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Foreword by Group Director, Business Management and Chief Financial Officer

This document presents the published accounts of the County Council for the financial year ending 31st March 2009. The format and content of the accounts are laid down by the Code of Practice on Local Authority Accounting issued by CIPFA, the professional body of public sector accountants. The County Council is legally required to follow this Code of Practice. Explanatory notes are included to assist in the interpretation of the accounts, which are unavoidably technical and complex.

The purpose of this forward is to provide an easily understandable guide to the most significant matters reported in the accounts.

This year the substantive changes introduced to the accounts include:

- Amendments to the Pensions Fund Accounts to implement the requirements of the SORP: The Financial Reports of Pension Schemes 2007
- Accounting requirements for Area Based Grant, which is a new government grant in force from 1st April 2008

The Statement of Accounts consists of:

- *Statement of Accounting Policies*
- *Statement of Responsibilities for the Statement of Accounts*
- *Income and Expenditure Account*

This summarises the resources that have been applied and generated in providing services and managing the Council during the last year. It includes all day-to-day expenses on an accruals basis, as well as transactions measuring the value of fixed assets actually consumed and the real value of retirement benefits earned by employees in the year.
- *Statement of Movement on the General Fund Balance*

This shows whether the Council has over or under-spent against the council tax that it raised for the year, taking account of the use of reserves built up in the past and contributions to reserves earmarked for future expenditure.
- *Statement of Total Recognised Gains and Losses (STRGL)*

This brings together all the recognised gains and losses of the Council in the year and shows the aggregate increase in net worth. In addition to the surplus generated on the Income and Expenditure Account, it includes gains and losses relating to revaluation of fixed assets and re-measurement of the net liability to cover the cost of retirement benefits.
- *Balance Sheet*

This shows the financial position of the Council at 31st March 2009 with details of its assets and liabilities.
- *Cash Flow Statement*

This summarises the movement of cash arising from transactions with third parties during the year.

- *Notes to the Accounts (including Pensions Disclosures)*

The notes to the accounts add to and interpret the content of individual statements. Where a note is relevant to more than one accounting statement, this is clearly stated.

In addition, the accounts of the *Gloucestershire Pension Fund* and the *Fire Pension Accounts* are also included.

Although the *Annual Governance Statement* is included in this document, the 2008 SORP makes it clear that it is not formally part of the Statement of Accounts and is not covered directly by the Chief Finance Officer's certification or the audit report. However, there is a requirement that this statement, which is signed by the Leader, Chief Executive and Chief Financial Officer, is considered by the Audit Committee.

Summary of the 2008/09 Financial Year

The accounts distinguish between revenue and capital expenditure. Revenue spending generally relates to items that are used within a year. Capital spending is expenditure on the acquisition of new assets or which adds value to existing assets or which extend the life of the asset beyond one year and where it is appropriate to spread the costs across the tax payers who will be receiving benefits over more than one year.

Revenue expenditure

The original revenue budget for 2008/09 was £361.585m and this was subsequently increased by £3.135m, mainly as a result of under-spends carried forward from 2007/08, to give a revised budget total of £364.72m. The County Council's actual expenditure in 2008/09, net of income, totalled £360.077m, a net under-spend of £4.643m (less than 1.5%). This represents a good outcome particularly when the good service performance of the council is taken into account.

Services overspent by around £1.9m, primarily relating to the agency costs overspend within the Children & Young People Directorate. A surplus on our treasury management activity of around £2.5m, underspending on capital financing costs of £2.3m, and contingency underspends of around £1m contribute to the overall underspend. Some of the under-spends may be carried forward to increase budgets in 2009/10.

Uncommitted general balances at 31st March 2009 were £17.2m compared to £18.6m at the start of the year. The Council's medium term financial strategy is to achieve a level of reserves of between 4% (£15m) and 6% (£22.5m). Balances are within this target range for 2008/09. The 2009/10 net budget is £375.0m and balances represent 4.6% of this budget.

The Statement of Accounts and the directorate spend are prepared on different bases. The directorate outturn underspend is £4.643m against a budget adjusted for approved carry forwards (£3.135m), which are funded through transfers from reserves. After adjusting for carry forwards the actual surplus for the year is £1.508m. The statement below reconciles the two positions.

Reconciliation between reported Directorate Outturn and Statement of Accounts for 2008/09.

	£'000	£'000
County Fund		
Balance as at 31 st March 2008	26,444	
Balance as at 31 st March 2009	<u>20,676</u>	5,768
Transfer to Earmarked Reserves		-7,276
Increases in County Fund balance		<u>-1,508</u>
Outturn		
Reported Outturn figure	-4,643	
Less Carry forwards transferred to revenue during the year	<u>3,135</u>	<u>-1,508</u>
Statement of Accounts		
Reported Income and Expenditure figure	8,643	
Reported movement on general fund balance	<u>-10,151</u>	<u>-1,508</u>

Capital expenditure

For County Council services the estimated payments for 2008/09 totalled £106.3 million. The actual spend was £101.5 million, giving an underspend of £4.8 million.

An analysis of the main capital projects is given in note 22 on page 44. This expenditure was financed by a combination of loans, grants, contributions and revenue. Details can be found in note 18 on page 41. New loans of £25m were raised in the year. Total loans outstanding at the end of the year were £378m and the costs of servicing debt in the year were £34.4m.

Pension Liabilities

The liability shown in connection with the defined benefit pension scheme has increased by £89.8m. Further information can be found in note 40 and the Pension Fund Accounts.

Impact of the Iceland Banks Collapse

Early in October 2008, the Icelandic banks Glitnir and Landsbanki collapsed along with the UK subsidiary Heritable. The authority had £12.5m deposited with these institutions, with varying maturity dates.

All monies within these institutions are currently subject to the respective administration and receivership processes. The amounts and timings of payments to depositors such as the authority will be determined by the administrators/receivers. The accounting treatment for the Icelandic banks has now been received from CIPFA. Under the treatments laid down, the total impairment for 2008/09 which the Council is required to make is £1.7m, however the regulations allow this charge to be transferred to the general fund to negate the impact on the 2008/09 accounts.

Notes 25 and 48 explain the accounting treatment and impairments in more detail.

The current situation with regard to recovery of the sums deposited varies between each institution. Based on the latest information available the Council considers that it is appropriate to provide for an impairment adjustment for the deposits, and has taken the appropriate action for the 2008/09 statement of accounts. As the information is not yet available regarding the amounts and timings of payments to be made by the administrators/receivers, it is likely that further adjustments will need to be made to the accounts in future years.

Service Summary and Performance Analysis

Using its capital and revenue resources the Council provides a wide range of services ranging from care and support for older people, people with learning disabilities and people with mental health problems, support and care for children and families, the Fire and Rescue Services, repairing and improving roads, home to school transport, street lighting and the library service, to name a few.

We have many services that we are legally obliged to provide and the budget for these services is therefore relatively constant, e.g. fire and rescue, schools, roads and social care. However we also prioritise a proportion of our budget, focussing on specific services according to the residents' views and council's priorities.

The use of financial resources enables the Community and Adult Care Directorate to provide support and other services to nearly 18,000 older people, around 1,600 people with learning difficulties, around 2,700 people with physical disabilities and over 1,600 people with mental health problems, as well as supporting a number of community groups. Libraries and Information is also part of the Directorate. It loans 3.3 million items a year and nearly 29,000 new users joined the Library Service last year. Visits to Libraries total 3.0 million.

The Children & Young People's Directorate secures or provides services direct for around 140,000 young people in Gloucestershire. The Council works hard with its partners to ensure that all Children and Young People are able to get the best possible chance of a happy, thriving childhood and adolescence, to set them up well for adult life.

Once again this year, the county's GCSE results are amongst the best in the country. In Gloucestershire, 56.8% of pupils achieved at least five passes at grades A* - C including Maths and English, compared with the national average of 47.6%. This places us in the top 15% of authorities in the country.

The use of our resources also provides for the Environment Directorate to maintain more than 3,300 miles of roads, including 920 bridges and over 100,000 gullies to be kept clear. Considerable recovery work was undertaken throughout 2008/09 to repair roads, bridges and embankments damaged during the summer 2007 floods. A significant programme of drainage works was also undertaken to maintain or improve existing highway drainage systems.

Our priority is to encourage everyone to reduce, reuse and recycle their household waste. Gloucestershire residents produce over 310,000 tonnes of household waste each year. The rate of growth over ten years has dropped by over half, from 3% per year to 1.3%, which is a tremendous improvement, but we need to do even better. We currently recycle about 42% of our household waste, compared to only 14% in 2003/04. Another big improvement but there is more to do to reach our long-term aspiration of over 60% recycling.

Money will continue to be spent on making the county more resilient against the effects of flooding. In 2008 we formed the Flood Risk Management Team to work with partnership organisations to investigate causes and alleviate the risk of flooding in the county.

In 2008/09 we committed in the region of £8m to make the county more resilient to the effects of flooding. This included 75 Gloucestershire Highways flood alleviation and drainage schemes and 62 multi agency schemes. We also formed the Local Government Flood Forum that includes representatives from councils across the country that have been affected by or are at risk of flooding. This group will lobby Government for additional funding for future flood resilience work.

The Community Safety Directorate provides a full Fire & Rescue service which is the seventh most cost effective service in the country. This service is also prioritising resources to deal with the increased risk of flooding in the county.

Finally, through our partnership with Gloucestershire First we work hard to support and enhance the economic well being of the county. In 2008/09 we spent £1.3m towards supporting business development; attracting investment, boosting tourism and helping people back to work; and working for regeneration in areas of need.

In terms of external assessments, in 2008 the Audit Commission assessed us as being a three star authority, improving well.

In December 2008, the Audit Commission also confirmed that over the last 3 years out of 388 councils we have been the 18th most improved council, with 37% of our performing indicators performing in the best quartile compared with an average of 29% for all county authorities.

Some key achievements over the last year include:

- **Drive efficiency and VFM:** We have moved ahead with the Building our Future Programme (BoF) to maintain high quality services within the context of increasing financial pressures and a growing funding gap. The work includes some major projects around process and organisation structures re-design, culture change and improved management of resources and performance in order to deliver £60m worth of savings over a four year period.
- **Continuing to focus on improving outcomes for vulnerable children and young people especially those who we look after:** Although we are already making good progress in responding to the needs of vulnerable children and young people, we are aware of our future challenges ahead. We will be embedding consistent thresholds for safeguarding as well as ensuring better integration of front line services for children and young people with learning difficulties and disabilities. We will focus on ensuring children and young people from black and minority ethnic backgrounds achieve better outcomes and ensuring better co-ordination of services for victims of domestic abuse.
- **Delivering our long term plans for improving services for vulnerable people:** continuing to help people stay in their own homes as well as upgrading residential care across the county.
- **Continuing our efforts to deliver real results on flood alleviation across the county through working through Gloucestershire Highways and by funding partnerships and other agencies:** work continued in maintaining and improving drainage schemes, gully emptying and protecting the county's most vulnerable and damaged homes and schools.

- **Managing our waste so we continue to be less reliant upon landfill:** In conjunction with the District Council waste collection services, we continued our progress towards meeting national targets for reduced usage of landfill sites by facilitating and promoting a mix of waste reduction and recycling for householders. Via the OHIO programme, we also help directorates across the council to work towards better waste practices of their own.
- **Continuing to drive forward our Customer focus and Putting People First Initiative:** Our focus on customer service runs through everything we do from shaping our business, evaluating community needs, influencing the shape of our services and encouraging the best people to work for us. Through implementing our 'Putting People First' programme we make choice and independence a reality for thousands of older people and adults with disabilities, and will continue to do so over the coming years.

Stephen Wood
Group Director: Business Management and Chief Financial Officer

Statement of Accounting Policies

General Principles

The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2008: A Statement of Recommended Practice* issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) (referred to as “the Code” in the following notes) and the *Accounts and Audit Regulations 2003*. The accounting convention adopted is historical cost, modified by the revaluation of certain categories of tangible fixed assets.

Debtors and Creditors

Transactions are recorded on an accruals (income and expenditure) basis, that is sums due to, or from, the Council in the year are included in the accounts whether or not cash has actually been received or paid in the year. Such sums due or payable at year-end are included as debtors and creditors and are estimated where the exact amount is not known. Exceptionally, in some cases actual payments are brought into account as they arise rather than being strictly apportioned between financial years e.g. electricity and gas charges. The effect on income and expenditure account is not material. Non cheque book schools are accounted for on a cash basis.

Provisions

Provisions are established to cover known liabilities or losses that are likely to be incurred. In these instances, services have been charged expenditure in anticipation of the liability having been met. Details of provisions are shown in note 32.

Provision for Bad Debts

A specific bad debt provision had been estimated by considering the probability of recovery of individual debtor invoices. The specific provision is based upon all known information about the debtor including financial position of the debtor, the age of the invoice and current credit control status of the invoice. In addition to the specific provision, a prudent general provision has been made to take into account the likelihood of bad debt arising as a result of the current economic conditions.

Reserves

In addition to its general revenue balances, the County Council has maintained specific reserves for future expenditure and to protect against unexpected events. Details are shown in note 37. Certain reserves are kept to manage the accounting processes for tangible fixed assets and retirement benefits. These reserves do not represent usable resources to the authority, and are explained further in the appropriate policies below.

Government Grants and Contributions (Revenue)

Revenue grants received are credited to the Income and Expenditure Account and matched with expenditure. They are accounted for on an accruals basis and recognised in the accounts when the conditions for their receipt have been complied with, and there is reasonable assurance that the grant or contribution will be received. Grants received to cover general expenditure are credited to the foot of the Income and Expenditure Account.

Retirement Benefits

The costs of pensions are accounted for in accordance with Financial Reporting Standard 17 – Retirement Benefits (FRS17). FRS17 requires the Council's financial statements to reflect, at fair value, the assets and liabilities arising from the employer's retirement benefit obligations and any related funding.

The operating costs of providing retirement benefits to employees are recognised in the accounting periods in which the benefits are earned by the employees, and the related finance costs and any other changes in value of the assets and liabilities are recognised in the accounting periods in which they arise. External actuaries are appointed to provide the necessary information and their assumptions and calculations are detailed in note 40.

Support Service Costs

These costs are charged to service areas using a variety of apportionment bases appropriate to the particular service provided, in accordance with the costing principles of the CIPFA Best Value Accounting Code of Practice 2008 (BVACOP). The two cost categories identified under BVACOP that are not charged out to service are Corporate and Democratic Core Costs, and Non Distributed Costs. These are accounted for under separate headings within the Income and Expenditure Account.

Fixed Assets

Fixed assets are valued as recommended by CIPFA, and in accordance with the Statement of Asset Valuation Practice and Guidance Notes issued by the Royal Institute of Chartered Surveyors. Assets are classified into the groupings required by the code. The basis of valuation is explained in note 19.

Our treatment of the impairment of our fixed assets is covered under note 19 to the accounts on page 41. In addition we have considered the impact of obsolescence, damage, regulatory and statutory changes and any significant reorganisation proposals we may have. Having considered these issues we have not found any additional circumstances in which we have considered further impairments is required.

Upward revaluations are credited to the Revaluation Reserve. Where a downward revaluation occurs (an impairment) if this is due to a general change in property prices, the amount is debited to the Revaluation Reserve up to the value of previous accumulated revaluation gains. Any further devaluation below depreciated historic cost is charged to the Income and Expenditure Account. If the impairment loss is similar in nature to depreciation, e.g. as a result of physical damage, all the loss is charged to the Income and Expenditure Account.

Expenditure that is not considered to add equivalent value to an asset is recognised in the Income and Expenditure Account.

In the Income and Expenditure Account service revenue accounts are charged with depreciation on all operational assets (where appropriate) except land, i.e. all tangible fixed assets used on the delivery of services. Depreciation on non-operational assets such as surplus property is charged to unapportionable central overheads. Assets under construction do not generate a charge.

Depreciation charges and impairments do not have an effect on the amounts required to be raised from local taxation. The amounts included in the net cost of services in the Income and Expenditure Account are reversed by entries in the Capital Adjustment Account and the Statement of Movement on the General Fund Balance.

The Revaluation Reserve shows the amount of the balance sheet value of fixed assets that has arisen from revaluations rather than from actual historic cost. The Capital Adjustment Account contains the entries that are necessary to reflect the departures from standard practice that need to be taken into account in determining the movement on the General Fund balance.

Community Assets

Community Assets are those that the council intends to hold in perpetuity, which have no determinable life and may have restrictions on their disposal. Such assets that the council holds are country parks. These are Barrow Wake Viewpoint, Kilkenny Viewpoint, Crickley Hill Park, Coaley Peak and Coopers Hill Nature Reserve. The nature of the assets and their acquisition means that the assets have a nil valuation and do not appear on the balance sheet.

Depreciation

Assets, except land, are being depreciated over their useful economic lives using the straight-line method over the following periods:

<i>Buildings</i>	Permanent	up to 70 years
	Temporary	20-25 years
	Leased	period of lease
<i>Infrastructure</i>	roads and street lighting	25 years
	bridges	120 years
	footpaths and footbridges	7 years
	vehicles, plant, furniture and equipment	5 –10 years

Basis for Redemption of Debt

Gloucestershire County Council finances a proportion of its capital investment by raising loans. In accordance with the Local Authorities Capital Financing and Accounting Regulations 2003 as updated, the Income and Expenditure Account has been charged with an amount that is sufficient to redeem a specified statutory percentage of outstanding debt. The statutory figure is called the Minimum Revenue Provision (MRP). In accordance with the legislation the Council apply a 4% reducing balance for existing debt, and an asset life methodology for debt from 2008/09 whereby the charge is equal over the life of the asset (note 15).

Capital Receipts

Capital receipts from the disposal of assets are accounted for on an accruals basis where the receipt is certain. Those actually received in the year are used, where required, to finance capital payments in the year, the balance being retained as a reserve.

Deferred Charges

Deferred charges represent expenditure which may properly be capitalised but which does not result in assets controlled by the Council. In such cases, such as building grants, the expenditure is written-off to revenue in the year that it is incurred and does not appear on the Balance Sheet.

Leasing

The Balance Sheet does not include the value of vehicles and equipment held under operating leases since they do not pass into the ownership of the Council. Annual lease rentals have been charged to service revenue accounts. Information on rentals paid to lessors together with details of outstanding liability is shown in Note 6.

Capital Grants and Contributions

Government capital grants are credited to a Government Grants Unapplied Account. When these grants are used to finance capital expenditure they are transferred to a Government Deferred Account. Amounts are subsequently released from this account to the Income and Expenditure Account over the life of the asset, to offset any depreciation charged on the assets to which the grants relate. The result is that no depreciation charge on the grant-related element of fixed assets is included in net operating expenditure.

When the capital expenditure to which the grant relates does not result in any added asset value, and consequently any additional depreciation, or when the grant cannot be earmarked to a particular asset, the transfer from the Grants Unapplied Account is credited directly to the relevant service revenue account part of the Income and Expenditure Account. The credit is then reversed out by entries in the Capital Adjustment Account and the Statement of Movement on the General Fund Balance. Capital contributions are treated in an equivalent manner to capital grants.

Financial Instruments

Deferred Discounts

During 2008/09 the Authority restructured part of its long term borrowing with the Public Works Loans Board (PWLB). A number of loans were repaid and replaced with new loans to the same value. The timings of the repayments and replacements was such that a discount was received from PWLB. In accordance with recommended practice this will be deferred and credited to the revenue account over a ten year period.

Derivatives

The Council has entered into contracts that contain embedded derivatives, including Lenders Option Borrowers Option (LOBO) and a PFI contract. For these instruments the characteristics and risks are closely related and therefore the embedded derivative has not been separated.

Fair Value Adjustments

The County Council holds available for sale financial assets, their fair values have been included in the Balance Sheet with reference to the quoted market values. Any adjustments made in fair value recognition have been moved into the Available for Sale Reserve.

Class of Financial Instrument

Classes of Financial Instruments and their basis of valuation are:

- Loans & receivables, based on historical cost as an approximation of fair value.
- Available for sale financial assets, based on offer rates for certificate deposits and historical rates for cash held through brokers valuations.
- Financial assets through the (Income and Expenditure (I & E) Account, based on fair value determined by reference to the contract and market rates at the Balance Sheet date.
- Unquoted equity investments at cost.
- Financial liabilities at amortised cost, with the balance discounted at the interest rates available at the Balance Sheet date.
- Financial liabilities at fair cost through the I & E Account, based on fair value determined by reference to the contract and market rates at the Balance Sheet date.

For classes of Financial Instrument that require adjustment for fair value, if the carrying amount is a reasonable approximation for fair value, no adjustment has been made.

All Financial Assets are reviewed annually for impairment.

Further details on Financial Instruments are given in Note 48 on page 71.

Work in progress, Stocks and Stores

Stocks of road salt and vehicle fuel are shown in the Balance Sheet at average prices. Other stocks and work in progress are shown at cost price. Certain stocks are not valued, e.g. stationery and library books are excluded.

Investments

Investments are shown at market value.

Interest Charges

Interest payable on external borrowings and interest receivable from investments is fully accrued and accounted for in the accounts for the period to which it relates.

Private Finance Initiative (PFI) scheme

PFI contracts are agreements to receive services, where the responsibility for making available the fixed assets needed to provide the services passes to the PFI contractor.

