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FOREWORD BY GROUP DIRECTOR, BUSINESS MANAGEMENT

This document presents the published accounts of the County Council for the financial year ended 31st March 2007. 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.

This year there have been significant changes to the format of the accounts, these include: -

- The replacement of the Consolidated Revenue Account with a traditional Income and Expenditure Account.
- New statements introduced are: - A Statement of the Movement on the General Fund Balance and a Statement of Total Recognised Gains and Losses
- The removal of the requirement to make a capital financing charge, hence the removal of the Asset Management Revenue Account.
- All prior year figures have been restated in the new format.

The Statement of Accounts consists of: -

- *Statement of Responsibilities for the Statement of Accounts*
- *Statement of the System of Internal Control*
- *Statement of Accounting Policies*
- *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 the use of reserves built up in the past and contributions to reserves earmarked for future expenditure.
- *Statement of Total Recognised Gains and Losses*
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 the 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 2007, 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.

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

Revenue expenditure

The original revenue budget for 2006/07 was £299.436m and this was subsequently increased by £2.066m being mainly under-spends carried forward from 2005/06, to give a revised budget total of £301.502m. The County Council's actual expenditure, net of income, totalled £296.070m, a net under-spend of £5.432m (less than 2%), with most services under-spending their budgets. Some of the under-spends may be carried forward to increase budgets in 2007/08. Uncommitted general balances at 31st March 2007 were £17.4m compared to £14m at the start of the year and earmarked reserves were £55.1m compared to £50.9m at the start of the year. The Council's medium term financial strategy is to achieve a level of reserves of between 4% (£12.44m) and 6% (£18.66m), balances are within this target range.

Capital expenditure

Capital expenditure of £86.4m was incurred in 2006/07. An analysis of the main projects is given on page 40. This expenditure was financed by a combination of loans, capital receipts from the sale of surplus assets, grants, contributions and revenue. Details can be found on page 37. New loans of £28m were raised in the year. Total loans outstanding at the end of the year were £329.4m and the costs of servicing debt in the year were £30.2m.

Pension Liabilities

The liability shown in connection with the defined benefit pension scheme has decreased by £19.4m, which is largely due to the increase in the rate used by the actuary in discounting scheme liabilities.

Post Balance Sheet Event

Note 53 explains the likely effects of the July 2007 floods, which occurred after the accounts had been submitted to the Audit Commission.

Service Summary 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 service, repairing and improving roads, home to school transport, street lighting, and the library service, to name a few

The use of financial resources enables the Community and Adult Care Directorate to provide support and other services to around 7,700 older people, around 1,500 people with learning difficulties, around 1,200 people with physical disabilities and around 700 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 million items a year and has 116,000 current borrowers. Visits to Libraries total 2.9 million.

The Children and Young People's Directorate secures or provides services direct for 138,000 0-19 year olds in Gloucestershire. This involves working closely with other

public, private and voluntary and community sector providers. Services are provided 365 days of the year.

The use of our financial resources also provides for the Environment Directorate to maintain over 5,000 km of roads, 3000 km of footpaths, 56,000 streetlights and 900 bridges and structures, with many of these assets being used on a daily basis. This Directorate is also responsible for the management of over 300,000 tons of household waste each year.

Finally, in terms of direct service provision, the Community Safety Directorate provides a full Fire and Rescue Service which responds to over 11,000 emergency incidents each year, provides fire prevention training to over 40,000 people each year and undertakes over 8,000 fire inspections.

This Directorate also supplies registration and coroners services, an emergency management service and a trading standards service to all of the residents of Gloucestershire.

STEPHEN WOOD

Group Director, Business Management

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 2006: 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*.

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 the income and expenditure account is not material.

Provisions and reserves

Provisions are established to cover known liabilities, which fall to be met in a later accounting period. Reserves are created in order to provide funds for future activities. Details of provisions and revenue reserves are shown in the notes 37 and 43.

Fixed assets

Expenditure on the acquisition, creation or enhancement of a fixed asset is capitalised on an accruals basis. To be capitalised, the expenditure must yield a benefit to the authority for a period greater than one year.

Fixed assets are valued as recommended by CIPFA and in accordance with the Statements of Asset Valuation Practice and Guidance Notes issued by the Royal Institution of Chartered Surveyors. Assets are classified into the groupings required by the Code. The basis of valuation is explained in note 23.

When an asset is revalued, any increase in value is credited to the fixed asset restatement account. When there is a decrease in value, an impairment loss, the Code requires that where the impairment loss is similar in nature to depreciation, e.g. as a result of physical damage, the loss is recognised in the income and expenditure account. Other impairments (e.g. reflecting a general fall in prices) are debited to the fixed asset restatement account.

Community assets

Community assets are those that the council intends to hold in perpetuity, which have no determinable useful 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.

Charges made to revenue for fixed assets

In previous years such charges for fixed assets consisted of a depreciation charge (where applicable) and a notional interest charge based on the net value at which assets were included in the Balance Sheet. From 2006/07 the Code does not require an interest element to be included and only a depreciation charge is made. The effect on the restated accounts for 2005/06 is a reduction in cost of £26.563m. Service revenue accounts are charged with depreciation on all operational assets (where appropriate) except land. 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 do not have an effect on the amounts required to be raised from local taxation. The amount included in the net cost of services in the income and expenditure account is reversed out in the statement on the General Fund balance.

Depreciation

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

Buildings :	permanent	up to 70 years
	temporary	20-25 years
	leased	period of lease
Infrastructure :	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 finance 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) (see note 18)

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.

Deferred premiums and discounts

Premiums paid and discounts received upon the early repayment of debt, arising from the restructuring of the Council's long-term debt portfolio, are written off over the life of the replacement loans.

Pensions

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 an 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 notes 19, 42 and 47.

Private Finance Initiative (PFI) scheme

The Council, in partnership with Avon Fire Authority and Devon & Somerset Fire Authority (Formerly Somerset County Council), has invested in a PFI project to provide a Fire and Rescue Service training centre (see note 14). 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. The original annual grants were received on a sliding scale, with a disproportionate amount being received in the first nine years of the contract. Therefore the contributions required from the three authorities were greatly reduced in the earlier years but would be significantly increased over the last sixteen 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 has been introduced which makes equal instalments throughout the life of the contract. The fund was reviewed during 2005/06 and it was recommended that a decrease in the three authorities funding of £90,000 per annum was taken 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 2007 was £2.77m. The Council's share of this fund (25%) is included in the Balance Sheet as a reserve; the other partners' shares, Avon Fire Authority (50%) and Devon & Somerset Fire Authority (25%), are included as long-term liabilities.

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 to lessors is shown in note 9.

Government grants and capital contributions

Government grants are credited in the case of revenue grants to the appropriate service area and in the case of capital grants to a government grants unapplied account. When capital grants are used to finance capital expenditure they are transferred to a government grants deferred account. Amounts are subsequently released from this account into 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 to the capital financing account. Capital contributions are treated in an equivalent manner to capital grants.

Support services costs

These costs are charged to departments using a variety of bases appropriate to the particular service provided, except for those that arise from the Council being multi-functional, which are charged to Central Services.

Work in progress, stocks and stores

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

The Department for Environment, Food & Rural Affairs (DEFRA) allocated the Authority Landfill allowances for 2006/07. These allowances have been valued at the balance sheet date in accordance with the SORP and using the valuation provided by DEFRA.

Investments

All investments are shown at market value less any unrealised capital gain.

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.

Capital creditors

Capital Creditors are treated on an accruals basis as determined by the Prudential Code.

Provision for Bad Debts

Bad debt provision is estimated by taking into account an analysis of the age of the debt outstanding and also previous years experiences of bad debts. This is shown in note 32.

Explanation of prior period adjustments

In the 2006/07 Statement of Accounts, the council has adopted three significant new accounting policies that impact on the comparative figures for 2005/06 in the Income and Expenditure account.

- Capital financing charges for the use of fixed assets are no longer made to service revenue accounts, support services and trading accounts.
- Credits for government grants deferred are now posted to service revenue accounts, support services and trading accounts rather than credited as a corporate income item
- gains and losses on disposal of fixed assets are recognised in the income and expenditure account.

These changes have had the following impact on the comparative figures for 2005/06 compared with those published in the 2005/06 Statement of Accounts (only figures that have changed are included in the table):

	Consolidated Revenue Account in 2005/06 Statement of Accounts £'000	Removal of capital financing charges £'000	Relocation of government grants deferred credits £'000	Earmarked Grants £'000	Revaluation of assets £'000	2005/06 comparatives in Income and Expenditure Account £'000
Education	312,013	-12,419	-320	-7,102	-	292,172
Social Services	135,386	-1,707	-161	-13	-	133,505
Highways, Roads and Transport	48,068	-10,570	-1,733	-	-	35,765
Fire and Rescue	20,022	-583	-	-69	-	19,370
Cultural, Environmental and Planning Services	31,283	-929	-113	-	-	30,241
Court Services	736	-	-	-	-	736
Housing Services	122	-1	-	-45	-	76
Central services to the public	1,608	-50	-	-	-	1,558
Corporate and democratic core	4,909	-37	-	-	-	4,872
Unapportionable central overheads	2,320	-190	-	-60	-	2,070
Other central costs	-252	-78	-	-	-	-330
Exceptional Items	1,150	-	-	-	-	1,150
Impact on Net Cost of Services	557,365	-26,564	-2,327	-7,289	-	521,185
Premiums and discounts on the early repayment of debt	0	304	-	-	-	304
Amra (Interest payable and similar charges in 2006/07)	-12,129	26,260	2,327	-	-	16,458
Impact on Net Operating Expenditure	545,236	-	-	-7,289	-	537,947
Revaluation of fixed assets	-3,345	-	-	-	11,242	7,897
Disposal of fixed assets	-5,579	-	-	-	-11,242	-16,821
Fixed Asset Restatement Account	-8,924	-	-	-	-	-8,924

STATEMENT OF THE SYSTEM OF INTERNAL CONTROL

1. SCOPE OF RESPONSIBILITY

Gloucestershire County Council (GCC) 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 is used economically, efficiently and effectively.

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

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

In accordance with the requirements of the Accounts and Audit Regulations 2003, this statement sets out how GCC has sought to meet these requirements during 2006/7, and how it intends to make further improvements during 2007/8.

2. THE PURPOSE OF THE SYSTEM OF INTERNAL CONTROL

The system of internal control within GCC is designed to manage risk to a reasonable level, rather than to eliminate all risk of failure, to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

The system is based on an ongoing process designed to identify and prioritise the risks to the achievement of GCC's policies, aims and objectives, to evaluate the likelihood and impact of those risks being realised, and to manage them efficiently, effectively and economically.

The system of internal control has been in place at GCC for the year ended 31 March 2007 and up to the date of approval of the Statement of Accounts.

3. THE INTERNAL CONTROL ENVIRONMENT

The internal control environment within GCC encompasses a wide range of systems and procedures covering the provision of diverse services to the public.

The officers responsible for overseeing and monitoring the control environment are Group Directors and Directors, who are assigned with the ownership of risks, and who should routinely monitor and review the related controls as an integral part of the risk management process. This key management responsibility is supported by the roles of the Chief Financial Officer, the Monitoring Officer, Internal and External Audit, and by external review agencies.

The main components of the internal control environment within GCC can be sub-divided into six key areas, as detailed below:

3.1 Achievement of objectives / The management of performance within GCC

During 2006/7 GCC aimed to deliver on the following six overall aims, underpinned by 15 priorities (shown with a P) and 10 key tasks, as detailed in the Council Plan: -

Making our communities safer

- Reduce the number of people killed and seriously injured on roads in the county. P
- Increase how safe people feel in their own communities. P
- Reduce level of youth offending.

Supporting communities and vulnerable people

- Increase the proportion of older people supported at home. P
- Support vulnerable adults in the community. P
- Implement plans for the development of accommodation support and day services for people with disabilities.

Ensuring every child thrives and reaches their potential

- Expand, co-ordinate support for young families. P
- Improve attainment of the most vulnerable groups. P
- Improve emotional health and well being. P
- Co-ordinate and develop services for children and young people with disabilities. P
- Improve choices for 14-19 year olds. P
- Implement proposals to reduce surplus school places.

