

Hampshire County Council

Statement of Accounts

2016/17

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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 2016/17;
- 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 (a change in requirements from 2015/16 replacing the Explanatory Foreword) 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 2017 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 2016/17
- 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 2016/17.

Statement from the Leader of Hampshire County Council

“As Leader of the County Council, I am pleased to be able to present to you the Statement of Accounts for 2016/17. 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 austerity.”



“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 2016/17 we will have reduced spending by over £242 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 national austerity measures, 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 – in 2017/18 the total savings we will have delivered will rise further to £340 million. We have fewer buildings, fewer staff and are making 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 in order to minimise the impact on residents wherever possible.”

“The Statement of Accounts this financial year have been produced earlier than the statutory requirement as part of preparing for changing timescales which come into force next 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 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 2016/17 draws to a close a further successful financial year for the County Council. Financial performance has been strong across all Departments despite reducing budgets and demand pressures in all areas, but notably within adults' and children's social care.



This Narrative Report, a new addition to the accounts last year, 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 2017.

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 – 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/factsabouthampshire.htm>

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Population 1.32 million (2011 Census)	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 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.

The three corporate strategy objectives outline the overarching long-term ambition for Hampshire:

- **Hampshire safer and more secure for all** – This is our overarching objective and is about developing and supporting stronger, safer communities for all by protecting vulnerable people, maximising safety in the places we live, helping young people to live positive lives and helping diverse communities to feel secure.
- **Maximising wellbeing** – This objective is about maintaining and improving residents' health and quality of life and ensuring everyone has the opportunity to support themselves, be active in their community and have access to the services they need, whilst knowing that should things go wrong, we are there to support them.
- **Enhancing our quality of place** – This objective is all about making the county a good place to be by protecting local distinctiveness and diversity, ensuring excellent facilities, respecting Hampshire's heritage and planning proactively for the future.

Our Strategic Plan for 2017 – 20

The strategic plan provides the overarching framework for the County Council's work. For 2017 – 20, this plan, which was approved by the County Council in July 2017, is called [Serving Hampshire - Strategic Plan 2017-20](#). This plan 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. The Plan comprises four strategic aims:

- Outcome 1: Hampshire maintains strong and sustainable economic growth and prosperity – The first strategic aim relates to Hampshire's future economic growth and prosperity. This is of strategic importance because Hampshire's economic success underpins a number of other positive outcomes for Hampshire's residents and communities.
- Outcome 2: 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 it can make the biggest difference.
- Outcome 3: 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.
- Outcome 4: 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.

The strategic aims are supported by a set of key priorities, and eight 'ways of working' which signal the approach the County Council will take to delivering the four strategic aims.

The Strategic Plan is informed, and underpinned, by various, more detailed plans, including: the Children's and Young People's Plan, Adults' Health and Care Service's vision, the Public Health Strategy, the Customer Contact Strategy, the emerging workforce Wellbeing Strategy, and the County Council's planning approach for its Transformation to 2019 Programme.

In order to maximise access to the Strategic Plan by residents, partners and County Council staff, the Plan has been kept succinct and aims to use simple language. The Strategy will be available as online content via Hantsweb, which will include the option of downloading an [Executive Summary](#).

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's [Medium Term Financial Strategy](#) (MTFS) sets out the financial landscape to 2019/20 and highlights that, following the significant unexpected

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reduction in government grant, by the end of the decade further savings of £238m will be required on top of the £242m of savings generated to 2015/16, even after allowing for council tax increases of 3.99% each year.

These forecasts include significant cost pressures within adults' social care arising from the increased numbers of adults and older people requiring care and complexity of clients' needs, both of which increase the cost to the County Council. In addition, the introduction of the National Living Wage is expected to impact on the costs of services that the County Council buys from external social care providers as it increases during this period.

The forecasts 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 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.

The County Council's early action in tackling its forecast budget deficit over the prolonged period of austerity and providing funding in anticipation of further reductions, placed it in a very strong position to produce a 'steady state' budget for 2016/17, giving itself the time and capacity to develop and implement the Tt2017 Programme to deliver the next phase of savings totalling £98m.

Over the past two plus years, a lot of attention, hard work and commitment has gone into ensuring that the Tt2017 Programme, the hardest cost reduction exercise yet by some margin, could be delivered in full. Delivery has been exceptionally strong and to time, meaning there are no legacy implications as the County Council now turns its attention to the successor programme which will take us to 2019.

Beyond 2017/18, Hampshire County Council will need to develop its Transformation to 2019 (Tt2019) Programme and as part of the MTFs, sufficient funding has been identified to bridge an anticipated £70m budget deficit in 2018/19 in order to allow the current strategy of two year savings targets to continue. This is particularly important for this programme as it becomes successively more difficult to deliver savings on top of what has been generated so far.

The first dedicated Tt2019 Programme report to Cabinet setting out the programme targets, the timetable, early progress and some key issues will be presented to Cabinet on 19 June 2017 alongside the Year End Report. Cabinet have previously agreed the overall £140m savings target (which will bring the cumulative total of savings to £480m over a 10 year period), individual departmental targets and the headline timetable as part of MTFs. Additionally, the Tt2019 Programme featured in the last [Tt2017 Programme report](#) to Cabinet in December of 2016.

There is no doubt from early planning and opportunity assessment work completed by departments over the past six months, 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 10 year plan for school places indicated that around £401m of capital investment would be required, some of which would be met by government grant and developer contributions, leaving a balance of up to £155m to be found from other sources. The County Council is considering a range of options for delivering and funding the school places which will reduce the overall financial burden on the Authority.

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 (46 in 2016/17)
- 19 Liberal Democrats (16 in 2016/17)
- 2 Labour Party (4 in 2016/17)
- 1 the Community Campaign (Hart) (Unchanged)

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 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

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current make up of CMT is detailed below. Note 23b shows the further detail of people that have been in a strategic post during 2016/17:

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

At 31 March 2017, the County Council employed 37,997 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 24,837 at 31 March 2017 as shown below:

Full-Time Equivalent Employees	March 2016	March 2017
Adults' Health and Care	2,752	2,737
Children's Service – Schools	15,500	15,593
Children's Services – Non Schools	2,080	2,086
Economy, Environment and Transport	588	582
Culture, Communities and Business Services	2,361	2,375
Corporate Services	1,388	1,464
Total	24,669	24,837

This is a net increase of 168 since the snapshot position on 31 March 2016 which is in part due to an increase of 95 in school-based staff but also reflects additional resources across the County Council focused on driving the transformation and digital programmes, in addition to some income earning and grant funded posts. The transformation and digital activity has been key in delivering the £98m of savings required for 2017/18 and beginning the work to underpin delivery of the next £140m target.

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 protecting frontline services and reducing the impact on those in most need.

The County Council's Performance Management Framework (PMF) provides the local governance structure for performance management and reporting to Cabinet.

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The PMF specifies that Cabinet receives an annual report on the County Council's performance against the strategic priorities set out in Shaping Hampshire.

In order to report progress against Shaping 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.

Overall performance against Shaping Hampshire remained good during 2016/17, evidencing strong performance in the delivery of core services. Performance against targets and improvement trend: Based on the most recent data available at the start of 2016/17, 53% of all measures reported against showed improvement. 52% of all improvement targets, as set by departments, were met.

The majority of measures were rated green, low risk, indicating they were either on track to achieve their performance target or, where performance was not in line with target, performance remains within tolerance levels and has not declined for more than one consecutive period.

Performance highlights for 2016/17 are:

- Over 98% of parents applying for a Year 7 place at a Hampshire secondary school from September 2017 were offered a school of their choice - with over 93% getting a place at their preferred first choice school. This is consistent with performance in previous years.
- Hampshire students continue to outperform the national average in their GCSEs. Under the new Attainment 8 system Hampshire students achieved a score of 51.1 - performing above the national average of 49.9.
- Hampshire's Children's Services' and partners' response to domestic abuse is strong, robust and highly effective, according to the results of a Joint Targeted Area Inspection undertaken by national agencies in December 2016.
- The rate of admissions of people aged 65 (per 100,000 of the population) into new permanent residential and nursing care reduced from 617 in March 2016 to 565 in 2016/17.
- The County Council's 2016 surface dressing programme was successfully completed two weeks early, prolonging the life of over 165 miles of roads across Hampshire.
- The County Council was presented with Gold Award by the Ministry of Defence Employer Recognition Scheme in acknowledgement of its commitment to the Armed Forces, both as a local authority and employer.
- Hampshire's five country parks have all been recognised with Green Flag awards, reflecting their status as some of the best parks and green spaces across the country.
- CO2 emissions from local authority activity have fallen by 35.8% since 2010 - on target for a 40% reduction by 2025.

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- Five athletes who won medals at Rio's Olympic and Paralympic games were supported through the Hampshire Talented Athlete Scheme (HTAS), winning a total of eight medals - six golds, one silver and one bronze.
- £420,000 was awarded to the County Council by the Cabinet Office as part of the One Public Estate programme to develop projects and initiatives that will increase efficiency through joint working with other local authority organisations.
- The County Council successfully secured £440,000 funding from the Government to promote green forms of transport in rural areas.
- £4.3m in savings were generated this year by County Supplies, with prices over 40% cheaper compared with six key providers (based on a sample basket of items).
- The County Council was assessed as providing high assurance for how it manages data protection by the Information Commissioner's Office (ICO) following an external audit – the highest level that can be achieved.
- As part of its award winning web content strategy, the County Council redesigned 4,000 web pages and reduced the total number of pages by 57% - making it easier for residents to find the information they need online.

A more extensive list of key performance achievements is included in the 2016/17 Annual Performance Report presented to Cabinet on 19 June 2017 available via the following link: [Cabinet meeting 190617](#) (item 9).

The County Council's Financial Performance

Revenue Position

The financial year 2016/17 was the first year of the new Comprehensive Spending Review (CSR) period, which continued the period of austerity begun in 2010. Expectations were that significant grant reductions would continue and that was the case.

Hampshire County Council operates a two year cycle of savings targets in order to give sufficient time for savings to be planned and implemented effectively and appropriately. The County Council developed a programme of savings to take the County Council through to 2017/18 (Tt2017), which built on the £242.5m savings already achieved by April 2015. The County Council's early response to these reductions placed it in a very strong position for the 2016/17 budget.

2016/17 is an interim year in the two year cycle and therefore no savings targets were set. Consequently, the budgets for services were mainly a roll forward of the 2015/16 position and no major service changes were planned for the year. A significant draw from the Grant Equalisation Reserve (GER) had always been planned for this year, but options existed for increasing council tax in order to reduce the draw from balances.

However, following the Local Government Finance Settlement released in December 2015, the County Council unexpectedly lost an additional £29m of grant in 2016/17

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and the Government made the assumption that all councils would put up council tax by the maximum permissible.

The County Council therefore put up council tax by 3.99%, 2% of which was specifically for social care services, but still needed to draw £53m from reserves to balance the budget. Following representations by County Councils in particular, the Government did provide some transitional funding to those authorities who lost the most grant and Hampshire received just over £9m extra in 2016/17, reducing the final planned draw from the GER to £44m.

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

	2015/16	2016/17
	%	%
Council Tax	27	29
Business Rates	2	2
General Government Grants	11	10
Fees, Charges and Interest	13	14
Specific Government Grants	47	45
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:

	2015/16	2016/17
	%	%
Staff Costs	45	48
Running Expenses	50	50
Capital Financing	5	2
Total	100	100

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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 2016/17 the split of expenditure across the key service areas was as follows:

	2015/16	2016/17
	%	%
Adults' Health and Care	25	25
Children's Services – Schools	47	47
Children's Services – Non Schools	10	10
Economy, Transport and Environment	10	9
Policy and Resources	8	8
Other Services	0	1
Total	100	100

The budget for 2016/17 was approved by the County Council on 18 February 2016 and the budget requirement (which is the net budget met by council tax, business rates and government grant) for 2016/17 was set at £732.6m. 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 they are allowed each year in the period to 2020. For Hampshire County Council this was 3.99% per annum, which included an extra 2% flexibility to pay for the increasing costs of adults' social care. More information about the budget originally set for 2016/17 is included in the [Revenue Budget and Precept 2016/17 Report](#).

During 2016/17 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 2016/17, departmental net expenditure was £33.8m lower than budgeted, reflecting early delivery of savings. In accordance with the financial management policy this has been transferred to designated earmarked reserves to meet the costs of change and provide for invest to save or transformational projects in future years.

Further savings of £24.6m were achieved largely as a result of changes to capital financing and treasury management activity and unused contingencies. The majority of this has been transferred to the Invest to Save Reserve (£22m) and set aside to begin to make provision for the investment in enabling IT required to deliver Digital 2 and the Tt2019 Programme, which it is already recognised will be the most challenging programme to date. The remainder has been set aside as follows:

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- £1.23m allocated to enable the County Council to continue to pursue funding through the free schools initiative and minimise calls on our capital resources.
- The balance of approaching £1.4m transferred to the Grant Equalisation Reserve (GER) bringing the level in the reserve up to £40.8m, in preparation for the large draw required in 2018/19 and as agreed by the County as part of the MTFS in July 2016.

The overall position is shown in the table below and further information is included in the End of Year Financial Report 2016/17 which was considered by the County Council's Cabinet on 19 June 2017. See [Cabinet meeting 190617](#) (item 6).

	Final Budget 2016/17 £'000	Outturn 2016/17 £'000	Variance £'000
Adults' Health and Care	382,579	370,286	(12,293)
Children's Services – Schools	773,770	773,770	0
Children's Services – Non Schools	173,878	173,878	0
Economy, Transport and Environment	119,900	112,618	(7,282)
Policy and Resources	119,339	105,091	(14,248)
Departmental Expenditure	1,569,466	1,535,643	(33,823)
Specific Grants	(850,288)	(850,288)	0
Other Costs Not Allocated to Services	39,231	27,355	(11,876)
Total Cost of Services	758,409	712,710	(45,699)
Capital Financing Costs	39,884	27,200	(12,684)
Other Grants	(56,296)	(56,363)	(67)
Revenue contributions to capital	17,363	24,226	6,863
Business Units (Net Trading Position)	141	(862)	(1,003)
Net Revenue Budget	759,501	706,911	(52,590)
Contributions to / (from) Reserves and Balances:			
Earmarked Reserves	(24,232)	27,389	51,621
Trading Unit Reserves	(2,376)	(1,418)	958
General Fund Balance	900	900	0
Budget Requirement	733,793	733,781	(12)
Funded By:			
Business Rates and Grant	(192,724)	(192,712)	12
Collection Fund Deficits / (Surpluses)	(8,410)	(8,410)	0
Council Tax Requirement	532,659	532,659	0

Capital

The three year capital programme for 2016/17 to 2018/19 was approved by the County Council alongside the revenue budget and precept on 18 February 2016 and more information about this can be found in the [Capital Programme 2016/17 to 2018/19 Report](#).

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In 2016/17 the County Council spent £173.2m on capital projects, £145.3m less than the revised budget and this spend is summarised below along with the proposed method of financing:

	Actual £'000
Adult Services	13,750
Children's Services	55,937
Economy, Transport and Environment	80,442
Policy and Resources	23,090
Total Capital Expenditure	173,219
 Funded by:	
Prudential Borrowing:	
For Capital Schemes	16,280
Repayments of Specific Schemes	(4,042)
Capital Grants	85,815
Contributions from Developers and Outside Agencies	46,565
Capital Receipts	4,375
Contributions from Reserves	9,865
Revenue Contributions	7,498
Use of the Capital Reserve	6,863
Total Capital Financing	173,219

In addition to this spend, during 2016/17, the Enterprise M3 Local Enterprise Partnership (LEP) invested £25.2m 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 LEP.

Good progress is being made given the significant size of the overall capital programme and the proportion of the 2016/17 programme committed in the year, at £196.5m, is higher than the level achieved in 2016/17 of £185.8m.

	2015/16 £m	2016/17 £m
Committed	185.8	196.5
Carried Forward	66.9	121.6
Total Programme	252.7	318.1
 Percentage Committed	 73.5%	 61.8%

Further information is provided in the End of Year Financial Report 2016/17 which was considered by the County Council's Cabinet on 19 June 2017.

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 2016/17, 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 2017 the County Council held £333m of loans, (a decrease of £13m 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 2016/17 the County Council's investment balances have ranged between £496m and £645m. The Guidance on Local Government Investments in England gives priority to security and liquidity and the County Council's aim is to achieve a yield commensurate with these principles.

Further information is provided in the End of Year Financial Report 2016/17 considered by the County Council's Cabinet on 19 June 2017.

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

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reserves should be used to significantly lessen the impact of the austerity measures 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 2016/17 financial year the total reserves held by the County Council together with the general fund balance stand at approaching £524.2m an increase of just under £26.9m on the previous year, mainly as a result of the continued strategy of achieving savings early and then using those savings to fund the next phase of savings delivery.

In particular, a key part of the financial strategy is to generate savings on a two yearly cycle, with the budget deficit in the intervening year being met from the GER. The net impact of the changes in the revenue account during 2016/17 mean that the GER will stand at £40.8m. This is in line with the financial strategy as 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 as we begin the next phase of transformation to take us to 2019/20, and for future years.

Following the significant unexpected reduction in government grant as part of the finance settlement for 2016/17 to 2019/20, the planned draws for the GER over the period will be substantial and this is reflected in the MTFS approved by Cabinet on 20 June 2016 (see link below).

Departmental reserves have increased by over £28.8m, representing the early achievement of savings against the Tt2017 Programme. These reserves will be used to help fund the necessary changes and investments required to deliver the savings plans over the course of the current financial year.

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 2015/16:

	Balance 31/03/2016 £'000	Balance 31/03/2017 £'000	% of Total %
Revenue Reserves:			
General Fund Balance	20,598	21,498	4.1
HCC Earmarked Revenue Reserves			
Fully Committed to Existing Spend Programmes	170,995	179,302	34.2
Departmental / Trading Reserves	69,597	98,411	18.8
Risk Reserves	26,423	22,071	4.2
Corporate Reserves	100,887	79,392	15.1
HCC Earmarked Revenue Reserves	367,902	379,176	72.3
Non HCC Earmarked Revenue Reserves	55,950	48,075	9.2
Total Revenue Reserves and Balances	444,450	448,749	85.6
Total Capital Reserves and Balances	52,844	75,415	14.4
Total Reserves and Balances	497,294	524,164	100.0

By far the biggest proportion of reserves are those that are fully committed to existing spending programmes and £126m of this funding is required to meet commitments in the approved capital programme.

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 implement the 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.

Further information is provided in Note 7 and in Appendix 2 to the [MTFS](#) considered by the County Council's Cabinet on 20 June 2016, 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. It should be noted that the required presentation of the reserves has changed slightly since the MTFS was written but the narrative continues to be pertinent.