The Council, in partnership with Avon Fire Authority and Devon and Somerset Fire Authority (formerly Somerset County Council) has invested in a PFI project to provide a Fire and Rescue Service training centre (see note 11). The Government provides some revenue support to the project in the form of grants (PFI credits), and the three authorities finance the balance by making contributions from within their own resources. Originally the annual grant was received on a sliding scale, with a disproportionate amount being received in the first nine years of the contract.

In order to spread the contributions more evenly over the life of the contract an equalisation fund was operated whereby surplus government grants and authority contributions in the early years were invested and used to reduce contributions in the later years. From 1st April 2005 a new system of grant payment was introduced which makes equal instalments throughout the life of the contract. The fund was reviewed during 2005/06 and it was agreed that the three authorities reduce their funding by £90,000 per annum due to the estimated surplus in the final balance.

Gloucestershire County Council administers and holds the fund on behalf of the three authorities. The balance of the fund as at 31st March 2009 was £3.391m

The Council's share of this fund (25%) is included in the Balance Sheet as a reserve; the other partner's shares, Avon Fire Authority (50%) and Devon and Somerset Fire Authority (25%) are included as long-term liabilities.

Explanation of prior period adjustments

Restatement of prior period adjustments

Following a query by the External Auditors during their audit of the 2007/08 accounts it became apparent that the County's FRS17 liability calculated at 31st March 2008 regarding the element for unfunded pensions (enhancements granted under compensation regulations) had been incorrectly stated in that year and previous years accounts.

The County Council's Treasurer in the 1980's/1990s had directed that the cost of these enhancements be charged to the pension fund and this is what happened until the Regulations were changed in 1995. The actuary has assumed that all LGPS compensation payments data given to them was unfunded. The cases up to March 1995 should have been classified as funded as they are covered by the employers' contributions. Therefore the unfunded liabilities figures quoted by the actuary were overstated.

In addition, following the query from the External Auditors, a review of the data used in the Teachers' calculation identified a significant number of Teachers pension enhancements which had been excluded from previous calculations. This data is used to derive an estimate of liability and is shown as a note in the accounts.

Following the discovery of these discrepancies, the actuary was asked to re-calculate the overall liability and provide a new re-stated FRS17 report for 2007/08 and the figures for the County Council are shown below.

It should be emphasised that this is a restatement of liabilities and not of any payment due from the County Council. The County Council has been making all necessary funded and unfunded payments for both LGPS and Teachers. For Teachers, pre 1999 payments are made via payroll and post 1999 paid upon receipt of an invoice from the Teachers Pension Agency.

	Previous	Amendment	Re-stated
	£'000	£'000	£'000
Unfunded Liabilities LGPS	19,804	-15,218	4,586
Unfunded Liabilities Teachers	1,950	54,181	56,131

Restatement of Statement of Total Realised Gains and Losses (STRGL)

Following the Annual Governance Report published in September 2008 on the 2007/08 audit, it was agreed that the STRGL would be restated prior to the 2008/09 accounts to remove the balancing items. This has now been done and therefore the 2007/08 figures used in this document vary to those approved by the Audit Committee in September 2008.

Statement of Responsibilities

The Authority is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority that officer is the Group Director, Business Management and Chief Financial Officer.
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- approve the Statement of Accounts.

The Group Director, Business Management's and Chief Financial Officer's Responsibilities

The Group Director, Business Management is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the SORP).

In preparing this Statement of Accounts, the Group Director, Business Management and Chief Financial Officer has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the local authority SORP.

The Group Director, Business Management CFO has also:

- kept proper accounting records, which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

Certification

I certify that the Statement of Accounts presents fairly the financial position of Gloucestershire County Council as at 31st March 2009 and its income and expenditure for the year ended.

Stephen Wood CPFA
Group Director: Business Management and Chief Financial Officer
28th September 2009

The Audit Committee of the County Council approved the Statement of Accounts on 30th June 2009 and the Chair of the Committee is aware of the subsequent changes.

Councillor Phil McLellan, Chairperson
28th September 2009

Independent auditor's report to Members of Gloucestershire County Council

Independent auditor's report to Members of Gloucestershire County Council

Opinion on the accounting statement

I have audited the Council's accounting statements, the firefighters' pension fund accounting statements, and related notes of Gloucestershire County Council for the year ended 31 March 2009 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement and the related notes. The firefighters' pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. The accounting statements and the firefighters' pension fund accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Gloucestershire County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the Group Director Business Management and auditor

The Group Director, Business Management's responsibilities for preparing the financial statements, including the firefighters' pension fund accounting statements and local government pension fund accounts, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the Council's accounting statements and the firefighters' pension fund accounting statements and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). I report to you my opinion as to whether the Council's accounting statements and the firefighters' pension fund accounting statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008:

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

I review whether the governance statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Council's corporate governance procedures or its risk and control procedures

I read other information published with the Council's accounting statements, firefighters' pension fund accounting statements and related notes and consider whether it is consistent with the audited Council's accounting statements, firefighters' pension fund accounting statements and related notes. This other information comprises the Explanatory Foreword and the printed Annual Report other than the financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the Council's accounting statements, firefighters' pension fund accounting statements and related notes. My responsibilities do not extend to any other information.

Basis of audit opinion

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

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the Council's accounting statements, firefighters' pension fund accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the Council's accounting statements, firefighters' pension fund accounting statements and related notes.

Opinion

In my opinion:

- The Council's financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Council as at 31 March 2009 and its income and expenditure for the year then ended; and
- The firefighters' pension fund accounting statements present fairly, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial transactions of the firefighters' pension fund during the year ended 31 March 2009 and the amount and disposition of the fund's assets and liabilities as at 31 March 2009, other than liabilities to pay pensions and other benefits after the end of the scheme year.

Opinion of the pension fund accounts

I have audited the pension fund accounts for the year ended 31 March 2009 under the Audit Commission Act 1998. The pension fund accounts comprise the Fund Account, the Net Assets Statement and the related notes. The pension fund accounts have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Gloucestershire County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the Group Directors, Business Management and auditor

The Group Director, Business Management's responsibilities for preparing the pension fund accounts, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the pension fund accounts and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the pension fund accounts present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial transactions of the pension fund during the year and the amount and disposition of the fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.

I read other information published with the pension fund accounts and related notes and consider whether it is consistent with the audited pension fund accounts. This other information comprises the Explanatory Foreword published in the financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the pension fund accounts and related notes. My responsibilities do not extend to any other information.

Basis of audit opinion

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

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the pension fund accounts and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the pension fund accounts and related notes.

Opinion

In my opinion the pension fund accounts and related notes present fairly, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial transactions of the Pension Fund during the year ended 31 March 2009, and the amount and disposition of the fund's assets and liabilities as at 31 March 2009, other than liabilities to pay pensions and other benefits after the end of the scheme year.

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

Council's Responsibilities

The Council 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 regularly to review the adequacy and effectiveness of these arrangements.

Auditor's Responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Council for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities and fire and rescue authorities. I report if significant matters have come to my attention which prevent me from concluding that the Council has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities and fire and rescue authorities specified by the Audit Commission and published in May 2008 and updated in February 2009, I am satisfied that, in all significant respects, Gloucestershire County Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009.

Delay in certification of completion of the audit

The audit cannot be formally concluded and an audit certificate issued until I have completed my consideration of matters brought to my attention by local authority electors. I am satisfied that these matters do not have a material effect on the financial statements.

Stephen Malyn
District Auditor
Audit Commission
Westward House
Lime Kiln Close
Stoke Gifford
Bristol, BS34 8SR

30 September 2009

Gloucestershire County Council
Annual Governance Statement 2008/09

1 Scope of Responsibility

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

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

In discharging this overall responsibility, the County Council is responsible for putting in place proper arrangements for the governance of its affairs, and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

The County Council has approved and adopted a code of corporate governance, which it believes is consistent with the principles of the CIPFA/SOLACE Framework – “Delivering Good Governance in Local Government.” A copy of the code is on our website at www.gloucestershire.gov.uk or can be obtained from the Chief Executive.

This Annual Governance Statement explains how the County Council has complied with the code and how it meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003, as amended by the Accounts and Audit (Amendment) (England) Regulations 2006.

2 The Purpose of the Governance Framework

The governance framework comprises the systems, processes, culture 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 authority to monitor the achievement of its strategic objectives, and to consider whether those objectives have led to the delivery of appropriate and cost effective services.

The system of internal control is a significant part of that 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 risks to the achievement of the County Council's policies, aims and objectives, to evaluate the likelihood of these 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 the County Council for the year ended 31st March 2009 and up to the date of the approval of the accounts on the 30th June 2009.

3 The Governance Framework

The principles of the County Council's governance arrangements are focused on:

- The purpose of the Council and on outcomes for the community and creating and implementing a vision for the local area.
- Members and officers working together to achieve a common purpose with clearly defined functions and roles.
- Promoting values for the Council and demonstrating the values of good governance through upholding high standards of conduct and behaviour.
- Taking informed and transparent decisions, which are subject to effective scrutiny and managing risk.
- Developing the capacity and capability of members and officers to be effective.
- Engaging with local people and other stakeholders to ensure robust public accountability

The key processes within the Council which contribute to effective governance arrangements, and which require annual review are:-

- Performance Management and Business Planning Arrangements
- Risk Management Arrangements
- Cabinet and Lead Member decision making arrangements
- Scrutiny arrangements
- Financial management and reporting arrangements
- Audit arrangements
- Standards of conduct of officers and members
- Adherence to the law
- Partnership Arrangements
- Pension Fund

4 Review of effectiveness of governance arrangements

Gloucestershire County Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control.

In undertaking this review the Council has:-

- Set out the key documents and processes which incorporate its governance system and arranged for an internal audit to review the effectiveness of a sample of these.
- Sought independent assurances, from external assessments where available, on:-

- Performance management and data quality arrangements
 - Risk Management arrangements
 - The adequacy of the system of Internal Audit
 - Financial control assurance
 - Standards of conduct and adherence to the law.
- Obtained detailed risk based assurance statements from all permanent Directors relating to their areas of service responsibility, to confirm that adequate governance arrangements are in place in relation to:
 - Service delivery
 - Key partnerships
 - Risk management and internal control
 - Performance management
 - Financial management
 - Adherence to laws, regulations, rules and procedures
 - Human resources issues
 - Management of natural resources
 - Asset management
 - Information governance

Where less than adequate assurance has been received back from any Director in relation to a key issue, this is reported later within this governance statement. Where, due to their short length of service with the council any Director felt unable to complete the full statement, the outstanding areas were covered by another member of staff, with the statement being signed off by the appropriate Group Director.

- Reviewed, via the Audit Committee, progress on the implementation of key audit recommendations made in relation to all internal audits where an “inadequate” audit opinion was issued during the year.
- Reviewed the effectiveness of a sample of the key corporate governance processes highlighted.
- Reviewed the control and governance arrangements relating to the pensions fund.

The summary findings of the review of the effectiveness of the corporate governance arrangements in place within Gloucestershire County Council, which was coordinated by the Head of Finance (Financial Accounting and Audit), prior to being approved by the Efficiency and Productivity Sub Group of the Directors Board, are set out below.

Wherever possible, rather than duplicate work, assurance has been sought from external assessments, as summarised below.

Governance framework – results of an examination of a sample of key corporate governance processes.

A detailed internal audit of the Corporate Governance framework was undertaken and reported upon in November 2007. This audit identified that the vast majority of the framework was in place, was being updated as appropriate, and key documents were easily accessible.

The audit did, however, identify a number of minor gaps and/or improvements required which were all being addressed. Given the findings of this audit another full examination was not undertaken in relation to this assurance statement, since it was felt that the assurance from the previous audit could still be relied upon, however Internal Audit did examine opportunities to further enhance existing arrangements, and recommended improving the existing whistle blowing arrangements and the annual assurance statements received back from Directors, and updating the officers code of conduct.

Performance Management and Business Planning Arrangements

This area has been covered in numerous inspections in recent years. Key assurance for this Governance Statement in relation to Performance Management has been obtained from comments in the Corporate Assessment report issued by the Audit Commission in February 2008 which confirmed that the council had a strong performance management framework.

This was further confirmed in the Annual Audit and Inspection letter, which was issued in March 2009 which stated, in relation to performance management:

“The Council is working with others to improve the management of performance across both the Council and the wider Gloucestershire. For example, it is developing a common performance management framework with the six District Councils for Gloucestershire that aims to improve the way that performance is managed across those organisations.

Performance management has become part of the working culture at the Council. Scrutiny is used effectively to challenge and monitor performance such as low performing performance indicators. The Council has taken prompt action to tackle underperformance in children's services. For example after a Joint Area Review of children's services in 2007 it moved rapidly to achieve improvements to children's homes via a strategic partner and developed a new commissioning strategy for children with complex learning difficulties”.

Risk Management Arrangements

Risk Management Arrangements are reviewed as part of the annual Use of Resources review undertaken by the Audit Commission. At the last review, reported in December 2008, the Audit Commission concluded that the council was again well above minimum requirements and performing strongly in this area, their highest category.

The Commission stated that “The Council's risk management arrangements are fully incorporated into the business and financial planning processes and in areas demonstrate best practice such as the development of a Partnership Risk Management Protocol”.

Cabinet and Lead Member Decision Making Arrangements / Scrutiny Arrangements

The last Corporate Assessment report for the Council demonstrated generally effective procedures in relation to decision making and scrutiny arrangements within the Council.

Since this assessment there have been no major changes to these arrangements, which were also praised in the last Annual Audit Letter (March 2009) which stated that “scrutiny is used effectively to challenge and monitor performance such as low performing performance indicators”.

Financial Management and Reporting Arrangements

Financial management and reporting arrangements are also reviewed as part of the annual Use of Resources review undertaken by the Audit Commission. At the last review, reported in December 2008, the Audit Commission concluded that the council was consistently above minimum requirements and performing well in this area. The external auditors confirmed that they had issued an unqualified opinion on the accounts of the authority, and stated that we were performing well in relation to external accountability, had a comprehensive medium term financial strategy which is linked to the objectives in the council plan, and generally had good arrangements in place for the management of performance against budgets.

Audit Arrangements

Effective audit arrangements operate within the council provided by an in house internal audit service and external audit provided by the Audit Commission. Both internal and external audit submit detailed annual plans to the Audit Committee of the council, together with regular monitoring reports highlighting key recommendations and actions taken. Clearly, for audit to be effective, it is important that appropriate action is taken in relation to key recommendations made.

In their Annual Audit Letter issued in March 2009, the external auditors made two key recommendations which are detailed below:

“The Council should obtain confirmation from management that it is taking effective measures to ensure that the performance of the Adult Care Service and outcomes for vulnerable people that it serves improves significantly in 2009”.

“The Council should obtain confirmation from management that it is effectively addressing the high level of staff sickness in the Fire and Rescue Service”.

Appropriate action is being taken to address there two key recommendations as detailed in section 5 of this statement.

In addition to the above the external auditors also submitted reports in relation to waste management, data quality and the 2007/08 accounts which highlighted improvement points. These were relatively minor in relation to the latter two reports and have been actioned. The key issues raised in relation to Waste Management related to the adequacy of the governance arrangements for the Gloucestershire Waste Project and concerns about financing issues relating to some of the District Councils. Actions have been taken to address these issues, as set out in section 5 of this statement.

Regarding internal audit reports, the Audit Committee have, over the last year, taken the opportunity to follow up on progress on all key audit recommendations in relation to audit reports where only limited assurance was given. They did this by requesting the attendance at their meetings of key operational officers who are asked to report on progress. This improves accountability and ensures that key recommendations are actioned to the satisfaction of the Audit Committee.

During 2008/09 thirteen internal audit reports were issued which gave only limited assurance. In relation to nine of these reports, the Audit Committee received evidence from appropriate operational officers that gave the committee assurance that adequate action had been taken to move the audit opinion from “inadequate” to at least “adequate”, in relation to the following internal audits:

- Home to School Transport SEN
- Home to School Transport CRB checking
- Information classification / management of networks
- Staffing costs in children’s residential establishments
- Gloucestershire Highways performance indicators
- Temporary staff contract
- Capital project procedures
- Post 16 Home to School Transport
- Legal Services Imprest Account

Similar monitoring by the Audit Committee will take place regarding the other four limited assurance audit reports.

In addition to the above, internal audit undertook some partnership work with Price Waterhouse Coopers, to look at the adequacy of controls within the council’s new SAP system. At the current time, in the context of our SAP maturity, this work identified satisfactory findings in relation to the inbuilt systems controls and, as expected, also identified a number of potential access conflicts, which need to be examined in more detail.

As part of their overall plan external audit are required to review the effectiveness of internal audit. At their last review, reported to the Audit Committee, their report stated that the internal audit service meets all the current CIPFA Standards, is appropriately staffed with experienced and specialised officers, delivers work that is of a good standard and is well managed. A number of minor improvement points were identified which have now been addressed.

Standards of conduct of officers and members / Adherence to the law

In terms of compliance with the law, during 2008/09 no instances of non compliance were identified, and no councilors were found to have breached the statutory Code of Conduct for members. In addition, no complaints to the Ombudsman were upheld against the Council.

Partnership Arrangements

Assurance in relation to partnership working arrangements can be obtained from the latest Annual Audit and Inspection letter which was issued in March 2009 which stated, in relation to partnership working:

“The Council, with partners, has developed good strategic plans to improve key issues in the county.

The Council is successfully working with partners to improve its capacity and improve outcomes for local people”.

Assurances from Directors

As part of this review of the effectiveness of Governance arrangements during 2008/09, detailed assurance statements were sought from all Directors, to confirm that, for their areas of management responsibility, there were adequate governance arrangements in place covering the areas set out in section 4 of this statement.

Assurances were received back from all permanent Directors, covering all key service areas. Although a number of minor issues were raised by a number of Directors, which are going to be monitored by the Efficiency and Productivity Sub Group of the Directors Board, the feedback received was generally very positive. Two issues raised, which are felt to warrant inclusion within this statement are:

- The need to ensure that all staff received their personal assessment reviews in the future
- Some problems have been identified with data collection in relation to two indicators in Children’s Services. This increases the need to address the problems currently being encountered with the implementation of the Integrated Children’s computerised system.

Gloucestershire Pension Fund

Gloucestershire County Council is the administering body for the Gloucestershire Pension Fund.

Internal Audit reviewed the controls in place for the three main areas of Governance, Pension Administration and Investment Management.

Based on this work Internal Audit have concluded that adequate assurance has been obtained that the controls are operating satisfactorily.

Governance

Internal Audit examined the various reports, policies and statements, which are published on the County Council website, namely the annual report, statement of investment principles, funding strategy statement, communications policy statement, governance policy statement, governance compliance statement, rates and adjustment certificate and the actuarial valuation report. Audit gained full assurance from these checks.

New legislation required Administering Authorities to publish a Governance Compliance Statement by November 2008. The Gloucestershire Pension Fund published its statement in July 2008. The statement identifies the level of compliance against best practice principles. The Gloucestershire Pension Fund is not fully compliant with some of these best practice principles, (all stakeholders not represented within the committee structure, no justification for not extending voting rights to each body represented on main Local Government Pension Scheme (LGPS) committees, and no annual training

plans for committee members with a log of training undertaken). The Department for Communities and Local Government (CLG) will be publishing an analysis of all the Governance Compliance Statements, during 2009, and the Pension Committee will use this information before making a further decision on these best practice principles.

External Fund Managers

Internal Audit have reviewed the recent selection of the new Global Equity Fund Manager, following a full EU procurement process and found it to be satisfactory.

Audit has also carried out an overview of the contracts for all of the fund managers and the global custodian, reviewing available assurance statements and the latest internal control statements from published accounts. It should be noted that one of the statements received was qualified in respect of one control, which has now been addressed.

Performance Monitoring

The fund managers report on their performance to the Pensions Committee. In addition the custodians measure the performance against the agreed benchmarks and report to the committee. The council have also engaged a specialist company who independently measure the performance of the funds.

The pension committee also receives advice on the financial markets, the strategic asset allocation and fund management from an independent advisor.

Internal Audit have concluded that these arrangements are adequate and effective.

Management of funds risks & controls

The major risks to the authority arising from the management of the pension fund have been identified and included in the Corporate Risk Register. This is regularly reviewed, although as at April 2009 no changes had been made. The major risks identified are

1. Increasing Pension Fund Deficit
2. Market Value of Fund Fallen
3. Increases in employer's contributions

Internal Audit are satisfied that the key documents required to mitigate these risks namely the Actuarial Review – triennial valuation and the Fund Strategy Statement are in place, and are reviewed on a regular basis.

Pension Fund Administration

Changes to the Local Government pension regulations affecting both the rules relating to final pensions and the introduction of banding of contribution rates, combined with the relatively new payroll system have resulted in significant challenges for the pension fund administrators.

The data matching exercise, which compares pension and payroll records to ensure the absence of ghost pensioners had lapsed, following the implementation of SAP. New reports have now been developed and have been run for Fire and Police pensions but not as yet for the council's payroll.

A spreadsheet has been developed, and sent to all employers who do not use the council's SAP payroll system. It validates that the correct contributions are deducted for all employees, comparing pay with deductions. A report is being developed to validate SAP payroll contributions.

Whilst it is important to ensure these controls are implemented, once introduced they can be run retrospectively and any discrepancies addressed.

5 Governance Issues Arising

As a result of the review of governance arrangements outlined above, the following governance issues have been identified, which will be addressed during 2009/10 as shown.