Making transport work

- Improve the condition of our road network. P
- Restrict lorry routes. P
- Implement a Countywide parking management strategy (including decriminalised parking enforcement). P

Managing our environment and economy

- Continue to influence the policies of the Regional Spatial Strategy to the benefit of the people of Gloucestershire.
- Provide improved key waste management facilities. P
- Improve the economic well-being of the people of Gloucestershire. P

Driving Excellence

- Help keep Council Tax down – improve value for money.
- Procure and implement an integrated Business Management Information System.
- Improve the levels of customers influence on, and satisfaction with, council services. P
- Successfully negotiate a Local Area Agreement for Gloucestershire by April 2007.
- Promote Equality of Opportunity within Gloucestershire.
- Improve the safety and well-being of staff and others.
- Prepare the council for the CPA Assessment due in 2007/08.

In support of each of these priorities, the Council Plan provides details for each of the critical milestones to track progress, and the performance indicators used to measure progress.

The Council Plan is supported by Business Plans, which are produced at Directorate and Service levels. Both sets of plans include objectives and detailed plans to support the achievement of both the overall aims and priorities of the authority, per the Council Plan, and service level objectives, with the risks associated with the achievement of the objectives being set out in the Business Plans.

Performance against the key objectives set out in the Council Plan and those set out in Directorate Business Plans were monitored during 2006/7 via strategic monitoring reports to the Performance Board, Cabinet and the Corporate Performance and Budget Committee.

Progress against targets and projects in other Business Plans were monitored via reports to Scrutiny Committees and officer management meetings.

The Best Value Performance Plan and Annual Report for 2006/7, which is reported on by external audit, gives an annual report on progress against the key aims and priorities set out in the Council Plan.

3.2 Decision making within GCC

GCC is committed to open and accountable decision making. To meet this commitment the GCC Constitution lays down all of the procedures to be followed within the authority, and includes a section (article 7), which covers responsibilities and procedures for decision making. These are designed to ensure that all decisions will be made in accordance with the following principles:

- they will be made in public wherever appropriate;
- they must be lawful;
- they should take account of consultation and officer advice;
- they should respect human rights;
- the desired outcomes should be clear;
- they should be properly reasoned and the reasons for rejecting alternatives should be explained.

Staff in Democratic Services have a crucial role to play in helping to ensure that the principles enshrined in the constitution (sustainable decision-making, robust scrutiny, the rules of natural justice, standards of conduct, high corporate governance and community leadership) are delivered in practice through the Council's administrative processes.

Cabinet takes the majority of key decisions, whilst lead cabinet members now have some delegated decision making powers. Scrutiny Committees have the power to call in decisions for re-examination in certain circumstances.

The key statutory document that sets the agenda for a rolling programme of future key decisions is the forward plan, hence this is a critical factor in GCC's overall decision making process.

In addition to the above, in order to allow the council to make the many decisions that are required on a daily basis, responsibilities for certain decisions have been delegated to senior officers within the authority. Such officer "delegated powers" are fully set out in the GCC scheme of delegation to officers.

3.3 Compliance with policies and laws

Within GCC various procedures and Committees have been established to ensure compliance with policies and laws. Many different officers are involved in this area. However, the statutory Monitoring Officer, (the Head of Legal and Democratic Services), is pivotal in the development of sound corporate governance, lawful administration, responsible decision making, imaginative use of permissive powers and responsive setting of policy.

The monitoring officer has a close working relationship with the Standards Committee, which is the key council body with responsibility for maintaining high standards of probity amongst members through the provision of advice and training, and by carrying out investigations in respect of any matter referred to it by the Standards Board for England.

The Constitution Committee is another pivotal process in this area. Its role is primarily to keep the Council's constitution under regular review to ensure that the structures and procedures that it contains continue to promote the effective and efficient administration of the Authority and open, accountable decision-making. Within this context, the constitution is a "living document" which was again reviewed and amended during 2006/7.

3.4 Effective management of risk

Following on from enhancements in this area in 2005/6, we continued to build on risk management during 2006/7 with key developments being highlighted in section 4.4 of this statement.

In addition to the above GCC has an agreed whistleblowing procedure, which is set out under the GCC Code of Conduct, under which individuals may raise any concerns, and an established complaints procedure, including an on-line system, to enable members of the public to raise concerns.

Any apparent irregularities raised via the above procedures, or identified by other means, are all investigated by Internal Audit, in accordance with procedures set out in the audit manual, with reports being submitted to the Chief Executive, Chief Financial Officer and Monitoring Officer who decide on the appropriate action to be taken. Once investigations have been concluded they are reported to the Scrutiny Management and Audit Committee.

3.5 Maximising value for money and securing continuous improvement

The council's main framework for maximizing value for money and securing continuous improvement is embedded within its planning and performance framework, (as set out within section 3.1 above) and within the Medium Term Financial Strategy (MTFS). Under the MTFS the budget formulated during 2006/7 for the 2007/8 financial year contained "cashable" efficiencies and other cost reductions of over £13 million. This enabled further investment in priorities whilst again maintaining low Council Tax increases.

3.6 Financial Management systems

The financial management system operating within GCC is based upon a framework of regular management information and financial reporting to councillors; financial regulations and accounting instructions, financial training for staff, sound administrative procedures (including segregation of duties), management supervision, and a structure of delegation and accountability.

In particular, the financial management system includes:

- Authority wide budgeting systems;
- Identification of high risk budgets for more detailed monitoring;
- Regular reviews of periodic and annual financial reports which indicate financial performance against the forecasts; for regular reporting to Cabinet and Scrutiny Committees;
- Setting targets to measure financial and other performance in Business Plans
- Officer delegated decisions in accordance with agreed codes/policies (e.g. Treasury Management).

The system of internal financial control is subject to regular review by the County Council's Internal Audit service and by the External Auditors for the authority.

Internal Audit operates under the Accounts and Audit Regulations, which require the maintenance of an adequate and effective system of internal audit of accounting records and control systems. Internal Audit work is guided by, and reflects professional best practice, in particular the CIPFA Code of Practice on Local Government Internal Audit, which the External Auditor has confirmed is fully met by Internal Audit.

The work of Internal and External audit is regularly reported to the Scrutiny Management and Audit Committee.

4. REVIEW OF EFFECTIVENESS

Gloucestershire County Council has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. This review is informed by the work of external audit, the internal auditors, who undertake a continuous risk based audit, and the Group Directors and Directors who have responsibility for the development and maintenance of the internal control environment, and for the provision of timely and accurate information to members.

As part of the review of the effectiveness of the system of internal control all Directors completed an Assurance Statement in relation to the systems operating during 2006/7. Assurance statements have been received from Directors covering all of the service areas of the authority, confirming that:-

- Adequate action had been taken, or will be taken, in relation to key recommendations made by External and Internal Audit.
- Appropriate action had been taken in relation to risks appearing on GCC risk registers.
- A sound system of internal control operated during 2006/7 in their areas of responsibility.

The review of the effectiveness of internal control has also drawn on comments made by the external auditors and other review agencies and inspectorates in relation to 2006/7.

With regard to the Use of Resources judgment undertaken during 2006/7 as part of the Comprehensive Performance Assessment, the External Auditors assessed GCC as "consistently above minimum requirements – performing well" in relation to each of the five areas examined, giving summary conclusions for each area as follows:-

Financial Reporting

The Accounts were produced within deadline, contained no material or significant errors and were given an unqualified audit opinion. The Accounts were subject to robust member scrutiny. The Council's closedown process worked well. Relevant documents are published as required.

Financial Management

The Council has put arrangements in place to ensure that its medium term financial strategy, budgets and capital programme are soundly based and are designed to deliver its strategic priorities. Performance is actively managed against budgets, and there has been no overall overspend for a number of years. The Council has updated its Asset Management Plan and has introduced a set of local performance indicators in relation to its management of assets.

Financial Standing

The Council has continued to improve its financial standing reserves (including school balances) increased since last year. Spending is consistently maintained within budget.

Internal control

The Council has had a clear focus on improving its risk management arrangements in 2006; these strengthened arrangements are being embedded throughout the organisation. Systems of internal control are generally sound. The Council promotes probity and propriety in the conduct of its business.

Value for money

The Council is a relatively low spending council per head of population in comparison with other county council. It has clear information on its costs and how these compare to others and it achieves high performance in most of its priority areas, except for older people, some aspects of community safety and the condition of minor roads. Overall, the balance between costs and performance is positive.

During the year the External Auditor undertook a detailed review of Internal Audit and, although a few minor improvement points were highlighted, concluded that Internal Audit meets all of the current CIPFA Audit Standards, undertakes work to a good standard and is well managed.

This is seen as an independent evaluation of key processes, which contribute to the overall system of internal control.

Building on the views of the External Auditor of the authority, we summarise below the outcome of our 2006/7 assessment of the effectiveness of the control systems detailed at section 3. Internal Audit, the Chief Financial Officer, Monitoring Officer and the Strategic Risk Management Group have confirmed this assessment.

Although it is felt that a sound control environment operates within GCC, as set out below, we recognise the need to continually implement further improvements to enhance controls and maximize value for money, and therefore the administration and the officers of GCC are committed to ensuring that any control weaknesses identified by managers, Internal or External Audit or other review agencies continue to be addressed in the future.

4.1 Achievement of objectives / The management of performance within GCC

During 2006/7 GCC continued to utilise a performance management system, which is geared totally at ensuring the achievement of key objectives. Strategic performance monitoring reports were submitted to Cabinet, and the Scrutiny Committee responsible for corporate performance. All Scrutiny Committees received Directorate level reports. Combined these illustrated progress against:

- 15 Council priorities
- 25 Council Plan key tasks
- 132 key task milestones
- 72 performance indicators
- 144 risk areas in relation to the main 14 risks on the Corporate Risk Register.

The reports also highlighted potential problem areas, thereby allowing the authority to address these at an early stage.

Very importantly, as part of the overall assurance framework, the information contained in these reports comes directly from the lead officers for each project/target.

In the annual Audit and Inspection letter issued in March 2007 the District Auditor stated that “the Council’s arrangements for preparing and monitoring the quality of its performance information and for reporting the results have improved in recent years and contain a number of notable practices”.

4.2 Decision making within GCC

The decision making procedures laid out in the GCC Constitution are detailed procedures designed to support open and accountable decision making. During 2006/7 they are felt to have operated in accordance with laid down procedures, with over 50 key decisions being taken by Cabinet.

4.3 Compliance with policies and laws

In terms of compliance with the law, during 2006/7 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 GCC.

With regard to compliance with agreed GCC policies, Group Directors, Directors, the Monitoring Officer or Internal and External Audit identified no major areas of non compliance with policies during the year.

4.4 Effective management of risk

Significant progress was made regarding the effectiveness of risk management arrangements during 2006/7, including the:-

- Completion of the Corporate Risk Register, with all key risks now being monitored as part of the standard performance monitoring procedures.
- Formulation of Directorate Risk Registers for the majority of Directorates.
- Provision of risk training via numerous training workshops.
- Production of a quarterly Risk newsletter, which is distributed to all staff.
- Implementation of pro active risk management initiatives which have resulted in improved service and significant cost reductions, resulting in GCC winning the Local Government Chronicle award for innovation.

4.5 Maximising value for money and securing continuous improvement

In terms of continuous improvement, the last “Use of Resources” assessment undertaken by the District Auditor in December 2006 reached the following conclusion in relation to Value for Money: -

“The Council is a relatively low spending council per head of population in comparison with other county councils. It has clear information on its costs and how these compare to others and it achieves high performance in most of its priority areas, except for older people, some aspects of community safety and the condition of minor roads. Overall, the balance between costs and performance is positive. The Council has good processes in place to collect and review information on costs and performance. Information is regularly reported to members and challenged. There is a culture of achieving value for money within the Council and targets are applied to further achieve VFM. Efficiency savings are exceeding targets. Procurement is achieving savings and its strategic approach is being strengthened. The Council works collaboratively to achieve efficiency savings and improve services. The Council is self-aware of the areas which it needs to address and these are well-documented in its improvement plan and its service plans”.

