

CONTENTS

	Page
Foreword by Group Director, Business Management	2 to 5
Statement of Accounting Policies	6 to 10
Statement of Responsibilities	11
Auditors' Report	12 to 15
Annual Governance Statement	16 to 27
Income and Expenditure Account	28
Statement of Movement on the General Fund Balance	29
Statement of Total Recognised Gains and Losses	30
Balance Sheet	31
Cash Flow Statement	32
Notes to the Accounts	33 to 66
GCC Pension Accounts	67 to 68
Notes to Pension Fund Accounts	69 to 76
Fire Pension Accounts	77 to 78
Glossary of Terms	79 to 83

Foreword by Group Director, Business Management

This document presents the published accounts of the County Council for the financial year ending 31st March 2008. 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 the substantive changes introduced to the accounts include:

- Major changes to the accounting treatment and disclosure requirements of financial instruments.
- Replacement of the Fixed Asset Restatement Account and Capital Financing Account by a Revaluation Reserve and a Capital Adjustment Account.
- Accounting requirements for Local Area Agreement grant.

The Statement of Accounts consists of:

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

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

- *Statement of Movement on the General Fund Balance*

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

- *Statement of Total Recognised Gains and Losses*

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

- *Balance Sheet*

This shows the financial position of the Council at 31st March 2008 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 this statement the accounts of the *Gloucestershire Pension Fund* and the *Fire Pension Accounts* are also included.

Revenue expenditure

The original revenue budget for 2007/08 was £310.930m and this was subsequently increased by £1.663m mainly as a result of under-spends carried forward from 2006/07, to give a revised budget total of £312,593m. The County Council's actual expenditure in 2007/08, net of income, totalled £306.470m, a net under-spend of £6.123m (less than 2%). This represents a good outcome particularly when the good service performance of the council is taken into account. The figure consists of service underspends of around £2.4m and a surplus on our treasury management activity of around £3.7m net. This latter extra income arises primarily from our investment of our cash funds at higher interest rates. Some or all of the under-spends may be carried forward to increase budgets in 2008/09. Uncommitted general balances at 31st March 2008 were £18.6m compared to £17.4m at the start of the year. The Council's medium term financial strategy is to achieve a level of reserves of between 4% (£12.50m) and 6% (£18.76m). Balances are at the upper end of this target range for 2007/08. The 2008/09 net budget is £361.4m and balances represent 5.2% of this budget.

Capital expenditure

Capital expenditure of £76.4m was incurred in 2007/08. An analysis of the main projects is given in note 25 on page 46. This expenditure was financed by a combination of loans, grants, contributions and revenue. Details can be found in note 20 on page 43. New loans of £31m were raised in the year. Total loans outstanding at the end of the year were £358m and the costs of servicing debt in the year were £32.1m.

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.

Expenditure relating to the July 2007 floods.

Note 53 explains the aftermath of the July 2007 floods.

Service Summary and Performance Analysis

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

The use of financial resources enables the Community and Adult Care Directorate to provide support and other services to around 8,100 older people, around 1,300 people with learning difficulties, around 1,500 people with physical disabilities and around 1,000 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 3.2 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 139,000 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 5,215 km roads, 3,000 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 the residents of Gloucestershire.

In terms of performance, following the overall Comprehensive Performance Assessment (CPA) undertaken in October 2007, the Council achieved the top-rating of four stars for the first time ever giving GCC an overall assessment as an "excellent" council. As part of this national external assessment the Council's Corporate Performance Assessment was confirmed as 3 out of 4, the same as in 2004, but against a harder test. In relation to the "Use of Resources" aspects of the CPA we were given a score of 3 out of 4.

During the year Gloucestershire Adult Social Care was given an improved two star rating. The Social Services Inspectorate, in making this judgement, highlighted many achievements.

The annual assessments on the Fire & Rescue Service reported that the service is improving well and is the 5th most improved in the country. Gloucestershire Fire and Rescue service continues to be rated as a 'Good' Performing Service.

The Direction of Travel assessment in February 2008 confirmed that the Council is "improving well". This high rating has now been met for the last 3 years.

Some key achievements over the last year include:

- **Supporting older people** – Since 2005 GCC have increased the number of older people helped to live at home by over 30% and over the last year we have become much quicker at assessing the needs of older people with our performance now improving to become one of the fastest responding councils. We are investing £50m in upgrading residential care across the county and our external assessors confirm the progress we've made recently by awarding the extra star for our social care services for adults.
- **More police** – To fight crime and the fear of crime, the County Council is directly investing nearly £3m over four years to recruit an additional 63 Police Officers, one for each electoral division. 29 were in place at the end of 2007/8 and this is having a direct impact on lowering crimes committed in the county.
- **Improving the roads** – The authority has made significant investments since 2005, as recognised through technical measurement and public opinion. But the 2007 floods caused considerable damage across the county and will almost certainly set us back - a robust case has been made to government for further support. GCC successfully introduced Civil Parking Enforcement in November 2007, and this will help keep traffic moving through less obstructions.