- 1 Taking action to address the point raised by the External Auditors that effective measures are being taken to ensure that the performance of the Adult Care Service and outcomes for vulnerable people that it serves improves significantly in 2009.

Action taken/proposed: The Council has invested a further £5.4 million to respond to service pressures and invest in enhanced quality of provision in Adult Social Care. This investment underpins a series of initiatives and actions to be delivered across the Community and Adult Care Directorate in support of the Council's priorities: to increase the proportion of older people supported at home and enhance the quality of care for those requiring residential and nursing care, enabling residents to maintain community involvement; and, to work with individuals and communities to increase well being and develop services that respond flexibly to individual needs.

The Directorate's business plan also specifically addresses Areas for Development as set out in the Performance Assessment Notebook developed with the Care Quality Commission. The achievement of these areas for development will be monitored under the corporate performance monitoring system.

- 2 Taking action to address the point raised by the External Auditors that the authority is effectively addressing the high level of staff sickness in the Fire and Rescue Service.

Action taken/proposed: Fire & Rescue Service (GFRS) have implemented a revised 'absence management policy', to ensure ownership at a local level to help drive improvement in this area. The policy supports and reinforces manager's responsibility for effective attendance management and provides clear guidance and support in relation to helping employees return to work.

This is now a key area within the employee induction programme, establishing employee responsibilities in this area. Specific training is providing the skills and knowledge to enable supervisory managers to manage performance in this area, aligned to set local 'Key Performance Indicators'.

The Service's management team has made this a priority objective in its business plan for 2009/10 to ensure that absence levels are improved. The achievement of these actions will be monitored under the corporate performance monitoring system.

- 3 Addressing the concerns raised by the External Auditors regarding the adequacy of the governance arrangements covering the Gloucestershire Waste Project. To address this, and other issues, the Council aim to submit an expression of interest to Defra about becoming a Joint Waste Authority by December 2009, and a project plan is in place to deliver this, including a reorganisation of governance arrangements. The External Auditors also raised some concerns regarding financial constraints that exist for district council partners in relation to the need for them to change their collection systems as required under the Gloucestershire Waste Project. This is an issue for some of the district council partners but, to date, the implementation of the strategy has been progressed with three district councils.
- 4 With regard to the internal audit review of governance arrangements, the recommendation regarding the assurance statements has been implemented, no amendments have been made to current whistle blowing arrangements which are felt to be effective, and the recommendation regarding updating the officer code of conduct awaits the results of consultation on a statutory code.
- 5 During 2009 the Audit Committee received adequate assurances that appropriate actions had been taken in relation to nine limited assurance internal audit reports, as detailed in section 4 of this statement.
- 6 The following two key issues emanating from the assurance statements received back from all permanent Directors will be addressed during 2009/10:
 - Appropriate action will be taken to ensure that all staff receive Personal Assessment reviews during 2009/10
 - The problems experienced with the implementation of the Integrated Children's computerised system will continue to be actively addressed via the reconvening of the project board, coupled with the detailed rechecking of caseload information within the CYPD and direct engagement at Group Director level resulting in a fast track recovery programme being put in place.
- 7 With regard to spending during 2009, overall an under spend of around 1% of the budget was achieved. The only area of major overspend related to Children's Agency budgets, and plans are in place to address the underlying agency budget spending via the complex needs strategy.
- 8 With regard to the Gloucestershire Pensions Fund, details of two risks identified in the supplementary audit opinion issued by the external auditors in April 2009 are provided below together with details of the actions to be taken to address each.
 - Controls to ensure the completeness and accuracy of employees contributions are not fully effective.
Action taken/proposed: A report is being developed to validate payroll contributions which will be run and checked on a monthly basis.

- There is no comprehensive periodical reconciliation between the Axis system and the general ledger system.

Action taken/proposed: The report to identify “ghost” pensioners by comparing AXIS to SAP records will be reinstated by 1st July 2009 and will be run on a monthly basis.

- 9 There are no other significant governance issues that need to be highlighted within this statement.

Barry Dare
Leader

Peter Bungard
Chief Executive

Stephen Wood
Group Director /Chief Financial
Officer

Income and Expenditure Account 2008/09

This account summaries the resources that have been generated and consumed in providing services and managing the Council during the last year. It includes all day-to-day expenses and related income on an accruals basis, as well as transactions measuring the value of fixed assets actually consumed and the real projected value of retirement benefits earned by employees in the year.

<i>Restated</i> 2007/08		2008/09		
<i>Net</i> <i>Expenditure</i> £'000		Gross Expenditure £'000	Income £'000	Net Expenditure £'000
66,576	Children's & Education Services (See Note 1)	552,037	-458,597	93,440
110,016	Adult Social Care	227,405	-99,015	128,390
44,129	Highways, Roads & Transport	62,578	-13,138	49,440
21,934	Fire & Rescue	19,743	-707	19,036
30,015	Cultural, Environmental & Planning Services	43,332	-5,902	37,430
865	Court Services	1,211	-169	1,042
110	Housing Services	280	-156	124
	Central Services			
-384	Central services to the public	2,591	-1,447	1,144
5,293	Corporate & democratic core	8,552	-814	7,738
3,877	Unapportionable central overheads	2,448	-244	2,204
1,323	Other central costs	2,992	-5,205	-2,213
	Exceptional Items not included in Service Costs	-	-	-
283,754	Net costs of services	923,169	-585,394	337,775
298	Flood defence levies	272	-	272
-	Gain (-)/Loss on Disposal of Fixed Assets		-1,632	-1,632
18,639	Interest Payable	19,768	-	19,768
177	Gains(-)/Losses on repurchases/early settlement of debt	-	-	-
-8,740	Interest & Investment Income	-	-11,337	-11,337
	Impairment on Investments	1,706	-	1,706
	Pensions Interest Cost and Expected Return on Pension Assets	23,676	-	23,676
305,907	Net Operating Expenditure	968,591	-598,363	370,228
-1,534	Income From the Collection Fund			-941
-13,674	Revenue support grant			-13,277
-	Area Based Grant			-25,762
-214,242	Precepts on district councils			-226,228
	Distribution From Non-Domestic Rate Pool			-95,377
-81,481				-95,377
-5,024	Surplus (-)/ Deficit for the year			8,643

Statement of Movement on the General Fund Balance

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

- Capital investment is accounted for as it is financed, rather than when the fixed assets are consumed retirement benefits are charged as amounts become payable to pension funds and pensioners, rather than as future benefits are earned.
- The General Fund Balance shows whether the Council are over or under-spent against the council tax that is raised for the year, taking into account the use or reserves built up in the past and contributions to reserves earmarked for future expenditure.

This reconciliation statement summarises the differences between the outturn on the Income and Expenditure Account and General Fund Balance.

Restated 2007/08 £'000		Note	2008/09 £'000
-5,024	Surplus (-)/Deficit for the year on the Income & Expenditure		8,643
560	Net additional amount required by statute and non-statutory practices to be debited or credited to the General Fund Balance for the year	13	-10,151
<u>-4,464</u>			<u>-1,508</u>
-22,429	General Fund Balance brought forward		-26,445
<u>448</u>	Transfer to/from General Fund		<u>7,277</u>
<u>-26,445</u>	General Fund Balance carried forward		<u>-20,676</u>
7,877	Committed General Fund Balance	37	3,497
<u>-18,568</u>	Amount of General Fund Balance Generally available for new expenditure	37	<u>-17,179</u>

* The General Fund Balance Reported excludes those revenue balances held under delegated schemes for schools totalling £24.108m as shown in Note 37.

Statement of Total Recognised Gains and Losses

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

Restated 2007/08 £'000		Note:	2008/09 £'000
-5,024	Surplus(-)/Deficit on the Income & Expenditure Account for the year		8,643
-62,961	Surplus(-)/Deficit arising on revaluation of fixed assets		-51,738
-9,379	Actuarial gains (-) and losses on pension fund assets and liabilities	40	76,910
7,368	First time adoption of Financial Instrument Policies		-
193	Other recognised gains (-) and losses		-1,632
149	Available for sale		54
—	Transferred services		-
<u>-69,654</u>	Total recognised gains and losses for the year	37	<u>32,237</u>

Balance Sheet

Restated 2007/08 £'000	Notes	2008/09 £'000	£'000
541	Intangible Assets		476
	Tangible fixed assets		
	Operational assets		
501,187	Land & Buildings	567,826	
11,871	Vehicles, plant, furniture & equipment	13,406	
259,911	Infrastructure assets	<u>284,259</u>	865,491
	Non-operational assets		
22,808	Assets under construction	42,277	
<u>5,426</u>	Surplus assets, held for disposal	<u>13,220</u>	<u>55,497</u>
801,744			921,464
26,380	Long-term investment		11,195
90	Long-term debtors		78
<u>828,214</u>	Total long-term assets		<u>932,737</u>
	Current assets		
381	Stocks and work in progress	667	
-	Landfill Allowance Trading Scheme	-	
48,274	Debtors	31,096	
3,790	Payments in advance	3,756	
152,020	Short-term investments	165,276	
<u>3,846</u>	Net cash in hand	<u>10,499</u>	<u>211,294</u>
1,036,525	Total assets		1,144,031
	Current liabilities		
-6,963	Borrowing repayable on demand or within 12 months	-5,067	
-83,159	Creditors	-70,684	
-	Landfill Allowance Trading Scheme	-	
-24,382	Government grant unapplied	-17,755	
<u>-12,678</u>	Receipts in advance	<u>-8,307</u>	<u>-101,813</u>
909,343	Total assets less current liabilities		1,042,218
-358,050	Long-term borrowing		-377,916
-6,314	Provisions		-5,796
-2,351	Deferred liabilities		-2,543
-11,620	Capital contributions unapplied		-21,597
-46,911	Government grants deferred account		-91,280
-35,448	Capital contributions deferred account		-36,873
-350,411	Liability related to defined benefit pension schemes		-440,212
<u>98,238</u>	Total assets less liabilities		<u>66,001</u>
	Reserves		
300,213	Capital Adjustment Account		299,045
-7,065	Financial Instruments Adjustment A/c		-5,988
-149	Available for sale revaluation reserve		-203
59,690	Fixed Assets Revaluation Reserve		109,713
-350,411	Pensions reserve		-440,212
2,469	Usable capital receipts reserve		-
<u>93,491</u>	Fund balances and reserves		<u>103,646</u>
<u>98,238</u>			<u>66,001</u>

Cash Flow Statement

2007/08 £'000	Notes	2008/09 £'000	£'000
Revenue activities			
<i>Cash outflows</i>			
453,547		494,609	
394,035		432,995	
<u>847,582</u>		<u>927,604</u>	
<i>Cash inflows</i>			
-215,776		-227,169	
-81,481		-95,719	
-13,674		-38,697	
-481,760	45	-458,131	
-53,382		-77,609	
-54,205		-57,200	
<u>-52,696</u>	41		<u>-26,921</u>
Returns on investments and servicing of finance			
<i>Cash outflows</i>			
18,942		19,768	
<i>Cash inflows</i>			
-8,740		-11,337	
<u>-42,494</u>	41		<u>8,431</u>
			<u>-18,490</u>
Capital activities			
<i>Cash outflows</i>			
74,686		100,333	
<i>Cash inflows</i>			
-2,454		-3,543	
-30,830	45	-51,768	
-			
-14,247		-13,082	
			<u>31,940</u>
-15,339			<u>13,450</u>
Management of liquid resources			
45,376	42	13,256	
8,380	42	-	13,256
Financing			
<i>Cash outflows</i>			
22,050	42	6,864	
<i>Cash inflows</i>			
-57,628	42	-24,834	
-272	42	-192	
-		-15,185	
-23	42	-12	
			<u>-33,359</u>
<u>2,544</u>			<u>-6,653</u>
			Increase(-)/decrease in cash

Notes to the Accounts

1 Deployment of Dedicated Schools Grant

The Council's expenditure on schools is funded by grant monies provided by the Department for Children Schools and Families (DCSF). The Dedicated Schools Grant (DSG) is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget. As well as individual schools budgets, the Schools Budget includes elements for a restricted range of services provided on an authority-wide basis including, Education of Children Under 5, SEN, Education out of school. The council is able to supplement the Schools Budget from its own resource; Gloucestershire County Council has not exercised this option.

Details of the deployment of DSG receivable for 2008/09 are as follows:

	Central Expenditure £'000	Individual Schools Budget £'000	Total £'000
Final DSG for 2008/09	46,285	259,949	306,234
Bought forward from 2007/08	2416	-	2,416
Carry forward to 2009/10 agreed in advance	-	-	-
Agreed budgeted distribution in 2008/09	48,701	259,949	308,650
Actual central expenditure	46,427	-	46,427
Actual ISB deployed to schools	-	259,949	259,949
Local authority contribution for 2008/09	-	-	-
Carry forward to 2009/10	2,274		2,274

2 Publicity

Section 5 of the Local Government Act 1986 requires all Local Authorities to maintain a specific memorandum account in which all expenditure and promotional advertising mentioning either specific parts or the whole of Gloucestershire or any such similar expenditure is charged.

An analysis of this expenditure is provided below:

	2007/08 £'000	2008/09 £'000
Staff recruitment advertising	1,622	1,693
Public relations, communications and tourism officers	890	525
Publications, marketing and promotion	649	1,567
	<u>3,161</u>	<u>3,785</u>

3 Member's Allowances

The authority is required to report the total allowances paid to members of the County Council. These comprise of basic allowances and special responsibility allowances. In 2008/09 this amounted to £817,696 compared with £793,775 in 2007/08

4 Summary of staff remuneration

The Council is required, under Regulation 7(2) of the Accounts and Audit Regulations 2003, to report the number of employees whose remuneration, taxable expenses and severance (if applicable) exceeded £50,000, analysed into bands of £10,000.

Remuneration band	Total Number of Employees			
	2007/08		2008/09	
	Schools	Non Schools	Schools	Non Schools
£50,000 - £59,999	96	55	128	56
£60,000 - £69,999	28	7	24	17
£70,000 - £79,999	8	8	17	5
£80,000 - £89,999	5	6	10	5
£90,000 - £99,999	2	2	3	-
£100,000 - £109,999	1	2	1	1
£110,000 - £119,999	-	2	-	4
£120,000 - £129,999	-	-	-	-
£130,000 - £139,999	-	-	-	-
£140,000 - £149,999	-	1	-	-
£150,000 - £159,000	-	-	-	1
Total	140	83	183	89

5 Local Authorities (Goods & Services) Act 1970

The Council is empowered by this Act to supply goods and services to other public bodies, including other local authorities, health bodies, charities, and voluntary organisations. The majority of this income and expenditure relates to the provision of administrative, professional and technical assistance by the Support Services.

	2007/08 £'000	2008/09 £'000
Police	354	418
Probation	103	29
Crown Courts	104	164
Learning & Skills Council	-	4
Further Education	-	70
Health Trusts	134	277
Other Local Authorities	430	304
Other	74	53
	<u>1,199</u>	<u>1,319</u>

6 Leases

The Council holds vehicles under operating leases and lease rentals paid during the year were:

	2007/08 £'000	2008/09 £'000
Operating leases and lease rentals	420	426

These leases relate to vehicles acquired and funded as part of previous years' capital programmes. They do not include vehicles under lease or contract hire acquired by individual establishments and funded from their revenue budgets. The amounts involved are not material.

The Council is committed to make the following rental payments in respect of operating leases during the next year (2009/10), analysed over the period of years in which the commitment expires. All the leases relate to vehicles and equipment in use with the Fire and Rescue Service.

Expiry	£'000
2009/10	5
2010/11	12
2011/12 and beyond	<u>384</u>
	<u>401</u>

7 Related party transactions

The Council is required to disclose material transactions with related parties, that is bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the council. Disclosure of any transaction allows a view to be taken on 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 body or individual's ability to bargain freely with the Council.

Transactions with government departments are detailed in note 45. The Head of Finance: Police Authority and Business Systems is Treasurer to Gloucestershire Police Authority the Council supplied support services to this body for which it charged £299,488 in 2008/09 (£231,000 in 2007/08). This amount is included within the total shown in note 5. There were no other declared related party transactions in the year with council members or chief officers.

In 2008/09 the Council provided funding for 46 police officers for Gloucestershire Police Authority at a cost of £1.47m. This is contained within Central Services to the Public.

There is a contractual arrangement between the Council and Gloucestershire Care Partnership for the provision of places in care homes for older people, which involves sub-letting this to Order of St John's and Bedford Pilgrims Housing Association. In 2008/09 payments of £13.8m (£12.2m in 2007/08) were made to Order of St John's in relation to this contract.

There is a contractual arrangement between the Council and the Brandon Trust for the provision of Learning Disabilities Services. In 2008/09 payments of £10.8m (£10.7m in 2007/08) were made to the Brandon Trust, of this £7.1m (£7.0m in 2007/08) was funded by Glos PCT under a S75 agreement (formally referred to as S31 agreement) and a further £0.5m was collected as client contributions (£0.6m in 2007/08), leaving £3.1m (£3.2m in 2007/08) as the GCC contribution.

The Pension Fund's "in-house" surplus cash balances are held in the County Council's bank accounts and any payments to/from the Pension Fund go through these accounts. This cash forms part of the Council's daily treasury managements dealings. An average balance of £12.7m (£10.5m in 2007/08) was deposited with the Council during the year and £0.4m interest on these deposits (£0.6m in 2007/08) was paid to the Pension Fund. The Council charged £1.38m (£1.4m in 2007/08) for administering the Pension Fund.

The amount in the Balance Sheet for debtors includes £2.5m due from the Government and creditors includes £25,000 due to the Government as well £7.221m Receipts in Advance in respect of grants.

8 Audit fees

The Council paid the Audit Commission as follows:

	2007/08 £'000	2008/09 £'000
Certificate of Grant Claims and Returns	18	9
Statutory Inspection	84	15
Other (including Statement of Accounts)	230	223
Advise & Assistance / Other	<u>15</u>	<u>5</u>
	<u>347</u>	<u>252</u>

9 Partnership arrangements under Section 75 of the NHS Act 2006

This legislation enables health bodies and health-related local authority services to work together more effectively in the provision of services designed to meet the needs of users without concern for the boundaries of their organisations.

Section 31 has now been repealed and replaced by Section 75 of the NHS Act 2006, which has consolidated NHS legislation. The new provision is in exactly the same terms and existing section 31 arrangements will continue as if made under the new powers.

The Council is involved with four such partnerships between Adult Social Care and health agencies as detailed below:-

- *Provision of mental health services with '2gether' NHS Foundation Trust (formerly Gloucestershire Partnership NHS Trust (integrated budget)*

In 2008/09 the gross expenditure of the partnership was £5.5m (£5.2m in 2007/08), gross income was £1.2m (£1.2m in 2007/08) and the Council's contribution was £4.3m (£4.0m in 2007/08)

- *Provision of social care occupational therapy (Integrated Budget) – managed by Gloucestershire Primary Care Trust*

In 2008/09 the gross expenditure of the partnership was £3.0m (£2.7m in 2007/08), gross income was £0.3m (£0.3m in 2007/08) and the Council's contribution was £2.7m (£2.4m in 2007/08)

- *Provision of a community equipment service with Gloucestershire Primary Care Trust (Pooled Budget)*

In 2008/09 the gross expenditure of the partnership was £3.2m (£2.5m in 2007/08), gross income was nil (nil in 2007/08) and the Council's contribution was £1.2m (£1.0m in 2007/08)

- *Commissioning of Learning Disability Services agreement with Gloucestershire Primary Care Trust (Pooled Budget)*

In 2008/09 the gross expenditure of the partnership was £10.8m (£10.7m in 2007/08), gross income was £0.5m (£0.6m in 2007/08) and the Council's contribution was £3.2m (£3.1m in 2007/08)

As last year, the Council has treated the income and expenditure related to these pooled budgets as Joint Arrangements that are "Not an Entity" and in accordance with the principles of FRS9 has applied a proportional consolidation split to assets, liabilities and income and expenditure relating to the partnership arrangement with the PCT.

10 Discretionary expenditure

Section 137 of the Local Government Act 1972, as amended empowers local authorities to make contributions to certain charitable funds, not-for profit bodies providing a public service in the United Kingdom. The Council's expenditure under this power was £141,000 in 2008/09 compared with £150,000 in 2007/08.

11 Undischarged obligations, Private Finance Initiative (PFI) scheme

In a joint PFI venture Gloucestershire County Council, Avon Fire Authority and Devon and Somerset Fire Authority now receive a significant element of their fire training from VT Fire Training (Avonmouth) Ltd, a company contracted to provide the training until 31st March 2028. The training is supplied at the Joint Fire Training Centre, Avonmouth, a facility that the service provider designed, built, financed and now operates (DBFO) under the PFI contract. The Council is committed to paying £600,000 a year over the next 20 years, which is 25% of the annual contract payments.

12 Reconciliation of the deficit for the year on the Income Expenditure account to the surplus for the year on the general fund

The surplus for the year on the General Fund was £10.2 million greater than the Income and Expenditure Account result. This is explained as follows:

The Income and Expenditure Account discloses the income received and expenditure incurred in operating the authority's services for the year and is equivalent to the Profit and Loss Account of a business. Income and expenditure and the resulting surplus or deficit for the year are measured, using essentially the same accounting conventions that most large UK businesses are required to use in preparing their audited annual financial statements. Accountants refer to such accounting conventions as UK

Generally Accepted Accounting Practices (UK GAAP). The UK GAAP based approach is codified in the Code of Practice on Local Authority Accounting (known as SORP), which local authorities are required by statute to observe when preparing their annual statement of accounts.