Since this assessment performance indicator information in relation to 2006/7 showed a

marked improvement in the performance relating to the provision of services to older people within Gloucestershire.

Value for money has continued to be maximised as evidenced by the agreed 2007/8 budget under which Council Tax increased by only 3.4%, this being the 3rd lowest County Council Tax increase in the country. This budget was delivered as a result of efficiencies, increased income and other cost reductions of over £13 million being delivered. This in turn means that the GCC "Gershon" target of around £25 million (2005/6 to 2007/8) will be significantly exceeded by around £15 million.

4.6 Financial Management Systems

During 2006/7 the Internal and External auditors examined the financial management system in operation within the Council, including an examination of the effective operation of key controls in relation to all financial systems. In addition more detailed reviews were undertaken of treasury management, payroll, debtors, bank reconciliation, insurance arrangements and VAT arrangements. The adequacy of financial management arrangements and governance issues in relation to the Pension Fund have also been examined for the purposes of this control statement.

Although a number of key actions for improvement were identified, generally it was found that the financial management systems were operating in an effective manner providing adequate control within the authority.

During 2007/8 there will be a major change regarding the financial management system operating within GCC following the implementation of the Gloucestershire Unified System (GUS) covering financial management, human resources and procurement activities. By working in a more streamlined way, with efficient and effective work processes, GUS (based on a SAP platform) will generate considerable savings across the organization and will revolutionize the way we do things.

5. SIGNIFICANT INTERNAL CONTROL ISSUES

5.1 Pension Fund

Gloucestershire County Council is the administering body for the Gloucestershire Pension Fund. We have examined the control and governance arrangements in relation to 2006/7 seeking assurance that adequate internal control exists to mitigate the risks associated with running the scheme.

We have concluded that governance arrangements in relation to the workings of the pensions committee, the production of a comprehensive annual report and statements of investment principles and other policies are sound. Our only comment was that the governance policy statement needs to be updated to reflect the amended working arrangements of the pensions committee, which has been agreed.

Regarding five of the six external fund managers used and two custodians we have relied on the published Frag 21 (for UK based firms) and SAS 70 statements produced by their external auditors, which give details of the testing of those controls by their external auditors. No significant control weaknesses have been identified. Regarding the other external fund manager, with a significantly lower fund value than the other managers, we have relied on a systems controls questionnaire.

We found that the arrangements for performance monitoring and the provision of specialist advice to the Pensions Committee were adequate, as were the arrangements for the actuarial assessment of the fund.

With regard to the Pension Fund internal administrative arrangements, we concluded that the fund was well managed.

Finally, we were satisfied that adequate systems are in place to mitigate, as far as possible, against the three key risks in this area which are included on the Corporate Risk Register, namely an increasing Pension Fund Deficit, reduced market value of the fund and increases in employer's contributions.

5.2 Gloucestershire County Council

During the course of 2006/07 a large number of internal and external audit reports were issued, including those on the financial management systems detailed above, which included detailed action plans containing recommendations for improvements. Under agreed audit procedures adequate formal written responses are required in relation to all of these action plans detailing the action that management intended to take to address these recommendations. Hence control issues are being continually addressed throughout the year.

Key issues highlighted during the year, and reported to the Audit Committee were the need to focus on seeking improvements in adult social care and to ensure the implementation of recommendations for meeting waste landfill targets, for partnership working, for the Supporting People programme and in relation to data quality. Key improvement points were the need to:-

- Develop, in conjunction with partners, a new countywide Municipal Waste Management Strategy.
- Ensure that contracts are let in a timely manner for the longer term management of municipal waste.
- Develop a framework for partnership working.
- Ensure contracts are in place for the provision of all services under the Supporting People programme.
- Issue guidance and amend procedures in relation to the certain Best Value Performance Indicators.
- The need to further embed risk management arrangements.

Action has been taken, and will continue to be taken during 2007/8 to address these issues, with regular monitoring reports being submitted where necessary to the Audit Committee.

At the start of 2006/7 the change in the contract to deliver highways and transport services was radical. Consequently, there have been systems and approaches that have been put in place, which have been monitored and reacted to during the year. Officers are still learning about the contract and what are the best systems to ensure sound financial management and value for money. Ensuring clarity in this respect is a key issue for 2007/8.

In addition to the above, a number of possible irregularities and/or weak management practices were examined by internal audit during the year. The vast majority of these did not identify evidence of fraudulent practice, but identified control weaknesses, which were addressed.

Where fraudulent practice was identified appropriate disciplinary action was taken and/or the matters were passed to the Police for further investigation.

CONCLUSION

We have been advised on the implications of the result of the review of the effectiveness of the system of internal control by the Authority, and a plan to address weaknesses and ensure continuous improvement of the system is in place to further enhance control arrangements, particularly in relation to the significant control issues identified. The Audit Committee for the authority will ensure, via the receipt of appropriate monitoring reports that adequate action is taken to address these areas.

On the basis of the above, and in the context of measures in hand to address risks identified, we are satisfied that the controls in place provide a sound environment of internal control, risk management and corporate governance for the council.

Barry Dare
Leader

Peter Bungard
Chief Executive

Stephen Wood
Chief Financial Officer

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.
- 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 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 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 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 2007 and its income and expenditure for the year ended.

.....

Stephen Wood CPFA
Group Director,
Business Management
29th June 2007

The Audit Committee of the County Council approved the Statement of Accounts on 29th June 2007

.....

Councillor Bruce Hogan
Chairperson

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

OPINION ON THE FINANCIAL STATEMENTS

I have audited the financial statements, the fire fighters' pension fund accounting statements and the local government pension fund accounts of Gloucestershire County Council for the year ended 31 March 2007 under the Audit Commission Act 1998. The financial statements comprise the Explanatory Foreword, Income and Expenditure Account, the Consolidated 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 local government pension fund accounts comprise the Fund Account, the Net Assets Statement, and the related notes. The financial statements, the firefighters' pension fund accounting statements and the local government pension fund accounts have been prepared under the accounting policies set out within them.

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

Respective responsibilities of the Group Director, Business Management and auditors

The Group Director, Business Management's responsibilities for preparing the financial statements, including the firefighters' pension fund accounting statements and the local government pension fund accounts in accordance with the applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006 are set out in the Statement of Responsibilities.

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

I report to you my opinion as to whether the financial statements, the firefighters' pension fund accounting statements and the local government pension fund accounts present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006:

the financial position of the Authority and its income and expenditure for the year;

the financial transactions of its firefighters' pension fund during the year and the amount and dispositions of the fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year; and

the financial transactions of its local government pension fund during the year and the amount and disposition of the fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.

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

I read other information published with the financial statements, and consider whether it is consistent with the audited financial statements. This other information comprises only the Annual Report and the local government Pension Fund Annual Report. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

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

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

Opinion

In my opinion:

- The financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006, the financial position of the Authority as at 31 March 2007 and its income and expenditure for the year then ended;
- The firefighters' pension fund accounting statements present fairly, in accordance with the Statement of Recommended Practices on Local Authority Accounting in the United Kingdom 2006, the financial transactions of the firefighters' pension fund during the year ended 31 March 2007, and the amount and disposition of the fund's assets and liabilities as at 31 March 2007, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- The local government pension fund accounts present fairly, in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006, the financial transactions of the Pension Fund during the year ended 31 March 2007, and the amount and disposition of the fund's assets and liabilities as at 31 March 2007, other than liabilities to pay pensions and other benefits after the end of the scheme year.

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

26 September 2007

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

Authority's Responsibilities

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

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

Auditor's Responsibilities

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

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

certifying that I have done so;

stating whether I believe that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Local Government Act 1999 and statutory guidance; and

where relevant, making any recommendations under section 7 of the Local Government Act 1999.

Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in December 2006, 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 2007.

Best Value Performance Plan

I issued my statutory report on the audit of the authority's best value performance plan for the financial year 2006/07 in October 2006. I did not identify any matters to be reported to the authority and did not make any recommendations on procedures in relation to the plan.

Certificate

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

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

26 September 2007

INCOME AND EXPENDITURE ACCOUNT 2006/07

This Account summarises 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.

2005/06 Net Expenditure £000		Notes:	2006/07 Gross Expenditure £000	2006/07 Income £000	2006/07 Net Expenditure £000
292,172	Education	1 & 2	423,055	389,390	33,665
133,505	Social Services	3	234,414	98,885	135,529
35,765	Highways, Roads and Transport	4	47,168	7,699	39,469
19,370	Fire and Rescue		21,365	651	20,714
30,241	Cultural, Environmental and Planning Services		43,392	11,098	32,294
736	Court Services		893	138	755
76	Housing Services		98	7	91
	Central Services				
1,558	Central services to the public		2,536	984	1,552
4,872	Corporate and democratic core		5,210	10	5,200
2,070	Unapportionable central overheads		2,127	95	2,032
-330	Other central costs		8,986	11,275	-2,289
1,150	Exceptional Items Not Included In Service Costs		-	-	-
521,185	Net Cost Of Services		789,244	520,232	269,012
240	Flood defence levies				248
-	Gain (-) / Loss on Disposal of Fixed Assets				216
16,458	Interest Payable				18,048
304	Gains (-) / Losses on repurchases / early settlement of debt				-
-3,307	Interest & Investment Income				-4,930
12,990	Pensions Interest Cost and Expected Return on Pension Assets				10,803
547,870	Net Operating Expenditure				293,397
-999	Income From The Collection Fund				-1,671
-172,792	Revenue support grant				-15,007
-196,208	Precepts on district councils				-205,018
-179,581	Distribution From Non-Domestic Rate Pool				-77,740
-1,710	Surplus (-) / Deficit for the year				-6,039

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 has over or under-spent against the council tax that it 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.

2005/06 £'000		Note:	2006/07 £'000
-1,710	Surplus (-) / Deficit for the year on the Income & Expenditure		-6,039
951	Net additional amount required by statute and non-statutory practices to be debited or credited to the General Fund Balance for the year.	16	2,672
<u>-759</u>			<u>-3,367</u>
-18,303	General Fund Balance brought forward		-19,062
<u>-19,062</u>	General Fund Balance carried forward		<u>-22,429</u>
5,065	Committed General Fund Balance	43	5,072
<u>-13,997</u>	Amount of General Fund Balance Generally available for new	43	<u>-17,357</u>

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.