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 316 other employers in the scheme. As at 31 March 2017, the net assets of the Fund were valued at £6.3bn. The Pension Fund's accounts are included as part of the County Council's accounts on pages 131-132.

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 £1,040m at 31 March 2016 to £1,207m at 31 March 2017. Whilst the value of fund assets has increased by £413.5m, this has been offset by a £580.8m increase in liabilities following changes in the actuary's assumptions reflecting a higher rate of future inflation and a lower discount rate.

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 32 to the accounts.

Corporate Risks

As part of its overall governance framework, Hampshire County Council has an embedded process to manage risks and assist the achievement of its objectives, alongside national and local performance targets. 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 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

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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 currently has a number of significant projects covering a wide range of services, which can involve working in partnership with others, many of which require considerable levels of one-off and recurrent funding from the County Council.

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 the Corporate Management Team monthly and to Cabinet on a periodic basis.

Summary Position

It is clear that the County Council's financial and non financial performance in 2016/17 continues to be strong.

The revenue outturn, with savings against departmental budgets of £33.8m (largely due to the early delivery of savings) and £24.6m 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 cost of change and provide for invest to save or transformational projects in future years.

In 2016/17 the ambitious capital programme has seen schemes costing £196.5m started from the approved capital programme for the year of £318.1m and capital payments of £173.2m 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 2016/17, 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 2017/18 and future years.

In 2016/17, 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 2017/18. 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.

Changes to the accounts

Expenditure and Funding Analysis

The Code of Practice 2016/17 introduced a requirement to present an Expenditure and Funding Analysis (EFA) as a replacement for the previous Service Reporting Code of Practice format. The EFA shows how annual expenditure is used and funded from resources (government grants, rents, council tax precept and business rates) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the authority's services. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

Whilst the EFA is not a main accounting statement, it provides an important analysis for the reader of the accounts. The Code requires the EFA to be given due prominence in the financial statements in accordance with the needs of the user. As a link between the budget (i.e. management accounts) and the statutory accounts (i.e. the financial accounts), the EFA is presented before the main statements in this document.

Minimum Revenue Provision for Debt Repayment

From 2015, the County Council's policy has been 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 1/43's. Had the County Council been applying the new policy of a 50 year straight line calculation starting in 2008 it would have made £68m less in MRP payments by 31 March 2016.

Starting in 2016/17 the County Council will pause in 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.

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 2017. 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 2016/17 are set out on pages 26 to 182.

They consist of:

- **Expenditure and Funding Analysis** – Compares the net expenditure as funded by taxation with the accounting cost of providing services as presented in the Comprehensive Income and Expenditure Statement.
- **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.
- **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 2017 compared with 31 March 2016.
- **Cash Flow Statement** – This summarises the movement in cash and cash equivalents during the course of the year.
- **Notes to the Accounts** – Which explain some of the key items and disclosures in the accounts.
- **Pension Fund Accounts** – These are the accounts of the Pension Fund, which is operated for employees of the County Council, Hampshire unitary and district councils and other bodies.
- **Statement of Responsibilities for the Statement of Accounts** – Outlines the key responsibilities in respect of the accounts, together with statements from the Chief financial Officer and Chairman of the Audit Committee.

A glossary of key terms can be found at the end of this document.

Relationship between Accounting Statements

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

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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.

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.

Expenditure and Funding Analysis

The Expenditure and Funding Analysis is a new requirement of the 2016/17 Code of Practice for Local Authority Accounting and shows how annual expenditure is used and funded from resources (government grants, rents, council tax precept and business rates) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the County Council's services. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

Whilst the EFA is not a main accounting statement, it provides an important analysis for the reader of the accounts. As such, the Code requires the EFA to be given due prominence in the financial statements in accordance with the needs of the user. As a link between the budget (i.e. the management accounts) and the statutory accounts (i.e. the financial accounts), the EFA is presented before the main statements in this document.

2015/16			2016/17			
Net Expenditure chargeable to the General Fund Balance	Adjustments between accounting and funding basis (see note 17)	Net expenditure in the CIES	Net Expenditure chargeable to the General Fund Balance	Adjustments between accounting and funding basis (see note 17)	Net expenditure in the CIES	
£'000	£'000	£'000	£'000	£'000	£'000	
354,010	(46,824)	307,186	Adults' Health and Care	370,286	(45,013)	325,273
747,396	(646,253)	101,143	Schools	773,770	(666,849)	106,921
170,670	846	171,516	Children's Services Non-Schools	173,878	(6,238)	167,640
109,353	42,299	151,652	Economy, Transport & Environment	112,618	37,804	150,422
101,570	18,308	119,878	Policy & Resources	105,091	13,018	118,109
(837,154)	837,154	0	Specific Grants	(850,288)	850,288	0
20,725	(13,956)	6,769	Other items not allocated to services	27,355	(15,720)	11,635
666,570	191,574	858,144		712,710	167,290	880,000
(697,239)	(143,787)	(841,026)	Other income and expenditure	(717,009)	(139,472)	(856,481)
(30,669)	47,787	17,118	(Surplus) or deficit on the provision of services	(4,299)	27,818	23,519
(413,781)			Opening General Fund (including earmarked reserves) balance at 1 April	(444,450)		
(30,669)			Plus (surplus)/deficit on provision of services	(4,299)		
(444,450)			Closing General Fund (including earmarked reserves) balance at 31 March	(448,749)		

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. From 2016/17, services are aligned with the departmental structure of the County Council. Previously, total cost was analysed in accordance with CIPFA definitions of services. For 2015/16, the restatement increases gross expenditure and gross income by £26.3 million as previously only the net cost of support services was recharged to direct service lines. There is no impact on the total net cost of services.

Comprehensive Income and Expenditure Account

2015/16			2016/17			Note	
Gross expenditure	Gross Income	Net expenditure	Gross expenditure	Gross Income	Net expenditure		
£'000	£'000	£'000	£'000	£'000	£'000		
485,021	(177,835)	307,186	Adults' Health and Care	490,204	(164,931)	325,273	
924,148	(823,005)	101,143	Schools	942,811	(835,890)	106,921	
191,420	(19,904)	171,516	Children's Services Non-Schools	195,317	(27,677)	167,640	
187,561	(35,909)	151,652	Economy, Transport & Environment	185,980	(35,558)	150,422	
163,570	(43,692)	119,878	Policy & Resources*	164,254	(46,145)	118,109	
7,319	(550)	6,769	Other items not allocated to services	14,330	(2,695)	11,635	
1,959,039	(1,100,895)	858,144	Cost of Services	1,992,896	(1,112,896)	880,000	
			Other operating expenditure				
8,686	(9,571)	(885)	(Gain)/Loss on disposal of assets	1,966	(4,375)	(2,409)	
			Assets transferred to				
27		27	academy/foundation trust schools	169		169	9a
122,090	(72,146)	49,944	Total financing and investment income & expenditure	60,337	(14,303)	46,034	8
			Taxation and non-specific grant income				
	(212,766)		Non-ringfenced government grants		(180,779)		26
	(43,673)		Locally retained business rates		(45,660)		15f
	(512,538)		Council tax income		(538,998)		15f
	(121,135)		Capital grants and contributions		(134,838)		26
		(890,112)	Total taxation and non-specific grant income			(900,275)	26
		17,118	Surplus(-)/Deficit on the provision of services			23,519	
	(81,808)		Net gains on revaluation of fixed and available for sale assets		(125,579)		15
	(103,600)		Actuarial loss/(gain) on pension fund assets and liabilities		128,430		32c
		(185,408)	Other Comprehensive (Income)/Expenditure			2,851	
		(168,290)	Total Comprehensive (Income)/Expenditure			26,370	

*The prior year comparators for Policy and Resources have been restated to include gross income and expenditure within central support services which had previously been recharged net to direct services.

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 (or rents) for the year.

	General Fund Balance*	Capital Grants Reserve	Total Usable Reserves	Unusable Reserves	Total Reserves
	£'000	£'000	£'000	£'000	£'000
Balance at 31 March 2015	(413,781)	(48,368)	(462,149)	(1,951,027)	(2,413,176)
Total comprehensive expenditure and income	17,118		17,118	(185,408)	(168,290)
Adjustments between accounting basis & funding basis under regulations (note 6)	(47,787)	(4,476)	(52,263)	52,263	0
Increase (-) / decrease in Year	(30,669)	(4,476)	(35,145)	(133,145)	(168,290)
Balance at 31 March 2016	(444,450)	(52,844)	(497,294)	(2,084,172)	(2,581,466)

* includes earmarked reserves

	General Fund Balance*	Capital Grants Reserve	Total Usable Reserves	Unusable Reserves	Total Reserves
	£'000	£'000	£'000	£'000	£'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 6)	(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)

Balance Sheet

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

Balance Sheet

31 March 2016 £'000		31 March 2017 £'000	<i>See note</i>
3,799,413	Property, plant & equipment (PPE)	3,912,291	9a
31,667	Investment property	36,262	10a
247,849	Long-term investments	284,307	11
32,934	Long-term debtors	41,160	11b
4,111,863	Long-term assets	4,274,020	
2,100	Current assets held for sale	2,283	13
188,071	Short-term investments	162,445	11
2,903	Inventories	2,996	12
138,162	Short-term debtors	125,833	11c
54,335	Cash and cash equivalents	55,227	11a
385,571	Current assets	348,784	
(179,451)	Short-term Creditors	(172,066)	11g
(43,347)	Short-term borrowing	(40,665)	11d
(6,384)	Deferred liability repayable within one year	(6,802)	30
(30,199)	Grants receipts in advance - revenue	(13,227)	26
(31,597)	Grants receipts in advance - capital	(36,928)	26
(290,978)	Current liabilities	(269,688)	
94,593	Net current assets	79,096	
(1,040,000)	Net liability related to defined benefit pension schemes	(1,207,300)	32f
(17,691)	Provisions	(25,545)	14
(333,343)	Long-term borrowing	(319,704)	11d
(171,328)	Deferred liabilities	(164,156)	30
(62,628)	Developers' contributions	(69,749)	11f
(1,624,990)	Long term liabilities	(1,786,454)	
2,581,466	Total net assets	2,566,662	
	Financed by:		
	Usable reserves		
(444,450)	General Fund and earmarked reserves	(448,749)	7
(52,844)	Capital grants unapplied reserve	(75,415)	7
(497,294)	Usable reserves	(524,164)	
(2,084,172)	Unusable reserves	(2,042,498)	15
(2,581,466)	Total Reserves	(2,566,662)	

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.

2015/16		2016/17	<i>Note</i>
£'000		£'000	
17,118	Net (surplus) or deficit on the provision of services	23,519	
(209,782)	Adjustments to net surplus or deficit on the provision of services for non-cash movements	(193,928)	16a
130,542	Adjustment for items included in the net surplus or deficit on the provision of services that are investing and financing activities	139,212	16a
(62,122)	Net cash inflow from Operating Activities	(31,197)	
23,729	Investing Activities	8,493	16b
20,796	Financing Activities	21,812	16c
(17,597)	Net (increase) or decrease in cash and cash equivalents	(892)	
(36,738)	Cash and cash equivalents at the beginning of the reporting period	(54,335)	
(54,335)	Cash and cash equivalents at the end of the reporting period	(55,227)	11a

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1. Accounting Policies

1.1. General principles

The Statement of Accounts summarises the County Council's transactions for the 2016/17 financial year and its position at the year-end of 31 March 2017. 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 2016/17. The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

1.2. Accruals of income and expenditure

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

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

However, there are some exceptions, as follows:

- Overtime is accounted for with the basic pay with which it is paid. The total amount involved at 31 March 2017 is estimated at £2.4 million (£2.2 million at 31 March 2016).
- Electricity and other utility companies' quarterly payments are accounted for at the date of meter reading rather than being shared between financial years.
- Pension Fund income includes dividends declared in the income tax year.

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

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

1.3. Cash and cash equivalents

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

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

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

1.4. Exceptional items

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

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

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

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

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

1.6. Employee benefits

Benefits payable during employment

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

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

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

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

Termination benefits

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

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

Post employment benefits (retirement pensions)

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

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

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

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

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

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

- **Current service cost:** this is the increase in liabilities as a result of the number of years of service earned this year. This is shown as a cost in the Comprehensive Income and Expenditure Statement for the service where the employee worked.
- **Past service cost:** this is the increase in liabilities arising from current year decisions whose effect relates to the number of years of service earned in earlier years. This is shown 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 charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement.

- **Remeasurement 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.

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

Discretionary benefits

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

1.7. Events after the balance sheet date

Events after the balance sheet date are those events that occur (both favourable and non-favourable) between the date of the Balance Sheet (31 March) and the date the accounts are authorised for issue which is disclosed in note 5. There are two types of event:

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

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

1.8. Financial instruments

Financial liabilities

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

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

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

Financial assets

Financial assets are classified into two types:

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

Loans and receivables are recognised on the Balance Sheet when the County Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the

Notes to the Core Financial Statements

Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the County Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

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

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

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

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

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

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

Foreign currency translation

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

1.9. 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.

The County Council uses appropriate valuation techniques for each circumstance, maximising the use of relevant known data and minimising the use of estimates or unknowns. This takes into account the three levels of categories for inputs to valuations for fair value assets and liabilities:

- Level 1 – quoted prices in active markets for identical assets or liabilities that the County Council can access at the measurement date
- Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 – unobservable inputs for the asset or liability

1.10. Government Grants and other contributions

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

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

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

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

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

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund in the Movement in Reserves

Statement. Where the grant has yet to be used to finance capital expenditure, it is transferred to the Capital Grants and Contributions Unapplied Reserve. Where it has been applied in the year, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants and Contributions Unapplied Reserve that are subsequently applied in future years will be transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

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

1.11. Intangible assets

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

1.12. Collaborative arrangements

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

The County Council has pooled budget arrangements with NHS bodies and also joint working agreements with Hampshire Constabulary, 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 on its Balance Sheet the assets that it controls and the liabilities that it incurs and debits and credits the Comprehensive Income and Expenditure Statement with the expenditure it incurs and the share of income it earns from the activity of the operation.

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

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

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

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. With the announcement of significant additional funding from 2015/16 for Local Enterprise Partnerships (LEPs) through the Local Growth Deal the Government now expects all LEPs to have an assurance framework in place to clarify the respective roles and responsibilities of the LEP including “putting 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. Prior to 2015/16, and the Local Growth Deal arrangements, the County Council did not include transactions relating to the EM3 LEP in its accounts.

1.13. Stock and long term contracts

Stocks held in the balance sheet are valued according to their differing nature and purpose. For example, County Supplies stock of £1.8 million is valued at the latest buying price. This does not accord with the International Accounting Standard 2 which requires stock to be valued at the lower of the original purchase price and current value but the differences in the valuations are not material. Other stock is mainly on an historical cost basis. Spending on consumable items is accounted for in the year of purchase.

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

1.14. 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.

1.15. Leases

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

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

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

The County Council as lessee:

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

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

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

The County Council as lessor:

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

Lease rentals receivable are apportioned between:

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

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

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

1.16. Overheads and support services

The costs of overheads and support services were previously apportioned to those services that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice that applies for the relevant year. With the introduction of the Expenditure and Funding Analysis, overheads and support service costs are charged to other services only where they are controlled by key decision makers. As the County Council reports the costs of these activities separately, the relevant income and expenditure is shown separately on the face of the Expenditure and

1.17. Property, plant and equipment (PPE)

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

Recognition

Expenditure on the acquisition, creation or enhancement of PPE assets is capitalised on an accruals basis, provided that it benefits the County Council and the services that it provides are for more than one financial year. 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 (existing use value – EUV). 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.
- 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. When one or more components are replaced or enhanced incurring capital expenditure in excess of £350,000, all assets on the site are revalued and the useful life of each asset is reassessed to ensure an appropriate rate of depreciation. Replaced components are derecognised by disposing of their gross book value and accumulated depreciation.

In 2016/17 the estimated life of infrastructure assets was updated to a weighted average useful life of 20 years. Prior to 2016/17, a variety of useful lives of between 10 and 50 years were used for the different types of infrastructure assets. This change does not have a material impact on the depreciation charge.

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

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

Disposals and assets held for sale

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

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

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

1.18. Foundation trust schools and voluntary aided and voluntary controlled schools

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

1.19 Heritage assets

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

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

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

1.20. Private Finance Initiative (PFI) and similar contracts

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

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) is balanced by the recognition of a deferred liability on the

balance sheet for amounts due to the scheme operator to pay for the capital investment. Non current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the County Council. During the life of the assets, any enhancement or replacement costs are added to the asset value and PFI liability.

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

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

1.21. Provisions

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

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

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

1.22. Carbon reduction commitment scheme

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

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

1.23. Contingent liabilities

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

1.24. Contingent assets

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

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

1.25. 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.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the County Council.

1.26. 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.

1.27. Redemption of debt

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

With regard to The Local Authority (Capital Finance and Accounting) (England) (Amendment) Regulations 2008, the County Council's policy is to make a minimum revenue provision (MRP) equal to 2% of supported borrowing from 2008. This policy was implemented in 2015, therefore the actual supported borrowing MRP is based on 1/43's. 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 will pause in 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 Section 106 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.

1.28. VAT

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

1.29. Transferred functions

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

2. Critical judgements in applying accounting policies

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

2.1. Asset classifications

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

School assets

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

2.2. Lease classifications

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

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

2.3. Providing for potential liabilities

The County Council has made judgements about the likelihood of pending liabilities and whether a provision should be made or whether there is a contingent liability. This includes appeals against the rateable value of business properties and legal claims that could eventually result in the payment of compensation or other settlement. The

judgements are based on the degree of certainty around the results of pending cases based on experience in previous years or in other local authorities.

2.4. Future funding for local government

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

2.5. Production of group accounts

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

The County Council is sole trustee of a number of trust funds as a result of individuals or executors of an estate seeking to place an asset or assets in a charitable trust and requesting the County Council to act as trustee given that as a statutory corporation, the local authority will provide certainty that the charitable purpose can be sustained. This is an alternative to creating trustees within the family of the individual. As such, these trusts are unconnected with the County Council's role of providing services funded from taxation. Therefore, in order to assess the County Council's financial position either from year to year or as compared with other authorities, trust funds are excluded from the County Council's accounting statements, although they are disclosed in note 33.

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

During 2014/15, the County Council entered into joint working agreements with Hampshire Fire and Rescue Service and Hampshire Constabulary. A joint working partnership was created to provide services across the three organisations, with joint direction, governance, control and senior management. Each organisation will remain distinct and focused on the delivery of their core services, retaining their own corporate identity and brand and accounting for their share of the costs. Further information is disclosed in note 20.

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

2.6. 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.

