with other public sector organisations in 2015 indicated that the maturity of Hampshire County Council's risk management framework against the Alarm National Risk Management Performance Model was among the top quartile of County Councils.

The County Council has undertaken an unprecedented programme of change. It has been successful to date, partly because it has taken a proactive and dynamic approach to managing risk.

The County Council's approach to risk is based on the principles outlined in the International Standard on Risk Management, ISO 311000.

The Corporate Risk Register plays an integral role to support production of the Corporate Plan and is subject to annual review by the Audit Committee when it approves the final accounts. There is a Risk Management Board that oversees the management of risk in the County Council and departments are required to continually assess risks as part of their day to day activities and in particular for major projects under their control.

The County Council has developed a performance framework for its business risk management and health and safety management systems. These are based on the Alarm National Risk Management Maturity Model. The County Council uses this performance framework to measure the performance of its management of risk, set robust targets for improvement, report on progress and demonstrate value for money. Self assessment is supported by documentary evidence, audits and reviews and performance indicators.

Assurance on our services is provided by Internal Audit and our External Auditors.

The impact of the current economic climate on the County Council is taken into account when the County Council sets its budget in the February preceding the start of the financial year. The significant movements and events in the year are reported to Cabinet. Monitoring of spend against the budget takes place throughout the year and is reported to CMT regularly and to Cabinet on a periodic basis.

Summary Position

It is clear that the County Council's financial and non financial performance in 2017/18 continues to be strong.

The revenue outturn, with savings against departmental budgets of £10.4m after substantial transformation costs have been met in year (largely due to the early delivery of resources) and £25.1m against non-departmental budgets, is testament to the strong financial focus that has been maintained throughout the year. This has allowed the County Council to set aside resources that can then be used to meet the costs of change, to cash flow the delivery of savings or to offset service pressures in future years.

In 2017/18 the ambitious capital programme has seen schemes costing £221.5m started from the approved capital programme for the year of £344.6m and capital payments of £208.7m incurred which can be financed within available resources.

All treasury activity has complied with the County Council's Treasury Management Strategy and Investment Strategy for 2017/18, the County Council has complied with all of the prudential indicators set in its Treasury Management and has sufficient reserves and balances to provide financial resilience for 2018/19 and future years.

In 2017/18, Hampshire County Council has faced and dealt successfully with significant change and this change will continue and indeed accelerate as the Tt2019 Programme progresses. Whilst Tt2019 represents an immense challenge, the County Council does have significant capability and experience to tackle the task and we do need to remember that with other parts of public services facing their own fiscal challenges, there are clear opportunities for real service transformation to come to the fore. There are risks as highlighted above, but there are well established and robust risk management processes in place and, together with robust financial management and reporting, Hampshire County Council is in a strong position as it moves into 2018/19. As tough as the forward agenda is, we also know that the County Council is as well placed as any other local authority to deliver on the continuing financial challenges that apply in the sector.

Where you can get further information

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

Changes to the accounts

Nationally, the Code of Practice for Local Authority Accounting introduced no significant changes for the 2017/18 statement of accounts. Locally, we took the opportunity to streamline the document by changing the presentation of the accounting policies. Instead of having one long section of all accounting policies at the beginning of the notes, the policies are now inserted in each relevant disclosure note, with the more general policies included towards the end of the notes. In addition, a small number of disclosure notes have been discontinued as they are not material to the understanding of the financial position of the County Council.

Explanation of the Statement of Accounts

The Financial Statements bring together all the financial activities of the County Council for the year and its financial position as at the 31 March 2018. They detail both revenue and capital elements for the General Fund and separately provide detail for the Pension Fund.

Local authorities are governed by a rigorous structure of controls to provide stakeholders with the confidence that public money has been properly accounted for. As part of this process of accountability, the County Council is required to produce a set of accounts in order to inform stakeholders of the County Council that we have properly accounted for all the public money we have received and spent and that the financial standing of the County Council is on a secure basis.

The accounts for 2017/18 are set out on pages 28-156.

They consist of:

- **Statement of Responsibilities for the Statement of Accounts –** Outlines the key responsibilities in respect of the accounts, together with statements from the Chief financial Officer and Chairman of the Audit Committee.
- **Movement in Reserves Statement** – Analyses the change in net worth between the general fund, other useable reserves and unusable reserves.
- **Balance Sheet** – This sets out assets and liabilities at 31 March 2018 compared with 31 March 2017.
- **Cash Flow Statement** – This summarises the movement in cash and cash equivalents during the course of the year.
- **Comprehensive Income and Expenditure Statement** – Shows the accounting cost in the year of providing services measured in accordance with international accounting standards rather than on the basis of the costs that are required to be financed from taxation.
- **Notes to the Accounts** – Which explain some of the key items and disclosures in the accounts.

- **Pension Fund Accounts** – These are the accounts of the Pension Fund, which is operated for employees of the County Council, Hampshire unitary and district councils and other bodies.

Relationship between Accounting Statements

The Movement in Reserves Statement shows the movement in the year on the different reserves held by the County Council, analysed into 'usable' reserves (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves.

The Cash Flow statement reconciles to the balance on the Comprehensive Income and Expenditure account for the year and the movement in Balance Sheet liquid assets and liabilities.

The Total Comprehensive Income and Expenditure represents the change for the year in total net worth as shown on the Balance.

Where you can get further information

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

1. The Council's responsibilities

The Council is required to:

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

2. The Chief Financial Officer's responsibilities

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

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

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

The Chief Financial Officer has also:

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

3. The Chief Financial Officer's Statement

I certify that the Statement of Accounts presents a true and fair view of the financial position of the County Council as at 31 March 2018 and its income and expenditure for the year ended 31 March 2018.

Carolyn Williamson

Carolyn Williamson
Chief Financial Officer and Section 151 Officer
24 May 2018

Movement in Reserves Statement

This Statement shows the movement in the year on the different reserves held by the County Council, analysed into 'usable reserves' (ie those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Statement shows how the movements in year of the authority’s reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to council tax for the year.

	General Fund Balance* £'000	Capital Grants Unapplied Reserve £'000	Total Usable Reserves £'000	Unusable Reserves £'000	Total Reserves £'000
Balance at 31 March 2016	**(444,450)**	**(52,844)**	**(497,294)**	**(2,084,172)**	**(2,581,466)**
EM3 Local Enterprise Partnership debtors				**(11,566)**	**(11,566)**
Total comprehensive expenditure and income	23,519		**23,519**	2,851	**26,370**
Adjustments between accounting basis & funding basis under regulations (note 2)	(27,818)	(22,571)	**(50,389)**	50,389	**0**
Increase (-) / decrease in Year	**(4,299)**	**(22,571)**	**(26,870)**	**53,240**	**26,370**
Balance at 31 March 2017	**(448,749)**	**(75,415)**	**(524,164)**	**(2,042,498)**	**(2,566,662)**

* includes earmarked reserves

	General Fund Balance* £'000	Capital Grants Unapplied Reserve £'000	Total Usable Reserves £'000	Unusable Reserves £'000	Total Reserves £'000
Balance at 31 March 2017	**(448,749)**	**(75,415)**	**(524,164)**	**(2,042,498)**	**(2,566,662)**
EM3 Local Enterprise Partnership debtors				**(7,550)**	**(7,550)**
Total comprehensive expenditure and income	(57,059)		**(57,059)**	(70,278)	**(127,337)**
Adjustments between accounting basis & funding basis under regulations (note 2)	2,260	(66,654)	**(64,394)**	64,394	**0**
Increase (-) / decrease in Year	**(54,799)**	**(66,654)**	**(121,453)**	**(5,884)**	**(127,337)**
Balance at 31 March 2018	**(503,548)**	**(142,069)**	**(645,617)**	**(2,055,932)**	**(2,701,549)**

* includes earmarked reserves

Balance Sheet

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

31 March 2017 £'000		31 March 2018 £'000	See note
3,912,291	Property, plant & equipment (PPE)	4,023,431	*19*
36,262	Investment property	82,190	*20*
284,307	Long-term investments	294,280	*22*
41,160	Long-term debtors	51,883	*22b*
4,274,020	**Long-term assets**	**4,451,784**	
2,283	Current assets held for sale	3,163	
162,445	Short-term investments	243,930	*22*
2,996	Inventories	2,930	
125,833	Short-term debtors	122,502	*22c*
55,227	Cash and cash equivalents	24,588	*22a*
348,784	**Current assets**	**397,113**	
(172,066)	Short-term Creditors	(180,617)	*22g*
(40,665)	Short-term borrowing	(37,625)	*22d*
(6,802)	Deferred liability repayable within one year	(7,168)	*18*
(13,227)	Grants receipts in advance - revenue	(6,203)	*6*
(36,928)	Grants receipts in advance - capital	(20,454)	*6*
(269,688)	**Current liabilities**	**(252,067)**	
79,096	**Net current assets**	**145,046**	
(1,207,300)	Net liability related to defined benefit pension schemes	**(1,340,090)**	*24f*
(25,545)	Provisions	(28,167)	*23*
(319,704)	Long-term borrowing	(279,960)	*22d*
(164,156)	Deferred liabilities	(156,988)	*18*
(69,749)	Developers' contributions	(90,076)	*22f*
(1,786,454)	**Long term liabilities**	**(1,895,281)**	
2,566,662	**Total net assets**	**2,701,549**	
	Financed by:		
	Usable reserves		
(448,749)	General Fund and earmarked reserves	(503,548)	*4*
(75,415)	Capital grants unapplied reserve	(142,069)	*4D*
(524,164)	**Usable reserves**	**(645,617)**	
(2,042,498)	**Unusable reserves**	**(2,055,932)**	*3*
(2,566,662)	**Total Reserves**	**(2,701,549)**	

Signed: *Carolyn Williamson* Chief Financial Officer

Date: 24 May 2018

Cash Flow Statement

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

2016/17 £'000		2017/18 £'000	*Note*
23,519	Net (surplus) or deficit on the provision of services	(57,059)	
(193,928)	Adjustments to net surplus or deficit on the provision of services for non-cash movements	(216,788)	*27a*
139,212	Adjustment for items included in the net surplus or deficit on the provision of services that are investing and financing activities	219,490	*27a*
(31,197)	**Net cash inflow from Operating Activities**	**(54,357)**	
8,493	Investing Activities	36,734	*27b*
21,812	Financing Activities	48,262	*27b*
(892)	**Net (increase) or decrease in cash and cash equivalents**	**30,639**	
(54,335)	Cash and cash equivalents at the beginning of the reporting period	(55,227)	
(55,227)	**Cash and cash equivalents at the end of the reporting period**	**(24,588)**	*22a*

Comprehensive Income and Expenditure Statement

The Comprehensive Income and Expenditure Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with statutory requirements: this may be different from the accounting cost. The taxation position is shown in both the Expenditure and Funding Analysis and the Movement in Reserves Statement.

Comprehensive Income and Expenditure Statement

2016/17 Gross expenditure £'000	2016/17 Gross Income £'000	2016/17 Net expenditure £'000		2017/18 Gross expenditure £'000	2017/18 Gross Income £'000	2017/18 Net expenditure £'000	Note
490,204	(164,931)	**325,273**	Adults' Health and Care	499,259	(188,522)	**310,737**	
942,811	(835,890)	**106,921**	Schools	975,999	(846,435)	**129,564**	
195,317	(27,677)	**167,640**	Children's Services Non-Schools	192,540	(27,299)	**165,241**	
185,980	(35,558)	**150,422**	Economy, Transport & Environment	181,975	(36,629)	**145,346**	
164,254	(46,145)	**118,109**	Policy & Resources	169,961	(44,371)	**125,590**	
14,330	(2,695)	**11,635**	Other items not allocated to services	8,935	(2,326)	**6,609**	
1,992,896	**(1,112,896)**	**880,000**	**Cost of Services**	**2,028,669**	**(1,145,582)**	**883,087**	11
			Other operating expenditure				
1,966	(4,375)	**(2,409)**	(Gain)/Loss on disposal of assets	9,084	(27,326)	**(18,242)**	
169		**169**	Assets transferred to academy/foundation trust schools	21,474		**21,474**	
60,337	(14,303)	**46,034**	Total financing and investment income & expenditure	64,198	(59,851)	**4,347**	5
			Taxation and non-specific grant income				
	(180,779)		Non-ringfenced government grants		(137,697)		6
	(45,660)		Locally retained business rates		(44,073)		
	(538,998)		Council tax income		(573,793)		
	(134,838)		Capital grants and contributions		(192,162)		6
		(900,275)	**Total taxation and non-specific grant income**			**(947,725)**	
		23,519	**(Surplus)/Deficit on the provision of services**			**(57,059)**	
	(125,579)		Net gains on revaluation of fixed and available for sale assets		(143,808)		3
	128,430		Actuarial loss/(gain) on pension fund assets and liabilities		73,530		24c
		2,851	**Other Comprehensive (Income)/Expenditure**			**(70,278)**	
		26,370	**Total Comprehensive (Income)/Expenditure**			**(127,337)**	

Notes to the Core Financial Statements

Contents

1 Expenditure and Funding Analysis

The Expenditure and Funding Analysis (EFA) shows how annual expenditure is used and funded from resources (government grants, council tax precept and business rates) in comparison with those resources consumed or earned in accordance with generally accepted accounting practice as presented in the Comprehensive Income and Expenditure Statement. The EFA also shows how this expenditure is allocated for decision making purposes between the County Council's services.

2016/17 Net Expenditure chargeable to the General Fund Balance £'000	2016/17 Adjustments between accounting and funding basis (see note 2) £'000	2016/17 Net expenditure in the CIES £'000		2017/18 Net Expenditure chargeable to the General Fund Balance £'000	2017/18 Adjustments between accounting and funding basis (see note 2) £'000	2017/18 Net expenditure in the CIES £'000
370,286	(45,013)	325,273	Adults' Health and Care	368,800	(58,063)	310,737
773,770	(666,849)	106,921	Schools	790,204	(660,640)	129,564
173,878	(6,238)	167,640	Children's Services Non-Schools	171,150	(5,909)	165,241
112,618	37,804	150,422	Economy, Transport & Environment	105,934	39,412	145,346
105,091	13,018	118,109	Policy & Resources	103,758	21,832	125,590
(850,288)	850,288	0	Specific Grants	(886,278)	886,278	0
27,355	(15,720)	11,635	Other items not allocated to services	23,757	(17,148)	6,609
712,710	**167,290**	**880,000**	**Net cost of services**	**677,325**	**205,762**	**883,087**
(717,009)	(139,472)	(856,481)	Other income and expenditure	(732,124)	(208,022)	(940,146)
(4,299)	**27,818**	**23,519**	**(Surplus) or deficit on the provision of services**	**(54,799)**	**(2,260)**	**(57,059)**
(444,450)			**Opening General Fund (including earmarked reserves) balance at 1 April**	**(448,749)**		
(4,299)			Plus (surplus)/deficit on provision of services	(54,799)		
(448,749)			**Closing General Fund (including earmarked reserves) balance at 31 March**	**(503,548)**		

2 Adjustments between funding and accounting basis

2017/18

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement Accounts	Adjustments for Capital Purposes (Note a)	Net change for the Pensions Adjustments (Note b)	Other Adjustments (Note c)	Total Adjustments
	£'000	£'000	£'000	£'000
Adults & Health	10,158	10,892	(79,113)	(58,063)
Schools	102,854	16,804	(780,298)	(660,640)
Children's Services non-schools	2,175	3,055	(11,139)	(5,909)
Economy, Transport and Environment	47,920	2,849	(11,357)	39,412
Policy and Resources	11,998	12,497	(2,663)	21,832
Other items not allocated to services:				
Specific Grants	0	0	886,278	886,278
Other	0	(17,096)	(52)	(17,148)
Net cost of services	**175,105**	**29,001**	**1,656**	**205,762**
Other income and expenditure from the funding analysis	(247,983)	30,259	9,702	(208,022)
Difference between the General Fund surplus or deficit and the Comprehensive Income and Expenditure surplus or deficit	**(72,878)**	**59,260**	**11,358**	**(2,260)**
Note a) Adjustments for capital purposes:				
Charges to services for depreciation and impairment	172,397			172,397
Service revenue expenditure funded from capital under statute	4,093			4,093
Current value of assets disposed	9,084			9,084
Current value of assets transferred to academies	21,474			21,474
Statutory minimum revenue provision for capital financing	(11,836)			(11,836)
External contribution to minimum revenue provision	705			705
Revenue contributions to capital	(555)			(555)
Capital grants and contributions applied (note i)	(192,162)			(192,162)
Movement in the market value of investment properties	(48,752)			(48,752)
Total transferred to capital adjustment account (including note i)	(45,552)			(45,552)
Transfer asset sale proceeds to capital receipts reserve	(27,326)			(27,326)
Note a) Total	**(72,878)**			(72,878)

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement Accounts	Adjustments for Capital Purposes (Note a)	Net change for the Pensions Adjustments (Note b)	Other Adjustments (Note c)	Total Adjustments
	£'000	£'000	£'000	£'000
Note b) Adjustments for pensions:				
Current service cost of funded local government pensions		113,860		113,860
Past service cost of funded local government pensions		1,460		1,460
Interest on net pension liability		30,260		30,260
Total transferred to Pension Reserve		145,580		145,580
Employer's contributions payable to the pension fund transferred from the Pension Reserve		(86,320)		(86,320)
Note b) Total		**59,260**		59,260
Note c) Other adjustments:				
Difference between accrued cost of employee holiday benefits and those taken, transferred to the accumulated Absences Account			1,656	1,656
Amortisation of premiums and discounts on financial instruments transferred to the Financial Instruments Adjustment Account			9,582	9,582
Difference between accrued income from council tax and business rates and that required by statute to be paid over by Billing Authorities, transferred to the Collection Fund Adjustment Account			122	122
Rounding adjustment			(2)	(2)
Note c) Total			**11,358**	11,358
Total adjustments				(2,260)
(note i) transfer from capital grants unapplied reserve				66,654
Total adjustments between accounting and funding basis under statute				64,394

2016/17

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement Accounts	Adjustments for Capital Purposes (Note a)	Net change for the Pensions Adjustments (Note b)	Other Adjustments (Note c)	Total Adjustments
	£'000	£'000	£'000	£'000
Adults & Health	7,024	6,161	(58,198)	(45,013)
Schools	91,236	6,712	(764,797)	(666,849)
Children's Services non-schools	4,850	(393)	(10,695)	(6,238)
Economy, Transport and Environment	46,906	1,650	(10,752)	37,804
Policy and Resources	8,383	6,327	(1,692)	13,018
Other items not allocated to services:				
Specific Grants	0	0	850,288	850,288
Other items not allocated to services	7	(15,627)	(100)	(15,720)
Net cost of services	**158,406**	**4,830**	**4,054**	**167,290**
Other income and expenditure from the funding analysis	(175,512)	34,040	2,000	(139,472)
Difference between the General Fund surplus or deficit and the Comprehensive Income and Expenditure surplus or deficit	**(17,106)**	**38,870**	**6,054**	**27,818**

Note a) Adjustments for capital purposes:		
Charges to services for depreciation and impairment	153,860	153,860
Service revenue expenditure funded from capital under statute	5,818	5,818
Current value of assets disposed	1,964	1,964
Current value of assets transferred to academies	169	169
Statutory minimum revenue provision for capital financing	(12,144)	(12,144)
External contribution to minimum revenue provision	705	705
Revenue contributions to capital	(24,226)	(24,226)
Capital grants and contributions applied (note i)	(134,837)	(134,837)
Movement in the market value of investment properties	(4,041)	(4,041)
Total transferred to capital adjustment account (including note i)	(12,732)	(12,732)
Transfer asset sale proceeds to capital receipts reserve	(4,374)	(4,374)
Note a) Total	**(17,106)**	**(17,106)**

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement Accounts	Adjustments for Capital Purposes (Note a)	Net change for the Pensions Adjustments (Note b)	Other Adjustments (Note c)	Total Adjustments
	£'000	£'000	£'000	£'000
Note b) Adjustments for pensions:				
Current service cost of funded local government pensions		82,050		82,050
Past service cost of funded local government pensions		1,280		1,280
Interest on net pension liability		34,040		34,040
Total transferred to Pension Reserve		117,370		117,370
Employer's contributions payable to the pension fund transferred from the Pension Reserve		(78,500)		(78,500)
Note b) Total		**38,870**		**38,870**
Note c) Other adjustments:				
Difference between accrued cost of employee holiday benefits and those taken, transferred to the accumulated Absences Account			4,054	4,054
Amortisation of premiums and discounts on financial instruments transferred to the Financial Instruments Adjustment Account			(139)	(139)
Difference between accrued income from council tax and business rates and that required by statute to be paid over by Billing Authorities, transferred to the Collection Fund Adjustment Account			2,139	2,139
Note c) Total			**6,054**	**6,054**
Total adjustments				**27,818**
(note i) transfer from capital grants unapplied reserve				22,571
Total adjustments between accounting and funding basis under statute				**50,389**

3 Unusable reserves

	Balance 1 April 2017 £'000	Movement £'000	Balance 31 March 2018 £'000	*Note*
Revaluation reserve	(1,018,275)	(107,208)	(1,125,483)	*3a*
Capital adjustment account	(2,233,732)	(51,009)	(2,284,741)	*3b*
Pensions reserve	1,207,300	132,790	1,340,090	*3c*
Accumulated absences account	12,127	1,656	13,783	*3d*
Financial instrument adjustment account	2,613	9,582	12,195	*3e*
Collection fund adjustment account	(8,177)	122	(8,055)	*3f*
Available for sale Financial assets	(4,354)	633	(3,721)	*3g*
	(2,042,498)	(13,434)	**(2,055,932)**	

3a Revaluation reserve

The Revaluation Reserve contains the gains made by the County Council since 1 April 2007, arising from increases in the value of its Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are:

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

2016/17		2017/18
(923,597)	Balance at 1 April	(1,018,275)
(123,059)	(Surplus) or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	(144,441)
27,244	Difference between fair value depreciation and historical cost depreciation	31,019
0	Write off net gains for assets transferred to Academy/Foundation schools	2,949
1,137	Accumulated gains on assets sold, scrapped or transferred to/from current assets	3,265
28,381	**Amount written off to the Capital Adjustment Account**	37,233
(1,018,275)	**Balance at 31 March**	**(1,125,483)**

3b Capital adjustment account

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

2016/17 £'000		2017/18 £'000	2017/18 £'000
(2,199,250)	Balance brought forward 1 April		**(2,233,732)**
(11,566)	EM3 Local Enterprise Partnership debtors		**(7,550)**
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
153,860	Charges for depreciation and impairment of noncurrent assets	172,397	
5,818	Revenue expenditure funded from capital under statute	4,093	
1,964	Assets disposals current value	9,084	
169	Assets transferred to Academy/Foundation schools current value	21,474	
(2,049,005)			**(2,034,234)**
(28,381)	Adjusting amounts written out of Revaluation Reserve		(37,233)
(2,077,386)	**Net amount written out of the cost of assets consumed in the year**		**(2,071,467)**
	Capital financing applied in the year:		
(7,203)	Capital receipts applied		(32,241)
(12,144)	Statutory minimum revenue provision for capital financing		(11,836)
705	External contribution to minimum revenue provision		705
(24,226)	Revenue contributions to capital expenditure		(555)
(112,266)	Capital grants and contributions applied		(125,508)
(155,134)			**(169,435)**
(4,041)	Movement in the market value of investment properties		(48,752)
2,829	Write down of capital debtors		4,913
(2,233,732)	**Balance as at 31 March**		**(2,284,741)**

3c Pensions reserve

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

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

2016/17 £'000		2017/18 £'000
1,040,000	Balance at 1 April	1,207,300
128,430	Actuarial losses / (gains) on pensions assets and liabilities	73,530
117,370	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	145,580
(78,500)	Employer's pensions contributions and direct payments to pensioners payable in the year	(86,320)
1,207,300	**Balance at 31 March**	**1,340,090**

3d Accumulated absences account

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

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

The Conditions of Service for School Teachers state that teachers should not receive less than one-third of a year’s salary for each full term’s service. Due to the County Council’s policy of a fixed Easter break during April, the pay and leave entitlement for the spring term straddles two financial years. Therefore an accrual is made by charging children’s services for the cost of Easter holiday entitlements earned by teachers but not taken until the next financial year.