- **Protecting our environment** - we are leading on the issue of Climate Change, having signed up to the Nottingham Declaration, and working with the Carbon Trust. We have initiated high profile debates in this area, including the potential for a Severn barrage. We are also working with partners to increase the resilience of the county against future risks of flooding.
- **Developing our economy** – our economic partnership, Gloucestershire First, is regarded by the South West Regional Development Agency as one of the most successful economic partnerships in the South West, and has helped to draw in resources for additional economic activity around rural issues, food and skills.
- **Services for vulnerable Children and Young People** – our schools continue to excel despite relatively low funding. Gloucestershire's GCSE results are amongst the best in the country. The new standard of excellence, introduced last year, counts pupils who have achieved at least five passes at grades A*-C including English and Maths GCSE. 54.4% of pupils achieved this standard in Gloucestershire compared with a national average of 46.7%. This places Gloucestershire in the top 15% of authorities in the country. We are opening new Children's Centres, which are about giving the best possible start for all young children. We are working with young people to improve the range of places to go and things to do. Our Joint Area Review has confirmed that our existing priorities to further develop services for the most vulnerable children and young people with partner agencies, remains the place for us to focus.
- **Lower taxes** – Council Tax increases of 3.5% in 2006/7 and 3.4% in 2007/8 put us amongst the lowest increases of any county council in the country.
- **Value for money** - to deliver such low council tax increases and maintain services, we have ensured that additional investment has been targeted towards priority areas only, and we have delivered efficiency gains significantly in excess of our Government "gershon" targets. With an ever-tightening public sector funding situation, we are determined to minimise the impact on front line services, hence our focus on value for money.
- **Flood Recovery** - in July 2007 we played a key role with our partners and the people of Gloucestershire, in responding to Gloucestershire's most severe civil emergency in modern times with nearly 5,000 properties being flooded and over 300,000 residents losing their water supply. Since then we have led the recovery process, seeking to help communities recover whilst ensuring that Gloucestershire's infrastructure is repaired and we are better prepared for whatever challenges climate change brings in the future. Gloucestershire secured over £10m of additional funding from the Department of Transport to repair flood damaged highways assets. The recent Scrutiny Inquiry into the emergency is an excellent example of effective Scrutiny with the Council taking on a community leadership role.

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 2007: 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 income and expenditure account is not material.

Provisions and Reserves

Provisions are established to cover known liabilities, which need to be met in a later accounting period. Reserves are created in order to provide funds for future activities. Details of provisions and reserves are shown in notes 35 and 41

Fixed Assets

Fixed assets are valued as recommended by CIPFA, and in accordance with the Statement of Asset Valuation Practice and Guidance Notes issued by the Royal Institute of Chartered Surveyors. Assets are classified into the groupings required by the Code. The basis of valuation is explained in note 21

From 1st April 2007 the Code required further changes to the accounting treatment of fixed assets to bring local authorities more in line with standard accounting practice. Previously, when an asset was revalued, any increase in value was credited to the Fixed Asset Restatement Account. The changes mean that the Fixed Asset Restatement Account and Capital Financing Account have been replaced by a Revaluation Reserve and a Capital Adjustment Account respectively. Upward revaluations are credited to the Revaluation Reserve. Where a downward revaluation occurs (an impairment) if this is due to a general change in property prices, the amount is debited to the Revaluation Reserve up to the value of previous accumulated revaluation gains. Any further devaluation below depreciated historic cost is charged to the Income and Expenditure Account. If the impairment loss is similar in nature to depreciation, e.g. as a result of physical damage, all the loss is charged to the Income and Expenditure Account.

Expenditure that is not considered to add equivalent value to an asset, previously written off to the Fixed Asset Restatement Account, must now be recognised in the Income and Expenditure Account. This is because there will be no compensating revaluation gains available and there can be no negative balances for individual assets in the Revaluation Reserve.

Expenditure on assets not owned by the authority, but for which the authority has the rights to the economic benefits inherent in the property e.g. Foundation and Voluntary Aided schools, and a leased property where expenditure is incurred on refurbishment, is now recognised in the Balance Sheet as an asset where previously it was also written off to the Fixed Asset Restatement Account.

In the Income and Expenditure Account service revenue accounts are charged with depreciation on all operational assets (where appropriate) except land, i.e. all tangible fixed assets used in the delivery of services. Depreciation on non-operational assets such as surplus property is charged to unapportionable central overheads. Assets under construction do not generate a charge. Previously depreciation charges were offset by an entry in the Capital Financing Account. From 1st April 2007 depreciation is split: that relating to the original historic cost of the asset is credited to the Capital Adjustment Account and that relating to the revalued element of the asset is credited to the Revaluation Reserve.

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

The Code requires that an asset's current value at 1st April 2007 represents its depreciated historical cost at that date. So the opening balance on the newly-created Revaluation Reserve is nil. The Code also requires that the balance on the Fixed Asset Restatement Account is transferred to the Capital Financing Account and the latter becomes the new Capital Adjustment Account.

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

Community Assets

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

Depreciation

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

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

Basis for Redemption of Debt

Gloucestershire County Council finances a proportion of its capital investment by raising loans. In accordance with the Local Authorities Capital Financing and Accounting Regulations 2003 as updated, the Income and Expenditure Account has been charged with an amount that is sufficient to redeem a specified statutory percentage of outstanding debt. The statutory figure is called the Minimum Revenue Provision (MRP) (see note 16).

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.

Financial Instruments

Deferred Premiums

Premiums paid 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 to the General Fund. The deferred premiums and discounts account has been replaced by the Financial Instruments Adjustment Account.