2005/06 £'000		Note:	2006/07 £'000
-1,710	Surplus (-) / Deficit on the Income & Expenditure Account for the year		-6,039
-6,116	Surplus (-) / Deficit arising on revaluation of fixed assets		6,237
26,390	Actuarial gains (-) and losses on pension fund assets and liabilities	47	-35,803
2,147	Transferred services	45	39,777
<u>20,711</u>	Total recognised gains and losses for the year	43	<u>4,172</u>

BALANCE SHEET

2005/06 £'000		Notes:	2006/07 £'000	£'000
196	Intangible Assets	20		606
	Tangible fixed assets			
	Operational assets			
444,601	Land & buildings	21	435,039	
9,259	Vehicles, plant, furniture & equipment	21	9,305	
220,266	Infrastructure assets	21	<u>240,588</u>	684,932
	Non-operational assets			
5,099	Assets under construction		6,382	
4,777	Surplus assets, held for disposal	21	<u>4,745</u>	<u>11,128</u>
684,198				696,666
0	Long-term investments			18,000
322	Long-term debtors			113
7,672	Deferred premiums and discounts	30		<u>7,368</u>
692,192	Total long-term assets			<u>722,147</u>
	Current assets			
786	Stocks and work in progress		1,315	
3,454	Landfill Allowance Trading Scheme	31	3,409	
29,291	Debtors	32	30,736	
1,879	Payments in advance		2,544	
111,709	Short-term investments		106,643	
6,058	Net cash in hand		<u>6,390</u>	<u>151,037</u>
845,369	Total assets			<u>873,184</u>
	Current liabilities			
-3,000	Borrowing repayable on demand or within 12 months		-5,000	
-58,054	Creditors		-68,582	
-3,052	Landfill Allowance Trading Scheme	31	-2,709	
-6,392	Government grants unapplied	39	-6,125	
-7,461	Receipts in advance		-12,251	-94,667
767,410	Total assets less current liabilities			<u>778,517</u>
-301,437	Long-term borrowing	36		-324,435
-7,123	Provisions	37		-6,400
-1,794	Deferred liabilities	35		-2,079
-4,008	Capital contributions unapplied	38		-4,236
-30,116	Government grants deferred account	41		-30,816
-19,553	Capital contributions deferred account	40		-30,786
-370,897	Liability related to defined benefit pension schemes	42		-351,455
32,482	Total assets less liabilities			<u>28,310</u>
	Reserves			
94,422	Capital financing account	43 - 44		121,632
236,623	Fixed asset restatement account	43, 45		184,948
-370,897	Pensions reserve	42 - 43		-351,455
7,368	Usable capital receipts reserve	43, 46		563
64,966	Fund balances and reserves	43		<u>72,622</u>
32,482				<u>28,310</u>

CASH FLOW STATEMENT

2005/06 £000		Notes:	2006/07 £000 £000	
	Revenue activities			
	<i>Cash outflows</i>			
394,832	Cash paid to and on behalf of employees		429,810	
<u>356,567</u>	Other operating costs		<u>350,985</u>	
751,399			780,795	
	<i>Cash inflows</i>			
-197,207	Precept income		-206,689	
-179,581	Non-domestic rate income		-77,740	
-172,792	Revenue support grant		-15,007	
-123,759	Other government grants	52	-427,791	
-54,635	Cash received for goods and services		-62,170	
<u>-65,168</u>	Other operating income		<u>-41,422</u>	
-41,743		48		-50,024
	Returns on investments and servicing of finance			
	<i>Cash outflows</i>			
16,108	Interest and premiums paid		17,745	
	<i>Cash inflows</i>			
<u>-3,307</u>	Interest and discounts received		<u>-4,930</u>	
-28,942		48		<u>12,815</u>
				-37,209
	Capital activities			
	<i>Cash outflows</i>			
77,246	Purchase of fixed assets		82,619	
	<i>Cash inflows</i>			
-15,040	Sale of fixed assets		-5,445	
-11,553	Capital grants received - government	52	-12,729	
-30	Capital grants received - other		-	
<u>-5,430</u>	Capital contributions received		<u>-15,010</u>	
16,251	<i>Net cash inflow(-)/outflow before financing</i>			<u>49,435</u>
				12,226
	Management of liquid resources			
17,777	Increase/decrease(-) in short-term deposits	49	-5,066	
-	Increase/decrease (-) in other liquid deposits	49	<u>18,000</u>	12,934
	Financing			
	<i>Cash outflows</i>			
1	Repayments of amounts borrowed	49	3,001	
	<i>Cash inflows</i>			
-33,000	New loans raised	49	-28,000	
-376	Deferred liability	49	-285	
<u>-47</u>	Repayment of loans made to other bodies	49	<u>-209</u>	
606	Increase(-)/decrease in cash			<u>-25,493</u>
				-333

NOTES TO THE ACCOUNTS

1 Disclosure of Change in basis of government support for schools

For 2006/07, the arrangements for government support for the funding of schools changed. Previously funds were provided as part of the council's overall Revenue Support Grant. In 2006/07, the council has received a specific grant - the Dedicated Schools Grant. £280M has therefore been credited against the Education service outturn in the Income and Expenditure Account that would previously have been treated as part of Revenue Support Grant in corporate income. The difference between 2006/07 figures and comparative figures for 2005/06 for these two lines is substantially explained by this change.

2 Deployment of Dedicated Schools Grant

The Council's expenditure on schools is funded by grant monies provided by the Department for Education and Skills, the Dedicated Schools Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget. The Schools Budget includes elements for a restricted range of services provided on an authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each school. Over and underspends on the two elements are required to be accounted for separately. 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 2006/07 are as follows:

Schools Budget Funded by Dedicated Schools Grant

	Central Expenditure £'000	Individual Schools Budget £'000	Total £'000
Original grant allocation to Schools Budget for the current year in the authority's budget	44,610	235,382	279,992
Adjustment to finalised grant allocation	-	-35	-35
DSG receivable for the year	42,631	237,326	279,957
Actual expenditure for the year	41,432	238,133	279,565
Over (-)/ underspend for the year	1,199	-807	392
Planned top-up funding of ISB from Council resources	-	-	-
Use of schools balances brought forward	-	-	-
Over (-)/ underspend from prior year	-	-	-
Over(-)/underspend carried forward to 2007/08	1,199	-807	392

3. Supporting People

Included within the Social Services figures there are amounts in connection with Supporting People. The Supporting People programme is funded by government to provide housing related support services to help people live independently in the community.

	2005/06 £'000	2006/07 £'000
Net Expenditure	25,800	24,300
Grant Income	-25,800	-25,100
Service Users Contribution	-96	-98
Administration Grant	-353	-353

4. Agency services

The Council used to act as agent for the Department for Transport to carry out maintenance and improvement works on motorways and trunk roads in the county. The agency terminated on 31st March 1999. Although, expenditure was incurred after this date, no expenditure during 2006-07 was incurred.

	2005/06 £000	2006/07 £000
	18	-

5. Publicity

Expenditure on publicity, as required to be disclosed under section 5 of the Local Government Act 1986, totalled £2.474m in 2006/07. The details are as follows :-

	2005/06 £000	2006/07 £000
Staff recruitment advertising	1,542	1,469
Public relations, communications and tourism officers	976	779
Publications, marketing and promotion	233	226
	<u>2,751</u>	<u>2,474</u>

6. Members' allowances

The Code requires the disclosure of the total allowances paid to members of the Council.

	2005/06 £000	2006/07 £000
Members Allowance	759	821

7. Employees' remuneration

The Council is required, under Regulation 7(2) of the Accounts and Audit Regulations 2003, to report the number of employees whose remuneration, excluding pension contributions, was £50,000 or more in bands of £10,000 :

Remuneration band	2005/06 Nos.	2006/07 Nos.
£50,000 - £59,999	92	123
£60,000 - £69,999	29	34
£70,000 - £79,999	14	22
£80,000 - £89,999	8	7
£90,000 - £99,999	3	3
£100,000 - £109,999	1	3
£110,000 - £119,999	1	1
£120,000 - £129,999	-	1
£130,000 - £139,999	1	1
£140,000 - £149,999	-	1
	<u>148</u>	<u>196</u>

In 2006/07 the number of employees includes 128 school teachers (89 in 2005/06). Also in 2006/07, the remuneration includes the redundancy and compensation payments of 18 leavers in the year, of which 13 were teachers (8 in 2005/06, of which 7 were teachers).

8. Local Authorities (Goods and Services) Act 1970

The above Act authorises Local Authorities to supply goods and services to other Public Bodies. The majority of this income and expenditure relates to the provision of administrative, professional or technical services by Support Services.

	2005/06* £'000	2006/07 £'000
Police	179	334
Probation	95	135
Crown Courts	90	101
Learning & Skills Council	27	11
Health Trusts	66	72
Other Local Authorities	502	675
Other	65	191
	<u>1,024</u>	<u>1,519</u>

* Last years figure of £652,000 has been restated to include other services (mainly buildings) provided to other Public Bodies.

9. Leases

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

	2005/06 £'000	2006/07 £'000
Operating leases and lease rentals	332	369

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 (2007/08), analysed over the period of years in which the the commitment expires. All the leases relate to vehicles and equipment in use with the Fire and Rescue Service.

Expiry	£'000
2007/08	19
2008/09 - 2011/12	42
2012/13 and beyond	<u>236</u>
	<u>297</u>

10. Related party transactions

The Council is required to disclose material transactions with related parties - bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the council.

Transactions with government departments are detailed in a note 49. The Director of Finance and Corporate Operations was Treasurer to Gloucestershire Police Authority and Gloucestershire Probation Board; the Council supplied support services to these bodies for which it charged £266,000 in 2006/07 (£167,000 in 2005/06). This amount is included within the total shown in note 7. There were no other declared related party transactions in the year with council members or chief officers.

In 2006/07 the Council provided funding for 12 police officers via Gloucestershire Police Authority at a cost of £366,000 this is contained within Central Services to the Public.

There was a contractual arrangement between the Council and Coverage Care Ltd. for the provision of places in care homes for older people. This arrangement has ceased now and no amounts were paid in 2006/07 (£0.8m in 2005/06).

There is a contractual arrangement between the Council and Gloucestershire Care Partnership, which involves sub-letting this to Order of St John's and Bedford Pilgrims Housing Association. In 2006/07 payments of £11.8m were made to Order of St John's in relation to this contract (£10.4m in 2005/06).

There is a contractual arrangement between the Council and the Brandon Trust for the provision of Learning Disabilities Services. In 2006/07 payments of £10.8m were made to the Brandon Trust, of this £7.2m was funded by Glos PCT under S31 agreement and a further £0.5m was collected as client contributions, leaving £3.1m as GCC's 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 management dealings. An average balance of £9.3m (£9.7m in 2005/06) was deposited with the Council during the year and £448,000 interest on these deposits (£441,000 in 2005/06) was paid to the Pension Fund. The Council charged £1,261,000 (£1,080,000 in 2005/06) for administering the Pension Fund.

11. Audit fees

The Council paid the Audit Commission as follows:-

	2005/06 £'000	2006/07 £'000
Certification of Grant Claims and Returns	27	23
Statutory Inspection	10	14
Other (Including Statement of Accounts)	206	211
Other	-	28
	<u>243</u>	<u>276</u>

12. Partnership arrangements under Section 31 of the Health Act 1999

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.

The Council is involved with four such partnerships between Social Services and health authorities as detailed below :-

- *Provision of mental health services with Gloucestershire Partnership NHS Trust (Integrated Budget)*
In 2006/07 the gross expenditure of the partnership was £4.9m (£4.9m in 2005/06), gross income was £1.2m (£1.2m in 2005/06) and the Council's contribution was £3.7m (£3.7m in 2005/06).
- *Provision of social care occupational therapy (Integrated Budget) - managed by Gloucestershire Primary Care Trust*
In 2006/07 the gross expenditure of the partnership was £2.6m (£2.6m in 2005/06), gross income was £0.3m (£0.3m in 2005/06) and the Council's contribution was £2.3m (£2.3m in 2005/06).
- *Provision of a community equipment service with Gloucestershire Primary Care Trust (Pooled Budget)*
In 2006/07 the gross expenditure of the partnership was £2.3m (£1.9m in 2005/06), gross income was nil (£0.3m in 2005/06) and the Council's contribution was £0.8m (£0.4m in 2005/06).
- *Commissioning of Learning Disability Services agreement with Gloucestershire primary Care Trust. (Pooled Budget)*
In 2006/07 there is a new agreement between Gloucestershire County Council, Gloucestershire Primary Care Trust and the Brandon Trust for the provision of Learning Disability Services. In 2006/07 the gross expenditure of the partnership was £10.8m, gross income was £0.5m and the Council's contribution was £3.1m.

13. 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 and mayoral appeals. The Council's expenditure under this power was £190,000 in 2006/07 (£190,000 in 2005/06). This was for grant payments to the Gloucestershire Neighbourhood Projects Network.

14. Undischarged obligations, Private Finance Initiative (PFI) scheme

In a joint PFI venture Gloucestershire County Council, Avon Fire Authority and Devon & 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 21 years, which is 25% of the annual contract payments.

15 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 £1.3 million less 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 the 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, 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 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 below 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 the General Fund Balance.