3e Financial Instruments Adjustment Account

The County Council uses this account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, and reversed out of the General Fund balance to the Financial Instruments Adjustment Account in the Movement in reserves statement. The expense is posted back to the General Fund balance in accordance with statutory arrangements for spreading the burden on council tax. During 2017/18 the County Council opted for early redemption of two loans and the premium is being charged to the General Fund over the life of the replacement loans. There are 33 years remaining.

3f Collection fund adjustment account

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

3g Available for sale financial assets

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

4 General Fund and earmarked reserves

The County Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate heading within the Comprehensive Income and Expenditure Statement in that year and is included in the Surplus or Deficit on the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

	Balance 1 April 2016 £'000	Movement in 2016/17 £'000	Balance 31 March 2017 £'000	Movement in 2017/18 £'000	Balance 31 March 2018 £'000	See note
Revenue Reserves						
A. General Fund Balance	(20,598)	(900)	**(21,498)**	(900)	**(22,398)**	*a*
B. County Council Earmarked Revenue Reserves						
Fully Committed to Existing Spend Programmes						
Revenue Grants Unapplied	(35,530)	17,779	**(17,751)**	(3,790)	**(21,541)**	*b*
General Capital Reserve	(124,137)	(1,938)	**(126,075)**	(13,570)	**(139,645)**	*c*
Street Lighting Reserve	(9,237)	(16,850)	**(26,087)**	(404)	**(26,491)**	*d*
Public Health Reserve	0	(7,412)	**(7,412)**	(425)	**(7,837)**	*e*
Other	(2,091)	114	**(1,977)**	920	**(1,057)**	*f*
	(170,995)	**(8,307)**	**(179,302)**	**(17,269)**	**(196,571)**	
Departmental / Trading Reserves						
Trading Accounts	(15,671)	2,918	**(12,753)**	1,783	**(10,970)**	*g*
Departmental Cost of Change	(53,926)	(31,732)	**(85,658)**	(3,032)	**(88,690)**	*h*
	(69,597)	**(28,814)**	**(98,411)**	**(1,249)**	**(99,660)**	
Risk Reserves						
Insurance	(25,423)	4,852	**(20,571)**	(5,000)	**(25,571)**	*i*
Investment Risk	(1,000)	(500)	**(1,500)**	(500)	**(2,000)**	*j*
	(26,423)	**4,352**	**(22,071)**	**(5,500)**	**(27,571)**	
Corporate Reserves						
Grant Equalisation	(75,206)	34,451	**(40,755)**	(34,115)	**(74,870)**	*k*
Invest To Save	(9,077)	(22,023)	**(31,100)**	(1,009)	**(32,109)**	*l*
Corporate Policy	(5,109)	477	**(4,632)**	(1,257)	**(5,889)**	*m*
Corporate Efficiency	(7,902)	7,902	**0**	0	**0**	*n*
Organisational Change	(3,593)	688	**(2,905)**	120	**(2,785)**	*o*
	(100,887)	**21,495**	**(79,392)**	**(36,261)**	**(115,653)**	
Total Earmarked Revenue Reserves available to the County Council	**(367,902)**	**(11,274)**	**(379,176)**	**(60,279)**	**(439,455)**	
C. Other Earmarked Revenue Reserves						
EM3 LEP Reserve	0	(1,396)	**(1,396)**	(3,047)	**(4,443)**	*p*
Schools Reserves	(55,950)	9,271	**(46,679)**	9,427	**(37,252)**	*q*
Total Revenue Reserves and Balances	**(444,450)**	**(4,299)**	**(448,749)**	**(54,799)**	**(503,548)**	
D. Capital Reserves						
Capital Grants Unapplied	(52,844)	(22,571)	**(75,415)**	(66,654)	**(142,069)**	*r*
Total Capital Reserves and Balances	**(52,844)**	**(22,571)**	**(75,415)**	**(66,654)**	**(142,069)**	
Total Usable Reserves	**(497,294)**	**(26,870)**	**(524,164)**	**(121,453)**	**(645,617)**	

a The General Fund Balance is the surplus of revenue income over expenditure. It can be used to supplement income in future years

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

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

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

e The Public Health reserve represents the balance of the ring-fenced government grant carried forward for future Public Health expenditure.

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

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

h The departmental cost of change reserve enables individual services to carry forward underspendings in order to invest in technology and other service improvements and meet the cost of significant change programmes and restructures

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

j The Investment Risk reserve was established in 2014/15 to mitigate the slight additional risk associated with the revised approved investment strategy as a prudent response to targeting investments with higher returns.

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

l The invest-to-save reserve is to provide funding for investment which will generate further revenue savings in the future.

m The corporate policy reserve is available to fund new budget initiatives that are agreed as part of the overall budget. It offers the opportunity to introduce specific service initiatives that might not have otherwise gained funding and are designed to have a high impact on service users or locations where they are applied.

n The corporate efficiency reserve was established to earmark any corporate efficiency savings achieved in advance of their being required for budgetary purposes and has been transferred to the Invest to Save reserve.

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

p The EM3 LEP reserve represents underspending of EM3 LEP funding carried forward for future expenditure.

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

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

5 Financing and investment income and expenditure

2016/17 £'000		2017/18 £'000
26,297	Interest payable	33,938
(9,400)	Interest receivable	(11,164)
(4,041)	Investment property (gains) and losses	(48,752)
34,040	Pension interest	30,260
(862)	(Surplus)/deficit on internal trading undertakings	65
46,034	**Total within other operating expenditure**	**4,347**

6 Government Grants and other contributions

Government grants and third party contributions are recognised as income at the date that the County Council satisfies the conditions of entitlement to the grant or contribution.

Grants and contributions which have outstanding conditions are carried in the Balance Sheet as creditors (receipts in advance). When conditions are satisfied, or where there are no conditions attached to the grant or contribution and there is reasonable assurance that the monies will be received and that the expenditure for which the grant has been given has been or will be incurred, the income is credited to the Comprehensive Income and Expenditure Statement as follows:

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

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

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

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

Grant and contribution income credited to the Comprehensive Income and Expenditure Statement:

2016/17 £'000	Credited to Taxation and Non Specific Grant Income	2017/18 £'000
	Capital Grants and Contributions:	
(338)	2 Year Old Entitlement	(1,394)
(14)	Local Sustainable Transport Fund Grant	(16)
(30,508)	Local Transport Capital Block Funding Grant	(31,179)
(13,668)	Schools Condition Allocation	(14,939)
(1,931)	Broadband Delivery UK Grant	(5,321)
0	National Productivity Incentive Grant	(5,098)
(38,391)	EM3 Local Enterprise Partnership	(63,062)
(752)	Environment Agency	(149)
(9,747)	Disabled Facilities Grant	(10,694)
(608)	Social Care Capital Grant	(1,253)
(4,003)	Schools Devolved Formula Capital	(3,507)
(2,088)	Schools Capital Maintenance Grant	(1,033)
(41,914)	Schools Basic Needs Grant	(38,639)
(314)	Winchester City Council Community Infrastructure Levy	(769)
(1,488)	Pothole Action Grant	(2,123)
0	ESFA Free School Grant	(433)
(727)	Swanwick Grant	(970)
(288)	Priority Schools Building Programme 2 (PSBP2) Grant	(6,093)
(19,515)	Developer's contributions	(33,668)
(9,239)	Other contributions	(18,122)
0	Misc. Income	(57)
(1,810)	Contributions from other Local Authorities	(465)
42,505	**Less: Capital income used to fund revenue expenditure under statute**	**46,822**
(134,838)		(192,162)
(180,779)	Non-ringfenced Government grants	(137,697)
(315,617)	**Total**	**(329,859)**

2016/17 £'000	Credited to services	2017/18 £'000
0	Improved Better Care Fund	(17,010)
0	Adults Social Care Implementation	(4,776)
(650)	Local Reform & Community Voices	(660)
(4,495)	Independent Living Fund	(4,347)
0	War Pensions & Social Care Financial Assessments	(539)
(190)	Syrian Resettlement Programme	(710)
(947)	EM3 Local Enterprise Partnership	0
(9,373)	PFI Street Lighting Grant	(9,373)
(332)	Bikeability Training Grant	(301)
(292)	Local Sustainable Transport Funds	0
0	Flood & Water Management Grant	(147)
(1,973)	Partners in Practice (PiP)	(1,794)
(204)	Inshore Fisheries & Conservation	(245)
(10)	Other Adult Services Grants	(50)
(20)	Skills for Care Grant	0
(650)	Bus Service Operators Grant	(1,524)
0	Step up to Social Work	(312)
(560)	High Needs Strategic Planning Fund	0
(85)	Other Economy, Transport and Environment Grants	0
(713,871)	Dedicated School's Grant	(724,961)
(14,834)	Universal Infant Free School Meals	(15,792)
(809)	SEND Pathfinder	0
(3,853)	PE & Sport Grant	(6,051)
0	30 Hours free Childcare	(122)
(41)	Additional Schools Grant	(51)
0	School Improvement	(980)
(609)	Social Work Grants	0
(2,056)	Schools Condition Allocation	0
(411)	Staying Put Grant	(423)
(402)	Extended Rights to Free Travel	(422)
(97)	New Remand Framework Funding Grant	(47)
(1,504)	Unaccompanied Asylum Seeking Children Grant	(3,406)
0	Libraries - Opportunities for Everyone	(178)
(2,062)	Supporting Troubles Families Grant	(1,898)
(431)	Sustainable Travel Transition Year Grant	(13)
(2,131)	Children's Social Care Innovation Programme	0
(53,492)	Public Health Grant	(52,173)
(936)	Digitalisation Grant	(911)
(113)	Social Care in Prisons Grant	(119)
(166)	Other Policy and Resources grants	(58)
(34,294)	Pupil Premium grant	(33,413)
(3,083)	Education Funding Agency Grant	0
(1,962)	Skills Funding Agency Grant	0
(1,815)	Music Grant	(1,696)
(1,712)	Other Children's Services and Education Grants	0
(116)	Heritage Lottery Fund	0
(204)	Local Welfare Assistance	(89)
(404)	Other Cultural Grants	0
(348)	Other Countryside Grants	0
0	SEN Reform and Implementation	(1,687)
(1,439)	Developers Contributions	(1,689)
(42,505)	**Add: Capital income used to fund revenue expenditure under statute**	**(46,822)**
(905,481)	**Total**	**(934,789)**

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

31 March 2017 £'000	Capital grants receipts in advance	31 March 2018 £'000
(1,853)	Department of Health Social Care Capital Grant	(600)
(18,582)	Local Enterprise Partnership (LEP)	0
(209)	Bordon Eco Town Grant	(209)
(182)	Secure Children's Homes: Swanwick Lodge	0
0	Priority Schools Building Programme 2 (PSBP2) Grant	(498)
(5,165)	Schools Devolved Formula Capital	(4,931)
(8,129)	Department for Transport Grant	(8,387)
0	ESFA Free School Grant	(3)
(2,293)	Early Years 30 Hour Grant	(908)
(2)	Whitehill & Bordon	0
0	DfT Sect 31 Grant - Safer Routes	(253)
(451)	Other Children's Services Grants	(928)
(15)	Sport England Grant	(15)
(47)	Environment Agency Grants	(43)
0	Pot Hole Grant	(3,679)
(36,928)	**Total**	**(20,454)**

31 March 2017 £'000	Revenue grants receipts in advance	31 March 2018 £'000
(6,600)	Dedicated Schools Grant	0
(13)	Pupil Premium	(14)
(456)	Bus Service Operators Grant	(1)
0	Univeral Infant Free School Meals	(7)
0	Step up to Social Work	(3)
(126)	Common Assessment Framework Adults Grant	(126)
(936)	Local Enterprise Partnership (LEP)	(765)
(812)	Local Welfare Assistance Grant	(723)
(489)	Flood management	(427)
(1,279)	Single Farm Payments European Grant	(1,261)
(321)	Eco Towns - project funding	(236)
0	Army Covenant Grant	(25)
(123)	One Public Sector Estate 3	0
(420)	One Public Sector Estate 4	(144)
(160)	One Public Sector Estate 5	(135)
0	One Public Sector Estate 6	(50)
(242)	Skills Funding Agency	(503)
0	BPS 2017 Bridging Payment	(142)
(67)	Cass Foundation	(21)
(172)	Rural Payments Agency	(208)
(81)	Other Countryside Grants	(86)
(911)	Transformation Fund	0
0	Land Release Funding	(1,200)
0	Top Up Grant	(107)
(19)	Other Cultural Grants	(19)
(13,227)	**Total**	**(6,203)**

7 Dedicated Schools Grant (DSG)

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

Details of the deployment of DSG receivable for 2017/18 are as follows:

	Central expenditure £'000	Individual Schools Budget £'000	Total £'000
Final DSG for 2017/18 before Academy Recoupment			(893,574)
Academy figure recouped for 2017/18			173,956
Total DSG after Academy recoupment for 2017/18			(719,618)
Brought forward from 2017/18			(6,599)
Agreed use of 2018/19 grant in advance			(4,503)
Agreed initial budgeted distribution in 2017/18	(97,509)	(633,211)	(730,720)
In year adjustments		1,256	1,256
Final budgeted distribution in 2017/18	**(97,509)**	**(631,955)**	**(729,464)**
Less Actual central expenditure	97,509		97,509
Less Actual ISB deployed to schools		631,955	631,955
Carry forward to 2018/19	0	0	0
Agreed use of 2018/19 grant in advance			4,503
Total brought forward from 2018/19			**4,503**

8 Officers' remuneration (including senior employees' remuneration and termination agreements)

Employee benefits

Benefits payable during employment

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

Termination benefits

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

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

8a Officer remuneration

The number of employees whose remuneration during the year was £50,000 or more, in bands of £5,000, is shown below, excluding those that are senior employees (see note 8b). Remuneration includes all amounts paid to an employee, including the taxable value of expenses.

Number of employees 2016/17			Including termination payments	Number of employees 2017/18		
Schools	Other	Total		Schools	Other	Total
223	187	**410**	£50,000 - £54,999	257	221	**478**
158	123	**281**	£55,000 - £59,999	165	80	**245**
132	61	**193**	£60,000 - £64,999	143	112	**255**
67	21	**88**	£65,000 - £69,999	78	46	**124**
37	49	**86**	£70,000 - £74,999	39	24	**63**
14	17	**31**	£75,000 - £79,999	21	38	**59**
17	20	**37**	£80,000 - £84,999	12	13	**25**
10	13	**23**	£85,000 - £89,999	12	14	**26**
3	7	**10**	£90,000 - £94,999	4	11	**15**
6	7	**13**	£95,000 - £99,999	3	8	**11**
4	5	**9**	£100,000 - £104,999	1	2	**3**
3	2	**5**	£105,000 - £109,999	5	4	**9**
0	0	**0**	£110,000 - £114,999	1	1	**2**
0	1	**1**	£115,000 - £119,999	0	0	**0**
0	2	**2**	£120,000 - £124,999	0	1	**1**
1	1	**2**	£125,000 - £129,999	0	2	**2**
0	0	**0**	£130,000 - £134,999	0	0	**0**
0	0	**0**	£145,000 - £149,999	0	0	**0**
0	1	**1**	£155,000 - £159,999	0	0	**0**
0	1	**1**	£160,000 - £164,999	0	0	**0**
0	0	**0**	£180,000 - £184,999	0	0	**0**
0	1	**1**	£185,000 - £189,999	0	0	**0**
675	**519**	**1,194**		**741**	**577**	**1,318**

Number of employees 2016/17			Excluding termination payments	Number of employees 2017/18		
Schools	Other	Total		Schools	Other	Total
223	190	**413**	£50,000 - £54,999	256	219	**475**
158	121	**279**	£55,000 - £59,999	161	78	**239**
129	55	**184**	£60,000 - £64,999	144	111	**255**
67	19	**86**	£65,000 - £69,999	77	41	**118**
36	46	**82**	£70,000 - £74,999	39	24	**63**
14	11	**25**	£75,000 - £79,999	19	38	**57**
16	18	**34**	£80,000 - £84,999	11	12	**23**
9	11	**20**	£85,000 - £89,999	12	14	**26**
3	7	**10**	£90,000 - £94,999	3	11	**14**
4	5	**9**	£95,000 - £99,999	3	7	**10**
3	2	**5**	£100,000 - £104,999	1	2	**3**
2	2	**4**	£105,000 - £109,999	5	4	**9**
0	0	**0**	£110,000 - £114,999	1	1	**2**
0	1	**1**	£115,000 - £119,999	0	0	**0**
0	2	**2**	£120,000 - £124,999	0	1	**1**
0	0	**0**	£125,000 - £129,999	0	2	**2**
664	**490**	**1,154**		**732**	**565**	**1,297**

8b Senior employees' remuneration

This statement covers the remuneration of Chief Officers.