3. Uncertainties relating to assumptions and estimates used

There is one item in the County Council's Balance Sheet at 31 March 2017 for which there is a risk of adjustment in the forthcoming financial year and that is the pension liability. Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the County Council with expert advice about the assumptions to be applied.

The effects on the net pension's liability of changes in individual assumptions can be measured. For instance, a 0.1% increase in the discount rate assumption for funded liabilities would result in a decrease in the pension liability of £65.3 million. However, the assumptions interact in complex ways. Further detail on the sensitivity of financial assumptions is provided in note 32g.

4. 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 2016/17 and 2017/18 financial statements in respect of accounting changes that are introduced in the 2017/18 Code are:

- Amendment to the reporting of pension fund scheme transaction costs;
- Amendment to the reporting of pension fund investment concentration

These changes relate to pension fund accounting disclosures and will not have a material impact upon the financial statements of Hampshire County Council.

5. Events after the Balance Sheet date

The Statement of Accounts was authorised by the Chief Financial Officer on 15 September 2017. 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 2017, the figures in the financial statements and notes would have been adjusted in all material respects to reflect the impact of this information.

In the period since 31 March 2017, 4 schools have been granted academy status. The balance sheet as at 31 March 2017 included assets and liabilities relating to these schools that transferred during 2017/18. This includes property, plant and equipment valued at £27.2 million at 31 March 2017 and cash-backed reserves of £1.0 million. However, the actual value of the transfers will be agreed as at the date of transfer.

6. Adjustments between accounting basis and funding basis under regulations

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

2016/17	General Fund Balance £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Unusable Reserves £'000
Adjustments to Revenue Resources				
Amounts by which income and expenditure included in the CIES are different from revenue for the year calculated in accordance with statutory requirements:				
* Pensions costs transferred to (or from) the Pensions Reserve	(38,870)			38,870
* Financial instruments (transferred to the Financial Instruments Adjustments Account)	139			(139)
* Council tax and NDR (transfers to or from Collection Fund Adjustment Account)	(2,139)			2,139
* Holiday pay (transferred to the Accumulated Absences Reserve)	(4,054)			4,054
* Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account):	(157,770)			157,770
Total Adjustments to Revenue Resources	(202,694)	0	0	202,694
Adjustments between Revenue and Capital Resources				
* Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	4,374	(4,374)		
* Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	12,144			(12,144)
* Contribution from other authorities for the repayment of debt	(705)			705
* Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	24,226			(24,226)
Total Adjustments between Revenue and Capital Resources	40,039	(4,374)	0	(35,665)
Adjustments to Capital Resources				
* Use of the Capital Receipts Reserve to finance capital expenditure		4,374		(4,374)
* Application of capital grants to finance capital expenditure	134,837		(22,571)	(112,266)
Total Adjustments to Capital Resources	134,837	4,374	(22,571)	(116,640)
Total Adjustments	(27,818)	0	(22,571)	50,389

Notes to the Core Financial Statements

2015/16	Usable Reserves			Unusable Reserves £'000
	General Fund Balance £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	
Adjustments to Revenue Resources				
Amounts by which income and expenditure included in the CIES are different from revenue for the year calculated in accordance with statutory requirements:				
* Pensions costs transferred to (or from) the Pensions Reserve	(42,980)			42,980
* Financial instruments (transferred to the Financial Instruments Adjustments Account)	139			(139)
* Council tax and NDR (transfers to or from Collection Fund Adjustment Account)	(4,827)			4,827
* Holiday pay (transferred to the Accumulated Absences Reserve)	5,600			(5,600)
* Equal pay settlements (transferred to the Unequal Pay/Back Pay Account)	0			0
* Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account):	(197,253)			197,253
Total Adjustments to Revenue Resources	(239,321)	0	0	239,321
Adjustments between Revenue and Capital Resources				
* Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	9,571	(9,571)		
* Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve)	0	0		
* Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	23,427			(23,427)
* Contribution from other authorities for the repayment of debt	(1,027)			1,027
* Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	38,428			(38,428)
Total Adjustments between Revenue and Capital Resources	70,399	(9,571)	0	(60,828)
Adjustments to Capital Resources				
* Use of the Capital Receipts Reserve to finance capital expenditure		9,571		(9,571)
* Application of capital grants to finance capital expenditure	121,135		(4,476)	(116,659)
* Cash payments in relation to deferred capital receipts				
Total Adjustments to Capital Resources	121,135	9,571	(4,476)	(126,230)
Total Adjustments	(47,787)	0	(4,476)	52,263

7. General Fund and earmarked reserves

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

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

Notes to the Core Financial Statements

	Balance 1 April 2015 £'000	Movement in 2015/16 £'000	Balance 31 March 2016 £'000	Movement in 2016/17 £'000	Balance 31 March 2017 £'000	See note
Revenue Reserves						
A. General Fund Balance	(20,598)	0	(20,598)	(900)	(21,498)	
B. County Council Earmarked Revenue Reserves						
Fully Committed to Existing Spend Programmes						
Revenue Grants Unapplied	(36,161)	631	(35,530)	17,779	(17,751)	a
General Capital Reserve	(133,926)	9,789	(124,137)	(1,938)	(126,075)	b
Street Lighting Reserve	(6,263)	(2,974)	(9,237)	(16,850)	(26,087)	c
Public Health Reserve	0	0	0	(7,412)	(7,412)	d
Other	(1,795)	(296)	(2,091)	114	(1,977)	e
	(178,145)	7,150	(170,995)	(8,307)	(179,302)	
Departmental / Trading Reserves						
Trading Accounts	(15,725)	54	(15,671)	2,918	(12,753)	f
Departmental Cost of Change	(42,651)	(11,275)	(53,926)	(31,732)	(85,658)	g
	(58,376)	(11,221)	(69,597)	(28,814)	(98,411)	
Risk Reserves						
Insurance	(26,808)	1,385	(25,423)	4,852	(20,571)	h
Investment Risk	(500)	(500)	(1,000)	(500)	(1,500)	i
	(27,308)	885	(26,423)	4,352	(22,071)	
Corporate Reserves						
Grant Equalisation	(50,881)	(24,325)	(75,206)	34,451	(40,755)	j
Invest To Save	(9,461)	384	(9,077)	(22,023)	(31,100)	k
Corporate Policy	(3,976)	(1,133)	(5,109)	477	(4,632)	l
Corporate Efficiency	(8,981)	1,079	(7,902)	7,902	0	m
Organisational Change	(3,593)	0	(3,593)	688	(2,905)	n
	(76,892)	(23,995)	(100,887)	21,495	(79,392)	
Total Earmarked Revenue Reserves available to the County Council	(340,721)	(27,181)	(367,902)	(11,274)	(379,176)	
C. Other Earmarked Revenue Reserves						
EM3 LEP Reserve	0	0	0	(1,396)	(1,396)	o
Schools Reserves	(52,462)	(3,488)	(55,950)	9,271	(46,679)	p
Total Revenue Reserves and Balances	(413,781)	(30,669)	(444,450)	(4,299)	(448,749)	
Capital Reserves						
Capital Grants Unapplied	(48,368)	(4,476)	(52,844)	(22,571)	(75,415)	q
Total Capital Reserves and Balances	(48,368)	(4,476)	(52,844)	(22,571)	(75,415)	
Total Usable Reserves	(462,149)	(35,145)	(497,294)	(26,870)	(524,164)	

Notes to the Core Financial Statements

- a 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.
- b The general capital reserve is to assist in matching the timing of the availability of capital financing resources with the timing of capital payment.
- c 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.
- d The Public Health reserve represents the balance of the ring-fenced government grant carried forward for future Public Health expenditure.
- e Other smaller reserves are sums set aside for specific future purposes.
- f The trading accounts reserve enable business units to carry forward planned surpluses to cover future investment or possible losses.
- g The departmental cost of change reserve enables individual services to carry forward underspendings in order to invest in technology and other service improvements and meet the cost of significant change programmes and restructures
- h The County Council self insures against certain types of risks and the level of the insurance reserve is based on an independent valuation of past claims experience and the level and nature of current outstanding claims.
- i The 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.
- j The grant equalisation reserve is to assist in managing the impact of future grant loss.
- k The invest-to-save reserve is to provide funding for investment which will generate further revenue savings in the future.
- L 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.
- m 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.
- n The organisational change reserve was established in 2010/11 from contributions from the corporate policy and invest to save to fund the additional cost of the voluntary redundancy scheme implemented to facilitate staffing reductions on a voluntary basis, and provide funding for organisational development.

Notes to the Core Financial Statements

- o The EM3 LEP reserve represents underspending of EM3 LEP funding carried forward for future expenditure.
- p The purpose of the Schools reserve is to earmark the balance of unspent delegated budgets. They are not available to other services.
- q 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.

8. Financing and investment income and expenditure

2015/16 £'000		2016/17 £'000
27,506	Interest payable	26,297
(8,871)	Interest receivable	(9,400)
(577)	Investment property (gains) and losses	(4,041)
(644)	Investment property transactions (note i)	-
33,910	Pension interest	34,040
(1,380)	Surplus on trading undertakings	(862)
49,944	Total within other operating expenditure	46,034

note i - For 2016/17, investment property transactions of £750,000 are credited to the net cost of services

9a Property, Plant and Equipment (PPE)

The movements in property plant and equipment during 2016/17 were as follows:

	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
Cost or valuation	£'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	
Revaluation increases/(decreases) recognised in the Revaluation Reserve	48,819					1,082	49,901	
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(16,344)					(939)	(17,283)	
Derecognition - Disposals	(6,111)	(195)	(401)			(1,299)	(8,006)	(401)
Derecognition - Other	(224)						(224)	
Assets reclassified (to)/from held for sale	(187)						(187)	
Other movements in cost or valuation	3	(23,390)	47,946	939	(36,954)	8,745	(2,711)	
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)			(229)	(129,641)	(8,394)
Depreciation written out on revaluation	80,055						80,055	
Depreciation written out to the Surplus/Deficit on the Provision of Services	4,765						4,765	
Impairment (losses)/reversals recognised in the Revaluation Reserve	(6,752)					(145)	(6,897)	
Impairment (losses)/reversals recognised in the Surplus/Deficit on the Provision of Services	(11,178)					(523)	(11,701)	
Derecognition - Disposals	6,028	171				157	6,356	
Derecognition - Other	55						55	
Assets reclassified to/(from) held for sale	4						4	
Other movements in depreciation and impairment	1,705	22,264	(21,988)	(66)		(1,792)	123	
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

Notes to the Core Financial Statements

The comparative movements in PPE during 2015/16 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 2015	3,419,434	142,841	1,001,493	16,204	52,878	12,197	4,645,047	204,846
Additions in year	53,987	9,182	51,623	1,281	47,466	34	163,573	3,542
Donations	0	0	0		0	0	0	
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(5,880)	0	0		0	814	(5,066)	
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(36,164)	0	0		0	(2,119)	(38,283)	
Derecognition - Disposals	(23,986)	(389)	(210)	(645)	0	(1,401)	(26,631)	
Derecognition - Other	(66)	0	0	0	0	0	(66)	
Assets reclassified (to)/from held for sale	(2,780)	0	0		0	0	(2,780)	
Other movements in cost or valuation	33,000	1,322	11,662	1,307	(57,747)	1,003	(9,453)	
At 31 March 2016	3,437,545	152,956	1,064,568	18,147	42,597	10,528	4,726,341	208,388
Accumulated depreciation and Impairment								
At 31 March 2015	(549,369)	(92,942)	(250,976)	(75)	0	(1,990)	(895,352)	(19,311)
Depreciation Charge	(78,096)	(8,998)	(42,193)	0	0	(133)	(129,420)	(8,271)
Depreciation written out on revaluation	96,791	0	0		0	802	97,593	
Depreciation written out to the Surplus/Deficit on the Provision of Services	7,031					772	7,803	
Impairment (losses)/reversals recognised in the Revaluation Reserve	(10,865)	0	0		0	(168)	(11,033)	
Impairment (losses)/reversals recognised in the Surplus/Deficit on the Provision of Services	(16,252)	0	0	(1)	0	(512)	(16,765)	
Derecognition - Disposals	18,800	347	16	1	0	385	19,549	
Derecognition - Other	39						39	
Assets reclassified to/(from) held for sale	313	0	0		0	0	313	
Other movements in depreciation and impairment	252	0	0	(133)	0	226	345	
At 31 March 2016	(531,356)	(101,593)	(293,153)	(208)	0	(618)	(926,928)	(27,582)
Net Book Value								
At 31 March 2016	2,906,189	51,363	771,415	17,939	42,597	9,910	3,799,413	180,806

Note that the 2015/16 figures are presented in more detail than in the published accounts for that year: this affects the analysis of revaluations, impairments and asset reclassifications. However, the net figures are unchanged from those previously reported.

9b Capital commitments

Commitments for major contracts entered into up to 31 March 2017 are estimated at £51.8 million (£50.2 million in 2015/16). This comprises £13.7 million (£15.8 million in 2015/16) for highways and £23.8 million (£18.0 million in 2015/16) for buildings and £14.3 million (£16.5 million in 2015/16) for Superfast Broadband contracts.

9c Valuation of assets

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

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

Valuation	Other land and buildings £'000	Vehicles, plant and equipment £'000	Infra-structure £'000	Comm-unity assets £'000	Surplus assets £'000	Total Property, Plant and Equipment £'000
Valued at historic cost		46,600	805,209	19,569		871,378
Pre 2012/13	861					861
2012/13	561,661					561,661
2013/14	502,439					502,439
2014/15	478,782					478,782
2015/16	707,702				8,156	715,858
2016/17	703,628				6,836	710,464
Total	2,955,073	46,600	805,209	19,569	14,992	3,841,443

9d Impairment losses

During 2016/17, the County Council has recognised impairment losses of £18.6m (£27.8m in 2015/16). Of this £0.7m relates to surplus properties reflecting a fall in the fair value of the properties and £17.9m relates to land and buildings that are valued on a depreciated replacement cost (DRC) basis. DRC is based on the instant build of a modern equivalent asset, depreciated to reflect its age and physical deterioration. As such the DRC valuation can be lower than the initial recognition of actual capital expenditure.

9e Foundation and aided school assets

On 31 March 2017 there were 12 foundation schools (12 in 2015/16), the assets of which are included on the Balance sheet.

On 31 March 2017 there was also 1 foundation trust school, that will remain off the County Council's Balance Sheet, as the fixed assets are controlled by the Trust. (1 in 2015/16)

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

On 31 March 2017 there were 53 aided schools (53 in 2015/16).

9f Heritage assets

Land/building heritage assets

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

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

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

<http://www.hants.gov.uk/>

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

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

Museum collections

Archaeology

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

Art and design

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

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

Social and industrial history

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

Natural science

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

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

Records, access and collecting policy

When an item is accepted into a museum collection, it is logged onto the accessions register. The record is entered onto a database, and will contain a detailed physical description, deposit information and collections management details. Some of this information is also accessible through the Hampshire Cultural Trust's website as online searchable databases at

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

The collection and disposal policy is available through the following website:

<http://www.hampshireculturaltrust.org.uk/content/explore-our-collections>

Archives

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

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

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

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

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

Notes to the Core Financial Statements

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

Hampshire Record Office's policies, including Collecting, Appraisal, Preservation, and Access and Learning, are accessible via the County Council's website:

<http://www3.hants.gov.uk/archives/hro-policies.htm>

A list of new accessions is sent annually to The National Archives who publish this on their website. The latest complete list is for 2015:

<http://www.nationalarchives.gov.uk/accessions/>.

10a Investment properties

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

2015/16 £'000		2016/17 £'000
31,609	Balance at start of the year	31,667
	Additions:	
0	- purchases	0
0	- construction	0
7	- subsequent expenditure	6
(1,521)	Disposals	(714)
577	Net (gains)/losses from fair value adjustments	4,041
	Transfers:	
995	- (to)/from Property, Plant and Equipment	1,262
31,667	Balance at end of the year	36,262

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.

10b 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 2017	Quoted market price Level 1 £'000	Using observable inputs Level 2 £'000	With significant unobservable inputs Level 3 £'000	Total £'000
Investment Assets		32,882	3,380	36,262
Surplus Assets		12,434	2,558	14,992
Total	0	45,316	5,938	51,254

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).

11 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.

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

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

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

	Long term		Current		
	31 March 2016 £'000	31 March 2017 £'000	31 March 2016 £'000	31 March 2017 £'000	
Financial assets:					<i>see note</i>
Loans & receivables - Investments	133,500	122,500	109,720	141,032	
Available for sale - investments	114,349	161,807	78,351	21,413	
Total investments	247,849	284,307	188,071	162,445	
Loans & receivables - cash and cash equivalents	-	-	(11,823)	(6,494)	11a
Available for sale cash & cash equivalents	-	-	66,158	61,721	11a
Total cash & cash equivalents	-	-	54,335	55,227	
Loans & receivables - Debtors	2,653	11,584	98,367	82,654	
Total debtors	2,653	11,584	98,367	82,654	
Total Financial Instrument Assets	250,502	295,891	340,773	300,326	
Financial liabilities at amortised cost:					
Borrowing	(333,343)	(319,704)	(43,347)	(40,665)	11d
Developers' contributions	(62,628)	(69,749)	-	-	11f
Creditors and receipts in advance	-	-	(155,789)	(146,882)	11g
PFI & finance lease liabilities	(171,328)	(164,156)	(6,384)	(6,802)	30
Financial liabilities at amortised cost	(567,299)	(553,609)	(205,520)	(194,349)	

Notes to the Core Financial Statements

The fair value of long term loans and receivables and borrowings are included in disclosure note 11e.

11a Cash and cash equivalents

Cash comprises cash in hand and call accounts.

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

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

31 March 2016 £'000		31 March 2017 £'000
1,949	Cash in hand	2,301
681	Call accounts (instant access bank accounts)	13,740
66,158	Available for sale financial assets (instant access money market funds)	61,721
(14,453)	Bank overdraft	(22,535)
54,335		55,227

11b Long-term debtors

31 March 2016 £'000		31 March 2017 £'000
915	Car loans to staff	714
1,738	Other	10,870
2,653		11,584
30,281	Transferred debt	29,576
32,934		41,160

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. £28.2 million remains to be repaid by the cities of Portsmouth and Southampton, £0.6 million by the Office of the Police and Crime Commissioner for Hampshire and, £0.8 million by colleges of further education and magistrates' courts.

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The other long-term debtors figure of £11.6 million (£2.7 million in 2015/16) is classified as a loans and receivables financial instrument.

By value, the majority of these loans are for a period of less than five years. 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.

11c Short-term debtors

Debtors are shown net of the provision for doubtful debts detailed in note 11h.