16 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.			
Depreciation, amortisation and impairment of fixed assets	21	-21,754	
Government Grants Deferred amortisation matching depreciation and Impairments.	40 - 41	2,801	
Write downs of deferred charges to be financed from capital resources	44	-290	
Net gain or loss on sale of fixed assets		-216	
Amount by which pension costs calculated in accordance with the SORP (ie in accordance with FRS17) are different from the contributions due under the pension scheme regulations	19	-16,361	
Non earmarked grants & contributions		<u>12,997</u>	-22,823
Amounts not included in the Income and Expenditure Account but required to be included by statute when determining the Movement on the General Fund Balance for the year.			
Statutory provision for the repayment of debt	18	12,139	
Capital expenditure charged to the General Fund Balance	44	<u>9,067</u>	21,206
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	17		4,289
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>2,672</u>

17 Contribution to earmarked reserves

	£000
Transfer to Insurance Fund (net)	2,061
Unspent Dedicated Schools Grant	392
Transfer to PFI Project reserve	1,000
Transfer to Invest to Save reserve	4,154
Transfer to Grant Clawback reserve	<u>1,000</u>
	8,607
Transfer from Standards Fund reserve	-422
Transfer from Capital Fund (net)	-1,394
Transfer from Fire Service Pension Reserve	-1,908
Decrease in unspent balances permitted to be carried forward by schools under delegated schemes	-555
Transfer to other reserves (net)	<u>-39</u>
	<u>4,289</u>

A detailed breakdown of the movement in reserves can be found in note 43.

18 Minimum revenue provision (MRP)

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

	2005/06	2006/07
	£000	£000
Minimum revenue provision (MRP)	10,819	12,139

19 Pension costs

The Council provides retirement benefits for its employees and, although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments that needs to be disclosed at the time that employees earn their future entitlement.

The Council participates in four pension schemes: the Local Government Pension Scheme (LGPS), the Firefighters' Pension Scheme (FPS), the New Firefighters' Pension Scheme (NFPS) and the Teachers' scheme; they are all categorised as defined benefit schemes. However, the Teachers' scheme is not subject to the same disclosure requirements because liability for pension payments ultimately rests with the Department for Education and Skills (DfES) except for the liability for discretionary added years awarded to teachers which is the responsibility of the council and does have to be disclosed.

- **LGPS and Firefighters**

The LGPS is a funded scheme administered by the County Council. Retirement benefits are determined independently of the investments of the scheme and employers have obligations to make contributions where assets are insufficient to meet employee benefits. The Firefighters' schemes are unfunded, with annual pension costs being met from defined employee contributions and charges to the Fire and Rescue Service income and expenditure account.

- **Teachers**

The Teachers' scheme is an unfunded scheme administered by Capita Teachers' Pensions for the DfES. The pension cost charged to the accounts is the contribution rate set by the DfES on the basis of a notional fund. In 2006/07 the County Council paid £23m to Capita in respect of teachers' pension costs, which represents 13.7% of teachers' pensionable pay.

The costs of retirement benefits are included 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 made against council tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out of the Statement on the Movement of the General Fund Balance. The transactions made in the year were:-

	2005/06 £000	2006/07 £000
<i>Net cost of services</i>		
Current service cost	22,750	29,871
Past service costs	657	591
Curtailment costs	270	894
<i>Net operating expenditure</i>		
Interest cost	37,260	40,522
Expected return on assets in the scheme	-24,270	-29,719
<i>Amount to be met from government grants and local taxpayers</i>		
Contribution from pensions reserve	-14,576	-16,361
<i>Actual amount charged against council tax for pensions in the year</i>		
Employers' contributions payable to the scheme	<u>22,091</u>	<u>25,798</u>

Note 42 contains details of the assumptions made in estimating the figures included in this note. Further information can be found in note 47.

20. Intangible assets

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

	2005/06 £000	2006/07 £000
Balance as at 1st April	-	196
Expenditure in year	<u>208</u>	<u>442</u>
	208	638
Amortised Amount charged to Income and Expenditure Account	<u>-12</u>	<u>-32</u>
Net Book Value	<u>196</u>	<u>606</u>

21. Movement in fixed assets during the year

	Land and buildings £000	Vehicles & equipment £000	Infra- structure £000	Non - operational £000	Total £000
Net book value 1st April 2006	444,601	9,259	220,266	9,876	684,002
<i>Gross book value 1st April 2006</i>	512,055	23,882	303,541	10,003	849,481
Additions	44,654	2,112	32,779	5,954	85,499
Disposals	-5,524	-409	-	-758	-6,691
Revaluations	-5,288	-16	-	-404	-5,708
Transferred assets (Foundation schools)	-48,571	-	-	-	-48,571
Transfers between categories	3,432	78	-	-3,510	-
Transfer to deferred charges	-	-	-	-12	-12
Other adjustments	-3,556	-6,716	-	58	-10,214
Gross book value 31st March 2007	497,202	18,931	336,320	11,331	863,784
<i>Accumulated depreciation 1st April 2006</i>	67,454	14,623	83,275	127	165,479
Depreciation for year	7,139	2,111	12,457	47	21,754
Depreciation on disposals	-529	-392	-	-31	-952
Revaluations	-51	-	-	-	-51
Transferred assets (Foundation schools)	-8,292	-	-	-	-8,292
Transfers between categories	-2	-	-	2	-
Other adjustments	-3,556	-6,716	-	58	-10,214
Accum. depreciation 31st March 2007	62,163	9,626	95,732	203	167,724
Net book value 31st March 2007	435,039	9,305	240,588	11,128	696,060

Transferred assets

The net reduction of £40.279m for transferred assets reflects the value of secondary schools which passed from County Council ownership in the year. These schools were Thomas Keble, Beaufort and Barnwood Park which attained Foundation status and Bishops' College (formerly Oxstalls school) which attained Voluntary Aided status.

22. Summary of capital expenditure and method of finance

	£000		£000
Fixed assets	85,499	Loans	24,999
Intangible assets	442	MRP	12,139
Deferred charges	458	Capital receipts	12,250
		Grants	13,311
		Contributions	14,634
		Capital Reserve	4,382
		Revenue	4,684
	<u>86,399</u>		<u>86,399</u>

23. Fixed asset valuation

Land and property

The Code requires all land and property formally to be revalued at least every five years. The latest five-year rolling programme of revaluations began on 1st April 2004 and covered the district council area of Tewkesbury in 2006/07.

All valuations have been carried out by Fabian Toner MRICS, a professionally qualified valuer employed in the Business Management Directorate of the County Council.

- 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 2007.
- 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.

24. Commitments under capital contracts

At 31st March 2007 the Council has £277m of expenditure approved, but not all contracted, in its capital programme in future years, allocated as follows :

	£000
Community Services	4,544
Education	138,610
Environment	111,663
Social Services	10,826
Corporate projects	11,362
	<u>277,005</u>

Schemes included with significant expenditure *contracted* at 31st March 2007 are Cleeve School (£8.5m), Archway School, Stroud (£4m), Gloucester South West Bypass (£2.8m), Beaufort School, Gloucester (£2.1m), Gloucester Unified System project (£1.7m), Whitecross School, Lydney (£1.3m) and Northleach Primary School (£0.7m).

25. Amounts due to or from related parties

The amount in the Balance Sheet for debtors includes £3.456m due from the Government and creditors includes £1.747m due to the Government as well £9.87m Receipts in Advance in respect of grants.

26. Trust Funds

At 31st March 2007 the Council acted as sole trustee for 19 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.

	Balance at 1.4.06 £	Income £	Expenditure £	Balance at 31.3.07 £
<i>Funds for which Gloucestershire County Council acts as sole trustee :</i>				
<u>Education</u> 16 trust funds created for educational purposes. These provide for annual prizes or educational benefits to pupils at individual schools.	64,215	1,739	-	65,954
<u>Library</u> 1 trust fund providing for the purchase of library books for Cheltenham library, 1 for the same purpose for Stroud library and 1 providing for an annual lecture evening at Cinderford library.	<u>3,168</u> <u>67,383</u>	<u>82</u> <u>1,821</u>	<u>69</u> <u>69</u>	<u>3,181</u> 69,135
<i>Other funds :</i>				
<u>Edith Foster and Mary Playne Trust</u> - provides aid to college students.	38,712	1,581	-	40,293
<u>Gloucestershire Heritage Trust Ltd</u> - preserves and renovates buildings and areas which are of historic interest	<u>5,427</u> <u>44,139</u>	<u>918</u> <u>2,499</u>	<u>214</u> <u>214</u>	<u>6,131</u> 46,424

Following approval of the Charity Commission a number of the Education trust funds are to be amalgamated with the Edith Foster and Mary Playne Trust to take effect in 2007/08.

27. Capital Expenditure

	£000	£000	%
EDUCATION			
Cleeve School, 6th form centre and science block	1,743		
Beaufort School, Gloucester, new classroom block	2,432		
Balcarrass School, Cheltenham, new classrooms	1,431		
Brockworth School, Gloucester, sports facilities and replacement maths block	2,568		
Rednock School, Dursley, new school	908		
Thomas Keble School, Stroud, new sports hall	908		
Cirencester Kingshill School, science laboratory and special needs facilities	796		
Archway School, Stroud, refurbishment and extensions	2,095		
Marling School, Stroud, new classroom block	1,985		
Stroud High School, new classrooms	1,959		
Wyedean School, Chepstow, science laboratory and replacement classrooms	1,264		
Other secondary schools	6,472		
Foxmoor Primary School, Stroud, new classrooms	685		
Mickleton Primary School, new school	1,298		
Tutshill Primary School, new classrooms and hall	1,109		
Grange Primary School, Gloucester, amalgamation of infant and junior schools	842		
Other primary schools	9,741		
Special schools	550		
Structural maintenance, health and safety and other building works	2,942		
Other schemes	<u>1,096</u>	42,824	49.6
SOCIAL SERVICES			
Tewkesbury Extra Care Housing	3,200		
Office accommodation, Gloucester, Dursley and Cotswolds	270		
Structural maintenance of buildings	110		
Other schemes	<u>333</u>	3,913	4.5
HIGHWAYS, ROADS AND TRANSPORT			
Gloucester South West Bypass	9,577		
Other road construction schemes	3,122		
Structural maintenance of roads	15,794		
Structural maintenance of bridges	1,300		
Street lighting	976		
Other schemes	<u>2,514</u>	33,283	38.5
FIRE AND RESCUE			
Fire and Rescue Service vehicles	520		
Structural maintenance of buildings	137		
Other schemes	<u>431</u>	1,088	1.3
CULTURAL, ENVIRONMENTAL AND PLANNING SERVICES			
Libraries, computer equipment	227		
Archives, electronic document management system	260		
Structural maintenance of buildings	77		
Other schemes	<u>409</u>	973	1.1
CENTRAL SERVICES			
Structural maintenance, health and safety and other building works	1,112		
Rural Services, various farm schemes	455		
Gloucestershire Unified System	1,581		
Computer services and equipment	828		
Other schemes	<u>342</u>	4,318	5.0
TOTAL EXPENDITURE		<u>86,399</u>	<u>100.0</u>

28. Assets owned by the County Council include the following :

		31.3.06 Nos.	31.3.07 Nos.
Schools	Primary	250	250
	Secondary	42	42
	Special	13	12
Pupil referral centres		3	3
Area resource centres (Education)		4	4
Adventure and field study centres		5	5
Youth and community centres		34	33
Libraries		37	37
Records office		1	1
Highways depots/stores		13	12
Park and Ride facilities		2	2
Gypsy sites		5	5
Fire stations		20	20
Social Services establishments	Child care/family centres	10	10
	Centres for older people	4	3
	Care homes for older people	22	22
	Hostels and centres for the disabled	28	28
	Group homes	21	21
	Area offices and other offices	9	9
Registrars' offices		3	3
General administration buildings		4	4
Staff houses		8	8
Miscellaneous/surplus properties		19	19
Vehicles	Buses and minibuses	103	105
	People carriers	17	16
	Vans and pick-ups	46	43
	Land Rovers etc.	17	16
	Cars	27	24
	Mobile libraries	8	5
	Mobile youth centres	4	4
	Snow blowers	3	3
	Tractors	1	1
	Fire and Rescue appliances	33	34
Country parks and picnic sites		5	5
County Farms (hectares)		3,493	3,491
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 292 primary and secondary schools are owned by the County Council and included in the Balance Sheet. Of the rest, foundation schools (46) are owned by the governing bodies, and voluntary aided schools (54) and voluntary controlled schools (66) are Church-owned.