However, the items that the Council is required to credit and debit to its General Fund when determining the surplus or deficit on its General Fund, are laid down in statute and non-statutory 'proper practices' rather than being UK GAAP based. While the amounts included in the Income and Expenditure Account and in the General Fund are largely the same, there are a number of differences. For example, the charge for the depreciation of fixed assets must be charged to the Income and Expenditure Account in accordance with the SORP but depreciation must be excluded from the General Fund in accordance with the statute.

The surplus or deficit on the Income and Expenditure Account is the best measure of the Council's operating financial performance for the year. However, the surplus or deficit on the General Fund is also important since it indicates whether the Council added to or drew on its General Fund Balances during the year. This in turn affects the amount of the General Fund Balance that the Council can take into account when determining its spending plans on Council Tax financed services for the following year and in determining the Council's decision about the amount of Council Tax income it should budget to raise from its Council Tax payers.

The table in note 13 gives a detailed breakdown of the differences between the income and expenditure included in the Council's Income and Expenditure Account in accordance with the SORP, and the amounts that statute and non-statutory proper practice required the Council to debit and credit to the General Fund Balance.

13 Analysis of additional items required by statute and non-statutory proper practice to be taken into account in determining the general fund surplus or deficit for that year.

	Notes	£'000	£'000
Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the General Fund surplus or deficit for the year			
Fund surplus or deficit for the year			
Depreciation, amortisation and impairment of fixed assets	19	-30,617	
Government Grants Deferred amortisation matching depreciation and impairments	35 & 36	4,582	
Write downs of deferred charges to be financed from capital resources	38	-36	
Net gain or loss on sale of fixed assets		1,632	
Impairment of Investments		-756	
Write down of Deferred premiums/Discounts		200	

	Notes	£'000	£'000
Amount by which pension costs calculated in accordance with the SORP (i.e. in accordance with FRS17) are different to the contributions due under the pension scheme regulations	40	-12,891	
Non earmarked grants and contributions		<u>5</u>	-37,881
Amount not included in the Income and Expenditure Account but required to be included by statute when determining the Movement of the General Fund Balance for the year			
Statutory provision for the repayment of debt	15	14,379	
Capital expenditure charged to the General Fund Balance	38	<u>4,705</u>	<u>19,084</u> -18,797
Transfers to or from the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year			
Net Transfer to or from earmarked reserves	14		8,646
Amount by which the surplus on the General Fund for the year was greater than the income and Expenditure Account result for the year			
			<u>-10,151</u>

14 Contribution to earmarked reserves

	£'000
Transfer to Insurance Fund (net)	1,915
Transfer to capital funding (net)	5,744
Contribution to General Balances	1,224
Supporting People Reserve	574
Waste PFI smoothing Reserve	8,076
Invest to Save Reserve	2,018
Corporate Initiative Reserve (net)	<u>929</u>
	<u>20,480</u>
Decrease in unspent balances permitted to be carried forward under delegated schemes	-2,317
Unspent Dedicated School Grant	-141
Transfer from General Reserve Fund	-8,500
Adverse Weather Conditions (net)	-689
Transfer to other reserves (net)	<u>-187</u>
	<u>8,646</u>

A detailed breakdown of the movement in reserves can be found in note 37 on page 53.

15 Minimum Revenue Provision (MRP)

The Council is required by statute to set aside a minimum revenue provision for the redemption of external debt

	2007/08 £'000	2008/09 £'000
Minimum Revenue Provision (MRP)	13,139	14,379

16 Intangible assets

These are purchased software licenses and are amortised over an estimated life of 10 years.

	2007/08 £'000	2008/09 £'000
Balance as at 1 st April	606	541
Expenditure in year	<u>-</u> 606	<u>-</u> 541
Amortised Amount charged to Income and Expenditure Account	<u>-65</u>	<u>-65</u>
Net Book Value	<u>541</u>	<u>476</u>

17 Movement in fixed assets during the year

	Land & Buildings £'000	Vehicles & Equipment £'000	Infra-structure £'000	Non-operational £'000	Total £'000
Net book value 1st April 2008	<u>501,187</u>	<u>11,871</u>	<u>259,911</u>	<u>28,234</u>	<u>801,203</u>
<i>Gross book value 1st April 2008</i>	570,692	23,116	369,278	28,488	991,574
Additions	24,788	4,053	38,815	32,853	100,509
Disposals	-2,141	-609	-	-	-2,750
Revaluations	51,463	-	-	275	51,738
Impairments	-	-	-	-5,812	-5,812
Transfers between categories	-	-	-	-	-
Gross book value 31st March 2008	<u>644,802</u>	<u>26,560</u>	<u>408,093</u>	<u>55,804</u>	<u>1,135,259</u>
<i>Accumulated depreciation 1st April 2008</i>	69,505	11,245	109,367	254	190,371
Depreciation for year	7,761	2,457	14,467	53	24,738
Depreciation on disposals	-290	-548	-	-	-838
Accum. depreciation 31st March 2009	<u>76,976</u>	<u>13,154</u>	<u>123,834</u>	<u>307</u>	<u>214,271</u>
Net book value 31st March 2009	<u>567,826</u>	<u>13,406</u>	<u>284,259</u>	<u>55,497</u>	<u>920,988</u>

18 Summary of capital expenditure and method of finance

	£'000		£'000
New assets	75,159	Loans	25,000
Impairments	5,812	MRP	14,379
Deferred charges	1,107	Capital Receipts	6,011
Assets Under Construction	19,470	Capital Reserve	1,209
		Grants	48,348
		Contributions	3,105
		Revenue	3,496
	<u>101,548</u>		<u>101,548</u>

19 Fixed Asset Valuation

Land & Property

The Code requires all land and property to be formally revalued at least every five years. The latest five-year rolling programme of revaluations began on 1st April 2004 and this year the district council areas covered included the Cotswolds, Forest of Dean and all Rural Estates.

The valuations have been undertaken by qualified and unqualified valuers employed within Asset Management & Property Services in the Business Management Directorate of the County Council.

Qualification of Impairment Valuation

The asset valuations are valued in accordance with the RICS Valuation Standards (the Red Book) on a 5 yearly cycle with one of each of the six district council areas being valued each year (two of the districts doubled up so that all six are valued over the 5 year cycle).

The majority of the Council's property portfolio is made up of operational properties, most of which are specialised and therefore valued according to RICS Red Book requirements using Depreciated Replacement Cost method. However as with the Market Value method, these still have a significant land element which will be assessed on market value as opposed to cost and therefore more affected by the economic downturn.

Analysis has been undertaken to assess the impact of economic downturn. Using BCIS data on building costs over the 4 yrs from 2005/2008 shows that for the non rural valuations there has been an overall increase of 2.9%, equating to an increase of £4m over the 4 yr period. During the same period, using the VOA index for residential land values indicates these have fallen by about 22% equating to an indicative fall across the portfolio valued during this period of £47.3m

However to assess the appropriateness of relying on indices to assess a potential impairment, a sample valuation was undertaken of a number of properties within Gloucester District, which falls due for revaluation this year. Compared with a valuation of £193m when last valued in 2004, these showed an indicative increase of 18% equating to £34.7m. Adding this to the increase assessed by reference to the BCIS index of £4m gives a total of £38.7m

Taking the indicative fall in land values of £47.3m, this implies an impairment loss of £8.67m against a total net book value of £567m for the fixed assets. This is not considered to have a material effect and therefore no adjustment for impairment has been made.

- Operational land and property is included in the Balance Sheet on the basis of existing use value or, where this cannot be assessed because there is no market, depreciated replacement cost.
- Non operational land and property is included on the basis of market value except assets under construction which are included on the basis of capital expenditure incurred by 31st March 2009.
- Temporary buildings are included at historical cost and are being depreciated over their expected life.

Vehicles, plant, furniture and equipment

- Vehicles and plant are included at historical cost, less accumulated depreciation.
- Furniture and equipment charged to the capital account is included at historical cost and is being depreciated over its expected life.

Infrastructure assets

- These assets, consisting of roads, bridges, street lighting, footpaths and footbridges, are included on the basis of historical costs incurred since 1st April 1974, depreciated over periods in accordance with the anticipated life of the various types of infrastructure.

20 Commitments under capital contracts

At 31st March 2009 the Council has £249.7m of expenditure approved, but not all contracted, in its capital programme in future years, allocated as follows:

	£'000
Children & Young People	124,959
Environment	103,972
Community Safety	4,865
Community & Adult Care	10,087
Corporate Projects	<u>5,867</u>
	<u>249,750</u>

Schemes included with significant expenditure *contracted* at 31st March 2009 are Rednock School Dursley (£8.3m), Bettridge School Cheltenham (£3.2m), Cleeve School, Bishops Cleeve (£1.6m), Heart of the Forest (£3.5m), Early Years Quality and Access Grant (£6.8m), Primary Capital Programme (£12.3m), Investment in Waste Facilities (£6.9m), and Safety Schemes (£1.2m).

21 Trust Funds

At 31st March 2009 the Council acted as sole trustee for 3 trust funds and as one of several trustees for a further 2 funds. These funds do not represent assets of the Council and they have not been included in the Balance Sheet.

Funds for which Gloucestershire County Council acts as sole trustee	Balance at 1.4.08	Income	Expenditure	Balance at 31.3.09
	£	£	£	£
<i>Libraries</i>				
3 trust funds providing funding for books and a lecture evening	3,205	164	148	3,221
	<u>3,205</u>	<u>164</u>	<u>148</u>	<u>3,221</u>
Other funds:				
<i>Edith Foster and Mary Playne Trust</i> – provides aid to college students	108,999	4,440	-	113,439
<i>Gloucestershire Heritage Trust Ltd</i> – preserves and renovates buildings and areas which are of historic interest	<u>6,369</u>	<u>207</u>	<u>-</u>	<u>6,576</u>
	<u>115,368</u>	<u>4,647</u>	<u>-</u>	<u>120,015</u>

22 Capital Expenditure

	£'000	£'000	%
Children & Young People			
Cleeve School, 6 th form centre and science block	3,581		
Rednock School, Dursley, new school	18,804		
Archway School, Stroud, refurbishment & extensions	2,780		
Other secondary schools	1,614		
Severnbanks Children's Centre Lydney	252		
Forest View Children's Centre Cinderford	222		
Kingsholm Primary School, Gloucester, New Children's centre	1,241		
Other primary schools, early years and children's centres	5,633		
Bettridge School, Cheltenham, enlarged school & Early Years Centre	4,744		
Other special schools	226		
Structural maintenance, health and safety and other building works	4,090		
Youth	<u>267</u>		
		43,454	42.8
Environment			
Gloucester South West Bypass	1,144		
Other road construction schemes	3,507		
Structural maintenance of roads	12,559		
Structural maintenance of bridges	1,775		
Street lighting	989		
Flood Related Work	6,656		
Detruncked Road	3,439		
Drainage	4,842		
Waste Disposal	7,572		
Other schemes	<u>4,602</u>		
		47,085	46.3
Community Safety			
Fire & Rescue	2,797		
Coroners & Registrars	76		
Community Safety Miscellaneous	<u>150</u>		
		3,023	3.0
Community & Adult Care			
Oakdene, Cinderford learning disability day centre, modernisation	417		
Office accommodation, Cirencester	136		
Coleford learning Dis Cent Modernisation	163		
Other schemes	<u>276</u>		
		992	1.0
Cirencester Library, major refurbishment	786		
Other schemes	<u>841</u>		
		1,627	1.6
Business Management			
Structural maintenance, health and safety and other building works	1,334		
Rural Services, various farm schemes	473		
Computer services and equipment	<u>742</u>		
Other schemes	<u>2,818</u>		
		5,367	5.3
TOTAL EXPENDITURE		101,548	100.0

23 Assets owned by the County Council include the following:

		31.3.08 Nos	31.3.09 Nos
Schools	Primary	249	252
	Secondary	42	42
	Special	12	12
Pupil referral centres		3	3
Area resources centres (Educ)		4	4
Adventure & field study centres		5	5
Youth & Community Centres		33	33
Libraries		37	36
Records Office		1	1
Highways depots/stores		12	12
Park and Ride facilities		2	2
Gypsy sites		5	5
Fire stations		20	19
Adult Care establishments	Child care/family centres	9	9
	Centres for older people	3	3
	Care homes for older people	22	22
	Hostels and centres for the disabled	27	27
	Group homes	21	21
	Area offices and other offices	10	10
Registrars' Offices		3	3
General Administrations buildings		4	4
Staff Houses		8	8
Miscellaneous/surplus properties		20	20
Vehicles	Buses and minibuses	95	82
	People carriers	17	22
	Vans and pick-ups	40	45
	Land Rovers etc	11	14
	Cars	20	15
	Mobile libraries	7	5
	Mobile youth centres	4	4
	Snow blowers	3	2
	Tractors	1	1
	Fire and Rescue appliances	35	35
Javelin Park		0	1
Country parks and picnic sites		5	5
County Farms (hectares)		3,452	3,450
Roads (kms)		5,215	5,215

This list of assets mainly relates to those which are recorded in the Balance Sheet. It does not include those vehicles which are leased and short-term rented properties. The exception is schools where, for completeness, all schools are included but in fact only 126 out of 294 primary and secondary schools are owned by the County Council and included in the Balance Sheet.

24 Deferred charges

Deferred charges and their treatment are explained on page 11.

	£'000	£'000
Balance as at 1 st April 2008		
Expenditure in year		
Environment – Flood	343	
Stronger, safety Communities	149	
Bus stops	11	
Com Development	9	
Early learning centre	389	
Youth	247	
Fire	<u>-41</u>	1,107
less Grant received towards expenditure		<u>-1,071</u> 36
Amount charged to Income and Expenditure Account		<hr/> -36
Balance as at 31 st March 2009		<hr/> <hr/> -

25 Financial Instruments Adjustment Account

	£'000
Balance as at 1 st April 2008	7,065
Adjustments relating to debt restructuring:	
Discounts received following debt restructuring in 2008/09	-1,633
Adjustment with the General Fund:	
Deferred premiums on debt restructuring	-326
Deferred discounts on debt restructuring	126
Adjustments with the General Fund relating to impairment of Investments: (General Fund entries match those in the Income and Expenditure Account)	
Interest due on impaired investments to 31 st March 2009	-950
Impairment of investments	1,706
Balance as at 31 st March 2009	<hr/> <u>5,988</u>

Impairment Note

Early in October 2008, the Icelandic banks Glitnir and Landsbanki collapsed along with the UK subsidiary Heritable. The authority had £12.5m deposited with these institutions, with varying interest and maturity rates as follows:

Institution	Principal	Interest Rate	Date Invested	Maturity Date	Carrying Amount £	Impairment £
Heritable	£2.0m	6.15%	19.10.07	17.10.08	1,507,774	670,492
Glitnir	£2.9m	6.19%	07.11.07	05.11.08	2,894,666	256,156
Glitnir	£3.0m	5.75%	02.01.08	02.12.08	2,974,218	240,344
Glitnir	£3.0m	5.50%	31.01.08	23.01.09	2,963,052	229,071
Landsbanki	£1.6m	5.67%	03.01.08	02.01.09	1,402,664	309,928

The carrying amount of the investments included in the balance sheet have been calculated using the net present value of the expected repayments, discounted using the investments original interest rate.

All monies within these institutions are currently subject to the respective administration and receivership processes. The amounts and timings of payments to depositors such as the authority will be determined by the administrators / receivers.

The current situation with regards to recovery of the sums deposited varies between each institution. Based on the latest information available the authority considers that it is appropriate to consider an impairment adjustment for the deposits, and has taken the action outlined below. As the available information is not definitive as to the amounts and timings of payments to be made by the administrators/receivers, it is likely that further adjustments will be made to the accounts in future years.

Note that the impairment loss recognised may be significantly higher if local authority deposits are not deemed to have priority.

Heritable Bank

Heritable Bank is a UK registered bank under Scottish law. The company was placed in administration on 7 October 2008. The creditor progress report issued by the administrators Ernst and Young, dated 17 April 2009 outlined that the return to creditors was projected to be 80p in the £ by end 2012 with the first dividend payment of 15p in the £ due in the summer of 2009. The authority has therefore decided to recognise an impairment based on it recovering 80p in the £. It is anticipated that there will be some front loading of these repayments and that a final sale of assets will take place after the books have been run down to the end of 2012. Therefore in calculating the impairment the Authority has made the following assumptions re timing of recoveries.

July 2009 – 15%
 July 2010 – 30%
 July 2011 – 15%
 July 2012 – 10%
 July 2013 – 10%

Recoveries are expressed as a percentage of the authority's claim in the administration which includes interest accrued up to 6 October 2008.

Landsbanki

Landsbanki Islands hf is an Icelandic entity. Following steps taken by the Icelandic Government in early October 2008 its domestic assets and liabilities were transferred to a new bank (New Landsbanki) with the management of the affairs of Old Landsbanki being placed in the hands of a resolution committee. Old Landsbanki's affairs are being administered under Icelandic law. Old Landsbanki's latest public presentation of its affairs was made to creditors on 20 February 2009 and can be viewed on its website. This and other relevant information indicates that recovery of between 90 – 100% could be achieved, and the authority has taken a midpoint position and assumed recovery at 95% by 2012. The authority has therefore decided to recognise an impairment based on it recovering 95p in the £.

Recovery is subject to the following uncertainties and risks:

- Confirmation that deposits enjoy preferential creditor status which is likely to have to be tested through the Icelandic courts
- The impact of exchange rate fluctuations on the value of assets recovered by the resolution committee and on the settlement of the authority's claim, which may be denominated wholly or partly in currencies other than sterling
- Settlement of the terms of a 'bond' which will allow creditors of Old Landsbanki to enjoy rights in New Landsbanki
- The impact (if any) of the freezing order made by the UK Government over Landsbanki's London branch assets

Failure to secure preferential creditor status would have significant impact upon the amount of the deposit that is recoverable. The total assets of the bank only equate to one third of its liabilities, assuming that the Bond remains at its current value. Therefore, if preferential creditor status is not achieved the recoverable amount may only be 33p in the £.

No information has been provided by the resolution committee about the timing of any payments to depositors. Because it is anticipated that all the assets of Landsbanki Islands will need to be realised to repay priority creditors, settlement in a single sum is unlikely. Therefore, in calculating the impairment, the authority has used the estimated repayment timetable of Heritable as a basis for its assumption about the timing of recoveries. It is therefore assumed that the repayment will be split roughly evenly between March 2010, December 2010, December 2011 and December 2012.

Recoveries are expressed as a percentage of the authority's claim in the administration which it is expected may validly include interest accrued up to 14 November 2008.

Glitnir Bank

Glitnir Bank hf is an Icelandic entity. Following steps taken by the Icelandic Government in early October 2008 its domestic assets and liabilities were transferred to a new bank (New Glitnir) with the management of the affairs of the Old Glitnir being placed in the hands of a resolution committee. Old Glitnir's affairs are being administered under Icelandic law. Old Glitnir's latest public presentation of its affairs were made to creditors on 6 February 2009 and can be viewed on its website. This indicates that full recovery of the principal and interest to 14 November 2008 is likely to be achieved. Recovery is subject to the following uncertainties and risks:

- Confirmation that deposits enjoy preferential creditor status which is likely to have to be tested through the Icelandic courts
- The impact of exchange rate fluctuations on the value of assets recovered by the resolution committee and on the settlement of the authority's claim, which may be denominated wholly or partly in currencies other than sterling
- Settlement of the terms of a 'bond' which will allow creditors of Old Glitnir to enjoy rights in New Glitnir

The authority has therefore decided to recognise an impairment based on it recovering the full amount of principal and interest up to 14 November 2008 (5 November on one investment) in the future. The impairment therefore reflects the loss of interest to the authority until the funds are repaid.

Failure to secure preferential creditor status would have a significant impact upon the amount of the deposit that is recoverable. The total assets of the bank only equate to 40% of its liabilities, assuming the Bond remains at its current estimated value. Therefore, if preferential creditor status is not achieved the recoverable amount may only be 40p in the £.

No information has been provided by the resolution committee about the timing of any payments to depositors. Since the value of deposits is small compared to the total asset value of the bank, in calculating the impairment the authority has therefore made an assumption that the repayment of priority deposits will be made by 31 March 2010.

Recoveries are expressed as a percentage of the authority's claim in the administration which is expected may validly include interest accrued up to 14 November 2008 (5 November for one claim).

Interest accrued and received on impaired deposits

The impairment loss recognised in the Income and Expenditure Account in 2008/09 has been calculated by discounting the assumed cash flows at the effective interest rate of the original deposits in order to recognise the anticipated loss of interest to the authority until monies are recovered. Adjustments to the assumptions will be made in future accounts as more information becomes available.

Interest receivable has been transferred to the Financial Instrument Adjustment Account, and these adjustments are shown as above.

The Authority has taken advantage of the Capital Finance Regulations to defer the impact of the impairment on the General Fund and a sum of £1.7m has been transferred to the Financial Instrument Adjustment Account.

26 Landfill Allowance Trading Scheme (LATS)

The authority has written down the value of its LATS holdings to zero due to the current market value being zero. Nationally there is a surplus of supply of LATS that have given rise to this situation.

The authority is carrying forward an estimated 31,879 unused allowances at zero value which cannot be carried forward to 2009/10 due to trading rules.