31 March 2016 £'000		31 March 2017 £'000
	Financial instrument debtors	
1,156	Government departments	3,015
12,090	Other local authorities	17,013
3,347	NHS bodies	6,049
0	Public corporations and trading funds	34
81,774	Sundry debtors	56,543
98,367	Total Financial Instrument debtors	82,654
	Non-financial instrument debtors	
8,045	Government departments	11,878
12,441	Other local authorities	11,589
19,309	Payments in advance	19,712
138,162	Total debtors and prepayments	125,833

11d Borrowing

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

Long term			Short term	
31 March 2016 £'000	31 March 2017 £'000		31 March 2016 £'000	31 March 2017 £'000
		Loans at amortised cost:		
(256,976)	(243,437)	-Public Works Loan Board (PWLB)	(14,862)	(15,696)
(76,367)	(76,267)	-Market loans	(1,058)	(1,051)
0	0	-Other short-term borrowing	(27,427)	(23,918)
(333,343)	(319,704)		(43,347)	(40,665)

11e Fair values

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.

Notes to the Core Financial Statements

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

Balance Sheet £'000	Fair Value £'000		Fair Value Level	Balance Sheet £'000	Fair Value £'000
Financial Assets held at fair value:					
117,200	117,200	Available for sale - bond investments	2	106,503	106,503
75,500	75,500	Available for sale - other investments	1	76,717	76,717
66,158	66,158	Available for sale - money market funds	1	61,721	61,721
258,858	258,858	Total		244,941	244,941
Financial Assets held at amortised cost:					
133,500	141,433	Long-term investments - principal	2	122,500	132,348
1,885		Long-term investments - interest		1,721	
135,385	141,433	Total		124,221	132,348
197,032		Assets for which fair value is not disclosed - (note i)		227,055	
591,275	400,291	Total financial instrument assets		596,217	377,289
Recorded on balance sheet as:					
247,849		Long-term investments		284,307	
2,653		Long-term debtors		11,584	
188,071		Short-term investments		162,445	
98,367		Short-term debtors		82,654	
54,335		Cash and cash equivalents		55,227	
591,275		Total financial instrument assets		596,217	

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).

Balance sheet	Fair Value		Fair Value Level	Balance sheet	Fair Value
£'000	£'000	Financial Liabilities		£'000	£'000
(269,516)	(329,525)	PWLB loans - principal	2	(256,976)	(335,464)
(2,322)		PWLB loans - interest		(2,157)	
(76,381)	(102,537)	Market loans - principal	2	(76,281)	(112,733)
(1,044)		Market loans - interest		(1,037)	
(177,712)	(223,856)	PFI arrangements (deferred liability)	3	(170,958)	(223,838)
(526,975)	(655,918)	Total		(507,409)	(672,035)
		Liabilities for which fair value is not disclosed (note i)		(240,549)	
(245,844)		Total financial instrument liabilities		(747,958)	
(772,819)		Recorded on balance sheet as:			
(155,789)		Short-term creditors		(146,882)	
(43,347)		Short-term borrowing		(40,665)	
(6,384)		Deferred liability repayable within one year		(6,802)	
(333,343)		Long-term borrowing		(319,704)	
(171,328)		Deferred liabilities		(164,156)	
(62,628)		Developers' contributions		(69,749)	
(772,819)		Total financial instrument liabilities		(747,958)	

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.

11f 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.

2015/16			2016/17		
Highways	Other	Total	Highways	Other	Total
£'000	£'000	£'000	£'000	£'000	£'000
(53,410)	(4,693)	(58,103)	(51,206)	(11,422)	(62,628)
(15,790)	(16,295)	(32,085)	(11,664)	(14,005)	(25,669)
17,994	9,566	27,560	11,217	7,331	18,548
(51,206)	(11,422)	(62,628)	(51,653)	(18,096)	(69,749)

11g Short-term creditors

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

31 March 2016 £'000	31 March 2017 £'000
Financial instrument creditors	
(545) Deposits	(339)
(906) Government departments	(1,239)
(28,278) NHS Bodies	(5,765)
(19) Public corporations and trading funds	(10)
(12,609) Other local authorities	(23,320)
(113,432) Sundry creditors	(116,209)
(155,789) Total Financial Instrument creditors	(146,882)
Non-financial instrument creditors	
(20,427) HM Revenue and Customs and Government departments	(16,157)
(3,235) Other local authorities	(9,027)
(179,451) Total short term creditors	(172,066)

11h Nature and extent of risks arising from financial instruments

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

As part of the adoption of the Treasury Management Code, the County Council approves a Treasury Management Strategy before the commencement of each financial year. The Strategy sets out 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. These include commercial entities with a minimum long term credit rating of BBB+, the UK government, other local authorities and organisations without credit ratings upon which the Council has received independent investment advice. Recognising that credit ratings are imperfect predictors of default, the County Council has regard to other measures including credit default swaps and equity prices when selecting commercial organisations for investment.

A limit of £70 million of the total portfolio is placed on the amount of money that can be invested with a single counterparty (other than the UK government). For unsecured investments in banks, building societies and companies, a smaller limit of £35m per single counterparty applies. No more than £375m in total can be invested for a period of longer than one year.

The credit quality of £90 million of the County Council's investments is enhanced by collateral held in the form of covered bonds collateralised by mortgages. The Collateral significantly reduces the likelihood of the County Council suffering a credit loss on those investments.

The table below summarises the credit risk exposures of the County Council's investment portfolio at 31 March 2017 by the type of counterparty:

Credit Rating	Long term		Short term	
	31 March 2016 £'000	31 March 2017 £'000	31 March 2016 £'000	31 March 2017 £'000
AAA	66,771	72,060	28,280	20,013
AA+	0	0	0	0
AA	12,139	0	0	0
AA-	0	13,029	25,706	13,740
A+	0	0	10,031	0
A	0	0	30,052	22,023
A-	0	0	0	1,400
AAA Money market funds	0	0	66,158	61,721
Unrated local authorities	135,385	124,222	92,797	117,289
Unrated pooled funds	35,439	76,717	0	0
Total	249,734	286,028	253,024	236,186

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 £16.7 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 £9.8 million (£5.9 million in 2015/16) has been estimated.

Outstanding debt raised in	Outstanding balance due at 31 March £'000	Individually assessed impairment £'000	Collectively assessed impairment £'000	Total provision £'000
2016/17	26,920	300	378	678
2015/16	5,480	994	3,537	4,531
2014/15	2,752	581	1,944	2,525
2013/14 and earlier	2,358	419	1,687	2,106
	37,510	2,294	7,546	9,840

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 2017 was as follows:

Outstanding 31 March 2016 £'000		Outstanding 31 March 2017 £'000
(12,554)	Not over one year	(13,553)
(13,553)	Between one and two years	(7,839)
(30,290)	Between two and five years	(30,865)
(43,500)	Between five and 10 years	(45,000)
(55,000)	Between 10 and 15 years	(59,000)
(100,000)	Between 15 and 20 years	(108,000)
(51,000)	Between 20 and 25 years	(35,000)
(40,000)	More than 25 years	(34,000)
(345,897)	Total	(333,257)

The Council has £60.0m of "Lender's option, borrower's option" (LOBO) loans where the lender has the option to propose an increase in the rate payable; the County Council will then have the option to accept the new rate or repay the loan without penalty. Due to current low interest rates it is unlikely that the lenders will exercise their options and therefore these loans are included in the analysis above at their maturity date.

Market risk

Interest rate risk

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

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

Notes to the Core Financial Statements

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 2017, £440.9 million of principal borrowed was at fixed rates and £74.3 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 £362.7 million at 31 March 2017 and fixed rates was £157.3 million.

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

	£'000
Interest rate risk	
Increase in interest payable on variable rate borrowing	(741)
Increase in interest receivable on variable rate investments	2,860
Impact on (Surplus) or Deficit on the Provision of Services	2,119
Decrease in fair value of available for sale financial assets	(1,693)
Impact on Comprehensive Income and Expenditure	426

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.

Hampshire County Council's investments in pooled equity funds are subject to the risk of falling share prices. The risk is limited by the County Council's investment strategy. A fall in share prices would result in a charge to Other Comprehensive Income & Expenditure - this would have no impact on the Surplus or Deficit on the Provision of Services until the investments were 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.

12 Inventories

	31 March 2016	Purchases	Expense in the year	Written off balances	31 March 2017
	£'000	£'000	£'000	£'000	£'000
Stocks					
Catering stock	620	13,900	(13,771)	(14)	735
County Supplies general	1,490	7,679	(7,345)	(18)	1,806
Retail stock at County Council visitor attractions	89	0	(89)	0	0
Salt stock	72	0	0	0	72
Other (including landfill allowances)	304	1,864	(2,007)	(16)	145
	2,575	23,443	(23,212)	(48)	2,758
Construction contracts					
	Work not recharged at 31 March 2016 £'000	Value of new work done 2016/17 £'000	Income received in 2016/17 £'000	Value of work not recharged 2017 £'000	
Highway rechargeable works	322	563	(647)	238	
Other	6	0	(6)	0	
	328	563	(653)	238	
Total stocks and work in progress	2,903	24,006	(23,212)	(701)	2,996

13 Assets held for sale

2015/16 £'000	2016/17 £'000
609 Balance outstanding at start of year	2,100
Assets newly classified as held for sale:	
2,466 - property, plant and equipment	183
(917) Revaluation gains and (losses)	0
(58) Assets sold	0
2,100 Balance outstanding at year-end	2,283

14 Change in provisions

		31 March 2016 £'000	Use of Provision In Year £'000	Increase or decrease in 2016/17 Central Provision £'000	Service Provision £'000	Taxation Provision £'000	31 March 2017 £'000
Insurance claims	a	(11,367)	3,404	(4,851)	(6,900)	0	(19,714)
Non school employee related expenditure	b	(346)	0	0	46	0	(300)
Tax liabilities	c	(28)	0	0	28	0	0
Other	d	(594)	487	0	(946)	0	(1,053)
Business rates appeals	e	(5,356)	2,004		0	(1,126)	(4,478)
Provisions identified in the Balance Sheet		(17,691)	5,895	(4,851)	(7,772)	(1,126)	(25,545)
Provision for doubtful debts		(5,890)	608	(4,558)	0	0	(9,840)
Further details in note 11h							
Net change included in the Comprehensive Income and Expenditure Statement				(9,409)	(7,772)	(1,126)	

a. The insurance provision represents an assessment of the likely cost of liability claims known to the County Council at 31 March 2017. 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. As a result of its efficiency and transformation programme, and historic conclusions regarding prior reviews, the Council has made provision for likely payments due to individual employees.

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

d. 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.

e. 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.

15 Unusable reserves

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

Balance 1 April 2016 £'000		Balance 31 March 2017 £'000	<i>Note</i>
(923,597)	Revaluation reserve	(1,018,275)	15a
(2,199,250)	Capital adjustment account	(2,233,732)	15b
(1,834)	Available for sale Financial assets	(4,354)	15c
2,752	Financial instrument adjustment account	2,613	15d
1,040,000	Pensions reserve	1,207,300	15e
(10,316)	Collection fund adjustment account	(8,177)	15f
8,073	Accumulated absences account	12,127	15g
<u>(2,084,172)</u>		<u>(2,042,498)</u>	

15a Revaluation reserve

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

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

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

<u>2015/16</u>	<u>2016/17</u>
(871,956) Balance at 1 April	(923,597)
(81,310) (Surplus) or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	(123,059)
25,768 Difference between fair value depreciation and historical cost depreciation	27,244
3 Write off net gains for assets transferred to Academy/Foundation schools	0
3,898 Accumulated gains on assets sold, scrapped or transferred to/from current assets	1,137
<u>29,669</u> Amount written off to the Capital Adjustment Account	<u>28,381</u>
<u>(923,597)</u> Balance at 31 March	<u>(1,018,275)</u>

15b 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:

2015/16	2016/17	
£'000	£'000	£'000
(2,179,776) Balance brought forward 1 April		(2,199,250)
0 EM3 Local Enterprise Partnership debtors		(11,566)
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
177,397 Charges for depreciation and impairment of noncurrent assets	153,860	
11,745 Revenue expenditure funded from capital under statute	5,818	
8,661 Assets disposals current value	1,964	
27 Assets transferred to Academy/Foundation schools current value	169	
(1,981,946)		(2,049,005)
(29,669) Adjusting amounts written out of Revaluation Reserve		(28,381)
Net amount written out of the cost of assets consumed in the year		(2,077,386)
Capital financing applied in the year:		
(9,571) Capital receipts applied	(7,203)	
(23,427) Statutory minimum revenue provision for capital financing	(12,144)	
1,027 External contribution to minimum revenue provision	705	
(38,428) Revenue contributions to capital expenditure	(24,226)	
(116,659) Capital grants and contributions applied	(112,266)	
(187,058)		(155,134)
(577) Movement in the market value of investment properties		(4,041)
0 Write down of capital debtors		2,829
(2,199,250) Balance as at 31 March		(2,233,732)

15c Available for sale financial assets reserve

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

2015/16		2016/17
£'000		£'000
(1,336)	Balance brought forward 1 April	(1,834)
(799)	Upward revaluation of investments	(3,817)
	Downward revaluation of investments not charged to the (surplus) /	
301	deficit on the provision of services	1,297
(1,834)	Balance at 31 March	(4,354)

15d Financial instruments adjustment account

The balance on the financial instruments adjustment account at the end of the financial year represents the amount that would have been charged to the Comprehensive Income and Expenditure Statement in accordance with proper accounting practice, but which statutory provisions allow or require to be deferred over future years. During 2012/13 the County Council moved the balance of a premium that was paid relating to the early repayment of a Public Works Loans Board (PWLB) loan to this account. The premium is being charged to the Comprehensive Income and Expenditure Statement (CI&ES) over the life of the replacement loans. There are 20 years remaining.

2015/16		2016/17
£'000		£'000
2,891	Balance brought forward 1 April	2,752
(139)	PWLB Premium charged to CIES	(139)
2,752	Balance at 31 March	2,613

15e Pensions reserve

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

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

Notes to the Core Financial Statements

2015/16		2016/17
£'000		£'000
1,100,620	Balance at 1 April	1,040,000
(103,600)	Actuarial losses / (gains) on pensions assets and liabilities	128,430
117,401	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	117,370
(74,421)	Employer's pensions contributions and direct payments to pensioners payable in the year	(78,500)
1,040,000	Balance at 31 March	1,207,300

15f Collection fund adjustment account

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

2015/16		2016/17
£'000		£'000
(15,143)	Balance at 1 April	(10,316)
(556,211)	Accrued income in the Comprehensive Income and Expenditure account	(584,658)
561,038	Amount calculated in accordance with statutory requirements	586,797
(10,316)	Balance at 31 March	(8,177)

15g 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.

2015/16	2016/17	
£'000	£'000	£'000
13,673		8,073
(13,673)	(8,073)	
8,073		12,127
(5,600)		4,054
8,073		12,127

16a Cash flow statement - operating activities

The cash flows for operating activities include the following items:

2015/16 £'000	2016/17 £'000
27,599 Interest paid	26,470
(9,528) Interest received	(7,415)
0 Dividends received*	(1,930)
18,071	17,125
Adjustments to net surplus or deficit on the provision of services	
(129,420) Depreciation	(129,641)
(47,977) Impairments and downward revaluations	(24,219)
(1,123) (Increase)/decrease in impairment for provision of bad debt	(3,950)
16,480 (Increase)/decrease in creditors	18,419
1,944 Increase/(decrease) in debtors	(8,489)
172 Increase/(decrease) in inventory	93
(42,980) Pension Liability	(38,870)
(8,661) Carrying amount of non-current assets sold	(1,964)
(27) Carrying amount of assets transferred to academy / foundation Trust schools	(169)
9,347 Adjustment for provisions	(7,854)
577 Movement in the value of investment properties	4,041
(8,114) PPE written off as REFCUS	(1,325)
(209,782) Non-cash movement	(193,928)

*Dividends received were included within interest received in the 2015/16 statement of accounts.

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

9,571 Proceeds from the sale of PPE etc	4,374
121,135 Capital grants and contributions	134,838
(164) Interest on developer contributions	0
130,542 Investing/financing cash flows	139,212

16b Cash Flow Statement - investing activities

2015/16		2016/17
£'000		£'000
	Cash outflows	
164,537	Purchase of property, plant and equipment	154,187
519,604	Purchase of short-term and long-term investments	391,050
0	Other expenditure	3,167
	Cash inflows	
(6,419)	Proceeds from the sale of property, plant and equipment	(4,191)
(516,366)	Proceeds from the sale of short-term and long-term investments	(383,143)
(137,627)	Capital grants	(149,748)
0	Other income	(2,829)
23,729	Net cash outflow from investing activities	8,493

16c Cash Flow Statement - financing activities

2015/16		2016/17
£'000		£'000
	Cash outflows	
	Cash payments for the reduction of the outstanding liabilities relating	
5,998	to PFIs	6,353
111,457	Repayments of short- and long-term borrowing	120,576
	Cash inflows	
(95,632)	Cash receipts of short- and long-term borrowing	(104,412)
(1,027)	Other receipts from financing activities	(705)
20,796	Net cash outflow from financing activities	21,812

17 Note to the Expenditure and Funding Analysis

Adjustments between Funding and Accounting Basis 2016/17				
Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement Accounts	Adjustments for Capital Purposes (Note 1)	Net change for the Pensions Adjustments (Note 2)	Other Differences (Note 3)	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	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

The comparative adjustments in 2015/16 were as follows:

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement Accounts	Adjustments between Funding and Accounting Basis 2015/16			Total Adjustments £'000
	Adjustments for Capital Purposes (Note 1)	Net change for the Pensions Adjustments (Note 2)	Other Differences (Note 3)	
	£'000	£'000	£'000	
Adults & Health	5,221	6,176	(58,221)	(46,824)
Schools	110,717	8,090	(765,060)	(646,253)
Children's Services non-schools	4,336	843	(4,333)	846
Economy, Transport and Environment	51,534	1,855	(11,090)	42,299
Policy and Resources	14,919	6,802	(3,413)	18,308
Other items not allocated to services:				
Specific Grants	0	0	837,154	837,154
Other items not allocated to services	733	(14,696)	7	(13,956)
Net cost of services	187,460	9,070	(4,956)	191,574
Other income and expenditure from the funding analysis	(181,741)	33,910	4,044	(143,787)
Difference between the General Fund surplus or deficit and the Comprehensive Income and Expenditure surplus or deficit	5,719	42,980	(912)	47,787

Notes**1) Adjustments for Capital Purposes**

This column adds in depreciation and impairment and revaluation gains and losses in the services line, and for:

- **Other operating expenditure** – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.
- **Financing and investment income and expenditure** – the statutory charges for capital financing i.e. Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.
- **Taxation and non-specific grant income and expenditure** – The Taxation and Non Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year

2) Net Change for the Pensions Adjustments

Net change for the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income:

- For **services** this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.
- For **Financing and investment income and expenditure** – the net interest on the defined benefit liability is charged to the CIES.