Deferred Discounts

To date, the County Council has not received discounts upon the early repayment of any debt.

Derivatives

The Council has entered into contracts that contain embedded derivatives, including PWLB debt, Lenders Option Borrowers Option (LOBO), and a PFI contract. These embedded derivatives could not be separated from the host contracts, therefore they have not been recognised at fair value with the movements to the Income & Expenditure Account.

Fair Value Adjustments

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

Class of Financial Instrument

Classes of Financial Instruments and their basis of valuation are:

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

- Financial liabilities at fair cost through the I&E Account, based on fair value determined by reference to the contract and market rates at the Consolidated Balance Sheet date.

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

All Financial Assets are reviewed annually for impairment.

Further details on Financial Instruments are given in Note 54 on pages 63 to 66.

Pensions

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

The operating costs of providing retirement benefits to employees are recognised in the accounting periods in which the benefits are earned by the employees, and the related finance costs and any other changes in value of the assets and liabilities are recognised in the accounting periods in which they arise. External actuaries are appointed to provide the necessary information and their assumptions and calculations are detailed in notes 17, 40 and 45

Private Finance Initiative (PFI) scheme

The Council, in partnership with Avon Fire Authority and Devon and Somerset Fire Authority (formerly Somerset County Council) has invested in a PFI project to provide a Fire and Rescue Service training centre (see note 12). The Government provides some revenue support to the project in the form of grants (PFI credits), and the three authorities finance the balance by making contributions from within their own resources. Originally the annual grant was received on a sliding scale, with a disproportionate amount being received in the first nine years of the contract.

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 was introduced which makes equal instalments throughout the life of the contract. The fund was reviewed during 2005/06 and it was agreed that the three authorities reduce their funding by £90,000 per annum due to the estimated surplus in the final balance. Gloucestershire County Council administers and holds the fund on behalf of the three authorities. The balance of the fund as at 31st March 2008 was £3.135m

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

Leasing

The Balance Sheet does not include the value of vehicles and equipment held under operating leases since they do not pass into the ownership of the Council. Annual lease rentals have been charged to service revenue accounts. Information on rentals paid to lessors together with details of outstanding liability is shown in note 7.

Capital Grants and Contributions

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

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

Support Services Costs

These costs are charged to directorates 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 prices. Other stocks and work in progress are shown at cost price. Certain stocks are not valued, e.g. stationery and library books are excluded.

The Department of Environment, Food and Rural Affairs (DEFRA) allocated the Authority Landfill allowances for 2007/08. These allowances have been valued at the balance sheet date in accordance with the SORP.

Investments

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.

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 experience of bad debts. This is shown in note 30.

Explanation of prior period adjustments

In the 2007/08 Statement of Accounts the council has adopted new accounting policies relating to financial instruments but the SORP 2007 does not require the restatement of figures from previous accounting periods. The required adjustments take effect from 1st April 2007.

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 2008 and its income and expenditure for the year ended.

Stephen Wood CPFA
Group Director: Business Management
30th September 2008

The Audit Committee of the County Council approved the Statement of Accounts on 30th September 2008

Councillor Bruce Hogan
Chairperson

Auditor's Report

Independent auditor's report to the Members of Gloucestershire County Council Opinion on the accounting statements

I have audited the accounting statements, the firefighters' pension fund accounting statements, the local government pension fund accounts, and related notes of Gloucestershire County Council for the year ended 31 March 2008 under the Audit Commission Act 1998. The accounting statements comprise the Explanatory Foreword, Income and Expenditure Account, the Statement of the Movement on the General Fund Balance, 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 accounting statements, the firefighters' pension fund accounting statements and local government pension fund accounts have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Gloucestershire County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 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 auditor

The Group Director, Business Management's responsibilities for preparing the financial statements, including the firefighters' pension fund accounting statements and local government pension fund accounts, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007 are set out in the Statement of Responsibilities for the Statement of Accounts.

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

I report to you my opinion as to whether the accounting statements, firefighters' pension fund accounting statements and the local government pension fund accounts present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007:

- the financial position of the Authority and its income and expenditure for the year;
- the financial transactions of the firefighters' pension fund during the year and the amount and disposition of the fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- the financial transactions of the 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 governance statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures

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

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Authority accounting statements, pension fund accounts and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the accounting statements, firefighters' pension fund accounting statements, the local government pension fund accounts and related notes, 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 accounting statements, firefighters' pension fund accounting statements, the local government pension fund accounts and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the accounting statements, firefighters' pension fund accounting statements, the local government pension fund accounts and related notes.

Opinion

In my opinion:

- The Authority financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Authority as at 31 March 2008 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 Practice on Local Authority Accounting in the United Kingdom 2007, the financial transactions of the firefighters' pension fund during the year ended 31 March 2008 and the amount and disposition of the fund's assets and liabilities as at 31 March 2008, other than liabilities to pay pensions and other benefits after the end of the scheme year; and

- The local government pension fund accounts and related notes present fairly, in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial transactions of the local government pension fund during the year ended 31 March 2008 and the amount and disposition of the fund's assets and liabilities as at 31 March 2008, 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***

30 September 2008

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 regularly to review the adequacy and effectiveness of these arrangements.

Auditor's Responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the 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 and fire and rescue 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.

Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities and fire and rescue authorities specified by the Audit Commission and published in 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 2008.

Best Value Performance Plan

I have issued our statutory report on the audit of the authority's best value performance plan for the financial year 2007/08 on 30 August 2007.

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
30 September 2008***

Gloucestershire County Council

Annual Governance Statement 2007/08

1 Scope of Responsibility

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

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

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

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

This Annual Governance Statement explains how the County Council has complied with the code and how it meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003, as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of a statement on internal control.

2 The Purpose of the Governance Framework

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

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

The governance framework has been in place at the County Council for the year ended 31st March 2008 and up to the date of the approval of the accounts on the 27th June 2008.

3 The Governance Framework

The key elements of the systems and processes that comprise the county council's governance arrangements are summarised below :




GCC Corporate Governance Framework

Key Principles :-

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

Key Documents and Processes contributing to the achievement of the key principles :-

Principle 1	Principle 2	Principle 3	Principle 4	Principle 5	Principle 6
Corporate Strategy	Corporate Strategy	Corporate Strategy	Risk management strategy	PAR	Council Plan and Business Plans
Community Strategy	Council Plan and Business Plans	Council Plan and Business Plans	Risk registers	HR People Strategy	Community Strategy
Council Plan and Business Plans	Service Plans	Register of interests	Business Continuity Plans	Job descriptions	Local Area Agreement
Service & Statutory plans	Medium Term Financial Strategy	Codes of conduct	Risk management reports	Consultation strategy	Service Plans
Medium Term Financial Strategy	Members Allowances	Financial Regulations	Codes of conduct	Leadership training	Medium Term Financial Strategy
Code of Governance	Pay & conditions	Standing Orders	Register of interests	Officer training / induction	Budget
Local Area Agreement	Codes of conduct	Anti-fraud & corruption policy	Committee reports	Member training / induction	Annual accounts
BVPP	Consultation Strategy	Standards Committee	Job descriptions	Performance management	Annual report
Annual accounts / report	Communications strategy	Whistle Blowing procedures	Audit reports	Scrutiny	BVPP
Consultation Strategy	Job descriptions	Complaints procedures	Member training / induction	Constitution	Consultation strategy
Communications Strategy	Consultation Strategy	Member / officer protocols	Constitution	Scheme of delegation	Communications strategy
Cabinet and Cttee reports	Committee reports	Protocols for gifts / hospitality	Statutory powers	Local Area Agreement	Minutes of meetings
Data Quality Strategy	Cabinet reports	Monitoring Officer	Monitoring officer	Strategic partnerships	Scrutiny reports
Performance Reports	Financial regulations	Scrutiny	Scheme of delegation	Citizens panel	Satisfaction surveys
Complaints Procedures	Constitution	Local Area Agreement	Risk management framework		Constitution
Gloucestershire Conference	Scheme of delegation	Internal Audit	Emergency management		Partnership Frameworks
Partnership Protocols	Performance management	External Audit	Complaints procedures		Scrutiny
	Statutory powers	Partnership protocols	Scrutiny		Gloucestershire conference
	Section 151 officer	Partnership agreements	Audit Committee		Gloucestershire charter
	Member / officer protocols		Whistle Blowing		Public meetings
	Partnership protocols		Protocols for gifts / hospitality		School Governors

	Annual Review/ Production
	Ad-hoc Review/ Production
	Contributory Processes

The majority of the documents and processes detailed above, and other documents underlined in this statement, can be accessed by clicking on the appropriate box or document in the electronic version of this statement on the [GCC website](#).

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

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

4 Review of effectiveness of governance arrangements

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

In undertaking this review GCC has :-

- Set out the key documents and processes which incorporate its governance system (above) and arranged for a detailed internal audit to be undertaken in relation to this framework to identify gaps and/or improvements.
- Sought independent assurances, from external assessments where available, on
 - Performance management and data quality arrangements
 - Risk Management arrangements
 - The adequacy of the system of Internal Audit
 - Financial control assurance
 - Standards of conduct and adherence to the law.
- Obtained assurances from all Directors relating to their areas of service responsibility to confirm that:-
 - Performance and risk management arrangements are operating effectively
 - Staff were adhering to the GCC Code of Conduct and complaints procedures
 - Information included in committee reports was timely and accurate
 - Sound financial management arrangements are in place.

- Reviewed progress on the implementation of key audit recommendations made during the year.
- Reviewed the effectiveness of the key corporate governance processes highlighted.
- Reviewed the control and governance arrangements relating to the pensions fund.

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

Governance framework improvement / gap audit

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

The audit did, however, identify a number of gaps and/or improvements required which have been / are being addressed as summarised below :

- New Code of Corporate Governance approved by the Audit Committee on 28th January 2008 and has now been placed on staffnet and on the GCC website.
- New “model” members Code of Conduct adopted.
- Complaints policy will be updated to show the actual policy of all complaints against members being the responsibility of the Monitoring Officer and Standards Committee.
- Statutory changes relating to the local first assessment of complaints of member misconduct are in the course of being implemented.
- The anti fraud and corruption policy has been updated and placed on staffnet.
- Appropriate training was made available to the Audit Committee.
- A new programme of member induction, to include an equalities and diversity element, and refresher training is being produced.
- Confidential whistle blowing procedures will be re-launched and published further during 2008/9.