27 Debtors

These are sums of money due to the council but unpaid at the 31 March 2009. The amount is made up of:-

	2007/08 £'000	2008/09 £'000
Gross Debtors	49,404	32,068
Provision for Bad Debt	-1,130	-972
	<u>48,274</u>	<u>31,096</u>

28 Special Contributions

Special Contributions are those contributions paid by an employer to compensate the Pension Fund for early retirement costs, excess ill-health retirement costs or to improve their funding levels. These payments are either paid in one lump sum or over several years. At 31st March 2008 £57,673 was due to the Pension Fund, as in previous years these have not been included as an accrual in the accounts.

29 Insurance

The Council arranges external insurance subject to the following excess levels: public and employer's liability £370,500. Fire/storm/water perils damage to all Council Properties £100,000 excess and damage to own motor vehicle £20,000 excess. This effectively means that all but the very largest claims are self-insured.

The Insurance Fund is made up of annual premiums charged to services. The fund consists of a provision representing the estimated cost of outstanding claims, with the remaining balance being held as a reserve to meet the cost of potential future claims.

30 Deferred liabilities

The amount of £2.543m represents the shares of the PFI project equalisation fund attributable to Avon Fire Authority and Devon and Somerset Fire Authority as explained on page 12.

31 Long-term borrowing

Source of loan	Range of Interest rates payable	Total outstanding 31.03.08 £'000	31.03.09 £'000
Public Works Loan Board	3% to 11.625%	312,520	332,519
Banks	3.99% to 4.99%	41,050	41,050
		<u>353,570</u>	<u>373,569</u>
Analysis of loans by maturity			
		£'000	£'000
Maturing in 1-2 years		5,001	2,432
Maturing in 2-5 years		11,865	24,296
Maturing in 5-10 years		33,790	30,789

Source of loan	Range of Interest rates payable	Total outstanding 31.03.08 £'000	31.03.09 £'000
Maturing in 10-15 years		73,694	45,872
Maturing in 15-20 years		78,170	33,900
Maturing in more than 20 years		<u>151,050</u>	<u>236,280</u>
		353,570	373,569
Accrued Interest		<u>4,480</u>	<u>4,347</u>
		<u>358,050</u>	<u>377,916</u>

The bank loans of £41m consist of seven lender's option/borrower's option loans (LOBOs). Interest on these loans is payable at one rate for a primary period and another for a secondary period.

At the start of the secondary period the lender can opt to change the quoted secondary rate and can opt to change the rate again after every succeeding pre-determined interval. The borrower can opt to repay the loan at the same intervals. As it is unlikely that we will opt to repay the loan the maturity period included in the analysis above is for the life of the loan.

During 2008/09 the Authority restructured part of its long term borrowing with the Public Works Loan Board (PWLB). Existing loans totalling £73.288m were repaid and replaced with new loans to the same value.

The interest rates for the replacement loans were generally lower than those that were repaid, giving an annual revenue saving of £90,000. In addition, the timing of the repayments and replacements was such that a discount, totalling £1.633m was received from the PWLB. In accordance with recommended practice this will be credited to revenue account over a ten-year period giving a further annual revenue saving of £163,000.

32 Provisions

	Balance at 01.04.08 £'000	Applications £'000	Additions £'000	Balance at 31.03.09 £'000
Insurance Fund	3,510	-1,736	1,712	3,486
Adult Care– client refunds	307	-	-	307
Adult Care – VAT	269	-131	297	435
Adult Care – other liabilities	388	-294	70	164
Environment – GSWBP Land Claims	837	-256	550	1,131
Environment – Contracts	739	-739	194	194
Environment – VAT	60	-	2	62
Other provisions	<u>204</u>	<u>-187</u>	<u>-</u>	<u>17</u>
	<u>6,314</u>	<u>-3,343</u>	<u>2,825</u>	<u>5,796</u>

- Insurance Fund – see note 29 on page 50.
- The Adult Care provision for client refunds is for refunds of the costs of care services incorrectly charged to clients under Section 117 of the Mental Health Act. The level of the provision was set up based on expected need, in line with amounts set aside by OLA's however, despite significant efforts, the number of individuals eligible for refunds was significantly lower than expected, hence the decision to reduce the provision in 2007/08.
- The provision of VAT is for a potential VAT liability on a contract with an external service supplier. The timing of payment is uncertain as negotiations with Customs and Excise are ongoing.
- The other Adult Care liabilities also relate to external service suppliers and are concerned with disputed outstanding claims, additional fees and potentially irrecoverable contributions from clients.
- Environment provision for Gloucester South West Bypass Land & Claims is for claims relating to land acquisition which form part of the capital programme. The spend is not additional to that already allowed for in the cost of the capital works, as it already forms part of the existing scheme costs. As such, because the capital programme is already financed we have already made provision for it in future years.
- Environment Contracts – see note 47 on page 70.

33 Capital contributions unapplied

2007/08		2008/09
£'000		£'000
14,247	Receivable in the year	13,082
	Applied in the year for financing of capital expenditure	
-6,187	- contributions deferred	-3,100
-469	- capital adjustment account	-5
<u>-207</u>	Transfer to revenue	-
7,384		9,977
4,236	Balance at start of year	11,620
<u>11,620</u>	Balance at end of year	<u>21,597</u>

34 Capital grants unapplied

2007/08		2008/09	
£'000		£'000	£'000
40,534	Receivable in the year		41,720
	Applied in the year for financing of capital expenditure		
-18,205	- grants deferred	-47,276	
-3,712	- capital adjustment account	<u>-1,071</u>	
<u>-360</u>	Transfer to revenue for deferred charges		<u>-48,347</u>
18,257			-6,627
6,125	Balance at start of year		24,382
<u>24,382</u>	Balance at end of year		<u>17,755</u>

35 Capital contributions deferred account

2007/08 £'000		2008/09 £'000
6,187	Contributions applied to finance capital expenditure	3,099
<u>-1,525</u>	Amount released to Income & Expenditure Account	<u>-1,674</u>
4,662		1,425
<u>30,786</u>	Balance at start of year	<u>35,448</u>
<u>35,448</u>	Balance at end of year	<u>36,873</u>

36 Government grants deferred account

2007/08 £'000		2008/09 £'000
18,205	Grants applied to finance capital expenditure	47,276
<u>-2,110</u>	Amount released to Income & Expenditure Account	<u>-2,907</u>
16,095		44,369
<u>30,816</u>	Balance at start of year	<u>46,911</u>
<u>46,911</u>	Balance at end of year	<u>91,280</u>

37 Reserves

This statement shows the movements on the Council's reserves. It distinguishes between movements resulting from the gains and losses for the year and movements resulting from transfers between reserves, most of which the Council is required to make in accordance with statute or non statutory proper practise.

	Restated Balance 01.04.08 £'000	(Gains)/ Losses for the year £'000	Transfers Between Reserves £'000	Balance at 31.03.09 £'000
Capital Adjustment Account	-300,213	-	1,168	-299,045
Financial Instruments Adjustment A/c	7,065	-	-1,077	5,988
Available for Sale Revaluation Reserve	149	54	-	203
Usable Capital Receipts Reserve	-2,469	-	2,469	-
Revaluation Reserve	-59,690	-51,738	1,715	-109,713
Pension Reserve	350,411	76,910	12,891	440,212
General Fund Balance				
General Fund Balance	-18,568	7,011	-5,622	-17,179
Named Funds (see below)	-67,046	-	-15,924	-82,970
Earmarked General Fund Balance	<u>-7,877</u>	<u>-</u>	<u>4,380</u>	<u>-3,497 *</u>
Total Reserves	<u>-98,238</u>	<u>32,237</u>	<u>-</u>	<u>-66,001</u>

* The Earmarked General Fund Balance as at 31st March 2009 of £3.497m assumes that a carry forward of £1.648m from 2008/09 will be approved and made available to support spending in 2009/10.

Named Funds	Balance at 01.04.08 £'000	Applications £'000	Additions £'000	Balance at 31.03.09 £'000
Capital Fund	11,171	-2,697	8,441	16,915
Insurance Fund	7,980	-3,548	5,463	9,895
Supporting People Reserve	2,607	-2,607	3,181	3,181
Education: amounts held under delegated schemes for schools	26,425	-28,450	26,133	24,108
Dedicated Schools Grant	2,416	-4,847	4,705	2,274
GWIST	242	-22	-	220
County Council Elections	387	-	132	519
Vehicle and plant replacement	185	-	38	223
Winter maintenance of roads	863	-1,189	500	174
Fire Service pensions	684	-53	-	631
Supply teachers for schools	437	-437	568	568
Waste Disposal, consultancy costs	536	-	-	536
Waste LATS Reserve	-	-	-	-
Waste PFI Smooth Reserve	2,966	-	8,076	11,042
Corporate Initiatives	304	-244	1,173	1,233
Fire & Rescue Service Joint Training Centre	955	-	64	1,019
Fire PFI Project Fees reserve	856	-451	-	405
Invest to Save Reserve	6,440	-1,242	3,260	8,458
Grant Clawback Reserve	1,000	-	-	1,000
Other reserves	<u>592</u>	<u>-83</u>	<u>60</u>	<u>569</u>
	<u>67,046</u>	<u>-45,870</u>	<u>61,794</u>	<u>82,970</u>

38 Capital adjustment account

2007/08 £'000		2008/09 £'000	£'000
	Capital financing		
-	- capital receipts		6,011
3,712	- non-earmarked grants		-
469	- non-earmarked contributions		5
3,323	- revenue		3,496
	- capital reserve		1,209
13,139	- MRP		14,379
2,110	Amortisation of grants deferred		2,907
1,525	Amortisation of contributions deferred		1,674
-	- Transfer of grants/contributions deferred accounts in respect of transferred assets		-
1,433	Adjustment to Revaluation Reserve for depreciation		1,715
-573	Write down of deferred charges expenditure	-1,107	
360	grants	<u>1,071</u>	-36
-65	Amortisation of intangible assets		-65
-23,690	Depreciation		-24,739
-7,865	Impairments		-5,812
-245	Book value of assets on disposal		-1,912
<u>184,948</u>	Transfer of balance from Fixed Asset Restatement Acc		-
<u>178,581</u>			-1,168
<u>121,632</u>	Balance at start of year		300,213
<u>300,213</u>	Balance at end of year		<u>299,045</u>

39 Usable capital receipts reserve

2007/08 £'000		2008/09 £'000
2,454	Receivable in the year	3,543
-	Applied in the year for financing of capital expenditure	-6,012
<u>-548</u>	Repaid in year	<u>-</u>
1,906		-2,469
<u>563</u>	Balance at start of year	<u>2,469</u>
<u>2,469</u>	Balance at end of year	<u>-</u>

39a Revaluation Reserve

2007/08 £'000		2008/09 £'000
62,961	Revaluations in year	51,738
-1,433	Depreciation	-1,715
<u>-1,838</u>	Disposals	<u>-</u>
59,690		50,023
<u>-</u>	Balance at start of year	<u>59,690</u>
<u>59,690</u>	Balance at end of year	<u>109,713</u>

40 Financial Reporting Standard (FRS) 17 Disclosures 2008/09

The information and tables below set out the disclosure requirements of FRS 17 "Retirement Benefits" for the current year in relation to Gloucestershire County Council and the pension scheme in which it participates.

All calculations have been made by a qualified independent actuary based on the most recent full actuarial valuation of the Fund at 31st March 2007, as updated to 31st March 2009.

Participation in pensions schemes

As part of the terms and conditions of employment of its officers and other employees, Gloucestershire County Council offers retirement benefits. Although these benefits will not actually be payable until employees retire, the County Council has a commitment to make the payments that need to be disclosed at the time that employees earn their future entitlement.

Gloucestershire County Council participates in four pension schemes, the Local Government Pension Scheme (LGPS), the Firefighter's Pension Scheme (FPS), the New Firefighter's Pension Scheme (NFPS) and the Teacher's Pension Scheme (TPS), they are all categorised as defined benefit schemes.

Local Government Pension Scheme

The Gloucestershire Local Government Pension Scheme for civilian employees is administered by Gloucestershire County Council. The assets of the scheme are separately held in a Committee administered fund acting as trustees – it is a statutory scheme, administered in accordance with the Local Government Pension Scheme Regulations 1997 and 2007/2008, as amended. A separate annual audit is carried out by the Audit Commission. The scheme is contracted out of the State Second Pension and is a funded, defined benefit, final salary scheme, meaning that Gloucestershire

County Council and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets. Retirement benefits are determined independently of the investment of the scheme and employers have obligations to make contributions where assets are insufficient to meet employee benefits.

Firefighter's Pension Scheme

The two Firefighter schemes are unfunded defined benefit final salary administered by Gloucestershire County Council, meaning that there are no assets built up to meet the pension liabilities and cash has to be generated to meet actual payments as they eventually fall due. Annual pension costs are met from defined employee contributions and charges to the Fire and Rescue Service revenue account.

Teachers

The Teachers Pension Scheme (TPS) is an unfunded, multi-employer pension scheme. However, Gloucestershire County Council is unable to identify its share of the underlying assets and liabilities of the scheme. In compliance with the Financial Reporting Standard (FRS 17) Retirement Benefits, the County Council is reporting the Scheme as if it were a defined-contribution scheme, see Disclosures for Defined Contribution Schemes on page 66.

Pensions

Pensions are accounted for in accordance with the latest Financial Reporting Standard 17 – Retirement Benefits (FRS17). Disclosure of information is revised for 2008/09 to account for changes to FRS17 which bring it into line with International Accounting Standards. FRS17 requires Gloucestershire County Council's financial statements to reflect at fair value the assets and liabilities arising from an employer's retirement benefit obligations and any related funding.

Change of accounting policy

The Pension Fund Accounts have been prepared in accordance with SORP: the Financial Reports of Pension Schemes 2007. Under the 2008 SORP the council has adopted the amendment to FRS17 Retirement benefits. As a result, quoted securities held as assets in the defined pension benefit pension scheme are now valued at bid-price rather than mid-market value. The effect on this change is that the value of scheme assets at 31 March 2009 has been re-stated from £480m to £478.3m, a decrease of £1.7m, resulting in an increase of the pension deficit of £1.7m.

Transactions relating to retirement benefits

Gloucestershire County Council recognises the cost of retirement benefits in the Net Cost of Services when they are earned by employees rather than when the benefits are eventually paid as pensions. However, the charge Gloucestershire County Council is required to make against council tax is based on cash payable in the year, so the real cost of retirement benefits is reversed out in the Statement of Movement in the General Fund Balance. External actuaries are appointed to provide the necessary information, and their assumptions and calculations are detailed in the notes to the Balance Sheet and the Statement of Movements in General Fund Balance. The following transactions have been made in the Income and Expenditure Account and Statement of Movement in the General Fund Balance during the year.

Disclosures for Defined Benefit Schemes:

	Local Government Pension Scheme (funded) £'000		Firefighter's Pension Scheme (unfunded) £'000	
	2008/09	2007/08 As restated	2008/09	2007/08
INCOME & EXPENDITURE ACCOUNT				
Net Cost of Services:				
current service cost	18,371	25,025	2,500	4,200
past service costs	6,310	254	100	-
Net Operating Expenditure				
interest cost	50,446	39,199	6,800	6,300
expected return on scheme assets	-33,570	-33,722		
losses/gains on curtailments and settlements	218	398		
Net Charge to the Income and Expenditure Account	41,775	31,154	9,400	10,500
Statement of Movement on the General Fund Balance				
reversal of net charges made for retirement benefits in accordance with FRS17	-7,791	-807	-5,100	-7,800
Actual amount charged against the General Fund Balance for pensions in the year:				
Employers' contributions payable to scheme	33,984	30,347	4,300	2,700
Retirement benefits payable to pensioners			5,500	3,600

In addition to the recognised gains and losses included in the Income and Expenditure Account, actuarial gains and losses of -£80.51m (2007/08 as re-stated -£14.821m) were included in the Statement of Total Recognised Gains and Losses. The cumulative amount of actuarial gains and losses recognised in the Statement of Total Recognised Gains and Losses is -£164.50m.

The assets and liabilities in relation to retirement benefits attributable to the County Council as 31st March were:-

	Funded liabilities: Local Government Pension Scheme £'000		Unfunded liabilities Firefighter's Pension Scheme £'000	
	2008/09	2007/08 as restated	2008/09	2007/08
Reconciliation of present value of the scheme liabilities				
Opening liabilities	-729,108	-724,357	-99,600	-116,000
Current service cost	-18,371	-25,025	-2,500	-4,200
Curtailment costs	-218	-398	-	-
Interest cost	-50,446	-39,199	-6,800	-6,300
Contributions by scheme participants	-9,600	-8,421	-1,200	-1,000
Actuarial gains and losses	60,555	37,584	3,600	24,200
Benefits paid	30,452	30,962	5,500	3,700
Past service costs	-6,310	-254	-100	-
Closing liabilities	-723,046	-729,108	-101,100	-99,600
Reconciliation of present value of the scheme assets:				
	2008/09	2007/08 as restated	2008/09	2007/08
Opening assets	478,297	489,174	-	-
Expected rate of Return	33,570	33,722	-	-
Actuarial gains and losses	-141,065	-52,405	-	-
Employer contributions	33,984	30,347	4,300	2,700
Contributions by scheme participants	9,600	8,421	1,200	1,000
Benefits paid	-30,452	-30,962	-5,500	-3,700
Closing assets	383,934	478,297	-	-

The expected return on scheme assets is determined by considering the expected returns available for each asset class at the beginning of the period. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date and expected returns on equity investments reflect long-term real rates of return.

The actual return on scheme assets in the year was -£107.8m (2007/08 -£24m)

Scheme History

	2004/05 As restated £'000	2005/06 As restated £'000	2006/07 As restated £'000	2007/08 As restated £'000	2008/09 £'000
Present value of liabilities					
Local Government Pension Scheme (funded)	-597,190	-716,140	-724,357	-668,391	-662,196
Firefighters' Pension Schemes (unfunded)	-89,000	-103,000	-116,000	-99,600	-101,100
*Discretionary added years (Teachers unfunded)	-2,201	-2,207	-2,074	-60,717	-60,850
Total Liabilities	-688,391	-821,347	-842,431	-828,708	-824,146
Fair value of assets in the Local Government Pension Scheme	357,146	448,797	489,174	478,297	383,934
Surplus/(deficit) in the scheme					
Local Government Pension Scheme (funded)	-240,044	-267,343	-235,183	-190,094	-278,262
Firefighters' Pension Scheme (unfunded)	-89,000	-103,000	-116,000	-99,600	-101,100
*Discretionary added years (Teachers unfunded)	-2,201	-2,207	-2,074	-60,717	-60,850
Total	-331,245	-372,550	-353,257	-350,411	-440,212

FRS 17 required restatement of prior year assets from mid price to bid price as outlined in Change of Accounting Policies. The County Council elected to restate all five years as the data was made available by the scheme actuary.

*Unfunded Discretionary added years (teachers) are actuarially valued from 2007/08 and have been restated accordingly.

The liabilities show the underlying commitments that the authority has in the long run to pay retirement benefits. The total liability of all 4 schemes of £824m has a substantial impact on the net worth of Gloucestershire County Council as recorded in the Balance Sheet, resulting in a negative overall balance of £440m.

However, statutory arrangements for funding the deficit mean that the financial position of Gloucestershire County Council remain healthy.

- the deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary.
- finance is only required to be raised to cover fire pensions when the pensions are actually paid.

The total contributions expected to be made to the Local Government Pension Scheme by Gloucestershire County Council in the year to 31 March 2010 is £29.5m. Expected contributions for the Firefighters' Pension Schemes in the year to 31 March 2010 are £1.7m.

Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Both the Fire Schemes and Gloucestershire County Council Fund liabilities have been assessed by Hymans Robertson, an independent firm of actuaries, estimates for the County Council Fund being based on the latest full valuation as at 1 April 2007.

The principal assumptions used by the actuary have been:

	Local Government Pension Scheme (funded)		Firefighters' Pension Scheme (unfunded)	
	2008/09	2007/08	2008/09	2007/08
Long term expected rate of return on assets in the scheme:				
Equity investments	7.0%	7.7%	-	-
Bonds	5.4%	5.7%	-	-
Property	4.9%	5.7%	-	-
Cash	4.0%	4.8%	-	-
Total plan assets	5.9%	6.9%	-	-
Mortality assumptions				
Longevity at 65 (60 for Fire) for current pensioners	-	-	-	-
Men	20.4	-	27.6	
Women	23.4	-	31.0	
Longevity at 65 (60 for Fire) for future pensioners				
Men	22.6	-	29.2	
Women	25.5	-	32.7	
Rate of inflation	3.1%	3.6%	3.1%	3.6%
Rate of increase in salaries	4.6%	5.1%	4.6%	5.1%
Rate of increase in pensions	3.1%	3.6%	3.1%	3.6%
Rate of discounting scheme liabilities	6.9%	6.9%	6.9%	6.9%
Take-up of option to convert annual pension into retirement lump sum	50.0%	50.0%	90.0%	

The Firefighters' Pension Scheme have no assets to cover liabilities. The Local Government Pension Scheme's assets consist of the following categories by proportion to the total assets held:

	31 March 2009	31 March 2008
	%	%
Equity Investments	50	63
Bonds	25	26
Property	8	9
Cash	<u>17</u>	<u>2</u>
	<u>100</u>	<u>100</u>

History of experience gains and losses:

The actuarial gains identified as movements on the Pensions Reserve in 2008/09 can be analysed into the following categories, measured as a percentage of assets and liabilities at 31st March 2009.