3) Other Differences

Other differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute:

- For **services**, the other differences column includes adjustments to allocate specific grants to services lines and an adjustment for the difference between the cost of employee holiday benefits accrued and those taken in year.
- For **Financing and investment income and expenditure** the other differences column recognises adjustments to the General Fund for the timing differences for premiums and discounts.
- The charge under **Taxation and non-specific grant income and expenditure** represents the difference between what is chargeable under statutory regulations for council tax and NDR that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.

Income received from external customers is analysed by service in the table below:

2015/16 £'000	2016/17 £'000
(65,426) Adults & Health	(61,134)
(44,562) Schools	(47,350)
(5,987) Children's Services Non-Schools	(4,929)
(14,676) Economy, Transport & Environment	(16,085)
(35,699) Policy & Resources	(36,964)
<u>(166,350)</u> Total income from external customers analysed by service.	<u>(166,462)</u>

18 Nature of Expenses

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

2015/16 £'000		2016/17 £'000	Note
551,873	Employee Benefit Expenses - schools	578,273	1
311,894	Employee Benefit Expenses - other	328,710	1,2
919,557	Other Service Expenses	933,327	3
175,715	Depreciation and Impairment	152,586	4
1,959,039	Total Expenditure	1,992,896	
(935,653)	Grants, contributions and reimbursements	(946,434)	
(165,242)	Fees, charges and other service income	(166,462)	
(1,100,895)	Total Income	(1,112,896)	
858,144	Net Cost of Services	880,000	

1. 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.
2. In addition to the figures disclosed above, employee benefit expenses of £38.4m (£39.5m in 2015/16) were incurred within trading units which are not reported within the net Cost of Services. Further details on trading units can be found in note 19.
3. 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).
4. 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.

19 Internal trading accounts

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

The trading units had an overall surplus of £862,000 (2015/16 overall surplus of £1,380,000) as follows:

2015/16 £'000		2016/17 £'000
	Former Direct Services Organisation	
	- provides catering and cleaning services to schools and some non-educational sites in Hampshire and supplies vehicles to departments of the County Council.	
(39,696)	Turnover	(44,267)
39,286	Expenditure	44,017
(410)	Deficit/(Surplus)	(250)
	Education Business Units	
	- provide support services principally to schools but also to other local authorities.	
(18,888)	Turnover	(18,242)
18,550	Expenditure	18,346
(338)	Deficit/(Surplus)	104
	Corporate Procurement & County Supplies	
	- operate the central purchasing warehouse and arrange direct delivery and other contracts for County Council departments, other local authorities and voluntary organisations.	
(12,823)	Turnover	(13,040)
12,481	Expenditure	12,461
(342)	Deficit/(Surplus)	(579)
	Five other smaller trading units	
	- including a deficit of £41,000 (£127,000 deficit in 2015/16) on the management of the River Hamble.	
(8,423)	Turnover	(4,446)
8,133	Expenditure	4,309
(290)	Deficit/(Surplus)	(137)
(1,380)	Total Internal Trading Deficit/(Surplus)	(862)

20 Collaborative Arrangements

20a Pooled Budgets

The Better Care Fund (BCF) was established by the Government, intended as a nationally agreed single pooled budget shared between the NHS and local government to strengthen joint working in support of the drive towards local integration. It requires NHS Clinical Commissioning Groups (CCGs) and local authorities in England to pool budgets based on a nationally determined value and to agree an integrated spending plan. In Hampshire, the agreed fund for 2016/17 was £85.68 million in total (£80.765 million in 2015/16).

The partner bodies comprising the Hampshire BCF are Hampshire County Council, NHS Fareham and Gosport CCG, NHS North East Hampshire and Farnham CCG, NHS North Hampshire CCG, NHS South Eastern Hampshire CCG and NHS West Hampshire CCG. Overall strategic oversight of partnership working is vested in the Health and Wellbeing Board for Hampshire, and a Health and Wellbeing Executive Group acts as the designated Partnership Group overseeing the implementation of the BCF Plan.

Different governance arrangements apply to different elements of the overall BCF. The Hampshire Equipment Service operates under joint control of the partners. It is hosted by the County Council but decisions are made jointly and risks are shared. It is accounted for as a joint operation with each organisation accounting for its share of income and expenditure as set out below. For the remaining elements of the BCF, including the brought forward balance of the Social Care Capital Grant each partner individually has control and the transactions are included in full in the relevant organisation's accounts.

The Hampshire Equipment Store was a separate s75 agreement in 2014/15 that was included under the Better Care Fund arrangements in 2015/16. The pooled funds are used to provide equipment to people who are eligible for equipment either from the NHS or the County Council.

Hampshire Equipment Service	Social Care Capital Grant		Hampshire Equipment Service	Social Care Capital Grant
2015/16			2016/17	
£'000	£'000		£'000	£'000
		Funding contributions:		
		Balance brought forward		(2,461)
(2,317)	(2,647)	Hampshire County Council	(2,341)	
(342)	0	NHS Fareham and Gosport CCG	(346)	
(281)	0	NHS North East Hampshire & Farnham CCG	(284)	
(430)	0	NHS North Hampshire CCG	(380)	
(372)	0	NHS South Eastern Hampshire CCG	(376)	
(1,000)	0	NHS West Hampshire CCG	(956)	
(4,742)	(2,647)	Total	(4,683)	(2,461)
4,742	186	Expenditure	4,683	608
0	(2,461)	Surplus	0	(1,853)
	0	County Council's share of surplus		(1,853)

20b Joint Working

During 2014/15, the County Council entered into a number of joint working agreements with Hampshire Fire and Rescue Service and Hampshire Constabulary for a range of corporate services including finance, HR, IT, facilities management and procurement across the three organisations. The services are hosted but not controlled by Hampshire County Council as they are delivered with joint direction, governance, control and senior management. Each organisation accounts for its share of cost in accordance with the individual agreements. The total cost of these services in 2016/17 was £27.3 million (£27 million in 2015/16) of which the County Council's share was £18.4 million (£18.5 million in 2015/16).

21 Structured entities - Hampshire Cultural Trust

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

As at 31 March 2017, the County Council had one representative on the Trustee Board of 11 members.

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

The County Council has agreed a level of funding with the trust for the first 5 years of its operation, based on the funding that would have been required if the service had remained part of the County Council. The total expected payments remaining amount to £7.93 million with £2.85 million grant due to be paid in 2017/18.

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 2017 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.

2015/16	2016/17
£'000	£'000
46,658 Operational land and buildings retained by the County Council and used by the Trust	44,739
2,310 Community assets retained by the County Council and used by the Trust	2,901
Collections of heritage assets retained by the County Council and managed by the Trust (not valued as explained in note 10f)	0
(2,793) Annual County Council revenue grant provided to the Trust	(2,961)
(3,941) Other unrestricted income received by the Trust - (note i)	(4,321)
6,714 Expenditure by the Trust - (note i)	7,036
(515) Trusts' General Reserve - (note i)	(1,021)

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.

22 Members' allowances

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

2015/16	2016/17
£'000	£'000
1,341 Allowances	1,340
73 Expenses	85
1,414 Total	1,425

23a Officer remuneration

The number of employees whose remuneration was £50,000 or more, in bands of £5,000, is shown below, excluding those that are senior employees at 31 March 2017 (see note 23b). Remuneration includes all amounts paid to an employee, including the taxable value of expenses.

Number of employees 2015/16			Including termination payments	Number of employees 2016/17		
Schools	Other	Total		Schools	Other	Total
209	122	331	£50,000 - £54,999	223	187	410
163	144	307	£55,000 - £59,999	158	123	281
139	52	191	£60,000 - £64,999	132	61	193
66	40	106	£65,000 - £69,999	67	21	88
31	34	65	£70,000 - £74,999	37	49	86
20	23	43	£75,000 - £79,999	14	17	31
13	15	28	£80,000 - £84,999	17	20	37
9	19	28	£85,000 - £89,999	10	13	23
5	9	14	£90,000 - £94,999	3	7	10
5	8	13	£95,000 - £99,999	6	7	13
5	1	6	£100,000 - £104,999	4	5	9
1	2	3	£105,000 - £109,999	3	2	5
0	1	1	£110,000 - £114,999	0	0	0
0	1	1	£115,000 - £119,999	0	1	1
0	1	1	£120,000 - £124,999	0	2	2
0	0	0	£125,000 - £129,999	1	1	2
0	2	2	£130,000 - £134,999	0	0	0
0	1	1	£145,000 - £149,999	0	0	0
0	0	0	£155,000 - £159,999	0	1	1
0	0	0	£160,000 - £164,999	0	1	1
0	1	1	£180,000 - £184,999	0	0	0
0	0	0	£185,000 - £189,999	0	1	1
0	1	1	£220,000 - £224,999	0	0	0
666	477	1,143		675	519	1,194

Notes to the Core Financial Statements

Number of employees 2015/16			Excluding termination payments	Number of employees 2016/17		
Schools	Other	Total		Other	Total	
208	108	316	£50,000 - £54,999	223	190	413
163	130	293	£55,000 - £59,999	158	121	279
138	35	173	£60,000 - £64,999	129	55	184
65	33	98	£65,000 - £69,999	67	19	86
29	32	61	£70,000 - £74,999	36	46	82
20	14	34	£75,000 - £79,999	14	11	25
13	13	26	£80,000 - £84,999	16	18	34
9	14	23	£85,000 - £89,999	9	11	20
5	5	10	£90,000 - £94,999	3	7	10
5	6	11	£95,000 - £99,999	4	5	9
4	0	4	£100,000 - £104,999	3	2	5
1	2	3	£105,000 - £109,999	2	2	4
0	1	1	£110,000 - £114,999	0	0	0
0	0	0	£115,000 - £119,999	0	1	1
0	1	1	£120,000 - £124,999	0	2	2
0	1	1	£125,000 - £129,999	0	0	0
660	395	1,055		664	490	1,154

23b Senior employees' remuneration

This statement covers the remuneration of Chief Officers.

Senior Employees 2015/16	Salary, (Including fees and allowances)	Expense Allowances	Benefits in Kind	Compensation for Loss of Office	Employer's Pension contribution	Total remuneration including pension contributions
	£	£	£	£	£	£
Chief Executive						
Andrew Smith (to 31 October 2015)	123,629					123,629
John Coughlan (from 1 November 2015)	88,306				11,568	99,874
Director of Children's Services and Deputy Chief Executive						
John Coughlan (to 31 October 2015)	99,997				13,099	113,096
Interim Director of Children's Services						
Steve Crocker (from 11 January 2016)	31,237				4,092	35,329
Director of Corporate Resources						
Carolyn Williamson	168,630					168,630
Director of Economy, Transport and Environment						
	141,930				18,593	160,523
Director of Community, Culture and Business Services						
	141,930				18,593	160,523
Director of Public Health (to 30 November 2015)	97,532	88			11,925	109,545
Director of Adult Services (to 31 October 2015)	80,428			87,264	168,181	335,873
Interim Director of Adults, Health & Care (from 1 November 2015)	52,083				6,823	58,906
Director of Transformation and Governance	128,772				16,869	145,641

Notes to the Core Financial Statements

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 Children's Services Steve Crocker	150,230				19,680	169,910
Director of Corporate Resources Carolyn Williamson	170,316					170,316
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 Adults, Health & Care	148,344				19,433	167,777
Director of Transformation and Governance	130,060				17,038	147,098

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

23c Termination agreements

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

Schools 2015/16

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	88	59	147	884
£20,001 +	4	2	6	172
	92	61	153	1,056

Non schools 2015/16

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	26	3	29	226
£20,001 - £40,000	9	2	11	323
£40,001 - £60,000	0	2	2	85
£60,001 +	1	2	3	268
	36	9	45	902

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	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
Total number of packages	24	195	219	1,946

24 External Audit fees

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

2015/16 £'000		2016/17 £'000
	Fees payable to Ernst & Young with regard to external audit services carried out by the appointed auditor for the year	116
	(2) Grant Claims	4
114		120

25 Dedicated Schools Grant

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

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

Details of the deployment of DSG receivable for 2016/17 are as follows:

	Central expenditure £'000	Individual Schools Budget £'000	Total £'000
Final DSG for 2016/17 before Academy Recoupment			(861,736)
Academy figure recouped for 2016/17			160,449
Total DSG after Academy recoupment for 2016/17			(701,287)
Brought forward from 2015/16			(19,498)
Carry forward to 2017/18 agreed in advance			6,599
Agreed initial budgeted distribution in 2016/17	(85,553)	(628,633)	(714,186)
In year adjustments		315	315
Final budgeted distribution in 2016/17	(85,553)	(628,318)	(713,871)
Less Actual central expenditure	85,553		85,553
Less Actual ISB deployed to schools		628,318	628,318
Carry forward to 2017/18	0	0	0
Plus carry forward agreed in advance			(6,599)
Total carry forward to 2017/18			(6,599)

26 Grant and contribution income

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

2015/16 £'000	2016/17 £'000
Credited to Taxation and Non Specific Grant Income	
Capital Grants and Contributions:	
(204) Community Capacity Building	0
0 2 Year Old Entitlement	(338)
(800) Community Grant - LD Transformation	0
(29) Local Sustainable Transport Fund Grant	(14)
(30,079) Local Transport Capital Block Funding Grant	(30,508)
0 Schools Condition Allocation	(13,668)
(1,042) Broadband Delivery UK Grant	(1,931)
421 Rural Broadband	0
(687) Pinchpoint Funding	0
0 EM3 Local Enterprise Partnership	(38,391)
(1,237) Environment Agency	(752)
(5,296) Disabled Facilities Grant	(9,747)
(186) Social Care Capital Grant	(608)
(3,919) Schools Devolved Formula Capital	(4,003)
(25,598) Schools Capital Maintenance Grant	(2,088)
(26,793) Schools Basic Needs Grant	(41,914)
(21) Winchester City Council Community Infrastructure Levy	(314)
0 Pothole Action Grant	(1,488)
(419) Universal Infant Free School Meals	0
(100) Swanwick Grant	(727)
0 Priority Schools Building Programme 2 (PSBP2) Grant	(288)
(25,736) Developer's contributions	(19,515)
(18,911) Other contributions	(9,239)
(2,642) Contributions from other Local Authorities	(1,810)
22,143 Less: Capital income used to fund revenue expenditure under statute	42,505
(121,135)	(134,838)
(212,766) Non-ringfenced Government grants	(180,779)
(333,901) Total	(315,617)

Notes to the Core Financial Statements

Credited to services

2015/16 £'000	2016/17 £'000
(1,099) Carers & Care Act Implementation	0
(6,536) Adults Social Care Implementation	0
(640) Local Reform & Community Voices	(650)
(3,550) Independent Living Fund	(4,495)
(35) Common Assessments Framework	0
(48) Syrian Resettlement Programme	(190)
(28,659) EM3 Local Enterprise Partnership	(947)
(9,373) PFI Street Lighting Grant	(9,373)
(390) Bikeability Training Grant	(332)
(1,486) Local Sustainable Transport Funds	(292)
(230) Flood & Water Management Grant	0
0 Partners in Practice (PiP)	(1,973)
0 Inshore Fisheries & Conservation	(204)
0 Other Adult Services Grants	(10)
0 Skills for Care Grant	(20)
(1,106) Bus Service Operators Grant	(650)
(617) Local Services Support Grant	0
0 High Needs Strategic Planning Fund	(560)
(245) Other Economy, Transport and Environment Grants	(85)
(704,980) Dedicated School's Grant	(713,871)
(14,039) Universal Infant Free School Meals	(14,834)
(722) SEND Pathfinder	(809)
(3,851) PE & Sport Grant	(3,853)
(507) Deprivation of Liberty Safeguards	0
(103) Additional Schools Grant	(41)
(181) Social Work Grants	(609)
0 Schools Condition Allocation	(2,056)
(274) Staying Put Grant	(411)
0 Extended Rights to Free Travel	(402)
(157) New Remand Framework Funding Grant	(97)
(587) Unaccompanied Asylum Seeking Children Grant	(1,504)
(170) Delayed Transfers of Care	0
(1,967) Supporting Troubles Families Grant	(2,062)
0 Sustainable Travel Transition Year Grant	(431)
(1,833) Children's Social Care Innovation Programme	(2,131)
(46,160) Public Health Grant	(53,492)
(1,253) Digitalisation Grant	(936)
(104) Social Care in Prisons Grant	(113)
(125) Other Policy and Resources grants	(166)
(34,918) Pupil Premium grant	(34,294)
(2,966) Education Funding Agency Grant	(3,083)
(2,040) Skills Funding Agency Grant	(1,962)
(1,613) Music Grant	(1,815)
(1,409) Other Children's Services and Education Grants	(1,712)
(43) Heritage Lottery Fund	(116)
0 Local Welfare Assistance	(204)
(278) Other Cultural Grants	(404)
(439) Other Countryside Grants	(348)
(1,371) Developers Contributions	(1,439)
(22,143) Add: Capital income used to fund revenue expenditure under statute	(42,505)
(898,247)	Total (905,481)

Notes to the Core Financial Statements

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

Capital grants receipts in advance

31 March 2016 £'000		31 March 2017 £'000
(2,461)	Department of Health Social Care Capital Grant	(1,853)
(15,098)	Local Enterprise Partnership (LEP)	(18,582)
(209)	Bordon Eco Town Grant	(209)
0	Secure Children's Homes: Swanwick Lodge	(182)
(56)	Other CCBS grants	0
(5,814)	Schools Devolved Formula Capital	(5,165)
(7,247)	Department for Transport Grant	(8,129)
(200)	Shipwrights Way at Bordon	0
0	Early Years 30 Hour Grant	(2,293)
(329)	Whitehill & Bordon	(2)
(78)	Other Children's Services Grants	(451)
(15)	Sport England Grant	(15)
(78)	Environment Agency Grants	(47)
(12)	Other ETE grants	0
(31,597)	Total	(36,928)

Revenue grants receipts in advance

31 March 2016 £'000		31 March 2017 £'000
(19,497)	Dedicated Schools Grant	(6,600)
(16)	Pupil Premium	(13)
0	Bus Service Operators Grant	(456)
(2,131)	Children's Social Care Innovation Funding	0
(151)	Other Children's Services and Education Grants	0
(157)	Common Assessment Framework Adults Grant	(126)
(2,015)	Local Enterprise Partnership (LEP)	(936)
(1,016)	Local Welfare Assistance Grant	(812)
(489)	Flood management	(489)
(947)	Single Farm Payments European Grant	(1,279)
(402)	Eco Towns - project funding	(321)
(358)	Supporting Troubled Families	0
(350)	One Public Sector Estate 3	(123)
0	One Public Sector Estate 4	(420)
0	One Public Sector Estate 4	(160)
(360)	Skills Funding Agency	(242)
(106)	Music Grant	0
(41)	Cass Foundation	(67)
(164)	Rural Payments Agency	(172)
(113)	Other Countryside Grants	(81)
(1,847)	Transformation Fund	(911)
(10)	Arts Council Funding	0
(29)	Other Cultural Grants	(19)
(30,199)	Total	(13,227)

27 Related party transactions

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

Central Government

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

Members

Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2016/17 is shown in note 22. Before

every decision making meeting, members are required to disclose any conflicts of interest. There were 28 related party transactions totalling £29,680.66 arising from disbursements from members' devolved budgets. All such payments were counter signed by a member other than the budget-holding member.