Performance Management and Business Planning Arrangements

This area has been covered by numerous inspections in recent years. Key assurance for this Governance Statement in relation to Performance Management has been obtained from comments in the Corporate Assessment report issued by the Audit Commission in February 2008, particularly the following paragraphs.

“The Council is performing well in this area, and is among the most improved councils over the past three years. The Council has a clear and robust approach to performance management supported by effective systems, clear responsibilities and strong leadership.

Performance management with partners is strong at a strategic level, for example through the LAA, and developing well within service delivery partnerships through a robust approach to performance monitoring, contracting and partnership agreements. The Council can demonstrate a sustained focus on improving performance in priority areas and those areas that are weak”.

The 2008 Annual Audit letter confirmed “Data Quality arrangements overall were good, an excellent new data quality strategy has been developed”.

The Council’s internal business planning process is good. Corporate plans are well linked to the LAA. Plans at all levels make it clear who is accountable for delivery, key actions and milestones, how progress will be measured, how risks are managed and the financial implications. Guidance for managers helps to ensure that these plans are then translated into objectives at the individual level. There are systematic monitoring and review processes involving managers, councillors and partners. Reporting cycles reflect business needs and risk. As a result of its business planning process the Council is well placed to deliver LAA and its own priorities and the targets which underpin them.

The Council demonstrates strong leadership on performance management with identified officer and councillor champions. Managers focus on what is important, especially where performance is not meeting the Council’s own targets. Areas of good and poor performance are clearly highlighted in performance reports together with details of action being taken to address areas of under-performance. Directorates’ plans are monitored monthly by the group director and the portfolio holder, and quarterly by the corporate business management board, formed from all service directors and scrutiny members. The Council uses performance information to focus attention on underperforming areas of its work. 18 out of 20 PIs in the lowest quartile have improved, and the Council’s only remaining ‘one-star’ service, adult social care has been recently confirmed as ‘two-star’”.

The data quality action plan is being implemented with progress monitored via the Performance Board. Improved Partnership working is an area of focus.

Risk Management Arrangements

Risk Management arrangements are reviewed as part of the annual Use of Resources review undertaken by the Audit Commission. At the last review, reported in December 2007, the Audit Commission concluded that GCC was well above minimum requirements and performing strongly in this area, their highest category.

The Commission stated that “the improvement in risk management arrangements evidenced last year has continued to be embedded. Systems of internal control are generally sound. The Council promotes probity and propriety in the conduct of its business”.

Likewise, in the last Annual Audit letter the External Auditors stated, “In respect to managing business risks the Council has undertaken a number of good practice initiatives this year including a review of its approach to responding to insurance claims received. Your work on reviewing the risks associated with climate change resulted in a revision to your insurance cover against the risk of flooding in school properties. This resulted in the Council changing its insurance arrangements for schools. The additional annual cost of this insurance cover totalled approximately £0.2m but resulted in a net saving to the Council of £1.8m in repair costs due to major flooding in Gloucestershire in July 2007”.

Cabinet and Lead Member decision making arrangements / Scrutiny arrangements

The following extract from the Corporate Assessment report for the Council demonstrates generally effective procedures in relation to decision making and scrutiny arrangements within the Council. The training issues raised are being picked up by the monitoring officer, as outlined in the governance improvement / gap audit section above.

“The Council has developed transparent and effective decision-making processes but these are not fully embedded. Decision-making is timely with the forward plan integrated with key planning milestones. The Council's review of Scrutiny in May 2007 established an Overview and Scrutiny Management Committee to facilitate the commissioning of short-term task and finish groups aligned to priorities, together with a further three scrutiny committees. However, there remains some lack of understanding amongst councillors regarding the different roles of the Cabinet Panels and of the Task and Finish Groups. Scrutiny is making an impact on service improvement, for example, by increasing the growth budget for services for older people to better address demographic change and overall there are constructive cross-party relationships which enable effective decision-making. Councillors and officers work effectively within the ethical framework but take up of training is low. The Council's Standards Committee and monitoring officer provide advice, training and assistance to councillors on the ethical framework. However, attendance at code of conduct training has been low, at 50 per cent, impacting on levels of understanding and knowledge within the Council.

The Council's scrutiny process is sound and is continuing to develop. It has helped ensure the Council remains focused on its priorities, for example influencing the budget process in 2007 to ensure that resources for older people's services reflected more closely the demographic pressures, increasing the budget by £1 million, and establishing a low performing indicator task group to focus on specific areas for improvement. The Council has taken an inclusive approach in the use of its scrutiny panels for example through the inclusion of a Gloucester City Council member on the flooding enquiry. This shows an open approach to external challenge”.

Financial management and reporting arrangements

Financial management and reporting arrangements are also reviewed as part of the annual Use of Resources review undertaken by the Audit Committee. At the last review, reported in December 2007, the Audit Commission concluded that GCC was consistently above minimum requirements and performing well in this area.

Audit arrangements

Effective audit arrangements operate within the council provided by an in house internal audit service and external Audit provided by the Audit Commission. Both internal and external audit submit detailed annual plans to the Audit Committee of the Council, together with regular monitoring reports highlighting key recommendations and actions taken.

The Audit Committee have, over the last year, taken the opportunity to follow up on progress on key audit recommendations by requesting the attendance at their meetings of key operational officers who are asked to report on progress. This improves accountability and ensures that key recommendations are actioned to the satisfaction of the Audit Committee.