Senior employees 2017/18	Salary, (Including fees and allowances) £	Expense Allowances £	Benefits in Kind £	Compensation for Loss of Office £	Pension contribution £	Total remuneration including pension contributions £
Chief Executive						
John Coughlan	216,195	-	-	-	-	216,195
Deputy Chief Executive and Director of Corporate Resources and						
Carolyn Williamson	180,019	-	-	-	-	180,019
Director of Children's Services						
Steve Crocker	153,015	-	-	-	21,575	174,590
Director of Adults' Health & Care						
Graham Allen	153,015	-	-	-	21,575	174,590
Director of Economy, Transport and Environment	144,783	-	-	-	-	144,783
Director of Community, Culture and Business Services	144,783	-	-	-	20,414	165,197
Director of Transformation and Governance	131,361	-	-	-	18,522	149,883
Assistant Chief Executive	98,950	-	-	-	13,952	112,902

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

Senior employees 2016/17	Salary, (Including fees and allowances)	Expense Allowances	Benefits in Kind	Compensation for Loss of Office	Pension contribution	Total remuneration including pension contributions
	£	£	£	£	£	£
Chief Executive						
John Coughlan	214,054	-	-	-	-	214,054
Director of Corporate Resources						
Carolyn Williamson	170,316	-	-	-	-	170,316
Director of Children's Services						
Steve Crocker	150,230	-	-	-	19,680	169,910
Director of Adults' Health & Care	148,344	-	-	-	19,433	167,777
Director of Economy, Transport and Environment	143,349	-	-	-	-	143,349
Director of Community, Culture and Business Services	143,349	-	-	-	18,779	162,128
Director of Transformation and Governance	130,060	-	-	-	17,038	147,098
Assistant Chief Executive	97,970	-	-	-	12,834	110,804

8c Termination agreements

Schools 2017/18

Exit package cost band	Number of Compulsory Redundancies	Number of other departures agreed	Total number of exit packages	Total redundancy costs in each band £'000
£0 - £20,000	34	92	126	757
£20,001 - £40,000	5	8	13	343
	39	**100**	**139**	**1,100**

Non schools 2017/18

Exit package cost band	Number of Compulsory Redundancies	Number of other departures agreed	Total number of exit packages	Total redundancy costs in each band £'000
£0 - £20,000	2	93	95	773
£20,001 - £40,000	1	14	15	381
Total number of packages	**3**	**107**	**110**	**1,154**

Schools 2016/17

Exit package cost band	Number of Compulsory Redundancies	Number of other departures agreed	Total number of exit packages by cost band	Total redundancy costs in each band £'000
£0-£20,000	66	93	159	778
£20,001 - £40,000	3	5	8	223
£40,001 +	1	1	2	107
	70	**99**	**169**	**1,108**

Non schools 2016/17

Exit package cost band	Number of Compulsory Redundancies	Number of other departures agreed	Total number of exit packages	Total redundancy costs in each band £'000
£0 - £20,000	22	187	209	1,678
£20,001 - £40,000	2	7	9	211
£40,001 - £60,000	0	1	1	57
	24	**195**	**219**	**1,946**

9 Members' allowances

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

2016/17 £'000		2017/18 £'000
1,340	Allowances	1,311
85	Expenses	97
1,425	**Total**	**1,408**

10 External Audit fees

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

2016/17 £'000		2017/18 £'000
116	Fees payable to EY with regard to external audit services carried out by the appointed auditor for the year	117
4	Grant Claims	-
120		**117**

11 Nature of Expenses

The Cost of Services includes the following items of income and expenditure:

2016/17 £'000		2017/18 £'000	Note
578,273	Employee Benefit Expenses - schools	588,165	a
328,710	Employee Benefit Expenses - other	394,754	a,b
933,327	Other Service Expenses	874,738	c
152,586	Depreciation and Impairment	171,012	d
1,992,896	**Total Expenditure**	**2,028,669**	
(946,434)	Grants, contributions and reimbursements	(976,580)	
(166,462)	Fees, charges and other service income	(169,002)	12
(1,112,896)	**Total Income**	**(1,145,582)**	
880,000	**Net Cost of Services**	**883,087**	

a) Employee benefit expenses include pay, employer national insurance contributions, employer pension contributions and other employee benefits. Accounting adjustments are then made under IAS19 so that the expenditure in the CIES reflects the current service cost of the benefit granted in the period, rather than the payments made.

b) For 2017/18, employee benefit expenses includes £36.3 million relating to staff employed within the County Council's internal trading units. In 2016/17, the equivalent figure of £38.4 million is included within other service expenses as part of recharged costs to departments.

c) Other service expenses includes costs relating to premises, transport, supplies and services. An accounting adjustment is made so that the charge to the CIES also includes revenue expenditure charged to capital under statute (REFCUS).

d) Depreciation and impairment charges are made to the CIES to reflect the use of fixed assets during the period. These are not chargeable to the general fund.

12 Income received from external customers

2016/17 £'000		2017/18 £'000
(61,134)	Adults & Health	(63,492)
(47,350)	Schools	(48,614)
(4,929)	Children's Services Non-Schools	(5,661)
(16,085)	Economy, Transport & Environment	(15,087)
(36,964)	Policy & Resources	(36,028)
0	Other items not allocated to services	(120)
(166,462)	**Total income from external customers analysed by service.**	**(169,002)**

13 Related party transactions

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

Central Government

Central Government has effective control over the general operations of the Council - it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties. Grant receipts are shown in note 6.

Members

Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2017/18 is shown in note 9. Before every decision making meeting, members are required to disclose any conflicts of interest. There were 22 related party transactions totalling £21,956 arising from disbursements from members' devolved budgets. All such payments were counter signed by a member other than the budget-holding member.

Officers

There were no related-party transactions involving chief officers of the Council. Details of senior officer remuneration are given in note 8b.

Limited Companies

Hampshire County Council owns a 51% share in the Reading Hampshire Property Partnership Ltd (RHPP), which commenced operations on 1 April 2014. This is a public to public venture, based on the Teckal principal, to provide property services to Reading Borough Council. The Board of Directors is made up of two Assistant Directors from Hampshire County Council and two from Reading Borough Council. The turnover during 2017/18 was £1.0 million (£1.6million 2016/17).

Other Public Bodies

The County Council administers the Hampshire Pension Fund on behalf of its non-teaching employees, those of other local authorities in the county area and 333 other contributing scheduled, admitted, community admission, transferee admission, and resolution bodies (303 in 2016/17). The County Council's administration charge to the Pension Fund in 2017/18 was £2.5 million (£2.3 million in 2016/17)

14 Collaborative Arrangements and Group Accounts

In accordance with the Code of Practice the County Council has carried out an assessment of its interests in other entities to determine the nature of any group relationships that exist. This includes an assessment of the extent of the County Council's control over the entity considered either through ownership (such as shareholding) or representation on an entity's board of directors. The main interests held by the County Council in other entities are detailed below. However, none are considered material and thus the production of group accounts is not required.

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

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

The County Council is the accountable body for the funding of the Enterprise EM3 Local Enterprise Partnership (EM3 LEP). The EM3 LEP will either grant or loan funds to organisations in the private and public sectors to generate economic growth in the local area. The Government now expects all LEPs to have put "into place appropriate arrangements for the proper use and administration of funding, building on the existing local government systems and which fall under the annual audit of the local authorities accounts". The accountable local authority is also deemed to have "responsibility for the decisions of the LEP in approving projects (for example if subjected to legal challenge)". The County Council has therefore included the EM3 LEP's income, expenditure, assets and liabilities in its accounts.

The County Council is corporate trustee or the designated treasurer for a number of trust funds. These are not disclosed in the accounts as they have no effect on the financial performance or position of the County Council. The most recent accounts for trust funds with significant balances can be found in a separate report at
http://democracy.hants.gov.uk/Charities' Annual Accounts

15 Structured entities – Hampshire Cultural Trust

From November 2014 the Executive Member for Culture, Recreation and Countryside and the Executive Member for Policy and Resources approved the transfer of the Arts and Museums Service from the County Council to an independent charitable trust, the Hampshire Cultural Trust. It has been funded by grants from Hampshire County Council, local district and borough councils, central government bodies such as the Arts Council and by individual donations.

The County Council does not have a controlling influence over the Trust, and therefore will not consolidate into group accounts. However, Hampshire Cultural Trust requires the use of assets retained by the County Council to operate the arts and museums service, and is therefore being accounted for as a structured entity.

The County Council has agreed a level of revenue grant funding with the trust for the first 5 years of its operation, based on the funding that would have been required if the service had remained part of the County Council. The total expected payments remaining amount to £5.1 million with £2.57 million grant due to be paid in 2018/19.

Hampshire Cultural Trust Nature of risks

The maximum exposure to loss from the Trust is the annual grant paid to the Trust for services not yet delivered. At 31 March 2018 the exposure to risk was nil as the service had been received. Future risk is minimised by the terms within the Management and Funding Agreement between the County Council and the Trust.

2016/17 £'000		2017/18 £'000
44,739	Operational land and buildings retained by the County Council and used by the Trust	42,876
2,901	Community assets retained by the County Council and used by the Trust	2,891
0	Collections of heritage assets retained by the County Council and managed by the Trust (not valued as explained in note 19)	0
(2,961)	Annual County Council revenue grant provided to the Trust	(3,195)
(3,202)	Other unrestricted income received by the Trust - (note i)	(5,147)
6,087	Unrestricted expenditure by the Trust - (note i)	7,668
(688)	Trusts' unrestricted reserves - (note i)	(1,634)

note i – These are draft figures, subject to audit of the Trust's accounts. The comparative year figures have been updated to match the audited accounts.

16 Capital financing

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

Capital Financing Requirement

The total amount of capital expenditure incurred in the year is shown in the table (including the value of assets acquired under finance leases and expenditure of the EM3 Local Enterprise Partnership), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed in the second part of this note.

Revenue expenditure funded from capital under statute

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

2016/17 £'000		2017/18 £'000
755,695	*Opening capital financing requirement*	755,389
	Capital investment:	
147,873	Capital spending on property, plant and equipment	167,711
46,998	Revenue expenditure funded by capital under statute	50,915
3,167	Loans advanced for capital expenditure	6,904
0	Pooled Investment Property Fund	0
953,733		980,919
	Funded by:	
(7,203)	Capital receipts	(32,241)
(154,771)	Grants and other income	(172,328)
	Revenue	
(16,728)	- main contribution	1,206
(7,498)	- reserves	(1,761)
(12,144)	Minimum revenue provision	(11,836)
755,389	**Closing capital financing requirement**	**763,959**
	Explanation of movements in year	
(689)	Increase/(decrease) in borrowing (supported by government financial assistance)	(689)
7,137	Increase/(decrease) in borrowing (unsupported by government financial assistance)	16,061
(6,754)	Increase/(decrease) in borrowing related to PFI contracts	(6,802)
(306)	**Increase/(decrease) in Capital Financing Requirement**	**8,570**

Redemption of debt

With regard to The Local Authority (Capital Finance and Accounting) (England) (Amendment) Regulations 2008, the County Council's policy is to make a minimum revenue provision (MRP) equal to 2% of supported borrowing from 2008. This policy was implemented in 2015, therefore the actual supported borrowing MRP is based on 43 remaining years. Had the County Council been applying the new policy of a 50 year straight line calculation starting in 2008 it would have made £68 million less in MRP payments by 31 March 2016.

Starting in 2016/17 the County Council paused making MRP payments on supported borrowing until it has realigned the total amount of MRP payments with the new policy, which will be during 2021/22. This policy continues the County Council's prudent approach of repaying expenditure financed by borrowing sooner, on a straight line basis. Capital expenditure incurred during 2017/18 will not be subject to a MRP charge until 2018/19.

Where the borrowing is in effect a bridging loan from a guaranteed future income source, such as Section106 Developers Contributions, MRP will not be applied. For deferred liabilities relating to PFI and service concessions, minimum revenue provision will match the principal repayment of the associated deferred liability over the life of the related asset.

17 Leases

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

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

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

At 31 March 2018 the County Council has not taken or granted any finance leases over the de minimis level of £500,000.

17a The County Council as lessee:

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

Some property, items of equipment and vehicles are used by entering into operating leases. The expenditure charged to the Comprehensive Income and Expenditure Statement during the year in relation to these leases was £3.02 million (3.728 million in 2016/17).

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

2016/17 £'000		2017/18 £'000
3,381	Not later than one year	2,889
8,397	Later than one year and not later than five years	8,193
25,530	Later than five years	28,836
37,308	**Total payments**	**39,918**

17b The County Council as lessor:

Operating Leases

The County Council leases out property under operating leases for the provision of community services, such as community centres and for economic development purposes to provide suitable affordable accommodation for local businesses. The asset is retained in the Balance Sheet. Rentals receivable are credited to the relevant service area in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease and totalled £4.5 million in 2017/18 (£3.98 million in 2016/17).

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

2016/17 £'000		2017/18 £'000
3,793	Not later than one year	3,815
7,992	Later than one year and not later than five years	9,857
48,302	Later than five years	49,568
60,087	**Total future minimum lease payments**	**63,240**

18 PFI and service concessions

PFI and similar contracts are agreements to receive services, where the PFI contractor is responsible for making available the property, plant and equipment needed to provide the services. As the County Council is deemed to control the services that are provided under its PFI schemes, and as ownership of the property, plant and equipment will pass to the

County Council at the end of the contracts for no additional charge, the County Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) is balanced by the recognition of a deferred liability on the balance sheet for amounts due to the scheme operator to pay for the capital investment. During the life of the assets, any enhancement or replacement costs are added to the asset value and PFI liability.

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

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

18a The South Coast Street Lighting PFI

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

The Hampshire Street Lighting PFI involved the replacement or updating of approximately 150,000 street lights, illuminated signs and bollards with the latest energy efficient equipment during the first five years of the project. The long-term contract with Tay Valley Lighting (Hampshire) will run for 25 years, from 1 April 2010, and will also provide for the ongoing maintenance of the council's street lighting network until 2034/35.

The five year Core Investment Period (CIP), commencing early in 2010, has now been delivered in full, with some 143,200 items of illuminated street furniture replaced or upgraded with modern, energy efficient equipment. The combination of modern energy efficient equipment, combined with the Mayflower remote monitoring system has enabled HCC to make energy savings of 51% over the period of the project to date. The focus for the remaining 18 years is on maintaining and operating the new lighting to a high standard, with HCC's monitoring team verifying project delivery and operations. After March 2035 the risks relating to street lighting revert to the County Council. There are no options for contract renewal.

Following completion of the CIP, Equitix (the senior lender), in partnership with HCC, has achieved a refinancing annual gain-share of £190,450 per annum effective from April 2017. This reduction has been reflected in the 2017/18 and future expected payments under the contract as a reduced interest charge. Other changes to the annual cost are determined by inflation and amendments to the inventory.

The movement in the asset values were as follows:

2016/17 £'000	Gross book value	2017/18 £'000
128,211	At 1 April	127,810
-	Additions	-
(401)	Disposals	-
-	Revaluations	-
127,810	Gross book value at 31 March	127,810
	Depreciation	
(10,975)	At 1 April	(15,249)
(4,274)	Depreciation for the year	(4,260)
-	Impairments	-
(15,249)	Depreciation at 31 March	(19,509)
117,236	Net book value at 1 April	108,301
112,561	**Net book value at 31 March**	**108,301**
	The movement in the deferred liability was:	
(115,298)	Balance brought forward 1 April	(111,537)
3,360	Principal repayment in the year	3,663
-	Capital expenditure incurred in the year	-
401	Deaccruals	
(111,537)	**Balance at 31 March**	**(107,874)**
(3,663)	Finance lease repayable in one year	(3,877)
(107,874)	deferred liability	(103,997)
(111,537)		**(107,874)**

The street lighting contract has 18 years to run. The expected payments are shown below:

	Principal repayment £'000	Interest £'000	Service Charge £'000	Total £'000
Next year	3,877	6,304	7,037	17,218
Years two to five	17,909	22,813	30,841	71,563
Years six to 10	28,940	21,962	44,896	95,798
Years 11 to 15	38,443	12,459	52,410	103,312
Year 16 to 18	18,706	1,655	23,185	43,546
	107,875	**65,193**	**158,369**	**331,437**

A PFI grant of £9 million from the Department of Transport was received by the County Council in 2017/18 with a balance of £160 million due to be received over the remainder of the contract. This grant is expected to be applied to cover the capital and financing costs built into the annual fee.

Energy for street lighting is provided through a separate contract. Estimated costs over the remainder of the contract are expected to be £93 million.

18b Project Integra

An existing contract for waste management meets the definition of a service concession. The contract with Hampshire Waste Services Ltd (a wholly owned subsidiary of Veolia UK) is administered by the County Council on behalf of Portsmouth and Southampton unitary authorities who are joint signatories. The contract began in January 1996 and runs until 31 December 2030.

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

The contract has three phases. During phases 1 and 2 the contractor planned, financed and constructed the three Energy Recovery Facilities, two Material Reprocessing Facilities and two composting sites. The contract is currently in Phase 3a covering the provision of waste disposal services in relation to the constructed facilities ending in 2030. The contract price mechanism is structured with an annual re-pricing each January linked to the retail price index in the previous October. During 2015/16 a Deed of Variation to the contract was completed. This delivered savings of £2.4 million per year from 2015 and has increased to savings of £4.9 million per year from 2018.

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

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

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

2016/17 £'000	Gross book value	2017/18 £'000
80,177	At 1 April	80,177
-	Additions	-
-	Disposals	-
-	Revaluations	-
80,177	Gross book value at 31 March	80,177
	Depreciation	
(16,607)	At 1 April	(20,727)
(4,120)	Depreciation for the year	(4,120)
-	Impairments	-
-	Revaluations	-
(20,727)	Depreciation at 31 March	(24,847)
63,570	Net book value at 1 April	59,450
59,450	**Net book value at 31 March**	**55,330**
	The movement in the deferred liability was:	
(62,414)	Balance brought forward 1 April	(59,421)
2,993	Principal repayment in the year	3,139
(59,421)	**Balance at 31 March**	**(56,282)**
(3,139)	Finance lease repayable in one year	(3,291)
(56,282)	deferred liability	(52,991)
(59,421)	**Balance at 31 March**	**(56,282)**

The waste management contract has 14 years to run. Based on the current contract inflation rate, the expected payments are shown below.

	Principal repayment £'000	Interest £'000	Service Charge £'000	Total £'000
Next year	3,291	2,738	41,969	47,998
Years two to five	14,845	9,271	187,680	211,796
Years six to 10	22,998	7,147	285,407	315,552
Years 11 to 15	15,148	1,425	204,400	220,973
	56,282	**20,581**	**719,456**	**796,319**

19 Property, plant and equipment (PPE)

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

Recognition

Expenditure on the acquisition, creation or enhancement of PPE assets is capitalised on an accruals basis. Expenditure that maintains, but does not extend, the previously assessed standards of performance of the asset (e.g. repairs and maintenance) is charged to the relevant service area within the Comprehensive Income and Expenditure Statement as it is incurred.

Measurement

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

- Operational Land and Buildings - current value, determined as the amount that would be paid for the asset in its existing use. Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value. Assets valued at under £10,000 are not recognised as they do not add to the future economic benefits or service potential of the Council.
- Surplus Land and Buildings – at fair value in highest and best use, the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date
- Vehicles, Plant and Equipment are measured at depreciated historical cost (as this is not materially different from the current value).
- Infrastructure Assets are measured at depreciated historical cost.
- Community Assets and Assets Under-Construction are measured at historical cost.

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

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

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

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised. However, revaluation losses and subsequent reversals are not permitted by statutory arrangements to impact on the General Fund Balance and therefore any gains or losses are reversed out of the General Fund Balance (in the Movement in Reserves Statement) and are transferred to the Capital Adjustment Account.

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

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

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

- Dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer *
- Furniture and equipment – between five and 10 years
- Vehicles - between five and 10 years
- Infrastructure – 20 years
- Street lighting – 30 years

* The useful life of a building is the weighted average of all its components. Where material, replaced components are derecognised by disposing of their gross book value and accumulated depreciation.

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

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

Disposals and assets held for sale

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

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

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

School Assets

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

Details on the different types of schools in Hampshire can be found on the government website: https://get-information-schools.service.gov.uk/

Heritage assets

Heritage assets are assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are maintained principally for their contribution to knowledge and culture. The principal heritage assets owned by the County Council are its museum collections, archives collection and a small number of historic buildings and archaeological sites. Since 1 November 2014, the County Council's museum collection is managed by the Hampshire Cultural Trust

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

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

Detailed information about the County Council's Heritage assets can be found on the Hampshire Cultural Trust and Hampshire Archives websites:

https://hampshireculturaltrust.org.uk/

http://www3.hants.gov.uk/archives.htm

Intangible assets

Intangible assets are assets which bring benefits for more than one year, are identifiable and controlled by the County Council, but lack physical substance. Typical examples include software licences, and websites developed to deliver services rather than information about services. The County Council does not have any material intangible assets.