Officers

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

Limited Companies

Hampshire County Council owns a 51% share in the Reading Hampshire Property Partnership Ltd (RHPP), which commenced operations on 1 April 2014. This is a public to public venture, based on the Teckal principal, to provide property services to Reading Borough Council. The Board of Directors is made up of two Assistant Directors from Hampshire County Council and two from Reading Borough Council. The turnover during 2016/17 was £1.6 million (£2.2million 2015/16).

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 303 other contributing scheduled, admitted, community admission, transferee admission, and resolution bodies (315 in 2015/16).

The Chief Financial Officer of the County Council is also the Chief Financial Officer of the Office of the Police and Crime Commissioner for Hampshire. The governance arrangements of both organisations and the Chief Financial Officer's independence and professional status ensure that this relationship is not compromised.

Transactions with these related parties are shown below:

2015/16 £'000		2016/17 £'000
	Pension Fund	
(2,219)	Administration charge	(2,275)
	Police and Crime Commissioner	
(21)	Charge for Chief Finance Officer	(22)

28 Capital financing

The total amount of capital expenditure incurred in the year is shown in the table (including the value of assets acquired under finance leases 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.

2015/16	2016/17
£'000	£'000
761,569 <i>Opening capital financing requirement</i>	755,695
<i>Capital investment:</i>	
163,580 Capital spending on property, plant and equipment	147,873
25,774 Revenue expenditure funded by capital under statute	46,998
0 Loans advanced for capital expenditure	3,167
15,000 Pooled Investment Property Fund	0
965,923	953,733
<i>Funded by:</i>	
(9,571) Capital receipts	(7,203)
(138,802) Grants and other income	(154,771)
Revenue	
(29,838) - main contribution	(16,728)
(8,590) - reserves	(7,498)
(23,427) Minimum revenue provision	(12,144)
755,695 Closing capital financing requirement	755,389
Explanation of movements in year	
(13,191) Increase/(decrease) in borrowing (supported by government financial assistance)	(689)
9,773 Increase/(decrease) in borrowing (unsupported by government financial assistance)	7,137
(2,456) Increase/(decrease) in borrowing related to PFI contracts	(6,754)
(5,874) Increase/(decrease) in Capital Financing Requirement	(306)

29a Leases – operating leases – County Council as lessee

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

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

Other land and buildings £'000	2015/16 Vehicles, plant and equipment £'000	Total £'000		Other land and buildings £'000	2016/17 Vehicles, plant and equipment £'000	Total £'000
2,457	1,112	3,569	Not later than one year	2,561	820	3,381
7,162	1,261	8,423	Later than one year and not later than five years	7,381	1,016	8,397
12,947	0	12,947	Later than five years	25,530	0	25,530
22,566	2,373	24,939	Total payments	35,472	1,836	37,308

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

2015/16 £'000		2016/17 £'000
3,836	Minimum lease payments	3,741
0	Contingent rents	0
(18)	(Sublease payments receivable)	(13)
3,818	Total net expenditure	3,728

29b County Council as lessor

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

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

2015/16 £'000		2016/17 £'000
3,787	Not later than one year	3,793
8,094	Later than one year and not later than five years	7,992
48,852	Later than five years	48,302
60,733	Total future minimum lease payments	60,087

29c Leases – finance leases

At 31 March 2017 the County Council has not taken or granted any finance leases over the de minimis level of £500,000.

30 PFI and service concessions

30a Project Integra

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

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

The contract has three phases. During phases 1 and 2 the contractor planned, financed and constructed the three Energy Recovery Facilities, two Material Reprocessing Facilities and two composting sites. The contract is currently in Phase 3 covering the provision of waste disposal services in relation to the newly constructed facilities ending in 2030/31. 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 which has delivered savings of £2.4 million per year from 2015, increasing to savings of £4.7 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 transfer to them at contract end. Contractor or third party owned sites may be acquired at contract end through assignment of leases, or options to purchase as negotiated at the time.

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

Notes to the Core Financial Statements

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

2015/16		2016/17
£'000	Gross book value	£'000
80,177	At 1 April	80,177
0	Additions	0
0	Disposals	0
0	Revaluations	0
80,177	Gross book value at 31 March	80,177
Depreciation		
(12,487)	At 1 April	(16,607)
(4,120)	Depreciation for the year	(4,120)
0	Impairments	0
0	Revaluations	0
(16,607)	Depreciation at 31 March	(20,727)
67,690	Net book value at 1 April	63,570
63,570	Net book value at 31 March	59,450
The movement in the deferred liability was:		
(65,268)	Balance brought forward 1 April	(62,414)
2,854	Principal repayment in the year	2,993
(62,414)	Balance at 31 March	(59,421)
(2,993)	Finance lease repayable in one year	(3,139)
(59,421)	deferred liability	(56,282)
(62,414)	Balance at 31 March	(59,421)

The waste management contract has 14 years to run. The expected payments are shown below.

	Principal repayment £'000	Interest £'000	Service Charge £'000	Total £'000
Next year	3,139	2,890	42,052	48,081
Years two to five	14,156	9,960	171,068	195,184
Years six to 10	21,931	8,214	237,116	267,261
Years 11 to 15	20,195	2,407	211,536	234,138
	59,421	23,471	661,772	744,664

30b The South Coast Street Lighting PFI

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

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.

Completion of the CIP has allowed Equitix (the senior lender), in partnership with HCC, to pursue a refinancing of the debt with the objective of realising year-on-year unitary charge savings, targeted at £150k per annum for HCC. The refinancing concluded in late March 2017 and a refinancing annual gain-share of £190,450 per annum effective from 2017/18 has been achieved. This reduction has been reflected in the 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.

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

Notes to the Core Financial Statements

The movement in the asset values were as follows:

2015/16		2016/17
£'000	Gross book value	£'000
124,669	At 1 April	128,211
3,542	Additions	0
0	Disposals	(401)
0	Revaluations	0
<u>128,211</u>	Gross book value at 31 March	<u>127,810</u>
	Depreciation	
(6,824)	At 1 April	(10,975)
(4,151)	Depreciation for the year	(4,274)
0	Impairments	0
<u>(10,975)</u>	Depreciation at 31 March	<u>(15,249)</u>
<u>117,845</u>	Net book value at 1 April	<u>117,236</u>
<u>117,236</u>	Net book value at 31 March	<u>112,561</u>

The movement in the deferred liability was:

(114,900)	Balance brought forward 1 April	(115,298)
3,144	Principal repayment in the year	3,360
(3,542)	Capital expenditure incurred in the year	0
0	Deaccruals	401
<u>(115,298)</u>	Balance at 31 March	<u>(111,537)</u>
(3,391)	Finance lease repayable in one year	(3,663)
<u>(111,907)</u>	deferred liability	<u>(107,874)</u>
<u>(115,298)</u>		<u>(111,537)</u>

Notes to the Core Financial Statements

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	3,663	6,518	6,632	16,813
Years two to five	16,920	23,801	29,192	69,913
Years six to 10	27,342	23,560	42,765	93,667
Years 11 to 15	36,320	14,582	50,195	101,097
Year 16 to 18	27,291	3,250	33,900	64,441
	111,536	71,711	162,684	345,931

A PFI grant of £9 million from the Department of Transport was received by the County Council in 2016/17 with a balance of £169 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 £96 million.

31 Contingent Liabilities

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 £19.7 million at 31 March 2017 (see note 14) and a reserve earmarked for potential future claims, £20.6 million at 31 March 2017 (see note 7).

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.

32 Pensions

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

The Council participates in three pension schemes:

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

32a Pensions Schemes Accounted for as Defined Contribution Schemes

Teachers' Pension Scheme

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

In 2016/17 total employer's contributions were £46.8 million representing 16.48% of pensionable pay (£43.6 million representing 14.1% of pensionable pay until August 2015, then, due to an increase in contribution rate 16.48% from September 2015 in 2015/16).

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

NHS Pension Scheme

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

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

In 2016/17 total employer's contributions were £0.1 million representing 14.3% of pensionable pay (£0.15 million representing 14.3% of pensionable pay in 2015/16).

32b Local Government Pension Scheme

Participation in Pension Schemes

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

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

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

In 2016/17 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 will be produced for the three year period from 1 April 2017.

32c Transactions relating to post-employment benefits

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

Notes to the Core Financial Statements

2015/16 £'000		2016/17 £'000
	Included in the Comprehensive Income and Expenditure Statement:	
	<i>Cost of Services</i>	
82,490	Current service cost of funded LGPS pensions	82,050
0	Past service cost of funded LGPS pensions	1,280
	Charge to non-distributed costs for early retirement in the year	
1,001		
0	Settlement costs	0
0	Net increase in liabilities from acquisitions	0
	<i>Financing and Investment Income and Expenditure</i>	
33,910	Interest on net defined liability / (asset)	34,040
117,401	Total post employment benefits charges to the surplus/deficit on the provision of services	117,370
	Remeasurements in Other Comprehensive Income:	
33,610	Return on plan assets (excluding that recognised in net interest)	(339,470)
	Actuarial (gains)/losses arising:-	
(107,730)	Actuarial (gains) / losses due to change in financial assumptions	609,360
0	Actuarial (gains) / losses due to change in demographic assumptions	(26,910)
(29,480)	Actuarial (gains) / losses due to liability experience	(114,550)
(103,600)	Total amount recognised in Other Comprehensive Income and Expenditure	128,430
13,801	Total post employment benefits charges to the Comprehensive Income and Expenditure Statement	245,800
	<i>Movement in reserves statement</i>	
(117,401)	Reversal of net changes made to the surplus/deficit for the provision of services for post employment benefits in accordance with IAS19	(117,370)
	<i>Actual amount charged against the General Fund Balance for pensions in the year</i>	
74,299	Employer's contributions payable to the fund	73,830
	Added years and early retirement cash flows in the year:	
0	- LGPS	1,940
122	- Teachers	2,730
74,421	Charge on General Fund	78,500

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to 31 March 2017 is a loss of £24.8 million.

Note that the movement in reserves statement for the comparator year (2015/16) has been shown in a different way to the 2015/16 statement of accounts. Thus, charges relating to other comprehensive income and expenditure – i.e. which fall below the surplus or deficit on the provision of services – are now excluded from the above analysis. This table now shows the impact on the general fund more clearly.

32d Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation)

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 assumptions	(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)
Period ended 31 March 2016	LGPS funded £'000	LGPS Unfunded £'000	Teachers' Unfunded £'000	Total £'000
Opening present value of liabilities	(2,909,370)	(27,700)	(39,750)	(2,976,820)
Current service cost	(82,490)	0	0	(82,490)
Interest expense on defined benefit obligation	(92,030)	(860)	(1,230)	(94,120)
Contributions by participants	(22,580)	0	0	(22,580)
Actuarial gains/(losses) on liabilities:				
- financial assumptions	106,600	470	660	107,730
- demographic assumptions	0	0	0	0
- liability experience	28,340	470	670	29,480
Net benefits paid out (note i)	90,160	1,960	2,820	94,940
Past service cost	(8,540)	0	0	(8,540)
Net increase in liabilities from acquisitions	0	0	0	0
Closing present value of liabilities	(2,889,910)	(25,660)	(36,830)	(2,952,400)

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.

32e Reconciliation of the Movements in the Fair Value of Scheme Assets

31 March 2016 £'000		31 March 2017 £'000
1,876,200	Opening fair value of assets	1,912,400
60,210	Interest income on assets	65,190
(33,610)	Remeasurement gains/(losses) on assets	339,470
81,960	Contributions by employer	78,500
22,580	Contributions by participants	23,480
(94,940)	Net benefits paid out (note i)	(93,170)
1,912,400	Closing fair value of assets	2,325,870

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.

32f Pensions Assets and Liabilities Recognised in the Balance Sheet

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

31 March 2016 £'000		31 March 2017 £'000
	Present value of the defined benefit obligation:	
(2,889,910)	LGPS funded	(3,470,600)
	Unfunded Liabilities:	
(25,660)	LGPS	(26,070)
(36,830)	Teachers	(36,500)
(2,952,400)		(3,533,170)
1,912,400	Fair value of assets in the scheme	2,325,870
(1,040,000)	Net liability arising from defined benefit obligation	(1,207,300)

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

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

Notes to the Core Financial Statements

The total contributions expected to be made to the Hampshire LGPS by the County Council in the year to 31 March 2018 is £80.36 million. Additional contributions may also become due in respect of any employer discretions to enhance members' benefits in the Fund over the next accounting period.

The proportion of assets by category is shown below:

31 March 2016 %	31 March 2017 Quoted %	31 March 2017 Unquoted %	31 March 2017 Total %
56.3 Equities	56.8	3.5	60.3
25.7 Government bonds	25.0	0.2	25.2
8.2 Property	0.5	6.0	6.5
2.1 Corporate bonds	1.4	-	1.4
4.7 Cash	3.4	-	3.4
3.0 Other (hedge funds, currency holdings, futures, private equities)	-	3.2	3.2
100.0	87.1	12.9	100.0

32g 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:

	2015/16 % per year	2016/17 % per year
Rate of discount for scheme liabilities - funded pensions	3.4	2.6
Rate of discount for scheme liabilities - unfunded pensions	3.4	2.6
Rate of increase in salaries	3.3	3.5
Rate of increase in pensions in payment - funded pensions	1.8	2.0
Rate of increase in pensions in payment - unfunded pensions	1.8	2.0
Proportion of employees opting to take a commuted lump sum for all service:	70	70
RPI inflation - funded pensions	2.9	3.1
RPI inflation - unfunded pensions	2.9	3.1
CPI inflation - funded pensions	1.8	2.0
CPI inflation - unfunded pensions	1.8	2.0

Principal demographic assumptions

LGPS schemes	Males		Females	
	31 March 2016	31 March 2017	31 March 2016	31 March 2017
Year of birth base Table	Standard SAPS Normal Health Light Amounts (S1NMA_L)	Standard SAPS Normal Health Light Amounts (S2P)	Standard SAPS Normal Health Light Amounts (S1NFA_L)	Standard SAPS Normal Health Light Amounts (S2P)
Scaling to above base Table rates	100%	100%	95%	80%
Improvements to base Table	CMI_2012 with a long term rate of improvement of 1.5% p.a.	CMI_2014 with a long term rate of improvement of 1.5% p.a.	CMI_2012 with a long term rate of improvement of 1.5% p.a.	CMI_2014 with a long term rate of improvement of 1.5% p.a.
Future lifetime from age 65	24.6	24.0	26.4	27.0
Future lifetime from age 65 (now aged 45)	26.7	26.0	28.7	29.3

Sensitivity analysis of financial assumptions

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the preceding table. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all other assumptions remain constant. The assumptions in longevity, for example, assumes 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 2017 from changes in assumptions

	Increase in assumption		Decrease in assumption	
	£'000	%	£'000	%
Discount rate (increase / decrease 0.1% per annum)	(65,290)	-1.9	66,540	1.9
Salary increase rate (increase / decrease 0.1% per annum)	12,750	0.4	(12,630)	-0.4
Pension increase rate (increase / decrease 0.1% per annum)	53,670	1.5	(53,770)	-1.5
Longevity (increase / decrease by 1 year)	100,690	2.9	(100,480)	-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.

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

The County Council anticipates paying £80.36 million in expected contributions to the scheme in 2017/18.

The weighted average duration of the defined benefit obligation for scheme members is 19 years (18.1 years in 2015/16).

33 Trust Funds

The Council has acted as sole trustee for 22 trust funds (22 in 2015/16) and as administrator for 12 other trust funds (12 in 2015/16). They include educational prize funds for financing improvements in education, social care and museum establishments, and musical and sports scholarship funds. The trusts are mainly invested in specialist pooled funds for charities and cash held on deposit with the County Council

Balance at 31 March 2016 £'000	Balance at 31 March £'000
Sole trustee funds	
Educational trusts	
(111) Dayas Music Scholarship	(113)
(253) Michael Austin Harlick Memorial	(253)
(106) Mace Educational Trust	(107)
(18) Other	(18)
(488) Total	(491)
Social Care trusts	
(73) Hampshire Old Industrial and Reformatory Schools	(71)
(20) Green Meadows Care Home	(20)
(93) Total	(91)
Museums trusts	
(23) Allen & Curtis Museum Trust	(23)
(50) Red House Museum Trust	(50)
(73) Total	(73)
Libraries trust	
(2) Julian Davies Foundation	(3)
Other	
(1,555) Hillier Arboretum Trust	(1,702)
(2,211) Total - sole trustee trusts	(2,360)
Administrator funds	
(2,348) The Eggars Grammar School Alton Site Foundation	(2,426)
(69) Hampshire Foundation for Young Musicians	(69)
(29) Other	(30)
(6) Social Care trusts	(6)
(2,452) Total administrator trusts	(2,531)
(4,663) Total trust funds	(4,891)

Pension Fund Accounts

Pension Fund Accounts		2015/16	2016/17
Fund Account	See note	£'000	£'000
Dealings with members, employers and others directly involved in the Fund			
Contributions	7	252,343	257,508
Transfers in from other pension funds	8	11,543	13,765
		263,886	271,273
Benefits	9	-231,411	-235,256
Payments to and on account of leavers	10	-11,604	-14,713
		-243,015	-249,969
Net additions from dealings with members		20,871	21,304
Management expenses	11	-20,430	-31,045
Net additions/withdrawals inc. fund management expenses		441	-9,741
Returns on investments			
Investment income	12	101,984	112,567
Taxes on income	13a	-695	-2,003
Profits and losses on disposal of investments and changes in the market value of investments	14a	-25,412	1,022,985
Net return on investments		75,877	1,133,549
Net increase in the net assets available for benefits during the year		76,318	1,123,808
Opening net assets of the scheme		5,137,088	5,213,406
Closing net assets of the scheme		5,213,406	6,337,214

Pension Fund Accounts

Net Assets Statement for the year ending 31 March 2017		31 March 2016	31 March 2017
	See Note	£'000	£'000
Investment assets		4,907,387	6,116,083
Cash deposits		36,451	19,806
Investment liabilities		-7,246	-2,543
Total net investments	14	4,936,592	6,133,346
Long term debtors	23	7,607	6,085
Current assets	21	286,680	216,644
Current liabilities	22	-17,473	-18,861
Net assets of the Fund available to fund benefits at the period end		5,213,406	6,337,214

Note: The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the end of the period. The actuarial present value of promised retirement benefits is disclosed at Note 20.