	2004/05 %	2005/06 %	2006/07 %	2007/08 %	2008/09 %
Local Government Pension Scheme (LGPS)					
Differences between the expected and actual return on assets	1.7	13.4	-0.1	-11.0	-36.7
Experience gains and losses on liabilities	2.1	-	-0.1	12.6	0.4
Firefighters' Pension Scheme (FPS)					
Differences between the expected and actual return on assets	-	-	-	-	-
Experience gains and losses on liabilities	1.3	-0.6	6.9	-0.8	-1.6
New Firefighters' Pension Scheme (New FPS)					
Differences between the expected and actual return on assets	-	-	-	-	-
Experience gains and losses on liabilities	-	-	-	-	28.6

Reporting Statement – “Retirement Benefits – Disclosures”

In January 2007, the Accounting Standards Board (ASB) published the “Reporting Statement”. It is designed to promote greater transparency in financial reporting for defined benefit schemes. The reporting Statement is not mandatory, however the County Council has chosen to include, for the funded Local Government Pension Scheme, the recommended additional disclosures.

The reporting Statement highlights six principles to be considered when providing disclosures for defined benefit schemes, which are:

1 Relationship between Gloucestershire County Council and the Gloucestershire Local Government Pension Scheme

The Gloucestershire Local Government Pension Scheme for employees is administered by Gloucestershire County Council. The assets of the scheme are separately held in a Committee administered fund who act as trustees with regard for the best interest of the Fund’s beneficiaries – it is a statutory scheme administered in accordance with the Local Government Pension Scheme Regulations 1997 and 2007/08, as amended. The County Council’s pension scheme assets comprise a notional portion of assets of the Fund to meet long-term pension liabilities for past and present employees of the County Council.

2 Principal assumptions used to measure Gloucestershire County Council's liabilities

Principal actuarial assumptions at the balance sheet date:

	2008/09	2007/08
Future pension increase	3.1%	3.6%
Future salary increases	4.6%	5.1%
Discount rate	6.9%	6.9%
Expected return on plan assets	5.9%	6.9%
Proportion of employees opting for maximum commutation	50.0%	50.0%

The mortality assumptions at the balance sheet date were as follows:

Current pensions	PMA92/PFA92 projected to calendar year 2033
Prospective pensioners	PMA92/PFA92 projected to calendar year 2007

The following age rating applied in each case:

	2008/09	2007/08
Officers (& post – 1998 joiners)	-2	-2
Manuals	1	-

Ill health retirement

As pensioners above, except rates up by 5 years (6 years for male officers and male post-1998 joiners)

Widows

One year older than female pensions

3 Sensitivity of the principal assumptions used to measure the County Council's liabilities

Assumption	Change in assumption	Impact on scheme liabilities
Discount Rate	Increase/Decrease by 0.5%p.a.	Decrease/Increase liability c8%
Rate of inflation	Increase/Decrease by 0.5%p.a.	Decrease/Increase liability c6%
Rate of Salary growth	Increase/Decrease by 0.5%p.a.	Decrease/Increase liability c6%
Rate of Mortality	Improve by 1 year	Increase by c3%

4 How the arising liabilities are measured

Gloucestershire County Council provides retirement benefits to some of its former and current employees through the Gloucestershire LGPS Fund. The level of retirement benefit is principally based on salary earned in the best of three of the final ten years of employment and service accrued at retirement.

FRS17 requires that defined benefit scheme liabilities are measured on an actuarial basis using the projected unit method. The scheme liabilities are discounted at a rate that reflects the time value of money and the characteristics of the liability, currently held as the rate of return of a high quality corporate bond.

The liabilities of the defined scheme are measured by discounting the best estimate of future cash flows to be paid out of the scheme using the projected unit method. This amount is reflected in the balance sheet as a liability. The projected unit method is an accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings. The value placed on the liabilities is an actuarial measure of the present value of benefits for service already rendered and also allows for future salary increases. At the balance sheet date the value placed on Gloucestershire County Council's funded liability (LGPS) was £662.196m.

5 Gloucestershire County Council's future funding obligations in relation to the LGPS

The most recently completed triennial actuarial valuation of the Gloucestershire County Council Pension Fund in which the County Council participates, was performed by the Actuary to the Fund as at 31st March 2007. The next triennial valuation is due to be completed as at 31st March 2010.

As part of the Triennial valuation, the County Council's minimum contribution rates were agreed as follows:

1 April 2008 to 31 March 2009	19.9% of pensionable pay
1 April 2009 to 31 March 2010	20.9% of pensionable pay
1 April 2010 to 31 March 2011	21.9% of pensionable pay

Gloucestershire County Council has agreed the following funding objectives with the Administering Authority to the Fund

- 1 To return the ongoing funding level of the County Council's portion of the scheme to 100% of the projected past service liabilities within a period of 20 years measured in accordance with the assumptions adopted as at the actuarial valuation dated 31st March 2007.
- 2 Once the funding level of the County Council's portion of the scheme is 100% of the projected past service liabilities to maintain funding at least at this level.

The levels of contributions are based on the current service costs and the expected future cash flows of the defined benefit scheme.

6 Nature and extent of the risks arising from financial instruments held by the Fund

As at 31 March 2009 the scheme assets were invested in a diversified portfolio that consisted primarily of equity and debt securities. The fair value of the scheme assets as a percentage of total actuarial scheme assets and target allocations are as set out below:

	Planned 01.04.09	2008/09	2007/08
Equities	65%	50%	63%
Bonds	25%	25%	26%
Property	10%	8%	9%
Cash	-	17%	2%

The Fund conducted a strategic asset allocation review in 2008. This information was then used to determine the Pension Schemes investment strategy which, as at 31st March 2009, is in a transition process to the new asset allocation.

The majority of the equities held by the scheme are in international blue chip entities as included in the FTSE and MSCI Indexes. The aim is to hold a globally diversified portfolio of equities with a small allocation to higher risk markets, such as Emerging Markets, to maintain a wide range of diversification and to improve return opportunities. The target allocation as at 1st December 2008 is as below:

Specific Allocation	
UK	25%
US	9%
Pacific Basin	6%
Europe	6%
Emerging Markets	4%
Mandate Allocation	
Global	<u>15%</u>
	<u>65%</u>

Disclosures for Defined Contribution Schemes:

Teachers employed by the County Council are members of the Teachers' Pension Scheme, administered by the Teacher Pension Agency (TPA) for the Department of Children, Schools and Families. It provides teachers with defined benefits upon their retirement, and the county council contributes towards the costs of making contributions based on a percentage of members' pensionable salaries.

In 2008/09 the County Council paid £25.9m to Teachers' Pensions in respect of teachers' retirement benefits representing 14.1% of pensionable pay. The figures for 2007/08 were £25.1m and 14.1% respectively. There were no contributions remaining payable at the year-end.

The scheme is a defined benefit scheme. Although the scheme is unfunded, Teachers' Pensions use a notional fund as the basis for calculating the employers' contribution rate paid by local education authorities. However, it is not possible for the County Council to identify a share of the underlying liabilities in the scheme attributable to its own employees. For the purposes of the Statement of Accounts it is therefore accounted for on the same basis as a defined contribution scheme.

Gloucestershire County Council is responsible for the costs of any additional benefits awarded upon early retirement outside the terms of the teachers' scheme. These benefits are fully accrued in the pensions liability. These additional benefits, including unfunded compensation, are paid directly by the County Council for retirements up to 1999 (£2.88m) and via TPA for retirements post 1999 (£1.15m). Together these additional benefit costs totalled £4.03m in 2008/09 representing 2.2% of pensionable pay.

41 Reconciliation of Income and Expenditure Account to revenue activities net cash flow

	£'000	2008/09 £'000
Income and Expenditure Account surplus (-)/deficit for the year		8,643
Movement on General Fund		-10,151
Non-cash transactions		
Minimum revenue provision	-14,379	
Revenue financing of fixed assets	-4,704	
Decrease in provisions	518	
Contribution to earmarked reserves	-8,646	
Capital Contributions Returned to Revenue	-	
Deferred charges written off	1,107	
Deferred premiums written off	<u>-1,077</u>	
		<u>-27,181</u>
		-28,689
Items on an accruals basis		
Increase in creditors	12,705	
Increase in receipts in advance	4,371	
Increase in debtors	-7,130	
Increase in stocks and work in progress	286	
Increase in payments in advance	<u>-33</u>	
		<u>10,199</u>
		-18,490
Net interest payments		<u>-8,431</u>
<i>Net cash flow from revenue activities</i>		<u>-26,921</u>

42 Movements in financing and management of liquid resources activities

	Balance 01.04.08 £'000	Balance 31.03.09 £'000	Movements in year £'000
Long term borrowing	358,050	377,916	19,866
Borrowing repayable within 12 months	6,963	5,067	-1,896
Deferred liabilities	2,351	2,543	192
Loans to other bodies	-15	-12	3
Loans to Transferred Services	-74	-67	7
Short-term investments	-152,020	-165,276	-13,256
Long-term investments	<u>-26,380</u>	<u>-11,195</u>	<u>15,185</u>
<i>Increase in cash from financing and liquid resources activities</i>	<u>188,875</u>	<u>208,976</u>	<u>20,101</u>

43 Liquid resources

These are included in the short-term investment total. Currently they include £12.46m in notice bank accounts and £27.16m held by fund managers. The remainder of the short term investments total relates to fixed rate deposits, managed in-house, which are placed to smooth out the cash flow profile. Lending is restricted to other local authorities and certain approved financial institutions, within agreed limits. Short term lending policy is approved by the County Council

44 Movement in net debt

	Balance 01.04.08 £'000	Balance 31.03.09 £'000	Movements in year £'000
Movement in cash			
Cash in hand	-190	-199	-9
Cash in bank	-14,105	-21,000	-6,895
Pension Fund cash	<u>10,449</u>	<u>10,700</u>	<u>251</u>
<i>Increase(-)/decrease in cash</i>	-3,846	-10,499	-6,653
Movement in financing and liquid resources	<u>188,875</u>	<u>208,976</u>	<u>20,101</u>
<i>Increase/decrease (-) in net debt</i>	<u>185,029</u>	<u>198,477</u>	<u>13,448</u>

45 Analysis of government grants – cash received in 2008/09

	£'000	£'000
General Grants		
Non Domestic Rate Income	95,377	
Area Based Grant	25,762	
Revenue Support Grant	<u>13,277</u>	
		134,416
Specific Grants		
Dedicated Schools Grant (DSG)	306,234	
Standards Fund	60,321	
Learning and Skills Council	35,226	
Supporting People	23,401	
Sure Start, Early Years and Childcare Grant	11,057	
Local Authority Business Growth Incentives (LABGI) scheme	2,062	
South West RDA	1,324	
Social Care Reform	847	
Workstep	730	
Targeted Mental Health in Schools	341	
Youth Opportunity	327	
Learning Disability Campus Closure Programme	310	
Fire Services	302	
Higher Education Funding Council	271	
Asylum Seekers	251	
Other Grants	<u>15,129</u>	
		458,133
Total Revenue Grants		592,549
Capital Grants		
DCSF – Children's Centres	1,940	
DCSF – Information Systems	34	
DCSF – Sure Start	228	
DCSF – Standards Fund	26,373	
GOSW – Youth Capital Fund	251	
Communities & Local Government Grants	155	
Safer Stronger Communities Grants	51	
Department of Health Grants	498	
Department of Transport Grants	18,467	
DEFRA Grants	175	
Other Grants	3,596	
Total Capital Grants		<u>51,768</u>

46 Disclosure of Involvement in a Local Area Agreement (LAA)

The council is a participant in an LAA – a partnership with other public bodies involving the pooling of government grants and alignment of budgets to finance work towards jointly agreed objectives for local public services

The purpose of the LAA is:

- To form an agreement between the Gloucestershire Local Strategic Partnership, Government (represented by Government Office South West), and other external agencies to ensure that together we achieve the 2017 vision in the Sustainable Community Strategy
- To agree specific outcomes and targets that will be achieved each year for the three years of the agreement
- To improve the effectiveness and efficiency of public services in Gloucestershire by pooling and aligning funding streams

The LAA partners are:

- Local Government bodies – Gloucestershire County Council, Cheltenham Borough Council, Cotswold District Council, Forest of Dean District Council, Gloucester City Council, Tewkesbury Borough Council.
- Community protection authorities – Gloucestershire Fire and Rescue Service, Gloucestershire Constabulary.
- Health bodies – Gloucestershire PCT. External Agencies – Gloucestershire Assembly for the Voluntary & Community Sector, Gloucestershire First, Learning and Skills Council.

47 Disclosure on the Highways and Transportation Services contract

Through the partnership contract with W S Atkins, the percentage top-slice the Council apply to all spend changes from year to year due to fluctuating turnover and relatively fixed overheads. In year 1 of the Gloucestershire Highways contract it was 16%, in year 2 it was 19%, in year 3.18% and for the current year it is set at 19% capital ordered works and services supplied by Atkins are subject to a nil fee recharge. Overheads (PI, head office, management fee, accommodation, IT etc) are recovered by way of tendered lump sums adjusted each year for inflation. Profit is earned through performance, scored each year against a set of performance indicators.

The 'profit pot' and monies for overheads are ring fenced by top-slicing the budget. This pot is also used to fund any contract changes, employer's risk events should they arise. Every effort is made to identify any potential surplus early and reinvest in year. The money is sliced across both revenue and capital budgets and care is taken to ensure that where surplus is reintroduced back into works/services, the proportionality of where it came from is maintained.

In effect, the top slice percentage is a proxy to a traditional fee percentage, absent in our contract. It covers profit, overhead and risk, leaving the costs passed onto the Council for works/services inclusive of any discounts rebates so we pay exactly what the contractor pays to provide the same. We operate open book accounting and have access to any of the financial systems maintained by Atkins.

At year end there is inevitably the need to allow a provision in the accounts for overheads. This is due to certain components of the top-slice not being finalised in year, these include; a year's final performance score and the provision must be made for balancing bonus payment – once the scoring has concluded in the following year; any overhead charges due for turnover outside of the 10% margin specified by the contract; and the Contractor's Share of target contracted schemes – which is due for submission in September for the following year.

48 Financial Instruments

Credit Risk

Credit risk arises from deposits with banks and financial institutions as well as from credit exposures to the Authority's customers.

The authority's day to day cash flow results in surplus funds being available for investment. These are made in accordance with the authority's Treasury Management Strategy which has been developed in accordance with the Prudential Code for Capital Finance. The principle aims are security, liquidity and yield.

Deposits are made with the Government Debt Management Office, other local authorities, banks and other financial institutions (building societies). The banks and financial institutions must satisfy a minimum credit rating and the authority sets limits on the amounts that can be invested in both an individual institution and also with a type of institution in total.

The authority has suffered impairment losses during 2008/09 relating to the value of investments that it holds with Icelandic Banks. In accordance with recommended practice the estimated impairment has been recognised in the Authority's accounts for 2008/09 although the overall effect on the revenue account is neutral. Any actual losses that arise will be reflected in the financial year in which they occur. The value of the impairment loss will be greater if the authority is not confirmed as a preferential creditor for two of the Icelandic banks involved.

The authority's debtors, including any payments in advance made by the authority, totalled £39m as at 31st March 2009 and represent a customer base with the potential for risk exposure to non-recovery of the debt. However a large proportion of the total debt relates to government bodies and other debts not considered to be a risk. Therefore, in practice, the calculation of the risk exposure (bad debt provision) is confined to debtor invoices raised that are then subjected to recovery procedures. At 31st March 2009 these debts totalled £7m.

The following analysis summarises the authority's potential maximum exposure to credit risk. This is based on likely impairment of the Icelandic investments and a detailed review of outstanding debtor (customer) invoices, including an adjustment to reflect the current economic climate.

	Amount at 31 March 2009 £'000	Historical experience default %	Historical experience adjusted for market conditions at 31 st March 2009 %	Estimated maximum exposure to default to and uncollectability £'000
Deposits with banks and financial institutions	186,970	-	1.0	1,706
Customers	7,024	3.6	13.8	972

Due to exceptional circumstances the authority's deposit limit with banks and financial institutions were temporarily exceeded during the reporting period. Credit ratings and deposits have now been reviewed to further minimise the risk of losses resulting from non performance by any of its counterparties.

Liquidity Risk

As the authority has ready access to borrowing from the Public Works Loan Board (PWLB), there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead the risk is that the authority will be bound to replenish a significant proportion of its borrowing at a time of unfavourable interest rates.

Therefore to minimise the above risk, a wide spread of repayments dates is maintained.

The maturity analysis of the financial liabilities is given at note 31.

Market risk – Interest Rates

The authority is exposed to significant risk in terms of its exposure to interest rate movements on its borrowing and investments. A rise in interest rates would have the following effects on the Income and Expenditure (I & E) account and assets and liabilities.

- Borrowing at variable rates – the interest expense charged to the I & E account will rise
- Borrowings at fixed rate – the fair value of the liabilities borrowings will fall
- Investments at variable rates – the interest credited to the I & E account will rise
- Investments at fixed rates – the fair value of the assets will fall

Borrowings are not carried at fair value so nominal gains and losses on fixed rate borrowing would not affect the I & E account or the Statement of Total Recognised Gains and Losses (STRGL). Movements in the fair value of fixed rate investments will be reflected in the STRGL.

The authorities strategy for managing interest rate risk is based on the prevailing interest rates and market forecasts. It works within any limits imposed by its own Strategy and takes advice from external advisors to try and achieve the highest rate for investments and to borrow when rates are low.

In line with this assessment strategy, at 31st March 2009, if interest rates had been 1% higher or 1% lower, with all variables held constant, the financial effect would be zero since the Authority only held fixed rate borrowing and investments on that date.

The treasury management team has an active strategy for assessing interest rate exposure that is used to monitor the budget during the year. In addition to considering the risk associated with the financial markets it also monitors the effects of interest adjustments with other external bodies such as the Pension Fund or Health Authority.

Market Risk – Price Risk

The authority has no equity investments and thus has no exposure to loss arising from movements in the price of shares.

Market Risk – Foreign Exchange

The authority’s only exposure to foreign exchange rates is the operation of a Euro account to facilitate foreign transactions. The sterling value of the account will fluctuate in line with movements in exchange rates. The balance of the account is maintained at around £35,000 so the exposure to loss is not significant.

Fair Value Adjustments

Financial liabilities and financial assets represented by loans and receivables are carried in the balance sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the investments, using the following assumptions.

- 1 Estimated interest rates at 31st March 2009 of actual interest rate from notice number 072/09 for loans from the PWLB and 4% for other loans receivable and payable
- 2 No early repayment or impairment is recognised, however the PWLB fair value redemption figure is £391m
- 3 Where an instrument will mature in the next 12 months, carrying amount is assumed to be approximate to fair value
- 4 The fair value of trade or other receivables is taken to be the invoiced amount

	March 2008		March 2009	
	Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value £'000
Financial Liabilities	365,013	365,013	382,983	382,983

The fair value is the same as the carrying value, as the majority of the authority’s portfolio of loans is made up of fixed rate loans with the carrying amount is equal to the redemption value. The remainder are fixed rate loans where the interest rate payable is either lower or higher than the rates available for similar loans at the Balance Sheet date. However, the amount outstanding for the latter is under £5,000 and has no significant impact on the fair value calculations.

Loans and receivables (included in debtors)	1,945	1,945	2,035	2,035
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These relate to loans other than investments with banks and financial institutions and include loans where the interest rate charged is below market rates (soft loans). The amounts largely consist of charges on property which will become due when the property is sold. The date of sale has been assumed to be within the 2009/10 financial year and the fair value is therefore assessed to be the same as the carrying amount.

The borrowings and investments disclosed in the Balance Sheet are made up of the following categories of financial instruments.