Property, Plant and Equipment (PPE)

The movements in property plant and equipment during 2017/18 were as follows:

Cost or valuation	Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Assets under construction	Surplus Assets	Total Property, Plant and Equipment	PFI Assets included in Property Plant & Equipment
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 31 March 2017	**3,492,979**	**136,054**	**1,158,234**	**19,843**	**70,848**	**18,142**	**4,896,100**	**207,987**
Additions in year	26,396	17,551	43,137	2,957	77,623	48	**167,712**	0
Donations	0	0	0	0	0	0	**0**	**0**
Revaluation increases/(decreases) recognised in the Revaluation Reserve	46,625	0	0	0	0	5,435	**52,060**	0
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(23,495)	0	0	0	0	(25)	**(23,520)**	0
Derecognition - Disposals	(10,397)	(48,159)	0	(237)	0	(375)	**(59,168)**	0
Derecognition - Other	(25,169)	(174)	0	0	0	0	**(25,343)**	0
Assets reclassified to held for sale	(960)	0	0	0	0	0	**(960)**	0
Other movements in cost or valuation	33,358	0	20,628		(56,391)	1,713	**(692)**	0
At 31 March 2018	**3,539,337**	**105,272**	**1,221,999**	**22,563**	**92,080**	**24,938**	**5,006,189**	**207,987**
Accumulated depreciation and Impairment								
At 31 March 2017	**(537,906)**	**(89,454)**	**(353,025)**	**(274)**	**0**	**(3,150)**	**(983,809)**	**(35,976)**
Depreciation Charge	(85,024)	(9,726)	(41,484)	0	0	(288)	**(136,522)**	(8,380)
Depreciation written out on revaluation	104,167	0	0	0	0	3	**104,170**	0
Depreciation written out to the Surplus/Deficit on the Provision of Services	4,665	0	0	0	0	0	**4,665**	0
Impairment losses recognised in the Revaluation Reserve	(11,711)	0	0	0	0	0	**(11,711)**	0
Impairment losses recognised in the Surplus/Deficit on the Provision of Services	(17,017)	0	0	(2)	0	(1)	**(17,020)**	0
Derecognition - Disposals	5,429	48,049	0	2	0	17	**53,497**	0
Derecognition - Other	3,755	114	0	0	0	0	**3,869**	0
Assets reclassified to held for sale	0	0	0	0	0	0	**0**	0
Other movements in depreciation and impairment	275	0	(12)	0	0	(160)	**103**	0
At 31 March 2018	**(533,367)**	**(51,017)**	**(394,521)**	**(274)**	**0**	**(3,579)**	**(982,758)**	**(44,356)**
Net Book Value								
At 31 March 2018	**3,005,970**	**54,255**	**827,478**	**22,289**	**92,080**	**21,359**	**4,023,431**	**163,631**
At 31 March 2017	**2,955,073**	**46,600**	**805,209**	**19,569**	**70,848**	**14,992**	**3,912,291**	**172,011**

The comparative movements in PPE during 2016/17 were as follows:

Cost or valuation	Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Assets under construction	Surplus Assets	Total Property, Plant and Equipment	PFI Assets included in Property Plant & Equipment
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 31 March 2016	**3,437,545**	**152,956**	**1,064,568**	**18,147**	**42,597**	**10,528**	**4,726,341**	**208,388**
Additions in year	29,478	6,683	46,121	757	65,205	25	**148,269**	
Donations	0	0	0	0	0	0	**0**	**0**
Revaluation increases/(decreases) recognised in the Revaluation Reserve	48,819	0	0	0	0	1,082	**49,901**	0
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(16,344)	0	0	0	0	(939)	**(17,283)**	0
Derecognition - Disposals	(6,111)	(195)	(401)	0	0	(1,299)	**(8,006)**	(401)
Derecognition - Other	(224)	0	0	0	0	0	**(224)**	
Assets reclassified to held for sale	(187)	0	0		0	0	**(187)**	0
Other movements in cost or valuation	3	(23,390)	47,946	939	(36,954)	8,745	**(2,711)**	0
At 31 March 2017	**3,492,979**	**136,054**	**1,158,234**	**19,843**	**70,848**	**18,142**	**4,896,100**	**207,987**
Accumulated depreciation and Impairment								
At 31 March 2016	**(531,356)**	**(101,593)**	**(293,153)**	**(208)**	**0**	**(618)**	**(926,928)**	**(27,582)**
Depreciation Charge	(81,232)	(10,296)	(37,884)	0	0	(229)	**(129,641)**	(8,394)
Depreciation written out on revaluation	80,055	0	0	0	0	0	**80,055**	0
Depreciation written out to the Surplus/Deficit on the Provision of Services	4,765	0	0	0	0	0	**4,765**	0
Impairment losses recognised in the Revaluation Reserve	(6,752)	0	0	0	0	(145)	**(6,897)**	0
Impairment losses recognised in the Surplus/Deficit on the Provision of Services	(11,178)	0	0	0	0	(523)	**(11,701)**	0
Derecognition - Disposals	6,028	171	0	0	0	157	**6,356**	0
Derecognition - Other	55						**55**	0
Assets reclassified to held for sale	4	0	0		0	0	**4**	0
Other movements in depreciation and impairment	1,705	22,264	(21,988)	(66)	0	(1,792)	**123**	0
At 31 March 2017	**(537,906)**	**(89,454)**	**(353,025)**	**(274)**	**0**	**(3,150)**	**(983,809)**	**(35,976)**
Net Book Value								
At 31 March 2017	**2,955,073**	**46,600**	**805,209**	**19,569**	**70,848**	**14,992**	**3,912,291**	**172,011**

19a Capital commitments

Commitments for major contracts entered into up to 31 March 2018 are estimated at £72.7 million (£51.8 million in 2016/17). This comprises £5 million (£13.7 million in 2016/17) for highways and £58.8 million (£23.8 million in 2016/17) for buildings and £8.9 million (£14.3 million in 2016/17) for Superfast Broadband contracts.

19b Valuation of assets

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

Date of Valuation	Other land and buildings £'000	Vehicles, plant and equipment £'000	Infra-structure £'000	Comm-unity assets £'000	Surplus assets £'000	Total Property, Plant and Equipment £'000
Valued at historic cost		54,255	827,478	22,289		904,022
Pre 2013/14	1,116					1,116
2013/14	469,638					469,638
2014/15	437,181					437,181
2015/16	680,474				7,544	688,018
2016/17	687,187				6,750	693,937
2017/18	730,374				7,065	737,439
Total	**3,005,970**	**54,255**	**827,478**	**22,289**	**21,359**	**3,931,351**

20 Investment properties

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

The same treatment is applied to gains and losses on disposal.

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

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

2016/17 £'000		2017/18 £'000
31,667	Balance at start of the year	36,262
	Additions:	
0	- purchases	0
0	- construction	0
6	- subsequent expenditure	0
(714)	Disposals	(3,412)
4,041	Net gains/(losses) from fair value adjustments	48,752
	Transfers:	
1,262	- (to)/from Property, Plant and Equipment	588
36,262	**Balance at end of the year**	**82,190**

The net gain includes existing land holdings that are now being held for investment purposes and have been valued at £39.9 million. There are no restrictions on the County Council's ability to realise the value inherent in its investment property or on the County Council's right to the remittance of income and the proceeds of disposal. The County Council has no contractual obligations to purchase, construct or develop investment property or to carry out repairs, maintenance or enhancement.

21 Valuation of non financial assets carried at fair value

Fair Value Hierarchy

Information about the fair value hierarchy levels for investment and surplus properties are as follows:

Values at 31 March 2018	Quoted market price Level 1 £'000	Using observable inputs Level 2 £'000	significant unobservable inputs Level 3 £'000	Total £'000
Investment Assets	0	41,481	40,709	82,190
Surplus Assets	0	18,871	2,488	21,359
Total	**0**	**60,352**	**43,197**	**103,549**

Valuation Techniques used to Determine Level 2 and 3 Fair Values

Significant Observable Inputs - Level 2

The fair value for the properties within level 2 has been based on the market approach using current market conditions and recent sales prices and other relevant information for similar assets in the local authority area. Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs are significant, leading to the properties being categorised at Level 2 in the fair value hierarchy.

Significant Unobservable Inputs - Level 3

The fair value for the properties within level 3 has been based on the market approach using current market conditions and recent sales prices and other relevant information for similar assets, but with a level of valuer judgement as the recent sales prices and other relevant information are not as significant as with Level 2. This results in more significant unobservable inputs being used in order to determine the fair value.
The assets are therefore categorised as Level 3 in the fair value hierarchy as the measurement technique uses significant unobservable inputs to determine the fair value measurements (and there is no reasonably available information that indicates that market participants would use different assumptions).

22 Financial instruments

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Non exchange transactions, such as those relating to taxes and government grants do not give rise to financial instruments.

Financial assets

Financial assets are classified into two types:

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

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

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

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

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

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

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

Financial liabilities

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

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

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

Foreign currency translation

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

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

	Long term		Current		
Financial assets:	**31 March 2017 £'000**	**31 March 2018 £'000**	**31 March 2017 £'000**	**31 March 2018 £'000**	*see note*
Loans & receivables - Investments	122,500	86,000	141,032	177,629	
Available for sale - investments	161,807	208,280	21,413	66,301	
Total investments	**284,307**	**294,280**	**162,445**	**243,930**	
Loans & receivables - cash and cash equivalents	-	-	(6,494)	(1,139)	*22a*
Available for sale cash & cash equivalents	-	-	61,721	25,727	*22a*
Total cash & cash equivalents	-	-	**55,227**	**24,588**	
Loans & receivables - Debtors	11,584	23,631	82,654	85,602	
Total debtors	**11,584**	**23,631**	**82,654**	**85,602**	
Total Financial Instrument Assets	**295,891**	**317,911**	**300,326**	**354,120**	
Financial liabilities at amortised cost:					
Borrowing	(319,704)	(279,960)	(40,665)	(37,625)	*22d*
Developers' contributions	(69,749)	(90,076)	-	-	*22f*
Creditors and receipts in advance	-	-	(146,882)	(153,904)	*22g*
PFI & finance lease liabilities	(164,156)	(156,988)	(6,802)	(7,168)	*18*
Financial liabilities at amortised cost	**(553,609)**	**(527,024)**	**(194,349)**	**(198,697)**	

The fair value of long term loans and receivables and borrowings are included in disclosure note 22e.

22a Cash and cash equivalents

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

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

31 March 2017 £'000		31 March 2018 £'000
2,301	Cash in hand	1,884
13,740	Call accounts (instant access bank accounts)	6,721
61,721	Available for sale financial assets (instant access money market funds)	25,727
(22,535)	Bank overdraft	(9,744)
55,227		**24,588**

22b Long-term debtors

31 March 2017 £'000		31 March 2018 £'000
	Financial instrument debtors	
714	Car loans to staff	613
10,870	Other	23,018
11,584		**23,631**
	Non-financial instrument debtors	
29,576	Transferred debt	28,252
41,160		**51,883**

Transferred debt represents amounts of capital advances due to be repaid after statutory transfers of former services to independent bodies. These are not financial instruments and are shown at the book value of the amount outstanding. £27.8 million remains to be repaid by the cities of Portsmouth and Southampton, £0.4 million by the Office of the Police and Crime Commissioner for Hampshire.

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

22c Short-term debtors

Debtors are shown net of the provision for doubtful debts detailed below.

31 March 2017 £'000		31 March 2018 £'000
	Financial instrument debtors	
3,015	Government departments	4,028
17,013	Other local authorities	18,985
6,049	NHS bodies	6,672
34	Public corporations and trading funds	71
56,543	Sundry debtors	55,846
82,654	**Total Financial Instrument debtors**	**85,602**
	Non-financial instrument debtors	
11,878	Government departments	8,367
11,589	Other local authorities	11,858
19,712	Payments in advance	16,675
125,833	**Total debtors and prepayments**	**122,502**

22d Borrowing

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

Long term			Short term	
31 March 2017 £'000	31 March 2018 £'000		31 March 2017 £'000	31 March 2018 £'000
		Loans at amortised cost:		
(243,437)	(235,611)	-Public Works Loan Board (PWLB)	(15,696)	(9,933)
(76,267)	(44,349)	-Market loans	(1,051)	(595)
-	-	-Other short-term borrowing	(23,918)	(27,097)
(319,704)	**(279,960)**		**(40,665)**	**(37,625)**

22e Fair values

Fair Value Measurement

The County Council measures some of its assets and liabilities at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The County Council measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic interest.

When measuring the fair value of a non-financial asset, the County Council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

Financial assets classified as available for sale and all derivative financial liabilities are carried in the Balance Sheet at fair value. For most assets, including bonds and shared in money market funds and other pooled funds, the fair value is taken from market price. The fair values of other instruments have been estimated by calculating the net present value of the remaining contractual cash flows at the Balance Sheet date, using the following methods and assumptions:

- Certificates of deposit have been discounted at market interest rates for instruments of similar credit quality and remaining term to maturity.

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

- Loans borrowed by Hampshire County Council have been valued by discounting the contractual cash flows over the whole life of the instrument at the appropriate market rate for local authority loans.

- The value of 'Lender's Option Borrower's Option' (LOBO) loans have been increased by the value of the embedded options. Lenders' options to propose an increase to the interest rate on the loan have been valued according to a proprietary model for Bermudan cancellable swaps. Borrower's contingent options to accept the increased rate or repay the loan have been valued at zero, on the assumption that lenders will only exercise their options when market rates have risen above the contractual loan rate.

- The fair values of other long term loans and investments have been discounted at the market rates for similar instruments with similar remaining term to maturity on 31st March.

- PFI scheme liabilities have been calculated by discounting the contractual cash flows (excluding service charge elements) at the appropriate AA rated corporate bond yield.

- No early repayment or impairment is recognised for any financial instrument.

- The fair value of short-term instruments, including trade payables and receivables is assumed to approximate to the carrying amount and therefore is not shown below. This is because the amounts are due within one year, without interest.

Fair values are shown in the tables below, split by their level in the fair value hierarchy:

Level 1 - fair value is only derived from quoted prices in active markets for identical assets or liabilities e.g. bond prices
Level 2 - fair value is calculated from inputs other than quoted prices that are observable for the asset or liability, e.g. interest rates or yields for similar instruments
Level 3 - fair value is determined using unobservable inputs, e.g. non-market data such as cash flow forecasts or estimated creditworthiness

2016/17 Balance Sheet £'000	2016/17 Fair Value £'000	Financial Assets held at fair value:	Fair Value Level	2017/18 Balance Sheet £'000	2017/18 Fair Value £'000
106,503	106,503	Available for sale - bond investments	2	157,832	157,832
76,717	76,717	Available for sale - other investments	1	116,749	116,749
61,721	61,721	Available for sale - money market funds	1	25,727	25,727
244,941	**244,941**	**Total**		**300,308**	**300,308**
		Financial Assets held at amortised cost:			
122,500	132,348	Long-term investments - principal	2	86,000	93,714
1,721		Long-term investments - interest		952	
124,221	**132,348**	**Total**		**86,952**	**93,714**
227,055		Assets for which fair value is not disclosed - (note i)		284,771	
596,217	**377,289**	**Total financial instrument assets**		**672,031**	**394,022**
		Recorded on balance sheet as:			
284,307		Long-term investments		294,280	
11,584		Long-term debtors		23,631	
162,445		Short-term investments		243,930	
82,654		Short-term debtors		85,602	
55,227		Cash and cash equivalents		24,588	
596,217		**Total financial instrument assets**		**672,031**	

note i - The fair value of short-term financial assets including trade receivables is assumed to approximate to the carrying amount.

The fair value of financial assets held at amortised cost is higher than their balance sheet carrying amount because the interest rate on similar investments is now lower than that obtained when the investment was originally made (the same was true at 31 March 2016).

2016/17 Balance sheet £'000	2016/17 Fair Value £'000	Financial Liabilities	Fair Value Level	2017/18 Balance sheet £'000	2017/18 Fair Value £'000
(256,976)	(335,464)	PWLB loans - principal	2	(243,437)	(307,531)
(2,157)		PWLB loans - interest		(2,108)	
(76,281)	(112,733)	Market loans - principal	2	(44,318)	(59,173)
(1,037)		Market loans - interest		(563)	
(170,958)	(223,838)	PFI arrangements (deferred liability)	3	(164,156)	(203,840)
(507,409)	**(672,035)**	**Total**		**(454,582)**	**(570,544)**
(240,549)		Liabilities for which fair value is not disclosed (note i)		(271,139)	
(747,958)		**Total financial instrument liabilities**		**(725,721)**	
		Recorded on balance sheet as:			
(146,882)		Short-term creditors		(153,904)	
(40,665)		Short-term borrowing		(37,625)	
(6,802)		Deferred liability repayable within one year		(7,168)	
(319,704)		Long-term borrowing		(279,960)	
(164,156)		Deferred liabilities		(156,988)	
(69,749)		Developers' contributions		(90,076)	
(747,958)		**Total financial instrument liabilities**		**(725,721)**	

note i - The fair value of short-term financial liabilities including trade payables and developers contributions is assumed to approximate to the carrying amount.

The fair value of financial liabilities held at amortised cost is higher than their balance sheet carrying amount because the County Council's portfolio includes a number of loans where the interest rate payable is higher than the current rates available for similar loans as at the Balance Sheet date.

22f Developers’ contributions

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

2016/17 Highways £'000	2016/17 Other £'000	2016/17 Total £'000		2017/18 Highways £'000	2017/18 Other £'000	2017/18 Total £'000
(51,206)	(11,422)	(62,628)	Balance at 1 April	(51,653)	(18,096)	(69,749)
(11,664)	(14,005)	(25,669)	Income	(21,991)	(35,935)	(57,926)
11,217	7,331	18,548	Contributions applied	7,165	30,434	37,599
(51,653)	**(18,096)**	**(69,749)**	**Balance at 31 March**	**(66,479)**	**(23,597)**	**(90,076)**

22g Short-term creditors

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

31 March 2017 £'000		31 March 2018 £'000
	Financial instrument creditors	
(339)	Deposits	(473)
(1,239)	Government departments	(1,940)
(5,765)	NHS Bodies	(7,083)
(10)	Public corporations and trading funds	(27)
(23,320)	Other local authorities	(18,158)
(116,209)	Sundry creditors	(126,223)
(146,882)	**Total Financial Instrument creditors**	**(153,904)**
	Non-financial instrument creditors	
(16,157)	HM Revenue and Customs and Government departments	(14,076)
(9,027)	Other local authorities	(12,637)
(172,066)	Total short term creditors	**(180,617)**

22h Nature and extent of risks arising from financial instruments

The County Council has adopted CIPFA's Code of Practice on Treasury Management (and subsequent amendments) and complies with The Prudential Code for Capital Finance in Local Authorities (both revised in 2017).

As part of the adoption of the Treasury Management Code, the County Council approves a Treasury Management Strategy before the commencement of each financial year.
Revenue budget report appendix 8 Treasury Management Strategy

The Strategy sets out parameters for the management of risks associated with Financial instruments. The County Council also produces Treasury management Practices specifying the practical arrangements to be followed to manage these risks.

The Treasury Management Strategy includes an Annual Investment Strategy in compliance with the Government's Investment Guidance for local authorities. This Guidance emphasises that priority is to be given to security and liquidity, rather than yield. The County Council's Treasury Strategy, together with its Treasury Management Practices seek to achieve a suitable balance between risk and return or cost.

The main risks covered are:

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

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

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

Credit risk

The County Council manages credit risk by ensuring that investments are only placed with organisations of high credit quality as set out in the Treasury Management Strategy

The table below summarises the credit risk exposures of the County Council's investment portfolio at 31 March 2018 by the type of counterparty:

	Long term		Short term	
Credit Rating	31 March 2017 £'000	31 March 2018 £'000	31 March 2017 £'000	31 March 2018 £'000
AAA	72,060	78,965	20,013	66,200
AA+	-	-	-	-
AA	-	-	-	-
AA-	13,029	12,666	13,740	6,721
A+	-	-	-	-
A	-	-	22,023	5,009
A-	-	-	1,400	-
AAA Money market funds	-	-	61,721	25,727
Unrated local authorities	124,222	86,952	117,289	171,669
Unrated pooled funds	76,717	116,750	-	-
Total	**286,028**	**295,333**	**236,186**	**275,326**

Invoiced debtors risk

The invoiced debtors have been reviewed by age to determine an appropriate provision for debts that are likely to be uncollectable. This excludes debts of £9.9 million considered to be low risk as they were either paid in early 2017/18, secured on property or have agreed repayment plans.

A provision of £7.6 million (£9.8 million in 2016/17) has been estimated.

Outstanding debt raised in	Outstanding balance due at 31 March 2018 £'000	Individually assessed impairment £'000	Collectively assessed impairment £'000	Total provision £'000
2017/18	20,366	245	-8	237
2016/17	4,207	630	1,632	2,262
2015/16	2,032	507	1,320	1,827
2014/15 and earlier	3,572	521	2,762	3,283
	30,177	**1,903**	**5,706**	**7,609**

Liquidity risk

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

The maturity analysis of the principal sums borrowed at 31 March 2018 was as follows:

Outstanding 31 March 2017 £'000		Outstanding 31 March 2018 £'000
(13,553)	Not over one year	(7,857)
(7,839)	Between one and two years	(9,143)
(30,865)	Between two and five years	(29,817)
(45,000)	Between five and 10 years	(49,000)
(59,000)	Between 10 and 15 years	(67,000)
(108,000)	Between 15 and 20 years	(93,000)
(35,000)	Between 20 and 25 years	(26,000)
(34,000)	More than 25 years	(6,000)
(333,257)	**Total**	**(287,817)**

The Council has £28 million of “Lender’s option, borrower’s option” (LOBO) loans where the lender has the option to propose an increase in the rate payable; the County Council will then have the option to accept the new rate or repay the loan without penalty. Due to current low interest rates it is unlikely that the lenders will exercise their options and therefore these loans are included in the analysis above at their maturity date.

Market risk

Interest rate risk

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

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

Investments classed as loans and receivables and loans borrowed are not carried at fair value, so changes in their fair value will have no impact on Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or deficit on the Provision of Services. Movements in the fair value of fixed rate investments classed as 'available for sale' will be reflected in Other Comprehensive Income and Expenditure.

The Treasury Management Strategy aims to mitigate these risks by setting upper limits on its net exposures to fixed and variable interest rates. At 31 March 2018, £417 million of principal borrowed was at fixed rates and £44.3 million at variable rates. The value of the County Councils investments (excluding accrued interest) held at variable rates (including investments with less than one year to maturity) was £472.369 million at 31 March 2018 and fixed rates was £89.513 million.