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 2016/17 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

Notes to the Pension Fund Accounts

- 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 317 employer organisations within the Hampshire Pension Fund including the County Council itself, as detailed below:

Hampshire Pension Fund	31 March 2016	31 March 2017
Number of employers with active members	329	317
Number of employees in Scheme		
County Council	26,747	26,874
Other employers	31,068	30,907
Total	57,815	57,781
Number of pensioners		
County Council	16,043	16,706
Other employers	20,476	21,510
Total	36,519	38,216
Deferred pensioners		
County Council	29,701	31,693
Other employers	30,156	32,367
Total	59,857	64,060
Total members in the Pension Fund	154,191	160,057

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 2017. 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 13.1% to 15.6% of pensionable pay plus a past service deficit contribution.

d) Benefits

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

	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 2016/17 financial year and its position at year-end at 31 March 2017. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2016/17* 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 (see Notes 8 and 10).

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

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

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

c) Investment income

i) Interest income

Interest income is recognised in the Fund Account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition 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 2016/17 £0.4m of fees is based on such estimates (2015/16 £0.1m).

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 16). 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 2017 by an external valuer, Paul Willis, BSc MRICS of Colliers International in accordance with the Royal Institute of Chartered Surveyors' *Valuation Professional Standards (January 2014)*, see Note 16 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 15).

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 20).

n) Additional voluntary contributions

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

AVCs are not included in the accounts in accordance with 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 24).

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 2012*. The value of unquoted private equity investments at 31 March 2017 was £241 million (£170 million at 31 March 2016).

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 19.

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 2017 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 20)	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	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

Item	Uncertainties	Effect if actual results differ from assumptions
	assumptions to be applied.	£60 million, and a one-year increase in assumed life expectancy would increase the liability by approximately £230 million.
Debtors	At 31 March 2017, the Fund had a balance of debtors and prepayments of £59.6 million. A review of debtor balances suggested that an impairment of £0.042 million was appropriate. However, in the current economic climate, it is not certain that such an allowance would be sufficient.	If collection rates were to deteriorate, a doubling of the amount of the impairment of doubtful debts would require an additional £0.042 million to be set aside as an allowance.
Private equity investments (Note 16)	Private equity investments are valued at fair value in accordance with the <i>International Private Equity Venture Capital Valuation Guidelines 2012</i> . 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 £241 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 +/- £24.1million.
Hedge funds (Note 16)	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 £204 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 +/- £10.2 million.

6. Events after the reporting date

There have been no events since 31 March 2017, and up to the date when these accounts were authorised that require any adjustments to these accounts.

7. Contributions receivable**By category**

	2015/16	2016/17
	£'000	£'000
Employees' contributions	59,535	60,963
Employers' contributions		
Normal contributions	132,494	131,096
Deficit recovery contributions	60,314	65,449
Total employers' contributions	192,808	196,545
Total	252,343	257,508

By authority

	2015/16	2016/17
	£'000	£'000
Administering authority	95,423	96,996
Scheduled bodies	146,511	148,482
Admitted bodies	5,623	7,575
Community admission bodies	847	707
Transferee admission bodies	2,716	2,462
Resolution bodies	1,223	1,286
Total	252,343	257,508

8. Transfers in from other pension funds

	2015/16	2016/17
	£'000	£'000
Group transfers	41	566
Individual transfers	11,502	13,199
Total	11,543	13,765

9. Benefits payable**By category**

	2015/16	2016/17
	£'000	£'000
Pensions	182,116	190,471
Commutation and lump sum retirement benefits	43,067	40,744
Lump sum death benefits	6,228	4,041
Total	231,411	235,256

By authority

	2015/16	2016/17
	£'000	£'000
Administering authority	90,874	87,930
Scheduled bodies	130,080	136,618
Admitted bodies	5,279	5,686
Community admission bodies	1,664	1,891
Transferee admission bodies	2,544	2,249
Resolution bodies	970	882
Total	231,411	235,256

10. Payments to and on account of leavers

	2015/16	2016/17
	£'000	£'000
Refunds to members leaving service	779	1,085
Payments for members joining State scheme	369	565
Group transfers	2,371	2,200
Individual transfers	8,085	10,863
Total	11,604	14,713

11. Management expenses

	2015/16	2016/17
	£'000	£'000
Administrative costs	1,800	1,920
Investment management expenses	17,855	28,497
Oversight and governance costs	775	628
Total	20,430	31,045

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

In addition to these costs, indirect costs are incurred through the bid-offer spread on investments sales and purchases. These are reflected in the cost of investment acquisitions and in the proceeds from the sales of investments (see Note 14a).

11a. Investment Management Expenses

	2015/16	2016/17
	£'000	£'000
Management fees	16,317	24,447
Custody fees	121	140
Transaction costs	1,417	3,910
Total	17,855	28,497

12. Investment income

	2015/16	2016/17
	£'000	£'000
Income from bonds	7,343	8,182
Income from equities	58,365	59,991
Pooled property investments	2,448	2,513
Pooled investments – unit trusts and other managed funds	591	609
Rents from property (see note 12a)	21,711	21,329
Interest on cash deposits	660	616
Alternative investment income	10,451	18,536
Stock lending	391	595
Other	24	196
Total before taxes	101,984	112,567

12a. Property income

	2015/16	2016/17
	£'000	£'000
Rental income	21,711	21,329
Direct operating expenses	-2,113	-1,777
Net income	19,598	19,552

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

13. Other fund account disclosures**13a. Taxes on income**

	2015/16	2016/17
	£'000	£'000
Withholding tax	695	2,003
Total	695	2,003

13b. External Audit Costs

	2015/16 £'000	2016/17 £'000
Payable in respect of external audit	32	32
Total	32	32

14. Investments

	Market value 31 March 2016 £'000	Market value 31 March 2017 £'000
Investment assets		
Bonds	246,436	244,402
Equities	1,909,250	2,468,116
Pooled investments	2,039,243	2,546,862
Pooled property investments	36,480	30,726
Alternative investments	298,727	445,974
Property (see Note 14(e))	375,280	377,915
Derivative contracts:		
- Futures	393	430
- Forward currency contracts	1,541	1,548
- Purchased/written options	37	108
- Spot foreign exchange contracts	0	2
Cash deposits	36,451	19,806
Total investment assets	4,943,838	6,135,889
Investment liabilities		
Derivative contracts:		
- Futures	-305	-555
- Forward currency contracts	-6,898	-1,874
- Purchased/written options	-34	-112
- Spot foreign exchange contracts	-9	-2
Total investment liabilities	-7,246	-2,543
Net investment assets	4,936,592	6,133,346

14a) Reconciliation of movements in investments and derivatives

Period 2016/17	Market value 1 April 2016	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 2017
	£'000	£'000	£'000	£'000	£'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

Notes to the Pension Fund Accounts

Period 2015/16	Market value 1 April 2015	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 2016
	£'000	£'000	£'000	£'000	£'000
Bonds	237,162	627,545	-627,677	9,406	246,436
Equities	1,922,482	537,658	-481,012	-69,878	1,909,250
Pooled investments	2,030,638	5,716	-6,050	8,939	2,039,243
Pooled property investments	53,568	80	-22,616	5,448	36,480
Alternative investments	350,519	41,427	-112,944	19,725	298,727
Property	354,075	13,414	-5,805	13,596	375,280
	4,948,444	1,225,840	-1,256,104	-12,764	4,905,416
Derivative contracts:					
- Futures	-270	11,319	-7,997	-2,964	88
- Forward foreign exchange	-2,031	48,328	-39,331	-12,323	-5,357
- Purchased/written options	-515	-1,751	-21	2,290	3
	-2,816	57,896	-47,349	-12,997	-5,266
Other investment balances:					
- Cash deposits	49,765			349	36,451
- Spot foreign exchange contracts	-6				-9
Net investment assets	4,995,387			-25,412	4,936,592

Purchases and sales of derivatives are recognised in note 14a 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.

14b) Analysis of investments

	31 March 2016 £'000	31 March 2017 £'000
Bonds		
UK		
Public sector quoted	1,457	1,548
Corporate quoted	11,458	11,781
Corporate unquoted	0	0
Overseas		
Public sector quoted	151,633	160,998
Public sector unquoted	10,855	12,878
Corporate quoted	70,472	57,197
Corporate unquoted	561	0
	246,436	244,402
Equities		
UK		
Quoted	785,188	822,111
Overseas		
Quoted	1,124,062	1,646,005
	1,909,250	2,468,116
Pooled funds – additional analysis		
UK		
Fixed income unit trusts	1,170,187	1,427,909
Unit trusts	299,598	366,217
Overseas		
Fixed income unit trusts	14,088	15,252
Unit trusts	555,370	737,484
	2,039,243	2,546,862
Pooled property investments	36,480	30,726
Alternative Investments	298,727	445,974
Property	375,280	377,915
Derivatives	1,971	2,088
	712,458	856,703
Cash deposits	36,451	19,806
Total investment assets	4,943,838	6,135,889
Investment liabilities		
Derivatives	-7,246	-2,543
Total investment liabilities	-7,246	-2,543
Net investment assets	4,936,592	6,133,346

14c) Investments analysed by fund manager

	Market value		Market value	
	31 March 2016		31 March 2017	
	£'000	%	£'000	%
Aberdeen	695,651	13.3	15,973	0.3
Acadian	0	0	118,986	1.9
Baillie Gifford	0	0	558,474	8.8
CBRE Global Investors	399,601	7.7	401,724	6.3
Legal & General	581,153	11.2	709,623	11.2
Newton	710,483	13.6	729,437	11.5
Schroders	664,553	12.8	802,242	12.7
Standard Life			367,573	5.8
State Street	1,416,997	27.2	1,789,197	28.2
Western	255,926	4.9	264,967	4.2
	4,724,364		5,758,196	
Other investments	336,322	6.4	487,687	7.7
Other net assets	152,720	2.9	91,331	1.4
Total	5,213,406	100.0	6,337,214	100.0

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

14d) Stock lending

The Fund's Statement of Investment Principles sets the parameters for the Fund's stock lending programme. At the year-end, the value of quoted stock on loan was £237.3m (£89.9m 2015/16). 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 2017, the custodian bank held collateral at fair value of £262.1m (£97m 2015/16). Collateral consists of acceptable securities and government debt.

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

There are no liabilities associated with the loaned assets.

14e) Property holdings

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

	Year ending 31 March 2016 £'000	Year ending 31 March 2017 £'000
Opening balance	354,075	375,280
Additions	12,502	4,600
Disposals	-4,893	-2,617
Net change in market value	13,596	652
Closing balance	375,280	377,915

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

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

	Year ending 31 March 2016 £'000	Year ending 31 March 2017 £'000
Within one year	21,094	20,291
Between one and five years	67,198	63,969
Later than five years	61,350	60,204
Total future lease payments due under existing contracts	149,642	144,464

15. Analysis of derivatives

Objectives and policies for holding derivatives

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

Futures

Outstanding exchange traded futures contracts are as follows:

Type	Expires	Economic exposure	Market value	Economic exposure	Market value
			31 March		31 March
			2016		2017
		£'000	£'000	£'000	£'000
Assets					
UK Fixed Income Futures	Less than one year	0	0	0	0
Overseas fixed income futures	Less than one year	55,252	393	101,928	430
Total assets			393		430
Liabilities					
UK Fixed Income Futures	Less than one year	1,580	-4	-16,311	-147
Overseas fixed income futures	Less than one year	-87,498	-301	-127,476	-408
Total liabilities			-305		-555
Net futures			88		-125

Open forward currency contracts

At 31 March 2017, the Fund had open forward currency contracts in place with a net unrealised loss of £0.326 million.

Settlements	Currency bought	Local value	Currency sold*	Local value	Asset value	Liability value
		'000		'000	£'000	£'000
Up to 1 month	GBP	330	JPY	-45,533	3	
1 to 6 months	GBP	8,885	AUD	-14,526	37	
1 to 6 months	GBP	2,662	CAD	-4,340	60	
1 to 6 months	GBP	5,912	CNY	-51,025	11	
1 to 6 months	GBP	64,756	EUR	-74,894	648	-3
1 to 6 months	GBP	24,289	JPY	-3,415,610		-239
1 to 6 months	GBP	5,821	MXN	-151,584		-573
1 to 6 months	GBP	8,305	PLN	-41,693		-100
1 to 6 months	GBP	140,647	USD	-175,902	288	-190
1 to 6 months	AUD	3,582	GBP	-2,180	2	
1 to 6 months	AUD	8,818	USD	-6,751	43	-66
1 to 6 months	BRL	15,716	USD	-4,979	4	-73
1 to 6 months	CNY	50,905	USD	-7,404	16	-45
1 to 6 months	EUR	6,933	GBP	-6,003		-68
1 to 6 months	EUR	4,830	USD	-5,191	50	-63
1 to 6 months	JPY	171,416	GBP	-1,236		-5
1 to 6 months	JPY	441,230	USD	-3,906	48	
1 to 6 months	MXN	35,188	GBP	-1,357	127	
1 to 6 months	PLN	2,000	GBP	-404		-1
1 to 6 months	USD	5,030	BRL	-15,716	111	
1 to 6 months	USD	24,301	GBP	-19,468	38	-90
1 to 6 months	USD	3,321	JPY	-375,900		-45
1 to 6 months	USD	17,419	KRW	-19,815,105	62	-313
Open forward currency contracts at 31 March 2017					1,548	-1,874
Net forward currency contracts at 31 March 2017						-326
Prior year comparative						
Open forward currency contracts at 31 March 2016					1,541	-6,898
Net forward currency contracts at 31 March 2016						-5,357

* List of currencies

AUD = Australian Dollar	BRL = Brazilian Real	CAD = Canadian Dollar
CNY = Chinese Yuan	EUR = Euro	GBP = British Pound
JPY = Japanese Yen	KRW = South Korean Won	MXN = Mexican Peso
PLN = Polish Zloty	USD = United States Dollar	

Purchased/written options

Investment underlying option contract	Expires	Put/call	Notional holding		Market value	
			31-Mar-16	31-Mar-17	31-Mar-16	31-Mar-17
			£'000	£'000	£'000	£'000
Assets						
Overseas fixed interest purchased	Less than one month	Call	0	0	106	97
Overseas fixed interest purchased	One to three months	Call	0	0	8	4
Overseas fixed interest purchased	One to three months	Put	0	0	14	7
Overseas cash purchased	Less than one month	Call	50	0	0	0
Overseas cash purchased	One to three months	Call	91	37	0	0
Total assets			37		108	
Liabilities						
Overseas cash purchased	One to three months	Put	0	0	-28	-10
Overseas fixed interest written	One to three months	Call	-24	-34	0	0
Overseas fixed interest written	One to three months	Call	0	0	-189	-97
Overseas fixed interest written	One to three months	Put	0	0	-25	-5
Total liabilities			-34		-112	
Net purchased/written options			3		-4	

16. 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
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
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	2	Valued at fair value at the year-end used the investment method of Paul Willis, BSc MRICS	Comparable recent market transactions on arm's-length	Not required

Notes to the Pension Fund Accounts

Description of asset	Valuation hierarchy – level	Basis of valuation	Observable and unobservable inputs	Key sensitivity affecting the valuation provided
properties		of Colliers International in accordance with the Royal Institute of Chartered Surveyors' <i>Valuation Professional Standards (January 2014)</i> .	terms	
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 (2012).	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 2017.

	Assessed valuation range (+/-)	Value at 31 March 2017	Value on increase	Value on decrease
		£000	£000	£000
Alternative Investments - Hedge funds	5%	204,482	214,706	194,260
Alternative Investments - Private Equity	10%	241,492	265,641	217,342

16a) 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.

Notes to the Pension Fund Accounts

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

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2017	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'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 (see Note 14e)		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

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2016	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Financial assets				
Financial assets at fair value through profit and loss	4,202,468	49,867	279,772	4,532,107
Non-financial assets at fair value through profit and loss (see Note 14e)		375,280		375,280
Financial liabilities at fair value through profit and loss		-7,246		-7,246
Net investment assets	4,202,468	417,901	279,772	4,900,141

Notes to the Pension Fund Accounts

The presentation of the table above has changed from the 2015/16 Pension Fund accounts, in line with CIPFA guidance. 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.

16b) Transfers between Levels 1 and 2

Derivative contracts in futures and options in UK bonds transferred from Level 2 to Level 1 following updated CIPFA guidance, as these investments are quoted on an active exchange.

16c) Reconciliations of fair value measurements within level 3

Period 2016/17	Market value 1 April 2016	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 2017
	£'000	£'000	£'000	£'000	£'000
Alternative investments	298,727	246,462	-166,746	67,531	445,974

17 Financial instruments**17a) 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 2016			31 March 2017		
Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost	Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost
£'000	£'000	£'000	£'000	£'000	£'000
Financial assets					
246,436			244,402		
1,909,250			2,468,116		
2,039,243			2,546,862		
36,480			30,726		
298,727			445,974		
375,280			377,915		
1,971			2,088		
	279,135			182,932	
	14,819			8,613	
4,907,387	293,954	0	6,116,083	191,545	0
Financial Liabilities					
-7,246			-2,543		
		-4,912			-4,987
-7,246	0	-4,912	-2,543	0	-4,987
4,900,141	293,954	-4,912	6,113,540	191,545	-4,987
Total			Total		
5,189,183			6,300,098		

17b) Net gains and losses on financial instruments

31 March 2016		31 March 2017
£'000		£'000
	Financial assets	
-12,415	Fair value through profit and loss	1,049,360
	Financial liabilities	
-12,997	Fair value through profit and loss	-26,375
-25,412	Total	1,022,985

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

18. 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.

18a) 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 that the following movements in market price risk or the 2016/17 reporting period based on a one-standard deviation movement in the value of the Fund's investments is reasonable. This analysis assumes that all other variables, in particular foreign currency

Notes to the Pension Fund Accounts

exchange rates and interest rates, remain the same.