	Long Term (> 1 year)		Current (< 1 year)		Total	
	31.03.08	31.03.09	31.03.08	31.03.09	31.03.08	31.03.09
	£'000	£'000	£'000	£'000	£'000	£'000
Financial liabilities at amortised cost	358,050	377,916	6,963	5,067	365,013	382,983
Financial liabilities at fair value through the profit and loss	-	-	-	-	-	-
Total Borrowings	358,050	377,916	6,963	5,067	365,013	382,983
Loans & Receivables	-	-	1,945	2,035	1,945	2,035
Available for Sale Financial Assets	26,380	11,195	152,050	165,276	178,430	176,471
Unquoted Equity Investments at cost	-	-	-	-	-	-
Total Investments/Receivable	26,380	11,195	153,995	167,311	180,375	178,506

The gains and losses recognised in the I & E accounts and STRGL in relation to financial instruments are made up as follows:

	2008/09			Total
	Financial Liabilities	Financial Assets		
Liabilities measured at amortised cost	Loans & receivables	Available for sale assets		
£'000	£'000	£'000	£'000	£'000
Interest Expense	19,678			19,678
Premiums on early repayment of borrowing	326			326
Discounts on early repayment of borrowing	-126			-126
Impairment losses		1,706		1,706
Interest payable and similar charges	19,878	1,706		21,584
Interest Income		-11,337		-11,337
Gains on de-recognition				
Interest and investment income		-11,337		-11,337

Financial Liabilities	2008/09			Total
	Financial Assets			
	Liabilities measured at amortised cost £'000	Loans & receivables £'000	Available for sale assets £'000	
Gains on revaluation			-141	
Losses on revaluation			195	
Surplus /loss (-) on revaluation of financial assets			54	
Net gain/loss (-) recognised in year	19,878	-9,631	54	

Gloucestershire Pension Fund

Fund Account for the year ended 31st March 2009

2007/08		2008/09		Note
£'000		£'000	£'000	
	Dealings with members, employers and others directly involved in the scheme			
	Contributions			
-47,988	from employers	-54,664		P21
<u>-15,345</u>	from members	<u>-17,280</u>		P21
<u>-63,333</u>			-71,944	P8
	Transfers in individual transfers in from other schemes		-3,787	
<u>-5,881</u>				
	Other income recoveries for services provided		-1,171	
<u>-933</u>				
	Benefits			
38,869	pensions	41,703		
	commutation of pensions and lump sum retirement benefits	7,768		
7,422		<u>1,335</u>		
<u>712</u>	lump sum death benefits		50,806	P8
<u>47,033</u>				
	Payments to and on account of leavers			
32	refunds of contributions	25		
-5	state scheme premiums	4		
	individual transfers out to other schemes	<u>4,487</u>		
<u>4,003</u>			4,516	
<u>4,030</u>				
<u>1,398</u>	Administrative expenses		1,375	P10
	Net additions from dealings with scheme members		<u>-20,205</u>	
<u>-17,716</u>				
	Returns on investments			
-25,824	Investment Income	-27,222		P15
-33	Taxation	44		
69,933	Change in market value of investments	228,587		P5
2,770	Investment management expenses	2,091		
<u>46,846</u>	Net returns on investments	<u>203,500</u>		
<u>29,130</u>	NET INCREASE (-)/DECREASE IN THE FUND DURING THE YEAR	<u>183,295</u>		
949,889	Opening net assets of the scheme	920,759		
<u>920,759</u>	Closing net assets of the scheme	<u>737,464</u>		

Gloucestershire Pension Fund

Net Assets Statement as at 31st March 2009

2007/08 as restated* £'000		2008/09 £'000	Note
	Investment assets		
168,982	Fixed interest securities	109,797	
254,671	Equities	172,530	
53,861	Index-linked securities	55,801	
331,064	Pooled investment vehicles	209,181	
82,526	Property Unit Trusts	56,061	
2,288	Derivative contracts	7,077	P17
1,712	Other instruments – Venture Capital/ Private Equity	2,693	
13,439	Cash held on behalf of the investment managers	107,548	
<u>13,771</u>	Other investment balances	<u>5,883</u>	
<u>922,314</u>		<u>726,571</u>	
	Investment liabilities		
-776	Derivative contracts	-307	P17
<u>-15,112</u>	Other investment balances	<u>-1,555</u>	
<u>-15,888</u>		<u>-1,862</u>	
	Borrowings		
—	Sterling	-2	
—		<u>-2</u>	
	Current assets		
9,496	Contributions due from employers	3,585	
1,062	Other current assets	279	
-	Payments in advance	3	
10,450	Cash balances (internal)	10,700	
<u>21,008</u>		<u>14,567</u>	
	Current liabilities		
-4	Unpaid benefits	-7	
<u>-6,671</u>	Other current liabilities	<u>-1,803</u>	
<u>-6,675</u>		<u>1,810</u>	
<u>920,759</u>	Net assets as at 31st March 2009	<u>737,464</u>	P14

The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end but rather summarise the transactions and net assets of the scheme.

The Actuarial position of the Fund, which does take account of such liabilities, is dealt with in the statement by the Scheme Actuary within the Pension Fund Annual Report 2008/09 along with the Fund's Funding Strategy Statement. The Actuary's statement is based on the triennial valuation as at 31st March 2007. The actuarial position is summarised in note P7.

*In accordance with the new Pensions SORP and the revised treatment of derivatives, the comparative values for 2007/08 have been re-stated. This is purely presentational and does not change the overall value of investments.

The Notes on pages 78 to 93 form part of these Financial Statements.

Gloucestershire Pension Fund

Notes

P 1 The County Council is the administering body for the Gloucestershire Local Government Pension Fund. This is not only for County Council employees but also the District councils within the County and other local bodies providing public services. A full list of all employing bodies who are members of the Fund is shown in the Pension Fund's Annual Report alongside the more detailed accounts of the Gloucestershire Pension Fund. The Local Government Pension Scheme is a statutory funded pension scheme. It is "contracted out" of the state scheme and is termed a defined benefit (or final salary) scheme. The scheme is made available to all (*) employees except firefighters and teachers (who have their own separate nationally-administered schemes). The Fund is financed by contributions paid in by the existing employees and their employers and by earnings from the investment of Fund monies. The number of contributors at 31st March 2009 was 17,345 (2008 17,470). A full analysis of membership can be found in the Pension Fund's Annual Report. The Fund exists to provide pensions to former employees and certain other benefits. The Pension Fund is not a Gloucestershire County Council fund and is subject to its own audit therefore balances are not included in the Gloucestershire County Council Balance Sheet.

* There are restrictions with some casual staff.

P 2 Accounting policies

Basis of preparation

The accounts have been prepared to meet the requirements of the Local Government Pension Scheme Regulations 1997 and subsequent amendments. They are also in accordance with the provisions of Chapter 2 Recommended Accounting Practice of the Pensions SORP 2007 "The Financial Reports of Pension Schemes" issued by the Pensions Research Accountants Group (PRAG). The Accounting Standards Board (ASB) have approved PRAG for the purposes of issuing recognised SORPs for pension schemes.

Accruals concept applied

Income and expenditure have been accounted for on an accruals basis so far as amounts due have been determined in time for inclusion in the accounts. Benefits payable and refunds of contributions have been brought into the accounts on the basis of all valid claims approved during the year. Transfer values are accounted for when they are paid or received.

Changes to accounting policies

Investments previously valued at mid-prices are now valued at bid-prices for assets where there is a bid/offer spread. This is a change in accounting policy in accordance with the revised SORP but the difference in valuation is immaterial to the financial statements and therefore comparatives have not been restated. As a result the comparative figures for investments are reported on a mid-price basis and the adjustment in valuation from mid to bid is included in current year change in market value. Had bid-prices been used, the overall fund valuation at 31st March 2008 would have been £3.6m, 0.4% lower.

In the previous year the Fund's exposure to derivative contracts of £35.5m were included in the underlying asset classes and a corresponding credit offset of £35.2m included within Other investment balances, this has now changed. In accordance with the revised SORP, derivatives are now required to be valued on a fair value basis and the 2007/08 unrealised gain on Derivatives is to be shown under Derivative Contracts (Assets). The unrealised loss on forward currency contracts on £0.8m was also included within Other investment balances, this had been restated as a Derivative Contract (Liabilities).

Investment manager expenses

The managers' fees have been accounted for on the basis contained within their managements agreements. All managers except, Acadian, Hermes and Yorkshire Fund Managers are based on an agreed percentage of the market value of assets under their management. Hermes and Yorkshire Fund Managers deduct their fees from income distributions and Acadian deducts its fees from the pooled fund it manages.

Administering authority recharges

The Regulations permit the County Council to charge the cost of administering the scheme to the Fund. A proportion of relevant officers' salaries, on-costs and general overheads have been charged to the Fund on the basis of time spent of fund administration.

Valuation of assets

The Pension Fund investments were revalued on 1st April 1974, and subsequent additions have been made at cost. The revised SORP requires securities to be valued on a Fair Value Basis therefore assets, where there is an active market, are valued at the bid (selling) price and liabilities on an offer (buying) price basis. Where assets do not actively trade through established exchange mechanisms a price is obtained from the manager of the investment asset. Investments held in foreign currencies are shown at market value translated into sterling at the exchange rates prevailing as at 31st March 2009.

Derivatives

Derivative contracts are valued at fair value and are determined using exchange prices at reporting date. The fair value is the unrealised profit or loss at the current bid or offer market quoted price of the contract. Derivative contract assets, those with a positive value, are valued at bid-price and derivative contract liabilities, those with a negative value, are valued at the offer-price. Amounts due from the broker represent the amounts outstanding in respect of the initial margin (representing collateral on the contracts) and any variation margin which is due to or from the broker. The amounts included in change in market value are the realised gains and losses on closed futures contracts and the unrealised gains and losses on open futures contracts. The fair value of the forward currency contracts are based on market forward exchange rates at the year end date.

Acquisition costs of investments

Acquisition costs of investments (e.g. stamp duty) are treated as part of the investment purchase cost.

P3 Transitional Provisions

The introduction of the revised SORP has resulted in a change to the presentation of the accounts and comparative figures have been moved, where necessary, to their new position in the accounts. Investments were valued at mid-price for 2007/08 and for 2008/09 are required to be valued at bid-price for assets where there is a bid/offer spread. This is a change in accounting policy but the difference in valuation is immaterial to the financial statements, therefore comparatives at bid-price have not been restated. The adjustment in valuation from mid to bid has been included in current year change in market value. Had bid prices been used, the overall fund valuation at 31st March 2008 would have been £3.6m, 0.4% lower.

An analysis of transaction costs has been included for the first time and comparative figures are not available. Transaction costs are included within the purchase cost/proceeds of investment purchases and sales.

P4 Taxation

The Fund is exempt from UK capital gains tax on the proceeds of investments sold. Corporation Tax deducted from UK equity dividends, tax deducted from property unit trusts can be reclaimed. Withholding tax is payable on income from overseas investments. This tax is recovered wherever local tax laws permit.

P5 Investment Movement Summary

Asset Class	As restated Market Value at 31.03.08	Purchases at cost and derivative payments	Sales proceeds and derivative receipts	Change in Market Value, new money and accruals	Market Value at 31.03.09
	£'000	£'000	£'000	£'000	£'000
Fixed Interest	168,982	158,461	192,171	-25,475	109,797
Equities	254,671	376,034	322,119	-136,056	172,530
Index Linked	53,861	21,543	17,627	-1,976	55,801
Derivatives	1,512	30,910	42,606	16,954	6,770
Pooled Investments	331,064	134,439	185,324	-70,998	209,181
Property Unit Trusts	82,526	-	-	-26,465	56,061
Private Equity	1,712	1,010	-	-29	2,693
	894,328	722,397	759,847	-244,045	612,833
Cash movement, currency adjustments, other and end of year settlements	26,431			15,458	124,631
	920,759			-228,587	737,464

The change in market value of investments comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

The derivatives in the above table represent futures, options and forward foreign exchange contracts. The closing market value represents fair value as at the year end date. In the case of future and option contracts, which are traded on exchanges, this value is determined using exchange prices at the reporting date. Forward foreign exchange contracts are over-the-counter contracts and are valued by determining the gain or loss that would arise from closing out the contract at the reporting date and entering into an equal and opposite contract as at that date.

All derivative contracts settled during the period are reported within the table as purchases and sales. As all contracts settled individually, with an amount being paid to or from the broker in respect of all foreign currency contracts, these transactions are disclosed as purchases and sales. As forward foreign exchange trades are settled gross they are included as gross receipts and payments hence the volumes shown are high.

Transaction costs are included in the cost of purchases and sales proceeds. Transaction costs include costs charged directly to the Fund such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year amount to £972,602 (2007/08 comparatives are not available). In addition to the transaction costs disclosed above, indirect costs are incurred through the bid/offer spread on investments within pooled investment vehicles. The amount of indirect costs are not separately provided to the Fund.

P6 Management of Fund assets

The market value of investments managed by each external manager at the end of the financial year was:

	2007/08		2008/09	
	£'000	%	£'000	%
Western Asset Management Company	241,020	26.2	187,281	25.4
Barclays Global Investors	263,567	28.6	160,583	21.8
UBS Global Asset Management	125,631	13.6	-	-
Standard Life Investments	150,162	16.3	181,397	24.6
Hermes Investment Management				
Property Unit Trust	83,414	9.1	56,955	7.7
Mellon Transition Management	-	-	109,557	14.9
Acadian	39,222	4.3	26,076	3.5
Yorkshire Fund Managers	1,712	0.2	2,693	0.4
Total - External Managers	904,728	98.3	724,542	98.3
In-house cash and accruals	14,083	1.5	12,757	1.7
Cash instruments with Custodian	1,948	0.2	165	-
	<u>920,759</u>	<u>100.0</u>	<u>737,464</u>	<u>100.00</u>

Due to a change in accounting policy, investments previously valued at mid-price are now valued at bid-price, for assets where there is a bid/offer spread. Although this is a change in accounting policy the difference in valuation is immaterial to the financial statements and therefore comparatives have not been restated.

Where the value of an investment exceeds 5% of the total value of net assets, details have been disclosed in note P18.

P7 Actuarial position of the Fund

- An actuarial valuation carried out as at 31st March 2007, was the relevant valuation for employer contributions required during the year to 31st March 2009.
- Results showed that the required level of contributions to be paid to the Fund by the County Council for the year to 31st March 2009 in accordance with the Fund's Funding Strategy Statement was 19.9% (2007/08 18.9%) of pensionable pay. This rate of contribution is the rate which, in addition to the contributions paid by the members, is sufficient to meet:
 - 100% of the liabilities arising in respect of service after the valuation date
 - plus an adjustment over a period of 20 years to reflect the shortfall of the value of the County Council's notional share of the Fund's assets over 100% of its accrued liabilities, allowing, in the case of members in service, for future pay increases
- The market value of the Fund's assets at the triennial valuation date was £950m and represented 74% of the Fund's accrued liabilities, allowing for future pay increases. When a valuation reveals a deficiency, the employer contribution rates are adjusted to target restoration of a solvent position over a period of years (the recovery period). The recovery period applicable for each participating employer is set by the Administering Authority in consultation with the Scheme Actuary and employer, with a view to balancing the various funding requirements against the risks involved due to such issues as the financial strength of the employer and the nature of its participation in the Fund.
- The contribution rate has been calculated using the projected unit method and the main actuarial assumptions were as follows:

Rate of return on investments	6.1% per annum
Rate of general pay increases	4.7% per annum
Rate of increase to pensions in payment (in excess of guaranteed minimum pension)	3.2% per annum
- Actuarial valuations of the Fund are required to be undertaken every three years and the latest valuation took place as at 31st March 2007. This valuation details the level of employer contributions that are required to be paid in the financial year commencing 1st April 2008 and each of the subsequent two years.

P8 Analysis of contributions receivable and benefits payable

	2007/08		2008/09	
	Contributions receivable	Benefits payable accounts	Contributions receivable	Benefits payable
	£'000	£'000	£'000	£'000
Gloucestershire County Council <i>(administering authority)</i>	35,463	23,967	39,044	27,546
Scheduled bodies (46) <i>(bodies admitted by right)</i>	24,485	21,197	29,185	22,289
Admitted bodies (16) <i>(bodies admitted by agreement)</i>	<u>3,225</u>	<u>1,839</u>	<u>3,715</u>	<u>971</u>
	<u>63,173</u>	<u>47,003</u>	<u>71,944</u>	<u>50,806</u>

P9 Statement of Investment Principles

A Statement of Investment Principles, which set out the Pension Fund's long-term investment objectives, its style of management and policies together with performance targets and details of how that performance is monitored and reviewed, can be found in the Annual Report of the Gloucestershire Pension Fund.

P10 Related party transactions

Gloucestershire County Council, as administering authority for the Fund, provided services for which it charged the following amount.

	2007/08 £'000	2008/09 £'000
Administrative expenses	<u>1,398</u>	<u>1,375</u>

There were no related party transactions with members of the Pension Committee. Transactions between employers and the Fund are disclosed in note P8. Surplus cash balances are invested through the Council's short-term investment procedures.

P11 Contingent liabilities and contractual commitments

The fund has investments within two private equity funds managed by Yorkshire Fund Managers. The following table shows the Fund's total commitment and the remaining liability, following drawdowns, at the year end.

	Total Commitment £'000	Outstanding liability 2007/08 £'000	Outstanding liability 2008/09 £'000
South West Venture Fund	2,500	1,500	750
Chandos Fund	<u>3,000</u>	<u>2,290</u>	<u>195</u>
Total	<u>5,500</u>	<u>3,790</u>	<u>945</u>

P12 Unlisted holdings

The following holdings are unlisted:

	2007/08 £'000	2008/09 £'000
<u>Pooled investment vehicles</u>		
UK equity unit trusts	6,264	-
UK equity unitised insurance policy	3,312	3,913
Overseas equity managed fund	38,860	26,076
Overseas equities unitised insurance policies	263,566	160,582
Overseas limited liability partnerships	<u>19,062</u>	<u>14,955</u>
	<u>331,064</u>	<u>205,526</u>

P13 Stocklending

The Pension Fund's custodian had been authorised to release stock to third parties under a stock lending arrangement. However, from 21st July 2008 this was temporarily suspended and all assets out on loan were recalled. At 31st March 2009 the value of stock out on loan was subsequently £nil (31.03.08 £75.9m comprising of £35.4m in UK equities and £40.5m in UK Government Stock with collateral of 106%). The average balance of stock out on loan during the active period was £12.7m (2007/08 £27.2m).

P14 Net Asset Investment Analysis

	2007/08 As restated £'000	2008/09 £'000
Investment assets		
<u>Fixed interest securities</u>		
UK – Public Sector – Quoted	39,658	21,008
- Other quoted	**95,203	71,100
Overseas – Public Sector – Quoted	19,063	3,271
- Other – Quoted	**15,058	14,418
	<hr/> 168,982	<hr/> 109,797
<u>Equities</u>		
UK – Quoted	254,671	172,514
Overseas – Quoted	-	16
	<hr/> 254,671	<hr/> 172,530
<u>Index-linked securities</u>		
UK – Public Sector – Quoted	47,577	46,511
- Other – Quoted	4,986	4,413
Overseas – Public Sector – Quoted	1,298	4,877
	<hr/> 53,861	<hr/> 55,801
<u>Pooled investment vehicles</u>		
Unitised Insurance Policies		
UK – Equities – Unquoted	3,312	3,913
Overseas – Equities – managed from within the UK – Unquoted	263,566	160,582
Other Managed Funds		
O.E.I.C.s – UK Liquidity	-	3,655
- Overseas Equities – managed from outside the UK – Unquoted	38,860	26,076
Unit Trusts		
UK – Equity-Unquoted	6,264	
Limited Liability Partnerships		
- Overseas Fixed Interest – managed from outside the UK-Unquoted	19,062	14,955
	<hr/> 331,064	<hr/> 209,181
UK Property Unit Trusts - Quoted	<hr/> 82,526	<hr/> 56,061
<u>Derivative Contracts (P17)</u>		
Futures – UK	*2,023	967
- Overseas	-	5,027
Options – Overseas	265	14
Forward foreign exchange contracts	-	1,069
	<hr/> 2,288	<hr/> 7,077

	2007/08 As restated £'000	2008/09 £'000
Other Investments		
Venture Capital/Private Equity – UK	1,712	2,693
Cash (Managers)		
Cash instruments – UK	12,438	80,346
- Overseas	824	367
Cash Deposits – UK	160	19,679
- Overseas	17	7,156
	13,439	107,548
Other Investment balances		
Debtors		
Outstanding settlement of investment transactions	7,229	1,255
Accrued dividend income and tax reclaims due on dividend income	6,542	4,628
	13,771	5,883
Total Investment Assets	922,314	726,571
Investment Liabilities		
Derivative Contracts (P17)		
Futures – Overseas	-	-229
Forward foreign exchange contracts	-776	-78
	-776	-307
Other investment balances		
Creditors		
Outstanding settlement of investment transactions	-15,112	-1,555
Total Investment Liabilities	-15,888	-1,862
Borrowings		
Sterling – amount falling due within one year	-	-2
Current Assets		
Contributions due from employer	9,496	3,585
Other current assets (debtors)	1,062	279
Payments in advance	-	3
Cash balances (internal)	10,450	10,700
	21,008	14,567
Current Liabilities		
Unpaid benefits	-4	-7
Other liabilities (creditors)	-6,671	-1,803
	-6,675	-1,810
	920,759	737,464

*split not available between UK and Overseas

** figures rounded on previous year

P15 Investment Income

Investment income arises from the following investment categories:

	2007/08 £'000	2008/09 £'000
Fixed interest	8,826	10,114
Equities	10,526	10,517
Index-linked	1,454	983
Pooled investment vehicles	3,831	3,986
Interest on cash deposits	1,141	1,534
Other income	46	88
	<u>25,824</u>	<u>27,222</u>
Withholding Tax	33	-44
	<u>25,857</u>	<u>27,178</u>

P16 Separately invested additional voluntary contributions (AVC's)

Gloucestershire County Council LGPS holds assets with The Prudential Assurance Company Limited and Phoenix Life Limited. The AVC's are invested separately in funds managed by them. These are in the form of with-profits, unit-linked and deposit accounts and secure additional benefits on a money purchase basis for those members electing to pay additional voluntary contributions. Members participating in this arrangements receive an annual statement confirming amounts held to their account and movements in the year. These amounts are not included in the Pension Fund Accounts in accordance with regulation 5(2) (c) of the Pension Scheme (Management and Investment of Funds) Regulations 1998 (SI 1998 No 1831). The 2007/08 totals have been restated due to the inclusion of the Phoenix Life AVC Fund.