29. Deferred charges

Deferred charges and their treatment are explained on page 6.

	£000	£000
Balance as at 1st April 2006		-
Expenditure in year	building grants 429	
	smoke detectors <u>42</u>	471
less Grant received towards expenditure		<u>-213</u>
		258
Amount charged to Income and Expenditure Account		<u>-258</u>
Balance as at 31st March 2007		<u>-</u>

30. Deferred premiums and discounts

	£000
Balance as at 1st April 2006	7,672
Amounts written off to the Income & Expenditure Account	<u>-303</u>
Balance as at 31st March 2007	<u>7,369</u>

Premiums paid and discounts received on the early repayment of debt are explained on page 6.

31. Landfill Allowance Trading Scheme (LATS)

Since the authority used 552 more tonnes of BMW landfill in 2006/07 than its 2006/07 allocation of allowances it generated a loss of £9,925 by exceeding its BMW landfill usage 'cap'. It generated a £42,033 impairment loss on LATS bought and carried forward from 2005/06 which were written down to a net realisable value of £17.98 each. The authority is carrying forward 40,789 LATS valued at £700,754 to future years.

32. Debtors

The amount is made up of:-

	2005/06 £'000	2006/07 £'000
Gross Debtors	31,218	31,804
Provision for Bad Debt	<u>-1,927</u>	<u>-1,068</u>
	<u>29,291</u>	<u>30,736</u>

33. 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 2007 £664,818 was due to the Pension Fund, as in previous years these have not been included as an accrual in the accounts.

34. Insurance

The Council arranges external insurance subject to the following excess levels : public and employer's liability £357,500, fire, storm and special perils damage to schools £100,000 and damage to own motor vehicle £20,000. This effectively means that all but the very largest claims are self-insured.

There is an Insurance Fund 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.

35. Deferred liabilities

The amount of £2.0793m represents the shares of the PFI project equalisation fund attributable to Avon Fire Authority and Devon & Somerset Fire Authority as explained on page 7.

36. Long-term borrowing

Source of loan	Range of interest rates payable	Total outstanding	
		31.3.06 £000	31.3.07 £000
Public Works Loan Board	3% to 11.625%	271,387	294,385
Banks	2.95% to 4.99%	30,050	30,050
		<u>301,437</u>	<u>324,435</u>
Analysis of loans by maturity			
Maturing in 1-2 years		5,000	6,865
Maturing in 2-5 years		36,350	11,868
Maturing in 5-10 years		32,027	30,456
Maturing in 10-15 years		45,888	63,138
Maturing in 15-20 years		92,214	82,060
Maturing in more than 20 years		89,958	130,048
		<u>301,437</u>	<u>324,435</u>

The bank loans of £30m consist of five 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. Previous years figures have been adjusted to reflect this.

37. Provisions

	Balance at 1.4.06 £000	Applications £000	Additions £000	Balance at 31.3.07 £000
Insurance Fund	3,103	985	606	2,724
Social Services - client refunds	2,475	68	-	2,407
Social Services - VAT	542	142	-	400
Social Services - other liabilities	553	258	344	639
Other provisions	450	220	-	230
	<u>7,123</u>	<u>1,673</u>	<u>950</u>	<u>6,400</u>

° Insurance Fund - see note 34.

° The Social Services 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. Payments could be made at any time but some are likely next year following publicity regarding the right to claim a refund.

° The provision for 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 Social Services liabilities also relate to external service suppliers and are concerned with disputed outstanding claims, additional fees and potentially irrecoverable contributions from clients. Payments against this provision are expected to be made in 2007/08.

38. Capital contributions unapplied

2005/06		2006/07	
£000		£000	£000
5,430	Receivable in the year		15,010
	Applied in the year for financing of capital expenditure		
-7,132	- contributions deferred	-12,590	
-865	- capital financing account	-2,044	-14,634
-174	Transfer to revenue		-149
<u>-2,741</u>			<u>227</u>
6,750	Balance at start of year		4,009
<u>4,009</u>	Balance at end of year		<u>4,236</u>

39. Capital grants unapplied

2005/06		2006/07	
£000		£000	£000
12,908	Receivable in the year		13,044
	Applied in the year for financing of capital expenditure		
-679	- grants deferred	-2,877	
-6,424	- capital financing account	-10,221	-13,098
-	Transfer to revenue		-213
<u>5,805</u>			<u>-267</u>
587	Balance at start of year		6,392
<u>6,392</u>	Balance at end of year		<u>6,125</u>

40. Capital contributions deferred account

2005/06		2006/07	
£000		£000	
7,132	Contributions applied to finance capital expenditure		12,590
-801	Amount released to Income and Expenditure Account		-1,207
-	Transfer to capital financing account in respect of transferred assets		-150
<u>6,331</u>			<u>11,233</u>
13,222	Balance at start of year		19,553
<u>19,553</u>	Balance at end of year		<u>30,786</u>

41. Government grants deferred account

2005/06		2006/07	
£000		£000	
679	Grants applied to finance capital expenditure		2,877
-1,525	Amount released to Income and Expenditure Account		-1,595
-	Transfer to capital financing account in respect of transferred assets		-582
-1,261	Transferred service		-
<u>-2,107</u>			<u>700</u>
32,223	Balance at start of year		30,116
<u>30,116</u>	Balance at end of year		<u>30,816</u>

42. Pension liabilities

Note 19 explains the nature of the various pension schemes in which the Council participates. In accordance with the requirements of Financial Reporting Standard No.17 - Retirement Benefits (FRS17), the Council must disclose certain information relating to these pension schemes.

The assets and liabilities for retirement benefits attributable to the Council at 31st March were :-

	31.3.06 £000	31.3.07 £000
Share of assets in Local Government Pension Scheme	450,450	490,976
Provision for discretionary added years (teachers)	30	-30
<i>Total assets</i>	<u>450,480</u>	<u>490,946</u>
Share of liabilities in Local Government Pension Scheme	-716,140	-724,357
Estimated liabilities of the Firefighters' scheme (FPS)	-103,000	-115,983
Estimated liabilities of the New Firefighters' scheme (NFPS)	-	-17
Estimated liabilities for discretionary added years (teachers)	-2,237	-2,044
<i>Total liabilities</i>	<u>-821,377</u>	<u>-842,401</u>
<i>Net pension liability</i>		
Local Government Pension Scheme	-265,690	-233,381
Firefighters' scheme (FPS)	-103,000	-115,983
New Firefighters' Scheme (NFPS)	-	-17
Discretionary added years (teachers)	-2,207	-2,074
	<u>-370,897</u>	<u>-351,455</u>

The Council's share of assets of the LGPS, valued at fair value, principally at market value for investments, consists of the following asset classes by proportion, together with expected rates of return.

	31.3.06		Expected return	31.3.07		Expected return
	£000	%	%	£000	%	%
Equities	299,940	66.6	7.4	312,002	63.5	7.8
Gilts/Bonds	110,540	24.5	4.6	117,783	24.0	4.9
Property	29,080	6.5	5.5	39,361	8.0	5.8
Cash	10,890	2.4	4.6	21,830	4.5	4.9
	<u>450,450</u>	<u>100.0</u>	6.5	<u>490,976</u>	<u>100.0</u>	6.8

Expected long-term returns are in line with the returns shown as at 31.3.07

It must be recognised that pension fund investments are made for the long-term, and that market values and net fund liabilities at a given point in time are only indicative of the position of the Fund at that date.

The LGPS funding level is determined by actuarial valuation every three years. At the last valuation at 31st March 2004 the overall Fund was 70% funded. This compares with a funding level of 90% at the previous valuation at 31st March 2001. The main reason for this decrease in the funding level is a significant under-performance of the market return of investments in the intervening three year period.

Employers' contribution rates are calculated at each valuation to achieve full funding (100%) over the long term. The Council is currently targeting recovery of the deficit over a period not exceeding 20 years.

The amounts used in the FRS17 disclosures for the LGPS are updated as at 31st March each year by the Fund actuary. The estimated liabilities of £116m disclosed for the Firefighters' scheme (FPS) and £0.02m disclosed for the New Firefighters' Scheme (NFPS) have also been determined by an FRS17 actuarial valuation as at 31st March 2007.

The main financial assumptions used in the calculations are :

	LGPS		Firefighters	
	2005/06	2006/07	2005/06	2006/07
Rate of inflation	3.1%	3.2%	3.1%	3.2%
Rate of increase in salaries	4.6%	4.7%	4.6%	4.7%
Rate of increase in pensions	3.1%	3.2%	3.1%	3.2%
Rate for discounting scheme liabilities	4.9%	5.4%	4.9%	5.4%

The liabilities show the underlying commitments that the Council has in the long-term to pay retirement benefits. The total liability of £351m has a substantial impact on the net worth of the Council as recorded in the Balance Sheet, reducing it from £378.5m to £27m as at 31st March. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy. The deficit on the LGPS will be made good by increased contributions over the longer term, as assessed by the actuary, and finance is only required to be raised to cover firefighters' pensions when the pensions are actually paid.

43. 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.

	Balance at 1.4.06 £000	(Gains)/ Losses for the year £000	Transfers Between Reserves £000	Balance at 31.3.07 £000
Fixed Asset Restatement Account	-236,623	51,459	216	-184,948
Capital Financing Account	-94,422		-27,210	-121,632
Usable Capital Receipts Reserve	-7,368	-5,445	12,250	-563
Pension Reserve	370,897	-35,803	16,361	351,455
General Fund Balance				
General Fund Balance	-13,997	-6,039	2,679	-17,357
Named Funds (see below)	-45,904		-4,289	-50,193
Earmarked General Fund Balance	-5,065		-7	-5,072
Total Reserves	-32,482	4,172	0	-28,310
Named Funds	Balance at 1.4.06 £000	Applications £000	Additions £000	Balance at 31.3.07 £000
Capital Fund	8,600	4,886	3,492	7,206
Insurance Fund	3,802	632	2,693	5,863
Education : amounts held under delegated schemes for schools	25,751	25,751	25,196	25,196
Dedicated Schools Grant	-	-	392	392
Standards Fund	577	577	155	155
GWIST	286	22	-	264
County Council elections	261	-	126	387
Vehicle and plant replacement	179	84	62	157
Winter maintenance of roads	620	-	-	620
Fire Service pensions	2,352	2,000	92	444
Supply teachers for schools	580	580	569	569
Waste Disposal, consultancy costs	300	-	-	300
Waste LATS Reserve	753	10	-	743
Corporate initiatives	304	-	-	304
Fire and Rescue Service Joint Training Centre				
- PFI project equalisation fund	598	-	95	693
- training costs equalisation reserve	295	140	-	155
Fire PFI Project Fees reserve	-	-	1,000	1,000
Invest to Save Reserve	-	179	4,333	4,154
Grant Clawback Reserve	-	-	1,000	1,000
Other reserves	646	77	22	591
	<u>45,904</u>	<u>34,938</u>	<u>39,227</u>	<u>50,193</u>

- The Capital Fund is available to finance capital expenditure.
- Insurance Fund - see note 34.
- The Education reserves are amounts set aside for spending by schools in respect of underspendings of delegated budgets which schools are allowed to carry forward. The balance is made up of surpluses of £26.9m, deficits of £0.8m and negative contingencies of £0.9m. These reserves are not available to the Council for general use. At 31st March 2007 schools' balances include £5.6m of government NDS Devolved Formula Capital grant paid in advance and unspent.
- Dedicated Schools Grant - see notes 1 & 2.
- The Standards Fund reserve represents the Local Education Authority share of grant-aided budgets carried forward to be spent by 31st August 2007.
- GWIST is a joint partnership between the County Council and other public sector organisations that aims to promote and develop excellence in schools through the professional development of teachers. The reserve represents the accumulated funds and working capital at 31st March 2007.
- A reserve has been created to meet the future costs of County Council elections.
- The vehicle and plant replacement reserve is used to finance capital expenditure on vehicles for the Environment Department.
- The reserves for winter maintenance, fire service pensions and supply teachers for schools have been made so that resources will be available to meet exceptional or unexpected expenditure in any year.
- The waste disposal reserve is for financial, technical and legal advisor.
- Waste LATS Reserve -see note 31.
- The Corporate Initiative Reserve contains a number of amounts for various initiatives.
- The Fire Training Centre PFI project equalisation fund is explained on page 6. This reserve represents the Council's share of the joint fund. The training reserve has been created to hold any underspend on training budgets in anticipation that additional funding will be required in the future when the full potential of the new facility has been explored.
- The Fire PFI Project Fees reserve has been set-up for the planned new fire stations.
- The Invest to Save reserve contains LPSA reward grant received, which will be earmarked for specific projects
- * The Grant Clawback reserve concerns future grant adjustments which maybe made by central government.
- The uncommitted County Fund balance of £17.357m is used for day to day financing of the Council's activities or for any other purpose as the Council sees fit.