Asset type	Potential market movements (+/-)
UK equities	9.10%
Overseas equities	10.00%
UK bonds	12.79%
Overseas bonds	7.35%
Property	3.58%
Alternative investments	7.76%
Cash	0.16%

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 2017 £'000	Potential market movement £'000	Value on increase £'000	Value on decrease £'000
UK Equities	1,188,328	108,138	1,296,466	1,080,190
Global Equities	2,383,489	238,349	2,621,838	2,145,140
UK bonds	1,441,238	184,334	1,625,572	1,256,904
Overseas bonds	246,324	18,105	264,429	228,219
Property	408,641	14,629	423,270	394,012
Alternatives	445,974	34,608	480,582	411,366
Cash	19,352	31	19,383	19,321
Total assets	6,133,346	598,194	6,731,540	5,535,152

Notes to the Pension Fund Accounts

Asset type	Value at 31 March 2016 £'000	Potential market movement £'000	Value on increase £'000	Value on decrease £'000
UK Equities	1,084,786	98,716	1,183,502	986,070
Global Equities	1,679,432	167,943	1,847,375	1,511,489
UK bonds	1,183,102	151,319	1,334,421	1,031,783
Overseas bonds	242,333	17,811	260,144	224,522
Property	411,760	14,741	426,501	397,019
Alternatives	298,727	23,181	321,908	275,546
Cash	36,452	58	36,510	36,394
Total assets	4,936,592	473,769	5,410,361	4,462,823

Interest rate risk

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

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

The Fund's direct exposure to interest rate movements as at 31 March 2017 and 31 March 2016 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.

Notes to the Pension Fund Accounts

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

Notes to the Pension Fund Accounts

Assets exposed to interest rate risk	Value as at 31 March 2016	Potential movement on 1% change in interest rates	Value on increase	Value on decrease
	£'000	£'000	£'000	£'000
Cash & cash equivalents	242,684	0	242,684	242,684
Cash deposits	36,451	0	36,451	36,451
Bonds	246,436	19,206	227,230	265,642
Total	525,571	19,206	506,365	544,777

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

Income exposed to interest rate risk	Amount receivable as at 31 March 2016	Potential movement on 1% change in interest rates	Value on increase	Value on decrease
	£'000	£'000	£'000	£'000
Cash deposits / cash & cash equivalents	660	2,158	2,818	-1,498
Bonds	7,343	0	7,343	7,343
Total	8,003	2,158	10,161	5,845

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 9.3% (as measured by one standard deviation).

A 9.3% 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 9.3% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Notes to the Pension Fund Accounts

Assets exposed to currency risk	Asset value at 31 March 2017 £'000	Potential market movement £'000	Value on increase £'000	Value on decrease £'000
Quoted securities	1,646,005	153,078	1,799,083	1,492,927
Unit trusts	752,736	70,004	822,740	682,732
Alternative investments	445,974	41,476	487,450	404,498
Pooled property investments	4,169	388	4,557	3,781
Public sector bonds	173,875	16,170	190,045	157,705
Corporate bonds	57,197	5,319	62,516	51,878
Total	3,079,956	286,435	3,366,391	2,793,521

Assets exposed to currency risk	Asset value at 31 March 2016 £'000	Potential market movement £'000	Value on increase £'000	Value on decrease £'000
Quoted securities	1,124,062	104,538	1,228,600	1,019,524
Unit trusts	569,457	52,960	622,417	516,497
Alternative investments	298,727	27,782	326,509	270,945
Pooled property investments	8,998	836	9,834	8,162
Public sector bonds	157,212	14,621	171,833	142,591
Corporate bonds	71,033	6,606	77,639	64,427
Total	2,229,489	207,343	2,436,832	2,022,146

18b) 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

Notes to the Pension Fund Accounts

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 5 years. The Fund's cash holding under its treasury management arrangements at 31 March 2017 was £63.46 million (31 March 2016: £131.05 million). This was held with the following institutions:

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	Rating as at 31 March 2017	Balances as at 31 March 2016 £'000	Balances as at 31 March 2017 £'000
Money market funds			
Aberdeen	AAAm	12,420	6,340
Blackrock	AAAm	11,630	6,340
Deutsche	AAAm	10,110	6,340
Federated Investors UK	AAAm	11,140	6,340
Insight	AAAm	10,930	0
Standard Life (formerly Ignis)	AAAm	8,810	6,340
Bank deposits			
Barclays	A-	10,560	0
Close Brothers	A	4,000	0
Credit Suisse	A	5,000	0
Lloyds	A	6,400	1,000
Nationwide Building Society	A	5,000	10,000
Nordea Bank AB	AA-	5,000	10,000
Overseas Chinese Banking Corp	AA-	5,000	0
Rabobank	A+	0	5,000
Santander UK	A	9,910	0
Svenska Handelsbanken	AA-	12,140	4,810
Treasury bills			
UK Government	AA	3,000	953
Total		131,050	63,463

18c) 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 in to cash. As at 31 March 2017 the values of illiquid assets was £830m, which represented 13.6% of the total fund assets (2015/16 £686m, which represented 13.2% 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 2017 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 strategies.

19. 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 2 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 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:

Notes to the Pension Fund Accounts

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.

20. Actuarial present value of promised retirement benefits

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

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

Notes to the Pension Fund Accounts

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 19) because IAS 19 stipulates a discount rate rather than a rate which reflects market rates and the circumstances of employers.

Assumptions used - 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%

21. Current assets

	31 March 2016	31 March 2017
	£'000	£'000
Debtors:		
- Contributions due - employees	4,867	11,304
- Contributions due - employers	14,699	22,966
- Transfer values receivable (joiners)	4,153	4,720
- Tax	5,458	5,915
- Sundry debtors	14,819	8,613
Cash balances	242,684	163,126
Total	286,680	216,644

Analysis of debtors

	31 March 2016	31 March 2017
	£'000	£'000
Central government bodies	3,608	4,158
Other local authorities	18,708	21,758
NHS bodies	3	1
Public corporations and trading funds	0	0
Other entities and individuals	21,677	27,601
Total	43,996	53,518

22. Current liabilities

	31 March 2016	31 March 2017
	£'000	£'000
Sundry creditors	4,912	4,987
Transfer values payable (leavers)	11,530	12,426
Benefits payable	641	993
Tax	390	455
Total	17,473	18,861

Analysis of creditors

	31 March 2016	31 March 2017
	£'000	£'000
Central government bodies	1,693	457
Other local authorities	10,661	12,966
NHS bodies	0	2
Other entities and individuals	5,119	5,436
Total	17,473	18,861

23. Long term debtors

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

The actuary determined that as insufficient assets remain to cover the remaining liabilities, a balancing payment of £15.213 million was required to the Fund by the Civil Service (Her Majesty's Courts Service) to be spread over ten instalments commencing April 2012. The total amount of the remaining debt is £7,607 million, of this the following year's instalment (£1.521 million) is classified as a debt repayable in one year, and the remaining balance £6,085 million is a long term debtor.

	31 March 2016	31 March 2017
	£'000	£'000
Magistrates Courts - agreed liability settlement due from central government body	7,607	6,085
Total	7,607	6,085

24. Additional voluntary contributions

	Market value	Market value
	31 March 2016	31 March 2017
	£'000	£'000
Prudential	6,468	8,274
Zurich	7,844	8,188
Equitable Life	1,217	1,115
Total	15,529	17,577

During the year, AVC contributions of £2.491 million were paid directly to Prudential (2015/16: £2.599 million), £0.987 million to Zurich (2015/16: £1.074 million), and £0.006 million to Equitable Life (2015/16: £0.007 million).

25. 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 £96.996 million to the Fund in 2016/17 (2015/16 £95.422 million).

During the reporting period, the County Council incurred costs of £2.275 million (2015/16: £2.219 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 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 2017, the Fund had an average cash balance of £123.1m (year to 31 March 2016: £90.9m), earning interest of £0.490m (2015/16 £0.465) in these funds.

26. Contingent liabilities and contractual commitments

Outstanding capital commitments (investments) at 31 March 2017 totalled £160.642 million (31 March 2016: £55.914 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.

27. Contingent assets

The Fund had no contingent assets on 31 March 2017.

28. Impairment losses

During 2016/17, the Fund has recognised an impairment loss for bad and doubtful debt of £0.042 million (2015/16: £0.062 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 2017.

Statement of Responsibilities for the Statement of Accounts

1. The Council's responsibilities

The Council is required to:

- Make arrangements for the proper administration of its financial affairs and to 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 2017 and its income and expenditure for the year ended 31 March 2017.

Carolyn Williamson
Chief Financial Officer and Section 151 Officer
28 September 2017

4. The Chairman's Statement

I certify that the Statement of Accounts for 2016/17 were considered and approved by the Audit Committee on 28 September 2017.

Councillor Keith Evans
Chairman of Audit Committee

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 2016-2017.

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 2017 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:

<https://www.hants.gov.uk/aboutthecouncil/strategiesplansandpolicies>

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 *Shaping Hampshire 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 the County Council takes decisions 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.
- 3.2.4 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.
- 3.2.5 In the autumn, a summary of the accounts, investment management and administrative arrangements is made available online to current, pensioner, and deferred members.
- 3.2.6 The Statement of Investment Principles is published and made available to scheme employers within three months of any amendments.
- 3.2.7 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 *Shaping Hampshire 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.

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 decisions of the County Council ensures that decisions 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 entity'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 manage 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 Head of Democratic & Member Services and the Commissioner for People in the Workforce Development Team. Work on the Member Induction Programme to support new and returning Members after the County Council's Elections in May 2017 commenced mid-year 2016 for which the MDG have been fully engaged throughout.
- 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 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, 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, of which resilience and continuous development play key parts, both of which factor 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 Shaping Hampshire 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.
- 3.6.2 The County Council operates a robust Risk Management Strategy, with oversight of those arrangements provided by the Risk Management Board and reports to the Audit Committee.

- 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 2016 – 17 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 The County Council commissioned a consensual audit from the Information Commissioner's Office of its Information Governance and Data Protection arrangements, with a conclusion of "High Assurance". This has been reported to the Cabinet, with a further review by the Audit Committee.

3.7.9 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 sent every year to all 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, 2015 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 2016.

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 A comprehensive induction programme will ensure that Members of the County Council are fully up to speed with the practicalities of being a member of the County Council, the operational activity of the County Council, The County Council's governance arrangements for decision making and its arrangements for maintaining high ethical standards.
- 6.3 As part of the County Council's digital project and analytics workstream, work is being undertaken to explore the potential to develop automated dashboard reporting for corporate performance indicators. This could help to improve the timeliness and transparency of performance reporting.
- 6.4 Following its first year of operation, the Customer Engagement Board Terms of Reference will be reviewed. A new Channel Design Authority will be established to govern changes to existing, and implementation of new, customer contact channels, and to support departments to put the customer at the heart of service redesign.
- 6.5 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.
- 6.6 The County Council will implement the agreed actions from the Information Commissioner's audit of the County Council's data protection arrangements and review those arrangements in preparation for the implementation of the General Data Protection Regulations in 2018.
- 6.7 The County Council is developing a Health and Wellbeing strategy, refreshing its People Development Priorities in order to focus attention on areas that will have the greatest impact for individuals and the service.

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 2015-2016 Annual Governance Statement:-

- 7.1 Work has been undertaken to develop a new Strategic Plan, to replace the current Corporate Strategy Shaping Hampshire which expires this year. The new Serving Hampshire Strategic Plan will cover the period 2017-2021.
- 7.2 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. In June 2016, Cabinet took the decision to halt the annual self-assessment process, which formed part of the Corporate Performance Framework, in order to consider its ongoing effectiveness within the County Council's changing business environment.
- 7.3 In December 2016, Cabinet further agreed that the revised Framework should include a more extensive use of the outcomes of external assessments in judging the organisation's overall, annual performance and subsequent areas for improvement. Cabinet also agreed that a greater emphasis should be placed on customer feedback to evaluate the performance of services.
- 7.4 These combined sources of information will 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.
- 7.5 Following the design of a new Customer Operating Model, new customer governance has been established. The Customer Engagement Board sets the strategic principles, priorities and governance around channel design and delivery for services.
- 7.6 Budget setting remains a key corporate activity involving all Departments and as part of last years Annual Governance Statement Improvement Plan, it was highlighted that the County Council needed to maintain a strong focus on the delivery of the Transformation to 2017 Programme at the same time as developing plans for Transformation to 2019 which seek to remove a further £140m from the budget.
- 7.7 This focus was effectively maintained during the year and led to the successful setting of the 2017/18 budget which included the £98m of savings necessary to balance the budget. The only area that did not achieve the savings in full was Adult Services, which had an agreed slippage of around £13m for which a separate action plan has been put in place.

- 7.8 Over the Winter Departments have also been developing their plans for the Transformation to 2019 Programme in readiness for a proposed public consultation exercise over the Summer, continuing the strategy of planning well ahead of time for the next round of savings and providing the time and capacity to implement them in a structured and planned way.
- 7.9 A further area for improvement was the governance and control framework for shared transactional services in order to minimise potential errors. A programme of work across a number of high risk areas was formally closed off at the end of 2016 with future improvement planning returned to business as usual. The impact of the programme has been significant, particularly in the area of payroll, where the number of processing errors has reduced significantly, together with increasing efficiency across the team.

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:

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HAMPSHIRE COUNTY COUNCIL

Opinion on the Authority's financial statements

We have audited the financial statements of Hampshire County Council for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Movement in Reserves Statement,
- Comprehensive Income and Expenditure Statement,
- Balance Sheet,
- Cash Flow Statement,
- and the related notes 1 to 33 and the Expenditure and Funding Analysis to the Council Accounts

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

This report is made solely to the members of Hampshire County Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council and the Council's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Financial Officer and auditor

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities set out on page 182, the Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Council's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Financial Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Statement of Accounts 2016/17 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Hampshire County Council as at 31 March 2017 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

Opinion on other matters

In our opinion, the information given in the Statement of Accounts 2016/17 for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Conclusion on Hampshire County Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's responsibilities

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

Auditor's responsibilities

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2016, as to whether Hampshire County Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Hampshire County Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, Hampshire County Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance issued by the C&AG in November 2016, we are satisfied that, in all significant respects, Hampshire County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Certificate

We certify that we have completed the audit of the accounts of Hampshire County Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Maria Grindley (senior statutory auditor)
for and on behalf of Ernst & Young LLP, Appointed Auditor
Reading
28 September 2017

The maintenance and integrity of the Hampshire County Council web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HAMPSHIRE PENSION FUND

Opinion on the pension fund financial statements

We have audited the pension fund financial statements for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes 1 to 28. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

This report is made solely to the members of Hampshire Pension Fund in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the authority and the authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Financial Officer and auditor

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities set out on page 182 the Chief Financial Officer is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Financial Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Statement of Accounts 2016/17 to identify material inconsistencies with the audited financial statements and

Auditor's Reports on the Pension Fund

to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2017 and the amount and disposition of the fund's assets and liabilities as at 31 March 2017; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

Opinion on other matters

In our opinion, the information given in the Statement of Accounts 2016/17 for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects

*Richard Page (senior statutory auditor)
for and on behalf of Ernst & Young LLP, Appointed Auditor
Bristol
28 September 2017*

Auditor's Reports on the Pension Fund

The maintenance and integrity of the Hampshire County Council web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Glossary

Academies

Publicly funded independent schools, free from local authority and national government control. Freedoms held by academies include the ability to set their own pay and conditions for staff, freedoms around the delivery of the curriculum, and the ability to change the lengths of terms and school days. The income, expenditure and assets of academies within Hampshire do not form part of the Council's accounts.

Accruals basis

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

Actuary

A person or firm who analyses the assets and future liabilities of a pension fund and calculates the level of employers' contributions needed to keep it solvent.

Admitted bodies

These are employers who have been allowed into the Hampshire Pension Fund at the County Council's discretion.

Alternative investments

These are less traditional investments where risks can be greater but potential returns higher over the long term, for example investments in private equity partnerships, hedge funds, commodities, foreign currency and futures.

Amortisation

The process of writing down the cost of an asset or liability through depreciation or repayment of principle over a suitable period of time.

Assets held for sale

Assets that the Council intends to sell within the next year and are actively marketed as such.

Additional voluntary contributions (AVCs)

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

Best Value Accounting Code of Practice (BVACOP)

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

Budget requirement

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

Capital adjustment account

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

Capital expenditure

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

Capital receipt

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

Chartered Institute of Public Finance and Accountancy (CIPFA)

The professional accountancy body for public services which recommends accounting practice for the preparation of local authority accounts.

Community asset

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

Comprehensive Income and Expenditure Statement (CIES)

Statement that shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices.

Contingent asset

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

Contingent liability

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

Continuing services

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

Corporate and democratic core

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

Council tax

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

Creditor

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

Current asset

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

Current liability

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

Current service costs

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

Custodian

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

Debtor

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

Dedicated Schools Grant (DSG)

A Government grant that can only be used to fund expenditure within the schools' budget.

Deferred liability

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

Defined benefit pension scheme

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

Emoluments

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

Equities

Shares in UK and overseas companies.

Exceptional item

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

Fair value

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

Finance lease

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

Financial instruments

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

Fixed asset

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

Foundation schools

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

General Fund

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

Gross book value (GBV)

The original or revalued cost of an asset before the deduction of depreciation.

Gross expenditure

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

Hedge fund

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

Heritage assets

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

Historical cost

The amount originally paid for a fixed asset.

Impairment loss

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

Infrastructure assets

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

Intangible assets

Assets that do not have physical substance but are identifiable and controlled by the Council and bring benefits to the Council for more than one year. Typical examples include software licences, internally developed software and websites developed to deliver services rather than information about services.

Internal trading account

A service within the Council that operates on a trading basis with other parts of the Council.

International Financial Reporting Standards (IFRS)

International accounting standards that govern the treatment and reporting of income and expenditure in an organisation's accounts, which came fully into effect from 1 April 2010.

Inventories

Goods that are acquired in advance of their use in the provision of services or their resale. At the year-end inventories are a current asset in the balance sheet and they will be charged to the CIES in the year they are consumed or sold.

Investment property

Property (land or buildings) that are held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both.

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.

(National) Non-domestic rates (NNDR)

Charges collected by district councils from non-domestic properties, at a national rate in the £ set by the Government.

Net assets

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

Net assets statement

A statement showing the net assets of the Pension Fund.

Net book value (NBV)

The value of an asset as recorded in the accounts. This usually equates to the net current replacement or original cost less any depreciation charged against the asset over its life to date.

Net current liabilities

The amount by which current liabilities exceed current assets.

Net worth

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

Non-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.

Glossary

Voluntary aided schools (VA schools)

Mainly religious or 'faith' schools, although anyone can apply for a place. As with foundation schools, the governing body employs the staff and sets the admissions criteria

Voluntary controlled schools (VC schools)

Similar to voluntary aided schools, but are run by the local authority. As with community schools, the local authority employs the school's staff and sets the admissions criteria

Write-off

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