	Prudential		Phoenix Life **		Total Investments	
	2007/08 £'000	2008/09 £'000	As restated 2007/08 £'000	2008/09 £'000	As restated 2007/08 £'000	2008/09 £'000
Value of Investments at 1 April 2008	7,236	7,551	315	277	7,551	7,828
Prior Year Adjustments	1	-3	-	-	1	-3
Contributions received in year*	588	707	5	3	593	710
Death in service premiums paid by members	-11	-10	-	-	-11	-10
Sales of Investments	-574	-540	-45	-78	-619	-618
Changes in Value of Investments	311	229	2	-15	313	214
Present Value of Investments	7,551	7,934	277	187	7,828	8,121

* Contributions paid by members of the Prudential scheme during 2008/09 totalled £707,555 (2007/08 £588,840) which included additional death in service premiums totalling £10,370 (2007/08 £11,445)

** 2007/08 values for Phoenix Life are as at 30 June 2008 and 2008/09 values are for the period 1 July 2008 to 31 March 2009. Phoenix Life have now changed their reporting period to year end 31 March 2009.

P17 Derivatives

Investments in derivatives are only made if they contribute to a reduction of risks and facilitate efficient portfolio management. A derivative is a generic term for financial instruments used in the management of portfolios and are a financial contract between two parties, the value of which is determined by the underlying asset. Derivates include futures, forwards, swaps and options.

The Pension Fund is in transition to put into place its new strategic mandate for global equities. The mandate is expected to commence during 2009/10. In the interim, the Transition Manager appointed during this period purchased future overlays and currency forwards to allow exposure and performance to closely match the benchmark for the new global equities mandate. This strategy was recommended by the Fund's Independent Investment Advisor as the most cost effective option, as the new fund manager was still to be selected and their strategy and choice of equities was not known.

The fixed income portfolio uses interest rate futures and options for duration and yield curve management purposes. Additionally, the investment strategy for this manager, for all overseas currency exposures. is to be fully hedged back in to sterling which is achieved by the use of foreign exchange forward contracts, rolling quarterly in order that any gains or losses are realised at regular intervals.

In the table below, the 'notional value' of the stock purchases under futures contracts in the economic exposure and the value subject to market movements as at 31st March 2009.

Derivative Contract Analysis

	Contract type*	Notional Value £'000	Expiration	2007/08** £'000	2008/09 £'000
INVESTMENT ASSETS					
<u>Futures</u>					
Futures – UK – Equity					
FTSE 100 Index Futures	ET	8,508	Less than 3 months		89
Futures – UK – Fixed Interest					
UK Long Gilt Future	ET	<u>46,697</u>	Less than 3 months		878
UK Futures		<u>55,205</u>			967
Futures – Overseas – Equity					
Amsterdam Index Future	ET	1,240	Less than 3 months		31
CAC 40 Euro Index Future	ET	4,317	Less than 3 months		9
DAX Index Future	ET	4,180	Less than 3 months		50
DJ Euro Stoxx 50 Futures	ET	2,437	Less than 3 months		28
Ibex 35 Index Future	ET	2,599	Less than 3 months		15
S & P/MIB Index Future	ET	2,858	Less than 3 months		278
S & P 500 Index Future	ET	54,064	Less than 3 months		2,779
S & P/TSE 60 Index Future	ET	5,192	Less than 3 months		158
Topix Index Future	ET	12,074	Less than 3 months		1,257
SPI 200 Index Future	ET	<u>6,871</u>	Less than 3 months		335
		<u>95,832</u>			4,940
Futures – Overseas – Fixed Interest					
US 10 Year Treasury Nts Future	ET	<u>3,116</u>	Less than 3 months		87
Overseas Futures		<u>98,948</u>			5,027
Total Futures		<u>154,153</u>		<u>2,023</u>	<u>5,994</u>

	Contract type*	Notional Value £'000	Expiration	2007/08** £'000	2008/09 £'000
Options					
Bond Call Option – Overseas US 10 Year Treasury Nts Future	ET	-	Less than 3 months		8
Stock Put Option – Overseas JPY/USD Spot Option	ET		Less than 3 months	101	
Bond Put Option – Overseas US 10 Year Treasury Nts Future	ET	-	Less than 3 months	164	6
Total Options		-		<u>265</u>	<u>14</u>
Forward foreign exchange contracts	OTC	<u>1,069</u>	Less than 3 months	-	<u>1,069</u>
Total Derivative Assets		<u>155,222</u>		<u>2,268</u>	<u>7,077</u>
INVESTMENT LIABILITIES					
Futures					
Futures – Overseas – Equity OMXS30 Index Future	ET	4,146	Less than 3 months		-109
Hang Seng Ind Future	ET	<u>4,698</u>	Less than 3 months		-106
		8,844		-	-215
Futures – Overseas – Fixed Interest Euro-Bobl Future	ET	<u>9,610</u>	Less than 3 months		-14
Total Overseas Futures		<u>18,454</u>			<u>-229</u>
Forward foreign exchange contracts	OTC	-78	Less than 3 months	-776	-78
Total Derivative Liabilities		<u>18,376</u>		<u>-776</u>	<u>-307</u>

The Total Futures initial margin for 2008/09 was £15.2m and the total variation margin was -£8m. The initial margin is an amount of money deposited by both buyers and sellers of Futures contracts to ensure performance of the terms of the contract. The variation margin reflects the accumulated cash flows from the daily marking to market that accrues in the futures broker's account.

* Contract types ET (exchange traded) OTC (over-the-counter)

** We are unable to provide individual comparative figures for the 2007/08 Futures category as this information is not obtainable in this format, however, the total fair value for Futures has been entered where available.

P18 Investments exceeding 5 per cent of Total Net Assets

At 31st March 2009 the Pension Fund held four (31st March 2008, four) investments that each exceeded 5 per cent of the total value of the net assets of the scheme. These are detailed as follows:

	2007/08		2008/09	
	£'000	%	£'000	%
Universal Sterling Fund	-	-	78,669	10.7
Barclays Global Inv Ascent Life US Equity Fund	99,160	10.8	62,237	8.4
Hermes Property Unit Trust	80,066	8.7	56,061	7.6
Barclays Global Inv. Ascent Life European Equity	81,629	8.9	47,466	6.4
Barclays Global Inv. Ascent Japanese Equity Fund (5% only 2007/08)	46,672	5.1	-	-
	<u>307,527</u>	<u>33.5</u>	<u>244,433</u>	<u>33.1</u>

Universal Sterling Fund is a Cash Instrument

Barclays Global Investments are Unitised Insurance Policies

Hermes Property Unit Trust is a Property Unit Trust

P19 Changes to comparative figures

Previously some pension costs recovered from employers. no longer with the Pension Fund, were included within Recoveries For Services Provided. It has now been moved to Employers' Contribution as a more appropriate category for this income.

	2007/08 accounts £'000	2007/08 re-stated £'000
Employers contributions	47,828	47,988
Recoveries for services provided	<u>1,093</u>	<u>933</u>
	<u>48,921</u>	<u>48,921</u>

Last year a share purchase creditor was incorrectly included within Current Liabilities. The comparative figures for 2007/08 have been re-stated to reflect that correction. Due to the revised SORP Other investment balances have been further split between assets and liabilities and the 2007/08 re-stated figures reflect that requirement.

	2007/08 accounts £'000	2007/08 re-stated £'000
Other investment balances	-1,091	-
Other investment balances (investment assets)	-	13,771
Other investment balances (investment liabilities)	-	-15,112
Current liabilities	<u>-6,925</u>	<u>-6,675</u>
	<u>-8,016</u>	<u>-8,016</u>

In accordance with the new SORP and the revised treatment of derivatives, the comparative values for 2007/08 have been re-stated. This is purely presentational and does not change the overall value of investments.

P20 Potential Overpayments to Pensioners

In December 2008 the government announced they had uncovered a problem with payments to an estimated 5% of public sector pensioners as a result of an incorrect indexation of an element known as the Guaranteed Minimum Pension (GMP). The government have confirmed that any overpayments will not be reclaimed but future payments should be corrected.

We are in the process of obtaining potentially missing GMP from the Department of Work and Pensions. Once received, this information will be analysed during 2009/10 and calculations made to correct future payments and to help determine if any material overpayments have occurred. As a result no information is currently available on whether any material overpayments occurred during 2008/09.

P21 Contributions Breakdown

	2007/08 As re-stated £'000	2008/09 £'000
From Employers:		
Normal		37,859
Augmentation		173
Deficit Funding		14,142
Other		<u>2,490</u>
	<u>47,988</u>	<u>54,664</u>
From Members		
Normal	14,853	16,718
Additional Voluntary	<u>492</u>	<u>562</u>
	<u>15,345</u>	<u>17,280</u>

In accordance with the new SORP, the employers' monthly contributions and deficit funding payments based on a percentage of pensionable pay have been identified above. The deficit funding contributions relate to past service benefit accrual and are payable over an agreed recovery period, not exceeding 20 years. It was not possible to produce comparative figures for 2007/08.

Other contributions are those contributions paid by an employer to compensate the Pension Fund for early retirement costs, excess ill-health retirement costs or to improve their funding levels.

These payments follow the principles outlined in the Funding Strategy Statement. Early retirement costs are either paid in one lump sum or were historically paid over several years dependent on the status of the employer (two years remaining). When a payment is spread there is an extra costs to reflect the delay in total payment. As 31st March 2009 £241,666 (31.03.08 £367,922) was due to the Pension Fund for early retirements.

Excess ill-health retirement costs are invoiced for as they arise and funding level payments are made by an employer voluntarily.

Included within Other Employers' Contributions is an accrual of £500,000 relating to the deficit funding of an employer who is no longer part of the Fund. It has been agreed by the Pension Committee that this payment can be spread over five years and no contributions have yet been received.

Fire Pension Accounts

Fund Account for the year ended 31st March 2009

2007/08 £000		FPS £'000	NFPS £'000	Total £'000
	Total Contributions Receivable			
	From employer			
-1,742	normal	-1,598	-149	-1,747
-	early retirements	-	-	-
-54	other: Ill health retirements	-53	-	-53
	From members			
-952	normal	-823	-115	-938
-5	other: Added Years	-5	-	-5
	Transfers In			
-130	individual transfers in from other schemes	-	-340	-340
-	other	-	-	-
	Benefits Payable			
3,103	pensions	3,356	3	3,359
574	commutations & lump sum retirement benefits	1,876	-	1,876
30	lump sum death benefits	-	-	-
-	other: Annual increase in pensions	-	-	-
	Payments to and on account of leavers			
	refunds of contributions	-	-	-
56	individual transfers out to other schemes	-	-	-
880	Sub Total	2,753	-601	2,152
	Deficit/Surplus for the year before top-up grant receivable./amount payable to central government			
-880	Top-up grant receivable/payable to central government	-2,753	601	-2,152
<u>0</u>	Net amount payable/receivable for the year	=	=	=

Fire Pensions Accounts

Net Assets Statement for the year ended 31st March 2009

Total £000		FPS £'000	NFPS £'000	Total £'000
	Net current assets and liabilities			
	- contributions due from employer	-	-	-
-558	pension top-up grant receivable from central government	-337	-	-337
	- Other current assets	-	-	-
	- Current liabilities	-	-	-
	- Unpaid pensions benefits	-	-	-
558	Amount payable to central government		-	
	Other current liabilities	337		337
-		-	-	-

NOTES

- a) The Firefighters' pension fund is administered by the County Council. It was established for authorities in England under the Firefighters' Pension Scheme (amendment) (England) Order 2006 and is split into two schemes 'Firefighter Pension Scheme (FPS) which is for wholetime firefighters who were employed before 5th April 2006 and have not transferred to the new scheme and the 'New Firefighters Pension Scheme (NFPS) for all wholetime firefighters who have joined since 6th April 2006, those that have transferred from the old scheme and all Retained Firefighters. It is an unfunded scheme which is "contracted out" of the state scheme and is termed a defined benefit (or final salary) scheme. The funding arrangements for this scheme changed on the 1st April 2006. The fund is financed by contributions paid in by existing firefighters and the Fire Service with any balance receivable from or payable to the Department of Communities and Local Government, therefore there are no investment assets belonging to the Fund.
- b) Employees and employers contribution levels are based on percentages of pensionable pay set nationally by the DCLG and subject to triennial revaluation by the Government Actuary's Department.
- c) The fund has been prepared to meet the requirements of the Statement of Recommended Practice (SORP) "Code of Practice on Local Authority Accounting in the United Kingdom 2008". There are no administration charges included in the accounts and also the accounts do not take account of liabilities to pay pensions and other benefits in the future.
- d) The fund's financial statements do not take into account any liabilities to pay pensions or other benefits after the period end
- e) The liability under FRS 17 is disclosed in note 40 or page 55 of the Notes to the Accounts
- f) A Fire Service Pensions Circular was issued on 7th September 2009 advising that commutation factors for Firefighters in the FPS would be changed from 22nd August 2006. All firefighters who have retired between 22nd October 2006 and 30th September 2007 are subject to a revised commutation factor and will receive an additional payment amount which includes interest. The effect of this, which has been included in these statements cost £175,000.

GLOSSARY OF TERMS

Accounting Policies

Those principles, bases, conventions, rules and practices that specify how the effects of transactions and other events are reflected in financial statements through recognising, selecting measurement bases for, and presenting assets, liabilities, gains, losses and changes to reserves. Accounting policies do not include estimation techniques.

Actuarial Gains and Losses

For a defined benefit pension scheme, the changes in actuarial deficits or surpluses that arise because events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses), or the actuarial assumptions have changed.

Capital Expenditure

Expenditure on the acquisition of a fixed asset or expenditure which adds to and not merely maintains the value of an existing fixed asset.

Class of Tangible Fixed Assets

The classes of tangible fixed assets required to be included in the accounting statements are:

Operational assets

- Land and buildings
- Vehicles, plant, furniture and equipment
- Infrastructure assets
- Community assets

Non-operational assets

- Assets under construction
- Surplus assets, held for disposal.

Community Assets

Assets that the local authority intends to hold in perpetuity, that have no determinable useful life, and that may have restrictions on their disposal. Examples of community assets are parks and historical buildings.

Consistency

The principle that the accounting treatment of like items within an accounting period and from one period to the next is the same.

Contingent Asset

A contingent asset is a possible asset arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the local authority's control.

Contingent Liability

A contingent liability is either a possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the authority's control, or a present obligation arising from past events where it is not probable that a transfer of economic benefits will be required or the amount of the obligation cannot be measured with sufficient reliability.

Corporate and Democratic Core

The corporate and democratic core comprises all activities which the authority engage in specifically because it is an elected, multi-purpose authority. The cost of these activities are over and above those which would be incurred by a series of independent, single purpose, nominated bodies managing the same services. There is therefore no logical basis for apportioning these costs to services.

Deferred Charges

Expenditure which may properly be deferred, but which does not result in, or remain matched with, assets controlled by the authority.

Depreciation

The measure of the cost or revalued amount of the benefits of the fixed asset that have been consumed during the period. Consumption includes the wearing out, using up or other reduction in the useful life of a fixed asset whether arising from use, effluxion of time or obsolescence through either changes in technology or demand for the goods and services produced by the asset.

Discretionary Benefits

Retirement benefits which the employer has no legal, contractual or constructive obligation to award and are awarded under the authority's discretionary powers, such as the Local Government (Discretionary Payments) Regulations 1996.

Estimation Techniques

The methods adopted by an entity to arrive at estimated monetary amounts, corresponding to the measurement bases selected, for assets, liabilities, gains, losses and changes to reserves. Estimation techniques implement the measurement aspects of accounting policies. An accounting policy will specify the basis on which an item is to be measured; where there is uncertainty over the monetary amount corresponding to that basis, the amount will be arrived at by using an estimation technique.

Events After the Balance Sheet Date

Events after the Balance Sheet date are those events, favourable and unfavourable, that occur between the Balance Sheet date and the date when the Statement of Accounts is authorised for issue.

Exceptional Items

Material items which derive from events or transactions that fall within the ordinary activities of the authority and which need to be disclosed separately by virtue of their size or incidence to give fair presentation of the accounts.

Extraordinary Items

Material items, possessing a high degree of abnormality, which derive from events or transactions that fall outside the ordinary activities of the authority and which are not expected to recur. They do not include exceptional items nor do they include prior period items merely because they relate to a prior period.

Fair Value

The fair value of an asset is the price at which it could be exchanged in an arm's length transaction less, where applicable, any grants receivable towards the purchase or use of the asset.

Finance Lease

A finance lease is one that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee.

Going Concern

The concept that the authority will remain in operational existence for the foreseeable future, in particular that the accounts and Balance Sheet assume no intention to curtail significantly the scale of operations.

Government Grants

Assistance by government and inter-government agencies and similar bodies, whether local, national or international, in the form of cash or transfers of assets to an authority in return for past or future compliance with certain conditions relating to the activities of the authority.

Impairment

A reduction in the value of a fixed asset.

Infrastructure Assets

Fixed assets that are inalienable, expenditure on which is recoverable only by continued use of the asset created. Examples of infrastructure assets are highways and footpaths.

Liquid Resources

Current asset investments that are readily disposable by the authority without disrupting its business and are either readily convertible to known amounts of cash at or close to the carrying amount, or traded in an active market.

Long-term Contracts

A contract entered into for the design, manufacture or construction of a single substantial asset or the provision of a service (or a combination of assets or services which together constitute a single project), where the time taken substantially to complete the contract is such that the contract activity falls into different accounting periods. Some contracts with a shorter duration than one year should be accounted for as long-term contracts if they are sufficiently material to the activity of the period.

Net Book Value

The amount at which fixed assets are included in the Balance Sheet, i.e. their historical cost or current value less the cumulative amounts provided for depreciation.

Non-operational Assets

Fixed assets held by a local authority but not used or consumed in the delivery of services or for the service or strategic objectives of the authority. Examples of non-operational assets include investment properties and assets that are surplus to requirements, pending their sale.

Operating Leases

A lease other than a finance lease.

Operational Assets

Fixed assets held and occupied, used or consumed by the local authority in the direct delivery of those services for which it has either a statutory or discretionary responsibility or for the service or strategic objectives of the authority.

Past Service Cost

For a defined benefit scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

Pension Interest Cost and Expected Return on Pensions Assets

For a funded defined benefit scheme, the average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the actual assets held by the scheme.

Prior Period Adjustments

Those material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors. A fundamental error is one that is of such significance as to destroy the validity of the financial statements. They do not include normal recurring corrections or adjustments of accounting estimates made in prior years.

Related Parties

Two or more parties are related parties when at any time during the financial period:

- (i) one party has direct or indirect control of the other party, or
- (ii) the parties are subject to common control from the same source, or
- (iii) one party has influence over the financial and operational policies of the other party to an extent that the other party might be inhibited from pursuing at all times its own separate interests, or
- (iv) the parties, in entering a transaction, are subject to influence from the same source to such an extent that one of the parties to the transaction has subordinated its own separate interests.

Examples of related parties of an authority include:

- (i) central government
- (ii) local authorities and other bodies precepting or levying demands on the council tax
- (iii) its subsidiary and associated companies
- (iv) its joint ventures and joint venture partners
- (v) its members
- (vi) its chief officers, and
- (vii) its pension fund.

For individuals identified as related parties, the following are also presumed to be related parties:

- (i) members of the close family, or the same household, and
- (ii) partnerships, companies, trusts or other entities in which the individual, or a member of their close family or the same household, has a controlling interest.

Related Party Transaction

A related party transaction is the transfer of assets or liabilities or the performance of services by, to or for a related party irrespective of whether a charge is made.

Examples of related party transactions include:

- (i) the purchase, sale, lease, rental or hire of assets between related parties
- (ii) the provision by a pension fund to a related party of assets of loans, irrespective of any direct economic benefit to the pension fund
- (iii) the provision of a guarantee to a third party in relation to a liability or obligation of a related party
- (iv) the provision of services to a related party, including the provision of pension fund administration services
- (v) transactions with individuals who are related parties of an authority or a pension fund, except those applicable to other members of the community or the pension fund, such as council tax, rents and payments of benefits.

Remuneration

All sums paid to or receivable by an employee and sums due by way of expenses allowances (as far as those sums are chargeable to UK income tax) and the money value of any other benefits received other than in cash. Pension contributions payable by the employer are excluded.

Residual Value

The net realisable value of an asset at the end of its useful life. Residual values are based on prices prevailing at the date of the acquisition (or revaluation) of the asset and do not take account of expected future price changes.

Retirement Benefits

All forms of consideration given by an employer in exchange for services rendered by employees that are payable after the completion of employment. Retirement benefits do not include termination benefits payable as a result of either an employer's decision to terminate an employee's employment before the normal retirement date, or an employee's decision to accept voluntary redundancy in exchange for those benefits, because these are not given in exchange for services rendered by employees.

Soft Loans

Loans, normally to voluntary sector organisations, below the market rate of interest.

Statement of Recommended Practice (SORP)

A publication produced by CIPFA that provides comprehensive guidance on the content of a Council's Statement of Accounts.

Statement of Total Recognised Gains and Losses (STRGL)

This statement demonstrates how the movement in total equity in the Balance Sheet is linked to the Income and Expenditure Account surplus/deficit and to other unrealised gains and losses.

Stocks

The amount of unused or unconsumed stocks held in expectation of future use. When use will not arise until a later period, it is appropriate to carry forward the amount to be matched to the use or consumption when it arises.

Tangible Fixed Assets

Tangible assets that yield benefits to the local authority and the services it provides for a period of more than one year.

Useful Life

The period over which the local authority will derive benefits from the use of a fixed asset.