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

Interest rate risk	**£'000**
Increase in interest payable on variable rate borrowing	(3,127)
Increase in interest receivable on variable rate investments	3,502
Impact on (Surplus) or Deficit on the Provision of Services	**375**
Decrease in fair value of available for sale financial assets	(1,806)
Impact on Comprehensive Income and Expenditure	**(1,431)**

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

Price risk

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

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

Foreign exchange risk

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

23 Provisions

Provisions are liabilities of uncertain timing or amount.
Provisions are charged to the Comprehensive Income and Expenditure Statement in the year that the County Council has a present obligation (legal or constructive), and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

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

Change in provisions

	note	31 March 2017	Use of Provision In Year	Increase or decrease in 2017/18 Central Provision	Service Provision	Taxation Provision	31 March 2018
		£'000	£'000	£'000	£'000	£'000	£'000
Insurance claims	a	(19,714)	4,896	(1,250)	(6,826)	0	(22,894)
Business rates appeals	b	(4,478)	1,213		0	(1,033)	(4,298)
Other	c	(1,353)	898	0	(520)	0	(975)
Total Provisions		**(25,545)**	**7,007**	**(1,250)**	**(7,346)**	**(1,033)**	**(28,167)**

a. The insurance provision represents an assessment of the likely cost of liability claims known to the County Council at 31 March 2018. The risks covered from the provision are as follows:

Liabilities

Employer’s liability, public liability, product liability and pollution liability – the maximum liability for any one claim being £5 million. The maximum amount for which the provision is liable (the commercial insurance aggregate) is £12.5 million in any one year.

Property

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

Contents owned by the Council for loss or damage as a result of fire, lightning, explosion and theft.

Additional cover

Personal accident scheme
Fidelity guarantee

Schools - balance of perils
Schools – community use

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

c. This provision covers other liabilities, including that relating to the need to purchase allowances to offset the Councils carbon dioxide emissions through its use of energy in accordance with the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date.

24 Post employment benefits

As part of the terms and conditions of employment of its staff, the County Council makes contributions towards the cost of post-employment benefits. These will be paid only when employees retire but in accordance with IAS19 the County Council must account for the commitments at the time that employees earn their future entitlement.

The Council participates in three pension schemes:

a) Pension schemes accounted for as defined contribution schemes:
    - The Teachers Pension Scheme
    - The NHS Pension Scheme
b) The Local Government Pension Scheme (LGPS)

24a Pensions Schemes Accounted for as Defined Contribution Schemes

Teachers' Pension Scheme
This is a defined benefit scheme administered by the Department for Education (DfE). The scheme provides teachers with specified benefits upon their retirement, and the County Council's only obligation is to pay contributions towards these costs based on a percentage of member's pensionable salaries. The scheme is unfunded so the pensions of past employees are paid from current revenues. The DfE uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. As such the County Council is not able to identify its share of the underlying financial position and performance of the scheme with sufficient reliability for accounting purposes, and therefore this scheme is accounted for as if it is a defined contribution scheme and no liability for future payment of benefits is recognised in the Balance Sheet.

The Schools line in the Comprehensive Income and Expenditure Statement is charged with the employer’s contributions payable to Teachers’ Pensions in the year.

In 2017/18 total employer's contributions were £46.3 million representing 16.48% of pensionable pay (£46.8 million representing 16.48% of pensionable pay in 2016/17).

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and detailed in note 24c.

NHS Pension Scheme

On 1 April 2013, Public Health staff transferred from the NHS to the County Council. These staff have maintained their membership in the NHS Pension Scheme. The Scheme provides these staff with specified benefits upon their retirement and the County Council’s only obligation is to pay contributions towards these costs based on a percentage of member’s pensionable salaries.

The scheme is an unfunded defined benefit scheme administered by EA Finance NHS Pensions. As such the County Council is not able to identify its share of the underlying financial position and performance of the scheme with sufficient reliability for accounting purposes and therefore this scheme is accounted for as if it is a defined contribution scheme and no liability for future payment of benefits is recognised in the Balance Sheet.

The Adults’ Health and Care line in the Comprehensive Income and Expenditure Statement is charged with the employer’s contributions payable to the NHS Pension Scheme in the year.

In 2017/18 total employer's contributions were £0.1 million representing 14.38% of pensionable pay (£0.1 million representing 14.3% of pensionable pay in 2016/17).

24b Local Government Pension Scheme

Participation in Pension Schemes

The County Council participates in and administers the Hampshire LGPS. This is a funded defined benefit plan with benefits earned up to 31 March 2014 being linked to final salary. Benefits earned after 31 March 2014 are based on a Career Average Revalued Earnings. Details of the benefits earned over the period covered by this disclosure are set out in 'The Local Government Pension Scheme Regulations 2013' and 'The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014'. The funded nature of the LGPS requires that Hampshire County Council and employees pay contributions into the Fund, calculated at a level intended to balance the Fund’s liabilities with its investment assets. Information on the framework for calculating contributions to be paid is set out in the LGPS Regulations 2013 and the Fund's Funding Strategy Statement.

The LGPS is accounted for as a defined benefits scheme where:

- The liabilities of the scheme attributable to the County Council are included in the

Balance Sheet on an actuarial basis using the projected unit method (i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates and projections of earnings for current employees).

- Liabilities are discounted to their value at current prices using a calculated discount rate based on a series of calculations for high quality corporate bonds over a range of periods.

- The assets of the pension fund attributable to the County Council are included in the Balance Sheet at their fair value: for quoted securities this means the current bid price; for unquoted securities this is based on a professional estimate; for unitised securities this means the current bid price; for property this means an estimate of the market value.

In 2017/18 Pension Fund assets and liabilities have been included in the Balance Sheet based on a formal actuarial valuation at 31 March 2016. As part of the 2016 valuation a new Rates and Adjustment Certificate was produced for the three year period from 1 April 2017.

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

Discretionary benefits

The County Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. These are not funded by the assets of the Pension Fund but by the County Council when they are paid. Any liabilities estimated to arise as a result of a discretionary award are accrued for in the year of the decision to make the award and accounted for using the same policies as are applied to the LGPS.

24c Transactions relating to post-employment benefits

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

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

- **Current service cost:** this is the increase in liabilities resulting from employee service in the current period. This is shown as a cost in the Comprehensive Income and Expenditure Statement for the service where the employee worked.

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

The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

2016/17 £'000		2017/18 £'000
	Included in the Comprehensive Income and Expenditure Statement:	
	Cost ofServices	
82,050	Current service cost of funded LGPS pensions	113,860
1,280	Past service cost of funded LGPS pensions	1,460
	Charge to non-distributed costs for early retirement in the year	
0	Settlement costs	0
0	Net increase in liabilities from acquisitions	0
	Financing and Investment Income and Expenditure	
34,040	Interest on net defined liability	30,260
117,370	**Total post employment benefits charges to the surplus/deficit on the provision of services**	**145,580**
	Remeasurements in Other Comprehensive Income:	
(339,470)	Return on plan assets (excluding that recognised in net interest)	(9,360)
	Actuarial (gains)/losses arising:-	
609,360	Actuarial (gains) / losses due to change in financial assumptions	62,640
(26,910)	Actuarial (gains) / losses due to change in demographic assumptions	0
(114,550)	Actuarial (gains) / losses due to liability experience	20,250
128,430	**Total amount recognised in Other Comprehensive Income and Expenditure**	**73,530**
245,800	Total post employment benefits charges to the Comprehensive Income and Expenditure Statement	**219,110**
	Movement in reserves statement	
(117,370)	Reversal of net changes made to the surplus/deficit for the provision of services for post employment benefits in accordance with IAS19	(145,580)
	Actual amount charged against the General Fund Balance for pensions in the year	
73,830	Employer's contributions payable to the fund	81,750
	Added years and early retirement cash flows in the year:	
1,940	- LGPS	1,880
2,730	- Teachers	2,690
78,500	Charge on General Fund	**86,320**

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to 31 March 2018 is a loss of £98.3 million.

24d Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation)

Period ended 31 March 2018	LGPS funded £'000	LGPS Unfunded £'000	Teachers' Unfunded £'000	Total £'000
Opening present value of liabilities	(3,470,600)	(26,070)	(36,500)	**(3,533,170)**
Current service cost	(113,860)	0	0	**(113,860)**
Interest expense on defined benefit obligation	(89,390)	(650)	(910)	**(90,950)**
Contributions by participants	(23,940)	0	0	**(23,940)**
Actuarial gains/(losses) on liabilities:				
- financial asssumptions	(62,110)	(230)	(300)	**(62,640)**
- demographic assumptions	0	0	0	**0**
- liability experience	(19,670)	(240)	(340)	**(20,250)**
Net benefits paid out (note i)	90,180	1,880	2,690	**94,750**
Past service cost	(1,460)	0	0	**(1,460)**
Net increase in liabilities from acquisitions	0	0	0	**0**
Closing present value of liabilities	(3,690,850)	(25,310)	(35,360)	**(3,751,520)**

Period ended 31 March 2017	LGPS funded £'000	LGPS Unfunded £'000	Teachers' Unfunded £'000	Total £'000
Opening present value of liabilities	(2,889,910)	(25,660)	(36,830)	**(2,952,400)**
Current service cost	(82,050)	0	0	**(82,050)**
Interest expense on defined benefit obligation	(97,180)	(840)	(1,210)	**(99,230)**
Contributions by participants	(23,480)	0	0	**(23,480)**
Actuarial gains/(losses) on liabilities:				
- financial asssumptions	(604,810)	(1,880)	(2,670)	**(609,360)**
- demographic assumptions	25,080	750	1,080	**26,910**
- liability experience	114,530	(380)	400	**114,550**
Net benefits paid out (note i)	88,500	1,940	2,730	**93,170**
Past service cost	(1,280)	0	0	**(1,280)**
Net increase in liabilities from acquisitions	0	0	0	**0**
Closing present value of liabilities	(3,470,600)	(26,070)	(36,500)	**(3,533,170)**

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

24e Reconciliation of the Movements in the Fair Value of Scheme Assets

31 March 2017 £'000		31 March 2018 £'000
1,912,400	**Opening fair value of assets**	**2,325,870**
65,190	Interest income on assets	60,690
339,470	Remeasurement gains/(losses) on assets	9,360
78,500	Contributions by employer	86,320
23,480	Contributions by participants	23,940
(93,170)	Net benefits paid out (note i)	(94,750)
2,325,870	**Closing fair value of assets**	**2,411,430**

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

24f Pensions Assets and Liabilities Recognised in the Balance Sheet

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

31 March 2017 £'000		31 March 2018 £'000
	Present value of the defined benefit obligation:	
(3,470,600)	LGPS funded	(3,690,850)
	Unfunded Liabilities:	
(26,070)	LGPS	(25,310)
(36,500)	Teachers	(35,360)
(3,533,170)		**(3,751,520)**
2,325,870	Fair value of assets in the scheme	2,411,430
(1,207,300)	**Net liability arising from defined benefit obligation**	**(1,340,090)**

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

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

The proportion of assets by category is shown below:

31 March 2017 %		31 March 2018 Quoted %	31 March 2018 Unquoted %	31 March 2018 Total %
60.3	Equities	58.5	4.1	62.6
25.2	Government bonds	23.5	0.2	23.7
6.5	Property	0.7	6.3	7.0
1.4	Corporate bonds	1.0	-	1.0
3.4	Cash	2.6	-	2.6
3.2	Other (hedge funds, currency holdings, futures, private equities)	0.2	2.9	3.1
100.0		**86.5**	**13.5**	**100.0**

24g Basis for Estimating Assets and Liabilities

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

The significant assumptions used by the actuary have been:

Financial and Mortality Assumptions

31 March 2017		31 March 2018
3.1%	Rate of Inflation (RPI)	3.2%
2.0%	Rate of Inflation (CPI)	2.1%
3.5%	Rate of increase in salaries	3.6%
2.0%	Rate of increase in pensions	2.1%
2.6%	Rate for discounting scheme liabilities	2.6%
	Longevity at 65 for current Pensioners (years):	
24.0	Men (LGPS)	24.1
27.0	Women (LGPS)	27.2
	Longevity at 65 for future Pensioners (years):	
26.0	Men (LGPS)	26.2
29.3	Women (LGPS)	29.4

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

Sensitivity analysis of financial assumptions

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

Impact on the present value of the defined benefit obligation at 31 March 2018 from changes in assumptions

	Increase in assumption		Decrease in assumption	
	£'000	%	£'000	%
Discount rate (increase / decrease 0.1% per annum)	(69,430)	-1.9	70,760	1.9
Salary increase rate (increase / decrease 0.1% per annum)	13,610	0.4	(13,480)	-0.4
Pension increase rate (increase / decrease 0.1% per annum)	57,030	1.5	(56,080)	-1.5
Longevity (increase / decrease by 1 year)	108,540	2.9	(108,040)	-2.9

Impact on the County Council's Cash Flows

The objectives of the scheme are to keep employers' contribution rates as stable as possible. The aim is to achieve a funding level of 100% over a period of 19 years from 1 April 2017. Funding levels are monitored on an annual basis. The latest triennial valuation was completed on 31 March 2016, and is reflected in the 2016/17 financial statements.

From 1 April 2014 the scheme became a career average revalued earnings scheme following changes introduced in the Public Pensions Services Act 2013. Prior to this the scheme was based on a member's final salary and length of pensionable service. More information on the nature of the scheme can be found in the Pension Fund Accounts.

The total contributions expected to be made to the Hampshire LGPS by the County Council in the year to 31 March 2019 is £87.49 million. Additional contributions may also become due in respect of any employer discretions to enhance members' benefits in the Fund over the next accounting period.

The weighted average duration of the defined benefit obligation for scheme members is 19 years (19 years in 2016/17).

25 Contingent Liabilities

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

The County Council self-insures and therefore funds its own liability claims. The liabilities are uncertain but to cover them a provision is maintained for known liability claims, assessed at £22.9 million at 31 March 2018 (see note 23) and a reserve earmarked for potential future claims, £25.6 million at 31 March 2018 (see note 4i).

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

26 Events after the Balance Sheet date

The Statement of Accounts was authorised by the Chief Financial Officer on 24 May 2018. Events taking place after this date are not reflected in the financial statements or notes.

Where events taking place before this date provided information about conditions existing at 31 March 2018, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

27 Cash Flow Statements

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

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

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

27a Cash flow statement - operating activities

The cash flows for operating activities include the following items:

2016/17 £'000		2017/18 £'000
26,470	Interest paid	34,459
(7,415)	Interest received	(7,005)
(1,930)	Dividends received	(4,159)
17,125		**23,295**
	Adjustments to net surplus or deficit on the provision of services	
(129,641)	Depreciation	(136,522)
(24,219)	Impairments and downward revaluations	(35,875)
(3,950)	(Increase)/decrease in impairment for provision of bad debt	0
18,419	(Increase)/decrease in creditors	3,177
(8,489)	Increase/(decrease) in debtors	(3,813)
93	Increase/(decrease) in inventory	(66)
(38,870)	Pension Liability	(59,260)
(1,964)	Carrying amount of non-current assets sold	(9,084)
(169)	Carrying amount of assets transferred to academy / foundation Trust schools	(21,474)
(7,854)	Adjustment for provisions	(2,622)
4,041	Movement in the value of investment properties	48,752
(1,325)	PPE written off as REFCUS	(1)
(193,928)	Non-cash movement	**(216,788)**

Adjustment for items included in the net surplus or deficit on the provision of services that are investing and financing activities

2016/17 £'000		2017/18 £'000
4,374	Proceeds from the sale of PPE etc	27,328
134,838	Capital grants and contributions	192,162
0	Interest on developer contributions	0
139,212	Investing/financing cash flows	**219,490**

27b Cash Flow Statement - investing activities

2016/17 £'000		2017/18 £'000
	Cash outflows	
154,187	Purchase of property, plant and equipment	163,119
391,050	Purchase of short-term and long-term investments	416,930
3,167	Other expenditure	6,904
	Cash inflows	
(4,191)	Proceeds from the sale of property, plant and equipment	(27,440)
(383,143)	Proceeds from the sale of short-term and long-term investments	(325,360)
(149,748)	Capital grants	(192,506)
(2,829)	Other income	(4,913)
8,493	**Net cash outflow from investing activities**	**36,734**

27c Cash Flow Statement - financing activities

2016/17 £'000		2017/18 £'000
	Cash outflows	
6,353	Cash payments for the reduction of the outstanding liabilities relating to PFIs	6,802
120,576	Repayments of short- and long-term borrowing	157,591
	Cash inflows	
(104,412)	Cash receipts of short- and long-term borrowing	(114,807)
(705)	Other receipts from financing activities	(1,324)
21,812	**Net cash outflow from financing activities**	**48,262**

28 Accounting Policies

28.1. General principles

The Statement of Accounts summarises the County Council's transactions for the 2017/18 financial year and its position at the year-end of 31 March 2018. The County Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015. These require the accounts to be prepared in accordance with proper accounting practices as set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18. The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

28.2. Accruals of income and expenditure

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

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

However, there are some exceptions, as follows:

- Payments to casual staff and overtime are accounted for with the basic pay with which they are paid.
- Electricity and other utility companies' quarterly payments are accounted for at the date of meter reading rather than being shared between financial years.
- Pension Fund income includes dividends declared in the income tax year.

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

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

Amounts below £10,000 are not routinely accrued at year end even if they meet the other conditions. This is due to the fact that they are not material in the scale of the County Council's overall income and expenditure. Where items of income or expenditure fall below this amount they may still be accrued in certain circumstances such as where they are subject to specific terms and conditions relating to a grant or where there is an element of cost recovery. Items of a similar nature which are individually below this £10,000 threshold may be aggregated if they could be said to have a similar material effect upon the reporting of a particular income, or expenditure head or cost centre.

28.3. Prior period adjustments, changes in accounting policies and estimates and errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error.

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

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

Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

28.4. Stock and long term contracts

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

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

28.5. Contingent assets

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

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

28.6. VAT

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

28.7. Transferred functions

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

29 Critical judgements in applying accounting policies

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

29.1. Asset classifications

The County Council has made judgements on whether assets are classified as Investment Property or Property, Plant and Equipment (PPE). The classification determines the valuation and depreciation method to be used. These judgements are based on the main reason that the County Council is holding the asset. Further details can be found in the PPE and Investment Property notes.

29.2. Lease classifications

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

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

29.3. Providing for potential liabilities

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

29.4. Future funding for local government

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

29.5. Production of group accounts

In accordance with the Code of Practice the County Council has carried out an assessment of its interests in other entities to determine the nature of any group relationships that exist. This includes an assessment of the extent of the County Council's control over the entity considered either through ownership (such as shareholding) or representation on an entity's board of directors. The main interests held by the County Council in other entities are detailed in the Collaborative Arrangements and Group Accounts section of this statement of accounts. However, none are considered material and thus the production of group accounts is not required.

29.6. Reportable segments

The service analysis within the Comprehensive Income and Expenditure Statement and the segmental analysis within the Expenditure and Funding Analysis is based on the County Council's internal management reporting as set out in the budget report. The majority of spend is controlled by departmental directors, with central control of capital financing, contingencies and specific grant income.

30 Uncertainties relating to assumptions and estimates used

There is one item in the County Council's Balance Sheet at 31 March 2018 for which there is a risk of adjustment in the forthcoming financial year and that is the pension liability. Estimation of the net liability to pay pensions depends on a number of complex assumptions related to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. The County Council engages a firm of consulting actuaries to provide expert advice on the assumptions to be applied.

The effects of changes in individual assumptions on the pension liability can be measured and a sensitivity analysis is provided in note 24g.

31 Accounting standards issued not yet adopted

The Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires the disclosure of information relating to the expected impact of an accounting change that will be required by a new standard that has been issued but not yet adopted.

The additional disclosures that will be required in the 2018/19 financial statements in respect of accounting changes introduced in the 2018/19 Code are:

- IFRS 15 Revenue from Customers with Contracts from 1 April 2018

  The impact of IFRS 15 on the 2018/19 Statement of Accounts is still being assessed, although it is not anticipated this will be material.

- IFRS 9 Financial Instruments from 1 April 2018

  There is current uncertainty on the impact of IFRS9 and the resulting accounting transactions, this is likely to be informed by a potential statutory override to permit an accounting entry to remove the impact of specific value movements from the General Fund. We plan to elect to account for individual investments in equity instruments at fair value through other comprehensive income, but cannot currently assess the impact on the authority's financial statements.

Pension Fund Accounts

Fund Account	**See note**	**2016/17 £'000**	**2017/18 £'000**
Dealings with members, employers and others directly involved in the Fund			
Contributions	7	257,508	280,919
Transfers in from other pension funds		13,765	12,285
		271,273	**293,204**
Benefits	8	(235,256)	(239,202)
Payments to and on account of leavers		(14,713)	(13,992)
		(249,969)	**(253,194)**
Net additions from dealings with members		**21,304**	**40,010**
Management expenses	9	**(31,045)**	**(40,732)**
Net additions/withdrawals inc. fund management expenses		(9,741)	(722)
Returns on investments			
Investment income	10	112,567	112,321
Taxes on income		(2,003)	(826)
Profits and losses on disposal of investments and changes in the market value of investments	11a	1,022,985	165,252
Net return on investments		**1,133,549**	**276,747**
Net increase in the net assets available for benefits during the year		**1,123,808**	**276,025**
Opening net assets of the scheme		5,213,406	6,337,214
Closing net assets of the scheme		6,337,214	6,613,239

Net Assets Statement for the year ending 31 March 2018	**See note**	**31 March 2017 £'000**	**31 March 2018 £'000**
Investment assets		6,116,083	6,432,182
Cash deposits		19,806	15,954
Investment liabilities		(2,543)	(5,320)
Total net investments	**11**	**6,133,346**	**6,442,816**
Long term debtors	20	6,085	4,564
Current assets	18	216,644	172,001
Current liabilities	19	(18,861)	(6,142)
Net assets of the Fund available to fund benefits at the period end		**6,337,214**	**6,613,239**

Note: The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the end of the period end. The actuarial present value of promised retirement benefits is disclosed at Note 17.