As part of their overall plan external audit are required to review the effectiveness of internal audit. At their last review, reported to the January 2007 Audit Committee their report stated that the internal audit service meets all the current CIPFA Standards, is appropriately staffed with experienced and specialised officers, delivers work that is of a good standard and is well managed. A number of minor improvement points were identified which have now been addressed.

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

In terms of compliance with the law, during 2007/8 no instances of non compliance were identified, and no councillors were found to have breached the statutory Code of Conduct for members. In addition, no complaints to the Ombudsman were upheld against GCC.

Although clear procedures exist, which can be accessed in relation to whistle blowing arrangements, internal audit raised some concerns during the year regarding the effective operation of such arrangements and in particular the publicity given to such arrangements. Following these concerns the Monitoring Officer has agreed to re-launch the existing confidential reporting procedure, beginning with a report to Directors' Board in July 2008.

Partnership Arrangements

Assurance in relation to partnership working arrangements can be obtained from the latest Corporate Assessment report on the council and, in particular, the following extracts.

"The Council provides strong and appropriate leadership in shaping the vision of the Local Strategic Partnership (LSP) and in the formation and delivery of the vision through the Local Area Agreement (LAA). The Council's Corporate Plan translates these ambitions into clear priorities with generally stretching targets, although longer-term targets are not consistently in place. Partners are involved in setting targets within the LAA, ensuring they are challenging and realistic and focused on community needs, and data quality principles are endorsed by all partners. While overall the Council's strategic approach to addressing its ambitions is good it has yet to significantly implement some agendas including affordable housing and meeting the needs of the growing number of older people in the county".

"The achievement of this vision is supported by highly effective partnership working through a well structured planning and implementation framework, the Gloucestershire Conference. The conference has three main elements - the GSP which sets the overarching vision; the Accountable Bodies Group which makes the decisions; and an Executive Board - and works with a number of partnerships to deliver on the ambitions. This framework ensures the involvement and commitment of a wide range of stakeholders in setting and revising priorities and actions, and strengthens the links to other partnerships such as local strategic partnerships and organisations and businesses".

"There is a good track record of partnership working to strengthen public services and support and improve the quality of life for people living and working in the county. The Gloucestershire Conference provides a sound framework to engage partners and stakeholders in setting wider community priorities. Joint priorities are set within the LAA and six thematic partnerships are progressing actions to achieve the agreement's targets - which are generally realistic and challenging".

“The LAA is based on analysis of need using intelligence from across the partnership. While some thematic partnerships are well developed, such as the Children and Young People's and Safer and Stronger Communities partnerships, others such as the Environment and Healthy Communities and Older People partnerships are at an early stage. Overall this partnership working is building a strong shared ownership of what the Council and its partners are trying to achieve for the people of Gloucestershire”.

The council can also demonstrate strong partnership arrangements working with School Governors, with an active website targeted at Governors, the provision of numerous training courses and support to Governors and a fortnightly e-bulletin sent to all Chairs of Governors.

Assurances from Directors

As part of this review of the effectiveness of Governance arrangements during 2007/8 assurance statements were sought from all Directors, to confirm that, for their areas of management responsibility :-

- Performance and risk management arrangements were operating effectively
- Staff were adhering to the GCC Code of Conduct and complaints procedures
- Information included in committee reports was timely and accurate, and
- Sound financial management and value for money arrangements were in place

Assurances were received back from all 12 current Directors, with the following key areas of concern being raised :-

- One Director raised a concern that the GCC complaints system was not working effectively due to difficulties in being able to access information in a meaningful way to help improve services.
- Three Directors raised concerns about problems (possibly short term) encountered following the introduction of the new SAP system, with particular reference to general implementation problems and access to reliable budget monitoring information

Pension Fund

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

In July 2007 The Society of County Treasurers issued “Good practice guidance: gaining assurance over the governance and administration of pension funds and pension fund investment management - a guide for the internal auditor”.

Internal Audit have followed this guidance (when seeking assurance for this statement) and reviewed the controls in place for the three main areas of Governance, Pension administration and Investment management.

Based on this work together with a recent audit of the pension payments system, Internal Audit have concluded that adequate assurance has been obtained that the controls are operating satisfactorily.

Governance

Internal Audit examined the various reports, policies and statements, which are published on the County Council website, namely the annual report, report to members, statement of investment principles, funding strategy statement, communications policy statement and governance policy statement.

The Pension Fund is administered by the Pensions Committee which meets quarterly. Internal Audit attended a recent meeting and examined the minutes and reports of these meetings to ensure that they are administering the fund as set out in the various statements detailed above, and that these statements are reviewed regularly. Audit gained full assurance from these checks.

The Department of Communities & Local Government (CLG) issued draft guidance on principles covering governance standards in October 2007. The CLG have now advised that Administering Authorities need to publish their Governance Compliance Statements by 01/08/08. A report was presented to the Pension Committee on 09/05/08 outlining the areas where the Gloucestershire Pension Fund was not fully compliant with the CLG's governance standards (all stakeholders not represented within the committee structure, and no justification for not extending voting rights to each body represented on main LGPS committees), and Internal Audit are satisfied that action is/will be taken to address these issues.