44. Capital financing account

2005/06 £000		2006/07	
		£000	£000
	Capital financing		
8,682	- capital receipts		12,250
7,289	- non-earmarked grants and contributions		12,265
8,886	- revenue		4,684
-	- capital reserve		4,383
2,327	Amortisation of grants/contributions deferred		2,801
	Transfer from grants/ contributions deferred accounts in respect of transferred assets		732
-54	Write down of deferred charges		-290
-9,789	Excess of depreciation over MRP		-9,615
<u>17,341</u>			<u>27,210</u>
-1,518	Transferred service		
78,599	Balance at start of year		94,422
<u>94,422</u>	Balance at end of year		<u>121,632</u>

45. Fixed asset restatement account

This account represents the net increase in value of assets after revaluation on 1st April 1994 as part of the introduction of a new system of capital accounting, written down by the net book value of assets since disposed of and debited or credited with deficits or surpluses on subsequent revaluations.

2005/06 £000		2006/07	
		£000	£000
7,897	Revaluation of fixed assets		-5,657
-16,821	Disposal of fixed assets	-6,241	
-629	Transferred assets	-39,777	-46,018
<u>246,176</u>	Balance at start of year		<u>236,623</u>
<u>236,623</u>	Balance at end of year		<u>184,948</u>

46. Usable capital receipts reserve

2005/06 £000		2006/07	
		£000	£000
15,040	Receivable in the year		5,445
-8,681	Applied in the year for financing of capital expenditure		-12,250
<u>6,359</u>			<u>-6,805</u>
1,009	Balance at start of year		7,368
<u>7,368</u>	Balance at end of year		<u>563</u>

47. Pensions reserve

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

	31.3.03 £000	31.3.04 £000	31.3.05 £000	31.3.06 £000	31.3.07 £000
Net pension liability at start of year	-156,877	-266,177	-214,035	-329,931	-370,897
Movements in the year :					
Contribution to Statement on Movement on General Fund Balance	-6,200	-9,262	-10,671	-14,576	-16,361
Actuarial gains/losses(-)	-103,100	58,804	-105,225	-26,390	35,803
Net pension liability at end of year	<u>-266,177</u>	<u>-216,635</u>	<u>-329,931</u>	<u>-370,897</u>	<u>-351,455</u>

The actuarial gains/losses can be analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilities at 31st March :

	31.03.03 %	31.03.03 £000	31.03.04 %	31.03.04 £000	31.03.05 %	31.03.05 £000	31.03.06 %	31.03.06 £000	31.03.07 %	31.3.07 £000
Difference between the expected and actual return on assets	37.2%	-102,900	13.1%	45,730	1.7%	6,036	13.3%	60,090	0.11%	-558
Difference between actuarial assumptions about liabilities and actual experience	0.2%	-1,100	2.3%	13,074	1.9%	-12,661	-0.2%	1,800	0.69%	-5,836
Change in the demographic and financial assumptions used to estimate liabilities	0.2%	900	0.0%	0	14.4%	-98,600	10.8%	-88,280	-5.01%	42,197
		<u>-103,100</u>		<u>58,804</u>		<u>-105,225</u>		<u>-26,390</u>		<u>35,803</u>

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

	£000	£000
Income and Expenditure Account surplus (-)/deficit for the year		-6,039
Movement on General Fund		2,672
Non-cash transactions		
Minimum revenue provision	-12,139	
Revenue financing of fixed assets	-9,066	
Decrease in provisions	648	
Contribution to earmarked reserves	-4,289	
Capital Contributions Returned to Revenue	349	
Deferred charges written Off	258	
Deferred premiums written off	-303	-24,542
		<u>-27,909</u>
Items on an accruals basis		
Increase in creditors	-16,519	
Increase in receipts in advance	-4,790	
Increase in debtors	10,860	
Increase in stocks and work in progress	484	
Increase in payments in advance	665	-9,300
		<u>-37,209</u>
Net interest payments		-12,815
<i>Net cash flow from revenue activities</i>		<u>-50,024</u>

49. Movements in financing and management of liquid resources activities

	Balance 1.4.06 £000	Balance 31.3.07 £000	Movements in year £000
Long-term borrowing	301,437	324,435	22,998
Borrowing repayable within 12 months	3,000	5,000	2,000
Deferred liabilities	1,794	2,079	285
Loans to other bodies	-233	-32	201
Loans to Transferred Services	-89	-81	8
Short-term investments	-111,709	-106,643	5,066
Long-term investments	-	-18,000	-18,000
<i>Increase in cash from financing and liquid resources activities</i>	<u>194,200</u>	<u>206,758</u>	<u>30,558</u>

50. Liquid resources

These consist of short-term & long-term loans, currently £34.5m (£33.3m at the 31st March 2006) is placed with two fund managers and the balance, required for day-to-day cash flow purposes, is managed in-house. Lending is restricted to other local authorities and certain approved financial institutions. Limits are placed on amounts lent to both individual organisations and categories of financial institutions. Lending policy is approved by the County Council.

51. Movement in net debt

	Balance 1.4.06 £000	Balance 31.3.07 £000	Movements in year £000
<i>Movement in cash</i>			
Cash in hand	-173	-187	-14
Cash at bank	-18,173	-14,052	4,121
Pension Fund cash	12,288	7,849	-4,439
<i>Increase(-)/decrease in cash</i>	<u>-6,058</u>	<u>-6,390</u>	<u>-332</u>
<i>Movement in financing and liquid resources</i>	194,200	206,758	12,558
<i>Increase/decrease(-) in net debt</i>	<u>188,142</u>	<u>200,368</u>	<u>12,226</u>

52. Analysis of government grants - cash received in 2006/07

	Revenue £000	Capital £000	Total £000
Department for Education and Skills	331,693	8,695	340,388
Department for Transport	2,981	16	2,997
Department for Work and Pensions	-68	-	-68
Department for Communities and Local Government	28,823	1,652	30,475
Department of Health	15,196	214	15,410
Home Office	3,395	-	3,395
Department for Constitutional Affairs	35	-	35
Department for Environment, Food and Rural Affairs	3,744	332	4,076
Other Governing Bodies	41,992	1,820	43,812
	<u>427,791</u>	<u>12,729</u>	<u>440,520</u>

53. Post Balance Sheet Event**July 2007 Floods**

As a result of the significant floods experienced by Gloucestershire, additional costs fall on Gloucestershire County Council in relation to the emergency, the clean up and recovery operations and the repair of the damage caused by the floods.

Although final costs are still being calculated, the cost of damage to GCC buildings is forecast to be around £2.8 million. Of this amount £1.8 million will be covered by insurers to GCC whilst the remainder, due to excesses and self insurance, of £1 million will be charged to the Insurance Reserve. The Insurance Reserve totalled £5.8 million at the end of 2006/07.

Regarding other revenue costs directly related to the emergency, under central government emergency funding "Bellwin" scheme Gloucestershire County Council is required to meet the first £1.2 million of eligible expenditure (equivalent to 0.2% of its gross budget). Eligible revenue expenditure in excess of this amount will be funded in full under the "Bellwin" scheme. The £1.2 million funded by GCC will be met from the non earmarked general reserves which totalled £17.3 million at the end of 2006/07.

Both non earmarked general reserves and the insurance reserve will remain at prudent levels following the funding of the costs of the emergency.

The funding of significant capital costs, forecast to be in the region of £25 million, emanating from this emergency are currently the subject of discussion between officers from the County Council and the Department of transport, who have announced an emergency capital funding Scheme.

GCC PENSION ACCOUNTS

Fund Account for the year ended 31st March 2007

2005/06 £000		2006/07 £000	£000	Note
	Dealings with members, employers and others directly involved in the scheme			
	Contributions receivable			
-34,846	from employers - normal	-39,704		
-4,177	- special	-5,482		
<u>-13,876</u>	from members - normal	<u>-14,552</u>		
-52,899			-59,738	7
	Transfers in			
-8,279	individual transfers in from other schemes		-7,329	
<u>-61,178</u>			<u>-67,067</u>	
	Benefits payable			
33,492	pensions	35,288		
5,475	lump sum retirement benefits	5,877		
475	lump sum death benefits	<u>827</u>		
			41,992	7
	Payments to and on account of leavers			
107	refunds of contributions	24		
5,731	individual transfers out to other schemes	5,592		
39	state scheme premiums	<u>3</u>		
			5,619	
1,080	Administrative expenses		1,261	9
<u>-14,779</u>	Net additions from dealings with scheme members		<u>-18,195</u>	
	Returns on investments			
-22,197	Investment income		-25,002	13
-141,925	Change in market value of investments		-32,556	
<u>2,457</u>	Investment management expenses		<u>2,736</u>	
-161,665	Net returns on investments		<u>-54,822</u>	
<u>-176,444</u>	NET INCREASE (-) / DECREASE IN THE FUND DURING THE YEAR		<u>-73,017</u>	
700,428	Opening net assets of the scheme		876,872	
<u>876,872</u>	Closing net assets of the scheme		<u>949,889</u>	5

Net Assets Statement as at 31st March 2007

31.3.06 <u>£000</u>		31.3.07 <u>£000</u>	<u>£000</u>	<u>£000</u>	<i>Note</i>
	Investment assets				
	Fixed interest securities				
42,797	UK - Public sector	64,354			
77,402	UK - Other	78,873			
19,204	Overseas - Public sector	-6,526			
3,203	Overseas - Other	<u>5,829</u>			
<u>142,606</u>				142,530	
	Equities				
297,523	UK	<u>268,590</u>		268,590	
	Index-linked securities				
37,870	UK	52,095			
1,675	Overseas	<u>1,626</u>			
<u>39,545</u>				53,721	
	Pooled investment vehicles				
29,002	UK	32,158			
262,698	Overseas	<u>318,058</u>			
<u>291,700</u>				350,216	16
	Unit trusts				
56,489	UK Property Unit Trusts			75,958	
	Cash instruments held on behalf of the investment managers			6,383	
10,807					
25,462	Other investment balances			42,376	18
<u>864,132</u>				<u>939,774</u>	
	Current assets				
1,645	Contributions due from employers	3,222			
501	Debtors	451			
12,288	Cash	<u>7,849</u>			
<u>14,434</u>				11,522	
	Current liabilities				
-1,694	Creditors	-1,405			
0	Unpaid benefits	<u>-2</u>			
<u>-1,694</u>				-1,407	
<u>12,740</u>	Net current assets and liabilities			<u>10,115</u>	
<u>876,872</u>	Net assets as at 31st March 2007			<u>949,889</u>	5

NOTES TO PENSION FUND ACCOUNTS

1. The County Council administers the Pension Fund for not only the Council 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 annual report and 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 applies 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 2007 was 18,527 (2005/06 17,901). The Fund exists to provide pensions to former employees and certain other benefits. (Since the Pension Fund is not a County Council fund, balances are not included in the Consolidated Balance Sheet).
2. **Accounting policies**
 - The accounts have been prepared to meet the requirements of the Local Government Pension Scheme Regulations 1997 and subsequent amendments. They also meet the requirements of the Statement of Recommended Practice (SORP) "The Financial Reports of Pension Schemes" issued by the Pensions Research Accountants Group (PRAG). The Accounting Standards Board (ASB) has approved PRAG for the purposes of issuing recognised SORPs for pension schemes.
 - 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.
 - Investment management expenses are charged to the Fund. 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 on fund administration.
 - The Pension Fund investments were revalued on 1st April 1974, and subsequent additions have been made at cost. Investments which are in the Net Assets Statement are shown at market value. Any investments priced within the Stock Exchange Electronic Trading Service (SETS) are valued at the last traded price. Any investment not priced within the SETS system but quoted on a recognised investment exchange is normally taken at the closing middle market price. Where securities do not actively trade through established exchange mechanisms, a price is obtained from the manager of the investment vehicle.
 - Where Futures are employed they are valued at an amount equal to the value of securities which, if held as an alternative to the Futures contract, would provide a similar return to that obtained on the Futures contract. In addition to showing the position of the Future in the underlying asset class, the associated cash position that would have arisen if the physical securities had been actually purchased or sold is included within Other Investment Balances.
 - Acquisition costs of investments (e.g. stamp duty) are treated as part of the investment cost.
 - The accounts do not take account of liabilities to pay pensions and other benefits in the future. This is reported upon separately in the actuary's statement (see note 6).
3. **Taxation**

The Fund is exempt from UK capital gains tax on the proceeds of investments sold. Corporation Tax is 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.