Notes to the Pension Fund accounts

1. Description of Fund

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

The following description of the Fund is a summary only. For more detail, reference should be made to the Hampshire Pension Fund Annual Report 2017/18 and the underlying statutory powers underpinning the Scheme.

a) General

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

- The Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (as amended).

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

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

b) Membership

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

Organisations participating in the Hampshire Pension Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the Fund
- Admitted bodies, which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar

bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

There are 333 employer organisations within the Hampshire Pension Fund including the County Council itself, as detailed below:

Hampshire Pension Fund	31 March 2017	31 March 2018
Number of employers with active members	317	333
Number of employees in Scheme		
County Council	26,874	26,719
Other employers	30,907	31,158
Total	**57,781**	**57,877**
Number of pensioners		
County Council	16,706	17,344
Other employers	21,510	22,452
Total	**38,216**	**39,796**
Deferred pensioners		
County Council	31,693	34,334
Other employers	32,367	35,169
Total	**64,060**	**69,503**
Total members in the Pension Fund	**160,057**	**167,176**

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with The LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2018. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last valuation was at 31 March 2016. Currently employer contribution rates for most employers range from 14.1% to 16.6% of pensionable pay plus a past service deficit contribution.

d) Benefits

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

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

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

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

2. Basis of preparation

The Statement of Accounts summarises the Fund's transactions for the 2017/18 financial year and its position at year end at 31 March 2018. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2017/18* which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year.

3. Summary of significant accounting policies

Fund Account – revenue recognition

a) Contribution income

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

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

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

b) Transfers to and from other schemes

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

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

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

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

c) Investment income

i) Interest income

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

ii) Dividend income

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

iii) Distributions from pooled funds

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

iv) Property-related income

Property-related income consists primarily of rental income.

Rental income from operating leases on properties owned by the Fund is recognised on a straight-line basis over the term of the lease. Any lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

Contingent rents based on the future amount of a factor that changes other than with the passage of time, such as turnover rents, are only recognised when contractually due.

v) Movement in the net market value of investments

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

Fund Account – expense items

d) Benefits payable

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

e) Taxation

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

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

f) Management expenses

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

Administrative expenses

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

Oversight and governance costs

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

Investment management expenses

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

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

Where an investment manager's fee note has not been received by the balance sheet date, an estimate based upon market value of their mandate at the end of the year is used for inclusion in the Fund account. In 2017/18 £3.5 million of fees is based on such estimates (2016/17 £0.4 million).

Net Assets Statement

g) Financial assets

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

The values of investments as shown in the Net Assets Statement have been determined in accordance with the requirements of the Code and IFRS13 (see Note 13). For the purposes of disclosing levels of fair value hierarchy the Fund has adopted the classification guidelines recommended in *Practical Guidance on Investment Disclosures* (PRAG/Investment Association, 2016).

h) Freehold and leasehold properties

The properties were valued on 31 March 2018 by an external valuer, Paul Willis, BSc MRICS of Colliers International, in accordance with the Royal Institute of Chartered Surveyors' Valuation - Global Standards 2017; see Note 13 for more details.

i) Foreign currency transactions

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

j) Derivatives

The Fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes (see Note 12).

k) Cash and cash equivalents

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

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

l) Financial liabilities

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

m) Actuarial present value of promised retirement benefits

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

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

(Note 17).

n) Additional voluntary contributions

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

AVCs are not included in the accounts in accordance with Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed as a note only (see Note 21).

o) Contingent assets and contingent liabilities

A contingent liability arises where an event has taken place prior to the year end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events. Contingent liabilities can also arise in circumstances where a provision would be made, except that it is not possible at the balance sheet date to measure the value of the financial obligation reliably.

A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by the occurrence of future events.

Contingent assets and liabilities are not recognised in the Net Assets Statement but are disclosed by way of narrative in the notes.

4. Critical judgements in applying accounting policies

Unquoted private equity investments

It is important to recognise the subjective nature of determining the fair value of private equity investments. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equities are valued by the investment managers using guidelines set out by the *International Private Equity and Venture Capital Valuation Guidelines*. The value of unquoted private equity investments at 31 March 2018 was £291 million (£241 million at 31 March 2017).

Pension fund liability

The pension fund liability is recalculated every three years by the appointed actuary, with updates in the intervening years. The methodology used is in line with accepted guidelines. This estimate is subject to significant variances based on changes to the underlying assumptions, which are agreed with the actuary and are summarised in Note 16.

These actuarial revaluations are used to set future employer contribution rates and underpin the Fund's most significant investment management policies, for example in terms of the balance struck between longer term investment growth and short-term yield/return.

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

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

The items in the Net Assets Statement at 31 March 2018 for which there is a significant risk of adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits (Note 17)	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of approximately £760 million. A 0.25% increase in assumed earnings inflation would increase the value of liabilities by approximately £60 million, and a one-year increase in assumed life expectancy would increase the liability by approximately £230 million.
Debtors	At 31 March 2018, the Fund had a balance of debtors and prepayments of £58.4 million. A review of debtor balances suggested that an impairment of £0.033 million was appropriate. However, in the current economic	If collection rates were to deteriorate, a doubling of the amount of the impairment of doubtful debts would require an additional £0.033 million to be set aside as an allowance.

Item	Uncertainties	Effect if actual results differ from assumptions
	climate, it is not certain that such an allowance would be sufficient.	
Private equity investments (Note 13)	Private equity investments are valued at fair value in accordance with the *International Private Equity Venture Capital Valuation Guidelines*. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statements are £291 million. The investment manager recommends a tolerance of +/- 10% around the net asset values on which the private equity valuation is based. This equates to a tolerance of +/- £29.1million.
Hedge funds (Note 13)	Hedge funds are valued at the sum of the fair values provided by the administrators of the funds plus adjustments that the funds' directors or independent administrators judge necessary. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total hedge fund value in the financial statements is £206 million. There is a risk that this investment may be under or overstated in the accounts. The investment manager recommends a tolerance of +/- 5% around the net asset values on which the hedge fund valuation is based. This equates to a tolerance of +/- £10.3 million.

6. Events after the reporting date

There have been no events since 31 March 2018, and up to the date when these accounts were authorised, that require any adjustments to these accounts.

7. Contributions receivable

By category

	2016/17 £'000	2017/18 £'000
Employees' contributions	60,963	63,029
Employers' contributions		
Normal contributions	131,096	141,749
Deficit recovery contributions	65,449	76,141
Total employers' contributions	196,545	217,890
Total	**257,508**	**280,919**

By authority

	2016/17 £'000	2017/18 £'000
Administering authority	96,996	104,587
Scheduled bodies	148,482	161,667
Admitted bodies	7,575	10,159
Community admission bodies	707	2,548
Transferee admission bodies	2,462	552
Resolution bodies	1,286	1,406
Total	**257,508**	**280,919**

8. Benefits payable

By category

	2016/17 £'000	2017/18 £'000
Pensions	190,471	198,454
Commutation and lump sum retirement benefits	40,744	36,008
Lump sum death benefits	4,041	4,740
Total	**235,256**	**239,202**

By authority

	2016/17 £'000	2017/18 £'000

Administering authority	87,930	88,476
Scheduled bodies	136,618	138,686
Admitted bodies	5,686	7,054
Community admission bodies	1,891	2,103
Transferee admission bodies	2,249	1,914
Resolution bodies	882	969
Total	**235,256**	**239,202**

9. Management expenses

	2016/17 £'000	**2017/18 £'000**
Administrative costs	1,920	2,000
Investment management expenses	28,497	38,186
Oversight and governance costs	628	546
Total	**31,045**	**40,732**

This analysis of the costs of managing the Hampshire Pension Fund during the period has been prepared in accordance with CIPFA guidance.

In additional to these costs, indirect costs are incurred through the bid-offer spread on investment sales and purchases. These are reflected in the cost of investment acquisitions and in the proceeds from the sales of investments (see Note 11a).

9a) Investment Management Expenses

	2016/17 £'000	**2017/18 £'000**
Management fees	24,447	28,161
Custody fees	140	238
Transaction costs	3,910	9,787
Total	**28,497**	**38,186**

10. Investment income

	2016/17 £'000	2017/18 £'000
Income from bonds	8,182	7,048
Income from equities	59,991	58,698
Pooled property investments	2,513	1,479
Pooled investments – unit trusts and other managed funds	609	808
Rents from property	21,329	26,351
Interest on cash deposits	616	245
Alternative investment income	18,536	16,305
Stock lending	595	939
Other	196	448
Total before taxes	**112,567**	**112,321**

11. Investments

	31 March 2017 £'000	31 March 2018 £'000
Bonds		
UK		
Public sector quoted	1,548	1,530
Corporate quoted	11,781	9,949
Overseas		
Public sector quoted	160,998	184,525
Public sector unquoted	12,878	12,167
Corporate quoted	57,197	48,525
	244,402	**256,696**
Equities		
UK		
Quoted	822,111	860,112
Overseas		
Quoted	1,646,005	1,792,145
	2,468,116	**2,652,257**
Pooled funds – additional analysis		
UK		
Fixed income unit trusts	1,427,909	1,438,587
Unit trusts	366,217	365,028
Overseas		
Fixed income unit trusts	15,252	13,517
Unit trusts	737,484	724,328
	2,546,862	**2,541,460**
Pooled property investments	30,726	49,270
Alternative investments	445,974	497,470
Property	377,915	433,070
Derivative contracts:		
- Futures	430	950
- Forward currency contracts	1,548	945
- Purchased/written options	108	0
- Spot foreign exchange contracts	2	64
	856,703	**981,769**
Cash deposits	19,806	15,954
Total investment assets	**6,135,889**	**6,448,136**
Investment liabilities		
- Futures	(555)	(1,187)
- Forward currency contracts	(1,874)	(4,045)
- Purchased/written options	(112)	0
- Spot foreign exchange contracts	(2)	(88)
Derivatives	(2,543)	(5,320)
Total investment liabilities	**(2,543)**	**(5,320)**
Net investment assets	**6,133,346**	**6,442,816**

11a) Reconciliation of movements in investments and derivatives

Period 2017/18	Market value 1 April 2017 £'000	Purchases during the year and derivative payments £'000	Sales during the year and derivative receipts £'000	Change in market value during the year £'000	Market value 31 March 2018 £'000
Bonds	244,402	395,308	(366,883)	(16,131)	256,696
Equities	2,468,116	1,104,887	(1,023,775)	103,029	2,652,257
Pooled investments	2,546,862	2,569,913	(2,614,201)	38,886	2,541,460
Pooled property investments	30,726	20,825	(4,777)	2,496	49,270
Alternative investments	445,974	291,930	(248,284)	7,850	497,470
Property	377,915	43,277	(3,648)	15,526	433,070
	6,113,995	**4,426,140**	**(4,261,568)**	**151,656**	**6,430,223**
Derivative contracts:					
- **Futures**	(125)	7,889	(6,391)	(1,610)	(237)
- **Forward foreign exchange**	(326)	20,036	(39,445)	16,635	(3,100)
- **Purchased/written options**	(4)	58	(40)	(14)	(0)
	(455)	**27,983**	**(45,876)**	**15,011**	**(3,337)**
Other investment balances:					
- **Cash deposits**	19,806			(1,415)	15,954
- **Spot foreign exchange contracts**	0				(24)
Net investment assets	**6,133,346**			**165,252**	**6,442,816**

Period 2016/17	Market value 1 April 2016 £'000	Purchases during the year and derivative payments £'000	Sales during the year and derivative receipts £'000	Change in market value during the year £'000	Market value 31 March 2017 £'000
Bonds	246,436	320,966	(350,550)	27,550	244,402
Equities	1,909,250	1,410,816	(1,288,188)	436,238	2,468,116
Pooled investments	2,039,243	0	(2,718)	510,337	2,546,862
Pooled property investments	36,480	0	(5,383)	(371)	30,726
Alternative investments	298,727	246,462	(166,746)	67,531	445,974
Property	375,280	4,600	(2,617)	652	377,915
	4,905,416	**1,982,844**	**(1,816,202)**	**1,041,937**	**6,113,995**
Derivative contracts:					
- Futures	88	11,518	(12,377)	646	(125)
- Forward foreign exchange	(5,357)	84,415	(51,180)	(28,204)	(326)
- Purchased/written options	3	(1,178)	(12)	1,183	(4)
	(5,266)	**94,755**	**(63,569)**	**(26,375)**	**(455)**
Other investment balances:					
- Cash deposits	36,451			7,423	19,806
- Spot foreign exchange contracts	(9)				0
Net investment assets	**4,936,592**			**1,022,985**	**6,133,346**

Purchases and sales of derivatives are recognised in Note 11a above as follows:

- Futures – on close out or expiry of the futures contract the variation margin balances held in respect of unrealised gains or losses are recognised as cash receipts or payments, depending on whether there is a gain or loss.
- Options – premiums paid and received are reported as payments or receipts together with any close out costs or proceeds arising from early termination.
- Forward currency contracts – forward foreign exchange contracts settled during the period are reported on a gross basis as gross receipts and payments.

11b) Investments analysed by fund manager

	Market value 31 March 2017 £'000	%	Market value 31 March 2018 £'000	%
Aberdeen-Standard	383,546	6.1	367,850	5.6
Acadian	118,986	1.9	433,309	6.5
Baillie Gifford	558,474	8.8	709,181	10.7
CBRE Global Investors	401,724	6.3	479,656	7.3
Legal & General	709,623	11.2	0	0.0
Newton	729,437	11.5	416,024	6.3
Schroders	802,242	12.7	812,062	12.3
State Street	1,789,197	28.2	0	0.0
UBS	0	0.0	2,505,806	37.9
Western	264,967	4.2	272,154	4.1
	5,758,196	90.9	5,996,042	90.7
Other investments	487,687	7.7	503,879	7.6
Other net assets	91,331	1.4	113,318	1.7
Total	**6,337,214**	**100.0**	**6,613,239**	**100.0**

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

11c) Stock lending

The Fund's Investment Strategy Statement sets the parameters for the Fund's stock lending programme. At the year end, the value of quoted stock on loan was £76.5 million (£237.3 million 2016/17). These stocks continue to be recognised in the Fund's financial statements.

Counterparty risk is managed through holding collateral at the Fund's custodian bank, JP Morgan. As at 31 March 2018, the custodian bank held collateral at fair value of £84.6 million (£262.1 million 2016/17). Collateral consists of acceptable securities and government debt.

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

There are no liabilities associated with the loaned assets.

11d) Property holdings

There are no restrictions on the realisability of the property or the remittance of income or proceeds on disposal and the Fund is not under any contractual obligations to purchase or sell any of these properties. The Pension Fund is required to meet the cost of repairs, maintenance or enhancements necessary to maintain the investment income of its property assets.

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

	Year ending 31 March 2017 £'000	Year ending 31 March 2018 £'000
Within one year	20,291	23,892
Between one and five years	63,969	71,386
Later than five years	60,204	59,971
Total future lease payments due under existing contracts	**144,464**	**155,249**

12. Analysis of derivatives

Objectives and policies for holding derivatives

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

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

i) Futures

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

ii) Forward foreign currency

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

iii) Options

The Fund wants to benefit from the returns available from investing in fixed interest securities but wishes to minimise the risk of loss of value through adverse price movements. No options were held at 31 March 2018.

Futures

Outstanding exchange traded futures contracts are as follows:

Type	Expires	Economic exposure £'000	Market value 31 March 2017 £'000	Economic exposure £'000	Market value 31 March 2018 £'000
Assets					
UK Fixed Income Futures	Less than one year	0	0	1,808	35
Overseas fixed income futures	Less than one year	101,928	430	137,025	915
Total assets			**430**		**950**
Liabilities					
UK Fixed Income Futures	Less than one year	(16,311)	(147)	0	0
Overseas fixed income futures	Less than one year	(127,476)	(408)	(76,858)	(1,187)
Total liabilities			**(555)**		**(1,187)**
Net futures			**(125)**		**(237)**

Open forward currency contracts

At 31 March 2018, the Fund had open forward currency contracts in place with a net unrealised loss of £3.100 million.

Settlements	Currency bought	Local value '000	Currency sold*	Local value '000	Asset value £'000	Liability value £'000
Up to 1 month	GBP	133	EUR	(150)	2	
1 to 6 months	GBP	3,180	AUD	(5,658)	91	
1 to 6 months	GBP	5,444	CAD	(9,557)	164	
1 to 6 months	GBP	43,950	EUR	(49,758)	285	(4)
1 to 6 months	GBP	24,918	JPY	(3,880,900)		(1,115)
1 to 6 months	GBP	2,306	MXN	(61,584)		(82)
1 to 6 months	GBP	3,265	PLN	(15,490)	44	
1 to 6 months	GBP	169,983	USD	(241,979)	30	(2,291)
1 to 6 months	GBP	2,695	ZAR	(44,930)	9	
1 to 6 months	AUD	3,532	GBP	(1,975)		(47)
1 to 6 months	COP	10,740,760	USD	(3,664)	127	
1 to 6 months	EUR	5,000	GBP	(4,453)		(65)
1 to 6 months	IDR	51,685,690	USD	(3,748)	4	(1)
1 to 6 months	JPY	189,834	GBP	(1,217)	56	
1 to 6 months	KRW	1,600,000	USD	(1,495)	11	(3)
1 to 6 months	MXN	3,980	GBP	(149)	5	
1 to 6 months	PLN	1,480	GBP	(313)		(5)
1 to 6 months	RUB	213,000	USD	(3,742)		(39)
1 to 6 months	USD	1,934	EUR	(1,565)	19	(16)
1 to 6 months	USD	7,377	GBP	(5,276)	12	(37)
1 to 6 months	USD	3,588	IDR	(49,273,231)	30	(22)
1 to 6 months	USD	7,425	INR	(487,160)	18	(34)
1 to 6 months	USD	16,598	KRW	(17,962,081)		(222)
1 to 6 months	USD	3,871	MXN	(71,392)	23	(37)
1 to 6 months	ZAR	44,364	USD	(3,740)	15	(25)
Open forward currency contracts at 31 March 2018					**945**	**(4,045)**
Net forward currency contracts at 31 March 2018						**(3,100)**
Prior year comparative						
Open forward currency contracts at 31 March 2017					1,548	(1,874)
Net forward currency contracts at 31 March 2017						(326)

* List of currencies

AUD = Australian Dollar	CAD = Canadian Dollar	COP = Columbian Peso
EUR = Euro	GBP = British Pound	IDR = Indonesian Rupiah
INR = Indian Rupee	JPY = Japanese Yen	KRW = South Korean Won
MXN = Mexican Peso	PLN = Polish Zloty	RUB = Russian Ruble
USD = United States Dollar	ZAR = South African Rand	

Purchased/written options

Investment underlying option contract	Expires	Put/call	Notional holding 31-Mar-17 £'000	Market value 31-Mar-17 £'000	Notional holding 31-Mar-18 £'000	Market value 31-Mar-18 £'000
Assets						
Overseas fixed interest purchased	Less than one month	Call	106	97	0	0
Overseas fixed interest purchased	One to three months	Call	8	4	0	0
Overseas fixed interest purchased	One to three months	Put	14	7	0	0
Total assets				**108**		**0**
Liabilities						
Overseas cash purchased	One to three months	Put	(28)	(10)	0	0
Overseas fixed interest written	One to three months	Call	(189)	(97)	0	0
Overseas fixed interest written	One to three months	Put	(25)	(5)	0	0
Total liabilities				**(112)**		**0**
Net purchased/written options				**(4)**		**0**

There were no purchased/written options held at 31 March 2018

13. Fair value – basis of valuation

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

Description of asset	Valuation hierarchy – level	Basis of valuation	Observable and unobservable inputs	Key sensitivity affecting the valuation provided
Market quoted investments	1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Quoted bonds	1	Fixed interest securities are valued at a market value based on current yields	Not required	Not required
Spot foreign exchange contracts	1	Market exchange rates at the year end	Not required	Not required
Futures and options in UK bonds	1	Published exchange prices at the year end	Not required	Not required
Exchange traded pooled investments	1	Closing bid value on published exchanges	Not required	Not required
Unquoted bonds	2	Average of broker prices	Evaluated price feeds	Not required
Forward foreign exchange derivatives	2	Market forward exchange rates at the year end	Exchange rate risk	Not required
Overseas bond options	2	Option pricing model	Annualised volatility of counterparty credit risk	Not required

Description of asset	Valuation hierarchy – level	Basis of valuation	Observable and unobservable inputs	Key sensitivity affecting the valuation provided
Pooled investments – property funds	2	Closing price on the final day of the accounting period	NAV-based pricing set on forward pricing basis	Not required
Freehold and leasehold properties	2	Valued at fair value at the year end using the investment method of Mark White, BSc MRICS of Colliers International in accordance with the RICS Valuation - Global Standards 2017	Comparable recent market transactions on arm's-length terms	Not required

Description of asset	Valuation hierarchy – level	Basis of valuation	Observable and unobservable inputs	Key sensitivity affecting the valuation provided
Alternative Investments – Hedge funds	3	Closing price on the final day of the accounting period	NAV-based pricing set on forward pricing basis	Valuations could be affected by material events occurring between the date of the financial statement provided and the Pension Fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts
Alternative Investments – Private equity	3	Comparable valuation of similar companies in accordance with *International Private Equity Venture Capital Valuation Guidelines*.	EBITDA multiple Revenue multiple Discount for lack of marketability Control premium	Valuations could be affected by material events occurring between the date of the financial statement provided and the Pension Fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts

Sensitivity of assets valued at level 3

Having analysed historical data and current market trends, and consulted with the Fund's investment managers, the Fund has determined that the valuation methods described above are likely to be accurate within the following ranges, and has set below the consequent potential impact on the closing value of investments held at 31 March 2018.