External Fund Managers

The arrangements for the appointment of the six specialist providers and the global custodian in April 2004, were reviewed by Internal Audit in January 2006 and were found to be satisfactory.

Internal Audit has also carried out an overview of the contracts for all of the fund managers and the global custodian, reviewing available assurance statements and the latest internal control statements from published accounts. No significant control issues were identified.

Performance Monitoring

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

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

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

Actuarial assessment of the fund.

The actuaries Hymans Robertson are appointed to carry out a triennial valuation of the fund. The last valuation was carried out as at 31st March 2007 the final report being issued in March 2008. Prior to the valuation the Pension Committee review their Funding Strategy Statement. Internal Audit obtained evidence that this was undertaken although no changes were made.

Evidence was also obtained to demonstrate that the outcome of the valuation was used to set the employer's contribution for the next three years.

Management of funds risks & controls

The major risks to the authority arising from the management of the pension fund have been identified and included in the Corporate Risk Register. This is regularly reviewed although as at December 2007 no changes had been made. The major risks identified are

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

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

Pension Fund Administration

Internal Audit reviewed the pension administration procedures using the risk matrix published by the Society of County Treasurers, and identified and tested all key controls within the system.

Although Internal Audit identified a number of problems relating to the identification and coding of employer and employee contributions and data matching between pension and payroll records, they concluded that there was no immediate danger of a breakdown in controls because manual arrangements have been put in place until the systems issues are resolved.

5 Governance Issues Arising

As a result of the review of governance arrangements outlined above, the following governance issues have been identified, which will be addressed during 2008/9 as shown.

- 1 The report following the joint area review of children's services, undertaken in October 2007, showed that there is lots of good work going on around the County to ensure good outcomes for most children and young people in the county. The report highlighted positive initiatives in a number of areas, and also identified areas where we need to make improvements. In particular access to core child protection services needs to be more consistent across the county, the quality of residential children's homes are to be improved and processes for safety checking staff who work with children must be more effective.

Actions taken and/or proposed in relation to all of the recommendations included in the JAR report, some of which related to important governance issues which needed, and received, immediate attention, are detailed in the report to the 23rd April 2008 Cabinet which can be accessed on the [Joint Area Review web pages](#) on the GCC website.

- 2 The fact that the new SAP system has been implemented in accordance with agreed time scales, within budget, and apparently without the significant implementation problems experienced in other local authorities is extremely positive. However, as highlighted by three of the Directors, as expected with a new system, teething problems and control issues have been experienced. The SAP implementation team and other relevant officers are aware of these issues and are dealing with them and where necessary, satisfactory manual solutions have been implemented where needed, for year end accounts purposes.
- 3 Required corporate governance improvements identified by the internal audit undertaken during 2007/8 have been/are being addressed as summarised on page 4 of this statement.
- 4 During the year a number of governance issues have been brought to the attention of the Audit Committee. All of these issues have been monitored via the Audit Committee whose members have confirmed that they are satisfied with the actions taken and/or proposed in relation to the recommendations made in these areas, as summarised below.
 - A number of recommendations in relation to the Council's Section 31 Partnerships, in particular the need to formalise all contracts with providers and review all contracts to ensure they are providing value for money. In response to these recommendations a contracts policy and procedure has been agreed by the Core Strategy Group and is now being implemented in accordance with agreed targets and work is being undertaken to review all Learning Disability contracts with regular reports on progress being submitted to the Partnership Board.
 - A number of recommendations in relation to the management of pension payments, in particular the need to undertake periodic completeness checks of pensioner details and an annual comparison of pensionable pay contributions. Action taken to date includes the production of a validation tool which compares HR/Payroll records with information on the pensions system which is now being used to validate the records of all larger employers.
 - The need for the improved communication of ICT security policies. Following recommendations in this area a new information security policy has been produced using ISO 27001 standards which, when finalised, will be communicated to staff as part of a formal awareness campaign.
 - The need to formalise the contract monitoring arrangements in relation to the provision of 63 additional police officers for neighbourhood policing. Following the review in this area a Police Contract Management Board has been established to progress the recommendations made. It will monitor the progress of the action plan and receive regular reports on performance indications set to evaluate the effectiveness of this initiative.

- 5 A number of key actions were highlighted in the Annual Audit Letter in relation to 2007/8. These are detailed below with a summary of the actions taken / proposed to address these areas.

The Council should :-

Recommendation : Implement the recommendations from the Corporate Assessment (late 2007) including :-

- Ensuring equality of service to diverse group within the Community (Corporate Assessment).
- Using partnership working to engage more effectively with communities (Corporate Assessment).
- Developing comprehensive plans to address the future needs of older people, waste, community safety and affordable housing (Corporate Assessment).

There are no other governance issues which need to be highlighted within this statement.

Action taken / proposed: As detailed under point 1 of Governance issues arising, actions taken and/or proposed in relation to all of the recommendations included in the JAR report, some of which related to important governance issues which needed, and received, immediate attention, are detailed in the report to the 23rd April 2008 Cabinet which can be accessed on the [Joint Area Review web pages](#) on the GCC website.

Recommendation : Consider its response to the improvement opportunities outlined in the report on the Council's use of resources assessment.