4. Turnover of investments

£272.1m (2005/06 £243.8m and £25m cash instruments) of investments were purchased and £211.1m (2005/06 £178m and £24.5m cash instruments) book value of sales were realised.

5. Management of Fund assets

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

	2005/06		2006/07	
	<u>£000</u>	<u>%</u>	<u>£000</u>	<u>%</u>
Western Asset Management Company	220,787	25.18	227,657	23.97
Barclays Global Investors	221,996	25.32	266,269	28.03
UBS Global Asset Management	155,084	17.68	156,322	16.46
Standard Life Investments	163,096	18.60	161,143	16.96
Hermes Investment Management Property Unit Trust	56,711	6.47	76,135	8.02
Acadian	29,964	3.42	31,649	3.33
Hermes Focus Asset Management	16,058	1.83	19,946	2.10
Yorkshire Fund Managers	254	0.04	454	0.05
Total - External Managers	<u>863,950</u>	<u>98.54</u>	<u>939,575</u>	<u>98.92</u>
In-house cash and accruals	12,740	1.45	10,115	1.06
Cash instruments with Custodian	182	0.01	199	0.02
	<u><u>876,872</u></u>	<u><u>100.00</u></u>	<u><u>949,889</u></u>	<u><u>100.00</u></u>

6. Actuarial position of the Fund

- An actuarial valuation carried out as at 31st March 2004, was the relevant valuation for employer contributions required during the year to 31st March 2007.
- Results showed that the required level of contributions to be paid to the Fund by the County Council for the year to 31st March 2007 was 16.9% (2005/06 14.9%) 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 valuation date was £637.2m and represented 70% of the Fund's accrued liabilities, allowing for future pay increases.
- The contribution rate has been calculated using the projected unit method and the main actuarial assumptions were as follows :
 - Rate of return on investments : 6.3% per annum
 - Rate of general pay increases : 4.4% per annum
 - Rate of increase to pensions in payment (in excess of guaranteed minimum pension) : 2.9% per annum
- Actuarial valuations of the Fund are required to be undertaken every three years and a further valuation will take place as at 31st March 2007. This valuation will detail the level of employer contributions that will be required to be paid in the financial year commencing 1st April 2008 and each of the subsequent two years.

7. **Analysis of contributions receivable and benefits payable**

	2005/06		2006/07	
	Contributions receivable £000	Benefits payable £000	Contributions receivable £000	Benefits payable £000
Gloucestershire County Council <i>[administering authority]</i>	26,831	21,223	31,853	22,462
Scheduled bodies (43) <i>[bodies admitted by right]</i>	23,724	17,036	25,320	17,735
Admitted bodies (15) <i>[bodies admitted by agreement]</i>	2,344	1,183	2,565	1,795
	<u>52,899</u>	<u>39,442</u>	<u>59,738</u>	<u>41,992</u>

8. **Statement of Investment Principles**

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

9. **Related party transactions**

Gloucestershire County Council, as administering authority for the Fund, provided services for which in 2006/07 it charged £1.261m (2005/06 £1.080m). There were no related party transactions with members of the Pension Committee. Transactions between employers and the Fund are disclosed in note 7. Surplus cash balances are invested through the Council's short-term investment procedures.

10. **Contingent liabilities and contractual commitments**

During 2002/03 the Pension Fund invested an initial £250,000 in the South West Venture Capital Fund managed by Yorkshire Fund Managers. This Fund provides start-up capital for new businesses in the South West region. The Pension Fund is committed to invest a maximum of £2.5m in the South West Venture Capital fund, which is backed by the Department of Trade and Industry.

During 2006/07 the Pension Fund invested an initial £200,000, of a maximum commitment of £2m, into the Chandos Fund, another Yorkshire Fund Manager product. This Fund mainly provides expansion capital for high growth businesses.

11. **Unlisted holdings**

The following holdings are unlisted:-

	2005/06 £000	2006/07 £000
<u>Pooled investment vehicles</u>		
UK equity unit trusts	9,030	8,207
UK equity unitised insurance policy	3,951	4,005
Overseas equity managed fund	29,891	31,649
Overseas equities unitised insurance policies	221,955	277,286
Overseas limited liability partnerships	10,852	9,122
	<u>275,679</u>	<u>330,269</u>
Overseas Other Fixed Interest	62	207
	<u>275,741</u>	<u>330,476</u>

12. **Stocklending**

The Pension Funds' custodian is authorised to release stock to a third party under a stock lending arrangement. At 31st March 2007 the value of stock out on loan was £99.4m. (31.03.06 £57.9m) comprising of £27.9m (31.03.06 £42.5m) in UK equities and £71.5m (31.03.06 £15.4m) in UK Government stock. Collateral to the value of 103% (31.03.06 105%) of the amount of stock out on loan was held in the form of government stock and UK equities. The average balance of stock out on loan during the year was £18.2m. (2005/06 £10.8m).

13. Investment income

Investment income arises from the following investment categories:-

	2005/06	2006/07
	<u>£000</u>	<u>£000</u>
Fixed interest	7,417	7,397
Equities	10,489	12,777
Index-linked	1,507	1,363
Pooled investment vehicles	2,021	2,665
Interest on cash deposits	746	774
Other income	17	26
	<u>22,197</u>	<u>25,002</u>

14. Fixed interest securities

A further breakdown is given of holdings within the Overseas Public Sector Fixed Interest and Overseas Other Fixed Interest totals below:-

	2005/06	2006/07
	<u>£000</u>	<u>£000</u>
<u>Overseas public sector fixed interest stock</u>		
Overseas public sector fixed interest stock	38,959	13,169
US treasury bond futures	-8,719	-13,143
European gov bond futures	-11,036	-6,552
	<u>19,204</u>	<u>-6,526</u>
<u>Overseas other fixed interest stock</u>		
Overseas quoted other fixed interest stock	3,141	5,622
Overseas unquoted other fixed interest stock	62	207
	<u>3,203</u>	<u>5,829</u>
	<u>22,407</u>	<u>-697</u>

The negative figures indicate where a manager has agreed to sell a futures contract at a set point in the future. When the futures contract is terminated the difference between what the manager agreed to sell the future for (the market value of the futures contract in the Net Assets Statement) and the value of the contract at the time of termination determines whether a profit or a loss is made.

15. Futures

At 31st March 2007 futures contracts with a value of £19.69m (31.03.06 £19.75m) had been entered into. The futures contracts are included within the underlying asset class. Therefore £19.69m (31.03.06 £19.75m) has been included within the Overseas Public Sector Fixed Interest category. A corresponding entry of £19.69m (£19.75m) has been included within Other Investment Balances which reflects the cash position that would have arisen if the futures contract was closed.

16. Pooled investment vehicles

Pooled investment vehicles may be categorised as follows:-

	2005/06	2006/07
	<u>£000</u>	<u>£000</u>
<u>Managed Funds</u>		
Overseas equities managed from outside the U.K. - unquoted	29,891	31,650
<u>Unit Trusts</u>		
UK equities - unquoted	9,031	8,207
<u>Limited Liability Partnerships</u>		
UK	16,020	19,946
Overseas	10,852	9,122
<u>Unitised Insurance Policies</u>		
UK equities - unquoted	3,951	4,005
Overseas equities - unquoted	<u>221,955</u>	<u>277,286</u>
	<u>291,700</u>	<u>350,216</u>

17. **Separately invested additional voluntary contributions**

The in-house additional voluntary contribution scheme is run by Prudential and the A.V.C.s are invested separately in funds managed by them. 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).

Separately invested additional voluntary contributions paid by members during the year totalled £575,224 (2005/06 £655,652). As at 31st March 2007 the value of separately invested additional voluntary contributions was £7.2m (31.03.06 £6.9m).

18. **Other investment balances**

Other investment balances include items which arise as a result of investment transactions and are detailed below:-

	2005/06	2006/07
<u>Other Investment Balances</u>	<u>£000</u>	<u>£000</u>
Outstanding sales	-	34,934
Outstanding purchases	-77	-19,122
Cash backing open futures	20,498	20,369
Outstanding dividends and tax reclaims	4,766	5,484
Venture capital/private equity	254	454
Currency options	21	257
	<u>25,462</u>	<u>42,376</u>

19. **Investments exceeding 5 per cent of Total Net Assets**

At 31st March 2007 the Pension Fund held 4 (31.03.06, 4) Investments that each exceeded 5 per cent of the total value of the net assets of the scheme. These are detailed as follows:-

	2005/06		2006/07	
	<u>£000</u>	<u>%</u>	<u>£000</u>	<u>%</u>
Hermes Property Unit Trust	56,489	6.4	75,958	8.0
Barclays Global Inv. Ascent Life European Equity Fund	73,475	8.4	85,863	9.0
Barclays Global Inv. Ascent Life Japanese Equity Fund	54,648	6.2	49,438	5.2
Barclays Global Inv. Ascent Life US Equity Fund	69,838	8.0	106,442	11.2
	<u>254,450</u>	<u>29.0</u>	<u>317,701</u>	<u>33.4</u>

Barclays Global Investments are unitised insurance policies.

20. **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 follow the principles outlined in the Funding Strategy Statement and are either paid in one lump sum or (historically) over several years dependent on the status of the employer. When a payment is spread there is an extra cost to reflect the delay in total payment. At 31st March 2007 £736,805 (31.03.06 £1.735m) was due to the Pension Fund and not included as an accrual in the accounts.

FIRE PENSION ACCOUNTS

Fund Account for the year ended 31st March 2007

	FPS £'000	NFPS £'000	Total £'000
Contributions Receivable			
From employer			
normal	-1,564	-4	-1,568
other: Added Years	-5	-	-5
other: Ill health retirement	-70	-	-70
From members	-806	-3	-809
Transfers in			
individual transfers in from other schemes	-13	-	-13
Benefits Payable			
pensions	2,071	-	2,071
commutations & lump sum retirement benefits	384	-	384
other: Annual increase in pensions	876	-	876
Payments to and on account of leavers			
individual transfers out to other schemes	21	-	21
Net amount payable / receivable for the year before the top-up grant receivable / amount payable to sponsoring dept.	894	-7	887
Top-up grant receivable / amount payable to sponsoring dept.	-637	-	-637
Net amount payable / receivable for year	257	-7	250

Net Assets Statement for the year ended 31st March 2007

	FPS £'000	NFPS £'000	Total £'000
Net current assets and liabilities			
contributions due from employer	-1,639	-4	-1,643
pension top-up grant receivable from sponsoring department	-894	7	-887
other current assets and liabilities	2,533	-3	2,530
	-	-	-

Notes

a) The Firefighters pension fund is administered by the County Council. It is split into two schemes 'Firefighter Pension Scheme' (FPS) which is for wholtime 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 wholtime 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 of 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 for Communities and Local Government, therefore there are no investment assets belonging to the fund.

b) 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 2006. 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.

c) The fund's financial statements do not take into account any liabilities to pay pensions or other benefits after the period end.