	Assessed valuation range (+/-)	Value at 31 March 2018 £'000	Value on increase £'000	Value on decrease £'000
Alternative Investments - Hedge funds	5%	206,457	216,780	196,134
Alternative Investments - Private equity	10%	291,013	320,114	261,912

13a) Fair value hierarchy

Assets and liability valuations have been classified into three levels, according to the quality and reliability of information used to determine fair value. Transfers between levels are recognised in the year in which they occur.

Level 1

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

Level 2

Assets and liabilities at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value.

Level 3

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

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

Values at 31 March 2018	Quoted market price Level 1 £'000	Using observable inputs Level 2 £'000	With significant unobservable inputs Level 3 £'000	Total £'000
Financial assets				
Financial assets at fair value through profit and loss	5,439,261	62,381	497,470	5,999,112
Non-financial assets at fair value through profit and loss		433,070		433,070
Financial liabilities at fair value through profit and loss	(1,275)	(4,045)	0	(5,320)
Net investment assets	**5,437,986**	**491,406**	**497,470**	**6,426,862**

Values at 31 March 2017	Quoted market price Level 1 £'000	Using observable inputs Level 2 £'000	With significant unobservable inputs Level 3 £'000	Total £'000
Financial assets				
Financial assets at fair value through profit and loss	5,246,932	45,260	445,974	5,738,166
Non-financial assets at fair value through profit and loss		377,915		377,915
Financial liabilities at fair value through profit and loss	(555)	(1,986)	0	(2,541)
Net investment assets	**5,246,377**	**421,189**	**445,974**	**6,113,540**

The table now includes only assets measured at fair value. Other assets included in the net assets statement valued at amortised cost are not included. There were no transfers in classifications in 2017/18.

13b) Reconciliations of fair value measurements within level 3

Period 2017/18	Market value 1 April 2017	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Market value 31 March 2018
	£'000	£'000	£'000	£'000	£'000
Alternative investments	445,974	291,930	(248,284)	7,850	**497,470**

14 Financial instruments

14a) Classification of financial instruments

The following table analyses the carrying amounts of financial instruments by category and Net Assets Statement heading. No financial instruments were reclassified during the accounting period.

31 March 2017 Fair value through profit and loss	31 March 2017 Loans and receivables	31 March 2017 Financial liabilities at amortised cost		31 March 2018 Fair value through profit and loss	31 March 2018 Loans and receivables	31 March 2018 Financial liabilities at amortised cost
£'000	£'000	£'000		£'000	£'000	£'000
			Financial assets			
244,402			Fixed interest securities	256,696		
2,468,116			Equities	2,652,257		
2,546,862			Pooled investments	2,541,460		
30,726			Pooled property investments	49,270		
445,974			Alternatives	497,470		
377,915			Property	433,070		
2,088			Derivative contracts	1,959		
	182,932		Cash		134,081	
	8,613		Debtors		12,168	
6,116,083	**191,545**	**0**		**6,432,182**	**146,249**	**0**
			Financial liabilities			
(2,543)			Derivative contracts	(5,320)		
		(4,987)	Creditors			(5,058)
(2,543)	**0**	**(4,987)**		**(5,320)**	**0**	**(5,058)**
6,113,540	**191,545**	**(4,987)**		**6,426,862**	**146,249**	**(5,058)**

14b) Net gains and losses on financial instruments

31 March 2017 £'000		31 March 2018 £'000
	Financial assets	
1,049,360	Fair value through profit and loss	166,667
	Financial liabilities	
(26,375)	Fair value through profit and loss	(1,415)
1,022,985	**Total**	**165,252**

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

15. Nature and extent of risks arising from financial instruments

Risk and risk management

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

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

15a) Market risk

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

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

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

The Fund manages these risks in two ways:

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

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

Other price risk

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

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

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

Other price risk – sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, the Pension Fund has determined the following movements in market price risk for the 2017/18 reporting period based on a one standard deviation movement in the value of the Fund’s investments. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

Asset type	Potential market movements (+/-)
UK equities	9.45%
Overseas equities	10.16%
UK bonds	12.32%
Overseas bonds	6.46%
Property	3.31%
Alternative investments	7.87%
Cash	0.11%

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

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

Asset type	Value at 31 March £'000	Potential market movement £'000	Value on increase £'000	Value on decrease £'000
Total assets 2018	**6,442,816**	**621,994**	**7,064,810**	**5,820,822**
Total assets 2017	6,133,346	598,194	6,731,540	5,535,152

Interest rate risk

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

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

The Fund's direct exposure to interest rate movements as at 31 March 2018 and 31 March 2017 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Interest rate risk sensitivity analysis

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

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

Assets exposed to interest rate risk	Value as at 31 March 2018	Potential movement on 1% change in interest rates	Value on increase	Value on decrease
	£'000	£'000	£'000	£'000
Cash & cash equivalents	118,127	0	118,127	118,127
Cash deposits	15,954	0	15,954	15,954
Bonds	256,697	20,800	235,897	277,497
Total	**390,778**	**20,800**	**369,978**	**411,578**

Assets exposed to interest rate risk	Value as at 31 March 2017	Potential movement on 1% change in interest rates	Value on increase	Value on decrease
	£'000	£'000	£'000	£'000
Cash & cash equivalents	163,126	0	163,126	163,126
Cash deposits	19,806	0	19,806	19,806
Bonds	244,402	17,425	226,977	261,827
Total	**427,334**	**17,425**	**409,909**	**444,759**

Income exposed to interest rate risk	Amount receivable as at 31 March 2018	Potential movement on 1% change in interest rates	Value on increase	Value on decrease
	£’000	£’000	£’000	£’000
Cash deposits / cash & cash equivalents	245	1,585	1,830	(1,340)
Bonds	7,048	0	7,048	7,048
Total	**7,293**	**1,585**	**8,878**	**5,708**

Income exposed to interest rate risk	Amount receivable as at 31 March 2017	Potential movement on 1% change in interest rates	Value on increase	Value on decrease
	£’000	£’000	£’000	£’000
Cash deposits / cash & cash equivalents	616	2,310	2,926	(1,694)
Bonds	8,080	0	8,080	8,080
Total	**8,696**	**2,310**	**11,006**	**6,386**

This analysis demonstrates that a 1% increase in interest rates will not affect the interest received on fixed assets but will reduce their fair value, and vice versa. Changes in interest rates do not impact on the value of cash/cash equivalent balances but they will affect the interest income received on those balances. Changes to both the fair value of assets and the income received from investments impact the net assets available to pay benefits.

Currency risk

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

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

Currency risk – sensitivity analysis

Following analysis of historical data the Pension Fund considers the likely volatility associated with foreign exchange rate movements to be 10.0% (as measured by one standard deviation).

A 10.0% fluctuation in the currency is considered reasonable based on the Pension Fund's analysis of long-term historical movements in the month-end exchange rates over a rolling 36-month period.

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

A 10.0% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Asset type	Value at 31 March £'000	Potential market movement £'000	Value on increase £'000	Value on decrease £'000
Total assets 2018	**2,659,756**	**265,450**	**2,925,206**	**2,394,306**
Total assets 2017	3,079,956	286,435	3,366,391	2,793,521

15b) Credit risk

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

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

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

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

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

The Pension Fund has managed its exposure to credit risk, and has had no experience of default or uncollectable deposits over the past five years. The Fund's cash holding under its treasury management arrangements at 31 March 2018 was £74.591 million (31 March 2017: £63.463 million). This was held with the following institutions:

	Rating as at 31 March 2018	Balances as at 31 March 2017 £'000	Balances as at 31 March 2018 £'000
Money market funds			
Aberdeen	AAAm	6,340	0
Blackrock	AAAm	6,340	0
Deutsche	AAAm	6,340	6,560
Federated Investors UK	AAAm	6,340	7,390
Insight	AAAm	0	7,390
Standard Life	AAAm	6,340	7,390
Bank deposits			
Barclays	A	0	5,580
Lloyds	A	1,000	7,400
Nationwide Building Society	AAA	10,000	5,000
Nordea Bank AB	AA-	10,000	5,000
Rabobank	A+	5,000	5,000
Santander UK	AAA	0	5,000
Svenska Handelsbanken	AA-	4,810	4,060
Toronto-Dominion Bank	AAA	0	5,000
Treasury bills			
UK Government	A	953	3,821
Total		**63,463**	**74,591**

15c) Liquidity risk

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

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert into cash. As at 31 March 2018 the value of illiquid assets was £955 million, which represented 14.8% of the total fund assets (2016/17 £830 million, which represented 13.6% of the total fund assets).

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

All financial liabilities at 31 March 2018 are due within one year.

Refinancing risk

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

16. Funding arrangements

In line with The Local Government Pension Scheme Regulations 2013, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place at 31 March 2016. The next valuation will take place at 31 March 2019.

The key elements of the funding policy are:

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

The aim is to achieve 100% solvency over a period of 19 years from 1 April 2017 and to provide stability in employer contribution rates by spreading any increases in rates over a period of time. Solvency is achieved when the value of assets held are equal to 100% of the Solvency Target as defined in the Funding Strategy Statement.

At the 2016 actuarial valuation, the Fund was assessed as 81% funded (80% at the March 2013 valuation). This corresponded to a deficit of £1,240 million (2013 valuation: £1,087 million) at that time.

Contribution schedules have been agreed for the two groups of employers. Generally, employers in the Scheduled Body Group are required to pay 14.1% of Pensionable Pay over 2017/18, increasing by 1% of Pensionable Pay per annum for 2 years followed by 16.9% of Pensionable Pay from 1 April 2020. In addition, most Scheduled Body employers will continue to pay shortfall contributions based on the amounts being paid over in 2016/17, but increasing at 8.8% p.a. with effect from 1 April 2017 for 3 years and increasing by 3.9% p.a. thereafter until 31 March 2036. Employers in the Admission Body Group are required to pay 16.6% of Pensionable Pay over 2017/18, increasing by 1% of Pensionable Pay per annum for two years followed by 19.1% of Pensionable Pay from 1 April 2020. In addition, most Admission Body employers will continue to pay shortfall contributions based on the amounts being paid over in 2016/17, but increasing at 20.0% p.a. on 1 April 2017 and increasing by 3.9% p.a. thereafter until 31 March 2036.

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

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

Financial assumptions

Full details of the assumptions used by the Fund’s actuary are set out in the 2016 actuarial valuation report and summarised in the Statement of the Actuary.

Generally a common set of assumptions are adopted for all employers in the Fund with the exception of the discount rate (assumption for future investment returns) which is dependent on the circumstances of the employer. In setting the discount rate the actuary takes into account the financial risk of the employer and, if the employer is expected to exit the Fund in the future, the funding target that will be used in an exit valuation under Regulation 64.

The main actuarial assumptions that were used for the secure scheduled bodies in the Scheduled Body Group in the March 2016 actuarial valuation were as follows:

Financial assumptions:

Discount rate	4.5% a year
Rate of general pay increases	3.5% a year
Rate of increase to pension accounts and deferred pension increases	2.0% a year
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.0% a year

The assets were valued at market value.

Demographic assumptions:

A 65 year old male pensioner retiring in normal health in 2016 was assumed on average to live to 88.9 (rather than 89.6 under the assumptions adopted at the previous valuation). A 65 year old female pensioner retiring in normal health in 2016 was assumed on average to live to 91.9 (rather than 91.4).

Commutation assumption:

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

50:50 option:

All active members were assumed to remain in the Scheme they are in at the valuation date.

17. Actuarial present value of promised retirement benefits

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

In order to assess the value of the benefits on this basis, the actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see

Note 16). The actuary has also valued ill health and death benefits in line with IAS 19.

The actuarial present value of promised retirement benefits at 31 March 2016 was £7,595 million (31 March 2013: £6,565 million). The Fund Accounts do not take account of liabilities to pay pensions and other benefits earned after the valuation date.

As noted above the liabilities above are calculated on an IAS 19 basis and therefore differ from the results of the 2016 triennial funding valuation (see Note 16) because IAS 19 stipulates a discount rate rather than a rate which reflects market rates and the circumstances of employers.

The principal financial assumptions used by the Fund's actuary for the March 2016 IAS 19 calculation were:

Discount rate	3.4%
RPI inflation	2.9%
CPI inflation / pension increase rate assumption	1.8%
Salary increase rate	3.3%

18. Current assets

	31 March 2017 £'000	31 March 2018 £'000
Debtors:		
- Contributions due - employees	11,304	575
- Contributions due - employers	22,966	34,443
- Transfer values receivable (joiners)	4,720	1,521
- Tax	5,915	5,167
- Sundry debtors	8,613	12,168
Cash balances	163,126	118,127
Total	**216,644**	**172,001**

Analysis of debtors

	31 March 2017 £'000	31 March 2018 £'000
Central government bodies	4,158	6,789
Other local authorities	21,758	17,697
Other entities and individuals	27,602	29,388
Total	**53,518**	**53,874**

19. Current liabilities

	31 March 2017 £'000	31 March 2018 £'000
Sundry creditors	4,987	5,058
Transfer values payable (leavers)	12,426	0
Benefits payable	993	537
Tax	455	547
Total	**18,861**	**6,142**

Analysis of Creditors

	31 March 2017 £'000	31 March 2018 £'000
Central government bodies	457	582
Other local authorities	12,966	773
Other entities and individuals	5,438	4,787
Total	**18,861**	**6,142**

20. Long term debtors

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

The actuary determined that as insufficient assets remain to cover the remaining liabilities, a balancing payment of £15.213 million was required to the Fund by the Civil Service (Her Majesty’s Courts Service) to be spread over 10 instalments commencing April 2012. The total amount of the remaining debt is £6.085 million; of this the following year’s instalment (£1.521 million) is classified as a debt repayable in one year, and the remaining balance £4.564 million is a long term debtor.

	31 March 2017 £’000	31 March 2018 £’000
Magistrates Courts - agreed liability settlement due from central government body	6,085	4,564
Total	**6,085**	**4,564**

21. Additional voluntary contributions

	Market value 31 March 2017 £’000	Market value 31 March 2018 £’000
Prudential	8,274	10,250
Zurich	8,188	7,503
Equitable Life	1,115	1,073
Total	**17,577**	**18,826**

During the year, AVCs of £3.051 million were paid directly to Prudential (2016/17: £2.491 million), £0.680 million to Zurich (2016/17: £0.987 million), and £0.006 million to Equitable Life (2016/17: £0.006 million).

22. Related party transactions

The Hampshire Pension Fund is administered by Hampshire County Council. Consequently, there is a strong relationship between the County Council and the Pension Fund. The County Council is also the single largest employer of members of the Pension Fund and contributed £104.587 million to the Fund in 2017/18 (2016/17 £96.996 million).

During the reporting period, the County Council incurred costs of £2.458 million (2016/17: £2.275 million) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses.

The key management personnel of the Fund are the Director of Corporate Resources of Hampshire County Council, acting as Treasurer to the Fund, and the Head of Pensions, Investments and Borrowing. Both of these officers charge a proportion of their time to the Hampshire Pension Fund as part of the County Council’s charge for the administration of the Fund above. Details of the salary of the Director of Corporate Resources can be found in the main accounts of Hampshire County Council.

Part of the Pension Fund cash holdings are invested on the money markets by the treasury management operations of Hampshire County Council. During the year to 31 March 2018, the Fund had an average cash balance of £74.300 million (year to 31 March 2017: £123.100 million), earning interest of £0.241 million (2016/17 £0.490 million) on these funds.

23. Contingent liabilities and contractual commitments

Outstanding capital commitments (investments) at 31 March 2018 totalled £227.584 million (31 March 2017: £160.642 million). These commitments relate to outstanding call payments due on unquoted private equity limited partnership funds held in the alternative investments part of the Fund. The amounts ‘called’ by private equity funds are irregular in both size and timing over a period of between four and six years from the date of each original commitment.

24. Contingent assets

The Fund had no contingent assets on 31 March 2018.

25. Impairment losses

During 2017/18, the Fund has recognised an impairment loss for bad and doubtful debt of £0.033 million (2016/17: £0.042 million) for possible non-recovery of pensioner death overpayments, and there were no potential non-payment of cessation values where the employer is not backed up by a guarantee on 31 March 2018.

Annual Governance Statement for Hampshire County Council and Hampshire Pension Fund

1. Scope of Responsibility

Hampshire County Council is responsible for ensuring that:

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

These responsibilities also extend to the administration of the Hampshire Pension Fund, which is undertaken by the Pension Fund Panel and Board. The combined Panel and Board is responsible for investment, management and governance of the Fund. This Statement explains how the County Council has complied with the Code and meets with the requirements of the Accounts and Audit (England) Regulations 2015 in relation to the publication of an Annual Governance Statement during 2017-2018.

2. The purpose of Corporate Governance

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

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

The governance framework has been in place at Hampshire County Council for the year ending 31 March 2018 and up to the date of approval of the annual report and the statement of accounts.

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

Code of Corporate Governance

3. Core Principles of good governance

3.1 Behaving with Integrity, demonstrating strong commitment to ethical values, and respecting the rule of law

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

3.1.2 The County Council is committed to the highest ethical standards and has adopted a governance framework to re-enforce this philosophy as well as procedures to investigate any issues should the need arise. The framework, policies and procedures are set out in the County Council's Code of Corporate Governance which was adopted by the County Council during 2016-17. The Code of Corporate Governance demonstrates a comprehensive commitment on the part of the County Council to integrity, ethical values and the rule of law.

3.1.3 An officer group comprising the Head of Governance and representatives from Democratic and Member Services, Legal Services and the Insight and Engagement Unit has been established to specifically monitor new legislation. The Legislation Implementation and Review Group meet quarterly, or as required, and provides an effective mechanism for tracking new legislation and ensuring that the County Council is taking appropriate steps to implement it.

3.2 Ensuring openness and comprehensive stakeholder engagement.

3.2.1 The County Council's Corporate Strategy – the *Serving Hampshire* Strategic Plan - contains clear strategic aims which are communicated on the County Council's website and through various communications. The Plan provides an operating model for business planning and is informed by various departmental and partnership strategies and priorities.

3.2.2 Clear guidance and protocols on decision making, effective arrangements for the approval of exempt reports and easy to use templates for decision reports and records ensure that that the County Council takes decsions in public when appropriate and after a full consideration of relevant factors. Details of the framework relevant to decision making is set out in the Corporate Governance Framework.

3.2.3 Public consultation to inform decision making is undertaken in accordance with the County Council's Consultation Policy, which includes five principles of consultation setting out when and how the County Council will consult the public. Significant consultation is supported by the County Council's Insight and Engagement Unit team who operate within the Market Research Society's ethical Code of Conduct.

3.2.4 The results of all significant consultations are presented at the relevant Executive Member Decision Day to demonstrate how participants' views have been taken into account.

3.2.5 Each financial year, an annual report on the Pension Fund is prepared for the Fund's employers to consider at an Annual Employers Meeting to be held by 31 October in the next financial year. The report covers the Fund's accounts, investment arrangements and policy, investment performance, scheme changes and other issues of current interest.

3.2.6 In the autumn, a summary of the accounts, investment management and administrative arrangements is made available online to current, pensioner, and deferred members.

3.2.7 The Statement of Investment Principles is published and made available to scheme employers within three months of any amendments.

3.2.8 Annual benefit statements are provided to contributors and deferred pensioners, together with an annual newsletter to pensioners

3.3 Defining outcomes in terms of sustainable economic, social and environmental benefits.

3.3.1 The strategic aims set out in the *Serving Hampshire* Strategic Plan include a description of the County Council's overarching ambitions for delivering positive economic, social and environmental outcomes for Hampshire. These aims are underpinned by a series of key priorities, which reflect, and are supported by, other detailed departmental plans and strategies. Progress against the strategic aims and priorities is tracked through quarterly performance updates to the County Council's Corporate Management Team and Cabinet. Arrangements for reporting corporate performance are set out in the County Council's Corporate Management Framework. All reports to decision making bodies must also demonstrate their link to the *Serving Hampshire* Strategic Plan, as well as the results of the relevant impact assessments.

3.4 Determining the interventions necessary to optimise the achievement of the intended outcomes.

3.4.1 Clear guidance and protocols for decision making and the involvement of legal and finance officers in all significant decsions of the County Council ensures that decsions are only made after relevant options have been weighed and associated risks assessed. Details of the guidance and protocols are set out in the Code of Corporate Governance.

3.4.2 The Director of Corporate Resources advises the Pension Fund Panel and Board on all Pension Fund investment and administrative matters.

3.4.3 The Pension Fund's independent adviser, advises the Panel and Board on investment matters.

3.4.4 The Pension Fund Panel and Board uses the Fund's actuary and other consultants as necessary, for advice on matters when in-house expertise is not available. The Panel and Board takes advice from the actuary, the Fund's investment managers or specialist consultants or advisers as required on allocating assets, selecting investment managers, and investment performance targets.

3.4.5 Equality Impact Assessments (EIAs) are used throughout the organisation to assess the impact of service proposals and to inform decision making. A review group comprising the Head of Legal, Head of Finance, Corporate Equalities Lead and Assistant Chief Executive undertake periodic cumulative EIAs to understand the overall impact of service proposals on groups with characteristics protected under the Equalities Act (2010).

3.4.6 The budget setting process is well established and Departments prioritise budgets and spending in order to achieve intended outcomes. In recent years the budget setting process has inevitably focussed on the achievement of savings to meet reductions in Government grant funding but this aims to be achieved whilst remaining true to the Council's strategic aims and objectives. This includes the consideration of the wider social value that the County Council can generate through its operations.

3.4.7 A medium term financial strategy and three year capital programme is updated each year together with relevant resource forecasts and takes full account of the changing regulatory, environmental, demographic and economic factors that impact on the financial environment in which the County Council operates.

3.4.8 Risks associated with the achievement of intended outcomes are detailed in Risk Registers held at Corporate, Department and project level. These evaluate the effectiveness of existing control measures as well as identifying proposed mitigation.

3.5 Developing the County Council's capacity including the capability of its leadership and the individuals within it

3.5.1 The relationship between Members and Officers is led by the Leader of the Council and the Chief Executive who have established a culture of mutual respect and co-operation. The role of the Chief Executive is set out in the County Council's Constitution and is well understood by the Members of the County Council. The Protocol for Member Officer Relations also provides clear guidance for both officers and Member on how to mange their relationships effectively.

3.5.2 The County Council has a well-established cross-party forum, the Member Development Group (MDG) that supports and oversees the development of Members in a number of ways, such as internal and external briefings and courses. This includes a well received monthly Briefing Programme together with ad hoc departmental briefings. The MDG is supported by the Democratic & Member Services Manager (Partnerships and Member Support) and the People Change Commissioner in the Workforce Development Team.

3.5.3 Members of the Joint Pension Fund Panel and Board and officers in Corporate Services have opportunities to attend training courses and seminars on pension fund matters, when necessary and appropriate.

3.5.4 A training plan for members of the Joint Pension Fund Panel and Board has been prepared, and training logs for individual members are maintained.

3.5.5 The County Council regularly reviews the shape of its workforce against the needs of the service in the context of its capacity and capability requirements. This then informs a range of strategies, for example; recruitment, retention, operating models, ways of working and people development in order to provide effective leadership and deploy appropriate resources to meet the needs of services.

3.5.6 The Council's Valuing Performance policy provides a framework for staff and managers to meet, discuss and set goals in line with service requirements, following which regular reviews of performance, learning and progress takes place. Staff are held accountable for their own and their teams performance and are encouraged to use the range of learning opportunities that are available across the Council.

3.5.7 There is an emphasis on the need for high performance and resilience, of which health and wellbeing and continuous development are critical elements in the regular discussions between managers and staff.

3.6 Managing risks and performance through robust internal control and strong public financial management.

3.6.1 The County Council's Corporate Strategy is underpinned by the Corporate Performance Management Framework, which establishes how the quality of services for users is to be measured and reviewed on a regular basis. This includes quarterly reporting of progress against the *Serving Hampshire* Strategic Plan. The County Council's Annual Performance Report is published on the County Council's website and includes a summary of key areas of performance, including an analysis of any major performance risks and mitigations, as well as providing an overview of sources of external validation and customer feedback.

3.6.2 The County Council has in place a Risk Management Strategy, with oversight of arrangements provided by the Risk Management Board. The Audit Committee are responsible for considering the effect of the County Council's risk management arrangements.

3.6.3 A comprehensive Information Governance Framework is in place, overseen by the Risk Management Board, chaired by the Senior Information Risk Officer.

3.6.4 The Internal Audit Plan provides the mechanism through which the Chief Internal Auditor can ensure most appropriate use of internal audit resources.

3.6.5 The Audit Plan 2017 – 18 was developed to operate at a strategic level providing a value adding, and proportionate, level of assurance aligned to the County Council's key risks and objectives, this includes a periodic review of the County Council's risk management processes.

3.6.6 The audit plan remains fluid to ensure internal audit's ability to react to the changing needs of the County Council.

3.6.7 The internal audit plan incorporates provision for both proactive and reactive counter fraud and corruption work, which is underpinned by an embedded Anti Fraud & Corruption Strategy and Policy and Anti Bribery Act Policy.

3.6.8 The delivery of the internal audit plan enables the Chief Internal Auditor to provide an annual report providing an opinion on the overall adequacy and effectiveness of the framework of governance, risk management and control which is reported to Senior Management and the Audit Committee.

3.6.9 The County Council's Audit Committee is well established and reports to Full Council. Members of the Audit Committee have no executive responsibility for the management of the organisation, thus ensuring that they are sufficiently independent to scrutinise and challenge matters brought to their attention.

3.6.10 The Audit Committee has a clear 'Terms of Reference' providing an effective source of scrutiny, challenge and assurance regarding the arrangements for managing risk and maintaining an effective control environment.

3.6.11 The County Council has a well-developed and effective scrutiny function, the structure of which is formalised through the County Council's Constitution. This function is resourced to ensure that Members are able to robustly challenge the Council's decision-making, have active engagement in policy review and development, and monitor the performance of the County Council as a whole.

3.6.12 The County Council has strong financial management arrangements at both the strategic and operational level and consistently obtains unqualified opinions for its annual accounts and value for money assessment. The Section 151 Officer is a member of the Corporate Management team and all formal financial decision making has the benefit of the advice and review of the Chief Financial Officer or her representative.

3.6.13 Key financial regulations and financial strategies form an important part of the Corporate Governance Framework together with effective risk based financial and performance reporting.

3.6.14 Financial management in key risk areas across the County Council focusses on activity and performance management alongside the budget management processes and the financial management framework throughout all tiers of the organisation is appropriately advised and supported by the Finance Department, with a particular focus on the change management programmes that have been a feature of Departmental activity for many years.

3.7 Implementing good practices in transparency reporting and audit to deliver effective accountability.

3.7.1 The decision making guidance, protocols and templates referred to in the Code of Corporate Governance and the involvement of senior departmental officers, legal officers and finance officers ensures that public reports are written in a clear and accessible way with sufficient information to enable members of the public to formulate informed opinions on the matters for decision.

3.7.2 The Corporate Performance Management Framework provides a transparent cycle of reporting on core performance metrics to CMT and Cabinet. Performance information is published online and is easily accessible to staff, partners and the public.

3.7.3 The 'Internal Audit Charter' is presented annually for approval by the Audit Committee. The Charter makes provision that 'Where it is considered necessary to the proper discharge of the internal audit function, the Chief

Internal Auditor has direct access to elected Members of the Council and in particular those who serve on committees charged with governance (i.e. the Audit Committee).'

3.7.4 The on-going work of internal audit is presented through a quarterly progress report to Audit Committee providing an overview of service performance; delivery against the plan; and progress made by the organisation in the implementation of management actions agreed to mitigate risks identified through internal audit work.

3.7.5 Representatives of External Audit routinely attend Audit Committee meetings and present all External Audit reports. Any recommendations for corrective action detailed within External Audit reports are highlighted to Members who will track through to implementation. This is achieved through the clear and concise nature of the minutes to each meeting couple with the inclusion of any overdue recommendations within the internal audit progress report.

3.7.6 The internal audit plan includes provision to review the County Council's approach to governance, risk and controls for partnership working. Such reviews are formally reported through the Audit Committee with any significant issues highlighted accordingly.

3.7.7 Where appropriate internal audit will gain assurances from third parties to contribute to their overall assurance opinion.

3.7.8 Financial reporting complies with relevant statute, codes and good practice guidance and financial and performance information are reported consistently throughout the year alongside each other. Where relevant and appropriate performance comparisons are made to other organisations.

4 Obtain assurances on the effectiveness of key controls

4.1 Appropriate assurance statements are received from designated internal and external assurance providers.

4.2 Key controls relating to risks, internal control (including financial management), and governance processes are identified by managers as part of the governance framework and recorded on regular returns. These are consolidated into the risk registers at corporate and departmental level. Internal Audit, as part of its planned review of internal controls regularly evaluates the key controls to determine their adequacy and also carries out tests to confirm the level of compliance. Together the results of each review enable an audit opinion on effectiveness to be provided to management, and any actions for improvement to be agreed.

This assurance is given to each manager in respect of the controls they are responsible for in the form of an audit report and regular summaries are provided for Chief Officers and the Audit Committee to ensure each level of the County Council's management is kept informed of findings and opinions.

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

4.4 External sources of validation are being increasingly used to inform assessment of the organisations performance as a core part of the Corporate Performance Framework.

5 Evaluate assurances and identify gaps in control/assurance

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

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

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

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

- a self assessment assurance statement being completed every year by all Chief Officers giving assurance about the governance arrangements in their Departments.

- consultation with other relevant officers throughout the County Council.

5.5 The assurance statements cover a range of Corporate Governance and performance issues and they refer to the existence, knowledge and application within departments of governance policies generally.

5.6 In line with the Internal Audit Charter approved by the Audit Committee in June, 2017 and which is available on the County Council's website, the key elements of the Corporate Governance framework are risk assessed and reviewed periodically by Internal Audit.

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

5.8 Departmental Corporate Governance assurance statements were sent out to Departments in 2017.

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

6.1 Work will continue to establish the new *Serving Hampshire* Strategic Plan, and to finalise the revised Corporate Performance Framework. New systems for the collection and analysis of customer experience are being developed to support the ambition to place greater emphasis on customer feedback and external sources of validation. This work includes the development of methods to engage employees further and capture staff feedback.

6.2 The County Council understands that the working environment is becoming more challenging and that prolonged periods of excessive pressure have a negative impact on health. As a responsible employer it is important that the County Council takes action to promote the health of staff and mitigate any risks to their health and to the quality of the services that they provide to Hampshire citizens. Given this, the County Council is taking steps to ensure an organisational approach to workplace health and wellbeing and is developing a workplace programme of activity, including a staff survey, which will initially focus on promoting, supporting and championing resilience and mental wellbeing in the workplace.

6.3 The County Council will continue to take steps to embed the changes in data protection law resulting from the General Data Protection Regulations and associated UK legislation, including the review and adoption of new Policies, processes and procedures. Regular reports on progress will be presented to the Risk Management Board.

6.4 Resources have been put in place to bring maintenance and monitoring of MySQL databases which historically have sat outside of the corporate support model, into alignment with the rest of the infrastructure. In addition, documentation to support the decision making process and procedures to update / patch the SAP environment will be put in place

6.5 Audits undertaken in the 17-18 year within the Adults' Health and Care Department have shown that recording on AIS has been at times incomplete or absent. In other instances the recording has not been completed consistently or within the expected timeframe. The Department is implementing a wide range of actions to seek to continuously improve including raising awareness of the issue and the responsibilities of staff and managers through staff communications and manager cascade; updating staff training; and refreshing the Social Care Practice Manual. The Department's Safeguarding, Quality and Governance Team are proactively following this up and auditing progress to ensure improved compliance with Departmental expectations. The Department is also undertaking a fundamental review of current processes as part of the Working Differently programme to improve staff recording, this includes streamlining the approach to and recording of case management notes to simplify and to focus on the key information. In the medium term, Adults' Health & Care are in the process of acquiring a new social care system which will further streamline the approach to recording and improve the ways that staff are able to do this, for instance enabling staff to update the system in real time in a mobile way out of the office.

6.6 The County Council will undertake a review of its Insurance Arrangements, including the levels and scope of insurances and an analysis of its risk appetite in respect to retained risk.

6.7 The County Council's Risk Management Board will undertake a review of the County Council's Risk Management Strategy including the operation of corporate and departmental risk registers.

6.8 The County Council's Departments will review their contract management arrangements taking a more proactive risk based approach.

6.9 Internal Audit are currently compiling a Council wide 'assurance map' to ascertain all assurances received to mitigate controls in place to manage the organisation's key risks, The outcome of this work will be presented to the Audit Committee to inform the effective discharge of their duties.

6.10 Corporate Resilience is a priority for the County Council, and as such renewed engagement with all County Council Departments has begun in order to ensure compliance with the Corporate Resilience Strategy. The new Corporate Resilience Framework will be published and tested in 2018, and supported by new guidance for Departmental level plans and a new template for Service Recovery Plans. The new template will ensure that easier language and formatting is used to enable service level users to interact better with their plans. This will be supported by greater departmental level engagement and support by the Emergency Planning Team.

6.11 A thorough analysis of all DBS related processes and technology has been carried out, resulting in a detailed action plan that is being managed by a dedicated project team. The Action Plan will ensure that all corrective action is undertaken in a controlled and robust manner and includes carrying out a complete review of all DBS data held on SAP as an initial activity. All data omissions or inaccuracies will be corrected in SAP by the end of August 2018. In addition to the immediate changes already put in place to ensure better compliance with policy and assurance that all checks are initiated and recorded appropriately, the project team will also review and, if necessary, implement further changes to business processes within the Recruitment Team to further tighten the process. An assessment of the current technologies being used to initiate and record both new employments and changes or moves to existing employments is underway with the objective of identifying and developing further system controls and validations within the end to end process. Additionally, improvements to how the organisation and managers can monitor DBS checking compliance and data recording will be addressed. A cross-cutting theme from the review will be to update and enhance guidance and clarify roles and responsibilities of both hiring managers and the Recruitment Team to support the steps required to successfully complete recruitment in line with safer recruitment requirements and expected accountabilities

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

In response to the Action Plan identified in the 2016-2017 Annual Governance Statement:-

7.1 Work has been undertaken to develop a new Strategic Plan, to replace the previous Corporate Strategy Shaping Hampshire. The new *Serving Hampshire* Strategic Plan covers the period 2017-2021. The County Council updates records of its sources of external validation every six months. Alongside the Serving Hampshire performance measures, this external validation source informs the County Council's judgement of overall performance. The new Strategic Plan will be underpinned by a revised Performance Management Framework, providing the local governance structure for performance management and reporting to Cabinet. As agreed by Cabinet in 2016, the revised Framework includes a more extensive use of the outcomes of external assessments as well as customer feedback in judging the organisation's overall, annual performance and subsequent areas for improvement. These combined sources of information sit alongside the County Council's existing programme of internal audit and the annual equality and corporate governance statements, including staff feedback. Regular reporting against an agreed set of performance indicators will continue to be undertaken aligned to the priorities identified in the revised Strategic Plan.

7.2 The Risk Management Board oversaw the implementation of the improvements agreed following the Information Commissioner's consensual audit. These actions were included in the County Council's preparations for implementing the General Data Protection Regulation and associated UK legislation.

7.3 Following further investigation it was agreed by the Digital 2 Board to not proceed with automated dashboard reporting for corporate performance indicators as the cost in staff time outweighs the benefit. Existing processes meet current reporting requirements.

7.4 The proposed role of the Channel Design Authority has been incorporated into the Digital Board.

7.5 The Members Development Group were fully involved in reviewing and shaping the Member Induction Programme following the County Council all out Election in 2017 and have undertaken an important mentoring role within their political groups to the 30 new Members that were elected. All new Members attended a number of Workshops to provide information about their role, including decision making and overview and scrutiny. The Workshops also presented returning Members with a refresher opportunity.

Declaration

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit Committee and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework. The areas already addressed and those to be specifically addressed with new actions planned are set out in this Statement.

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed:	Signed:
Chief Executive	Leader of the Council
Date:	Date:

Glossary

Academies
Publicly funded independent schools, free from local authority and national government control. Freedoms held by academies include the ability to set their own pay and conditions for staff, freedoms around the delivery of the curriculum, and the ability to change the lengths of terms and school days. The income, expenditure and assets of academies within Hampshire do not form part of the Council's accounts.

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

Actuary
A person or firm who analyses the assets and future liabilities of a pension fund and calculates the level of employers' contributions needed to keep it solvent.

Admitted bodies
These are employers who have been allowed into the Hampshire Pension Fund at the County Council's discretion.

Alternative investments
These are less traditional investments where risks can be greater but potential returns higher over the long term, for example investments in private equity partnerships, hedge funds, commodities, foreign currency and futures.

Amortisation
The process of writing down the cost of an asset or liability through depreciation or repayment of principle over a suitable period of time.

Assets held for sale
Assets that the Council intends to sell within the next year and are actively marketed as such.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Deposit
Receipt held that is repayable in prescribed circumstances.

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

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

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

Developers' contribution
Developers may be required to provide contributions for building infrastructure. These may result from the Community Infrastructure Levy, section 106 and section 278 planning obligations, or planning conditions.

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

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

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

Earmarked reserve
See Reserve.

Equities
Shares in UK and overseas companies.

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

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

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

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

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

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

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

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

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

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

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

Historical cost
The amount originally paid for a fixed asset.

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

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

Intangible assets
Assets that do not have physical substance but are identifiable and controlled by the Council and bring benefits to the Council for more than one year. Typical examples include software licences, internally developed software and websites developed to deliver services rather than information about services.

Internal trading account
A service within the Council that operates on a trading basis with other parts of the Council.

International Financial Reporting Standards (IFRS)
International accounting standards that govern the treatment and reporting of income and expenditure in an organisation's accounts, which came fully into effect from 1 April 2010.

Inventories
Goods that are acquired in advance of their use in the provision of services or their resale. At the year-end inventories are a current asset in the balance sheet and they will be charged to the CIES in the year they are consumed or sold.

Investment property
Property (land or buildings) that are held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both.

Lessee
The party that leases an asset that is owned by another party.

Lessor
The owner of an asset which is leased to another party.

Local Government Pension Scheme (LGPS)
The LGPS is a nationwide scheme for employees working in local government or working for other employers participating in the Scheme.

Long-term asset
An asset that may be held indefinitely for the provision of services or is realisable over a longer period than one year.

Long-term borrowing
A loan repayable in more than one year from the Balance Sheet date.

Long-term debtor
An individual or body that owes money to the Council that is not due for payment within one year from the Balance Sheet date.

Minimum revenue provision (MRP)
The minimum amount (as specified in statute) which must be charged to the CIES each year and set aside as a provision for repaying external loans and meeting other credit liabilities.

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

Net assets statement
A statement showing the net assets of the Pension Fund.

Net book value (NBV)
The value of an asset as recorded in the accounts. This usually equates to the net current replacement or original cost less any depreciation charged against the asset over its life to date.

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

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

Non-ringfenced government grants
Amounts received from central Government towards funding the Council's activities that are not required to be spent on a particular service.

Operating lease
Under this type of lease, the risks and rewards of ownership of the leased goods remain with the lessor.

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

Past service cost
For a defined benefit pension scheme, the increase in the present value of the scheme's liabilities related to employee service prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

Payment in advance
A payment for a service due to be received in a future financial year.

Pooled budget
Partners contribute a set amount of money to form a separate budget. The purpose and scope of the budget is agreed at the outset and then used to pay for relevant services and activities.

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

Private equity
Mainly specialist pooled partnerships that invest in private companies not normally traded on public stock markets – these are often illiquid (i.e. not easily turned into cash) and higher-risk investments that should provide high returns over the long term.

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

Projected unit method
One of the common methods used by actuaries to calculate a contribution rate to the LGPS, which is usually expressed as a percentage of the members' pensionable pay.

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

Public Works Loan Board (PWLB)
A central government agency that provides loans to local authorities at a slightly higher rate than the Government is able to borrow. In most cases, the interest rates offered are lower than local authorities can achieve in the open market. The amounts and purposes for which PWLB loans can be obtained are tightly controlled by the Government.

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

Related party
An organisation, body or individual that has the potential to control or significantly influence the Council, or to be controlled or influenced by the Council.

Reserve
The Council's reserves fall into two categories. The 'unearmarked' reserve is the balance on the General Fund. An 'earmarked' reserve is an amount set aside in the Council's accounts for specific purposes.

Revaluation reserve
Records unrealised net gains from asset revaluations made after 1 April 2007.

Revenue contributions to capital
The use of revenue funds to finance capital expenditure.

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

Revenue expenditure funded from capital under statute (REFCUS)
Expenditure that is classified as capital expenditure under statutory provisions, but does not result in the creation or enhancement of fixed assets owned by the County Council. Such expenditure incurred during the year is treated as revenue expenditure and charged to the relevant service in the CIES.

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

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

SAPS
Self administered pension scheme

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

Short-term investments
An investment that is readily realisable within one year.

Specific grants
Central Government grants to finance a particular service.

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

Surplus assets
Fixed assets held by the Council but not directly occupied, used or consumed in the delivery of services. These are assets that do not meet the criteria to be classified as either investment property or assets held for sale.

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

Transferred debt
Debt serviced by bodies that are independent of the Council following the transfer of services formerly provided by the Council.

Trust fund
A fund set up under a trust deed in which the Council is a trustee.

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

Voluntary aided schools (VA schools)
Mainly religious or 'faith' schools, although anyone can apply for a place. As with foundation schools, the governing body employs the staff and sets the admissions criteria

Voluntary controlled schools (VC schools)
Similar to voluntary aided schools, but are run by the local authority. As with community schools, the local authority employs the school's staff and sets the admissions criteria

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

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