Action taken / proposed: Actions taken in relation to key improvement opportunities in relation to Financial Management, Internal Control and Value for Money are set out in [detailed self assessments](#) for the 2007/08 Use of Resources assessment which can be accessed from the Comprehensive Performance Assessment web pages on the GCC website.

- 6 There are no other governance issues which need to be highlighted within this statement.

Barry Dare
Leader

Peter Bungard
Chief Executive

Stephen Wood
Group Director
Chief Financial Officer

Income and Expenditure Account 2007/08

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

2006/07 Net Expenditure £'000		Notes	2007/08 Gross Expenditure £'000	2007/08 Income £'000	2007/08 Net Expenditure £'000
33,665	Children's & Education Services	1	537,265	466,765	70,500
135,529	Adult Social Care	2	205,213	95,197	110,016
39,469	Highways, Roads & Transport		58,837	14,707	44,130
20,714	Fire & Rescue		22,819	885	21,934
32,294	Cultural, Environmental & Planning Services		38,939	8,924	30,015
755	Court Services		1,011	146	865
91	Housing Services		118	8	110
	Central Services				
1,552	Central services to the public		3,566	3,950	-384
5,200	Corporate & democratic core		5,650	357	5,293
2,032	Unapportionable central overheads		4,015	138	3,877
-2,289	Other central costs		13,525	12,202	1,323
	Exceptional Items not included in Service Costs		-	-	-
269,012	Net costs of services		890,958	603,279	287,679
248	Flood defence levies				298
216	Gain (-)/Loss on Disposal of Fixed Assets				-
18,048	Interest Payable				18,942
-	Gains(-)/Losses on repurchases/early settlement of debt				-
-4,930	Interest & Investment Income				-8,740
	Pensions Interest Cost and Expected Return on Pension Assets				11,850
293,397	Net Operating Expenditure				310,029
-1,671	Income From the Collection Fund				-1,534
-15,007	Revenue support grant				-13,674
-205,018	Precepts on district councils				-214,242
-77,740	Distribution From Non-Domestic Rate Pool				-81,481
-6,039	Surplus (-)/ Deficit for the year				-902

Statement of Movement on the General Fund Balance

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

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

The General Fund Balance shows whether the Council are over or under-spent against the council tax that is raised for the year, taking into account the use or reserves built up in the past and contributions to reserves earmarked for future expenditure.

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

2006/07 £'000		Note	2007/08 £'000
-6,039	Surplus (-)/Deficit for the year on the Income & Expenditure		-902
	Net additional amount required by statute and non-statutory practices to be debited or credited to the General Fund Balance for the year	14	-3,562
<u>-3,367</u>			<u>-4,464</u>
-19,062	General Fund Balance brought forward		-22,429
-	Transfer from General Fund to Earmarked Balances		448
<u>-22,429</u>	General Fund Balance carried forward		<u>-26,445</u>
5,072	Committed General Fund Balance	41	7,877
<u>-17,357</u>	Amount of General Fund Balance Generally available for new expenditure	41	<u>-18,568</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.

2006/07 £'000		Note	2007/08 £'000
-6,039	Surplus(-)/Deficit on the Income & Expenditure Account for the year		-902
6,237	Surplus(-)/Deficit arising on revaluation of fixed assets		-59,690
-35,803	Actuarial gains (-) and losses on pension fund assets and liabilities	45	-54,420
-	Other recognised gains (-) and losses		-3,056
39,777	Transferred services	43	-
<u>4,172</u>	Total recognised gains and losses for the year	41	<u>-118,068</u>

Balance Sheet

2006/07
£'000

Notes

2007/08
£'000

£'000

606	Intangible Assets	18		541
	Tangible fixed assets			
	Operational assets			
435,039	Land & Buildings	19	501,187	
9,305	Vehicles, plant, furniture & equipment	19	11,871	
240,588	Infrastructure assets	19	259,911	772,969
	Non-operational assets			
6,382	Assets under construction		22,808	
4,745	Surplus assets, held for disposal	19	5,426	28,234
696,666				801,744
18,000	Long-term investment			26,380
113	Long-term debtors			90
<u>714,779</u>	Total long-term assets			<u>828,214</u>
	Current assets			
1,315	Stocks and work in progress		381	
3,409	Landfill Allowance Trading Scheme	29	-	
30,736	Debtors	30	48,274	
2,544	Payments in advance		3,790	
106,643	Short-term investments		152,020	
6,390	Net cash in hand		3,846	208,311
<u>865,816</u>	Total assets			<u>1,036,525</u>
	Current liabilities			
-5,000	Borrowing repayable on demand or with within 12 months		-6,963	
-68,582	Creditors		-83,159	
-2,709	Landfill Allowance Trading Scheme	29	-	
-6,125	Government grant unapplied	37	-24,382	
<u>-12,251</u>	Receipts in advance		<u>-12,678</u>	<u>-127,182</u>
771,149	Total assets less current liabilities			<u>909,343</u>
-324,435	Long-term borrowing	34		-358,050
-6,400	Provisions	35		-6,314
-2,079	Deferred liabilities	33		-2,351
-4,236	Capital contributions unapplied	36		-11,620
-30,816	Government grants deferred account	39		-46,911
-30,786	Capital contributions deferred account	38		-35,448
-351,455	Liability related to defined benefit pension schemes	40		-309,639
<u>20,942</u>	Total assets less liabilities			<u>139,010</u>
	Reserves			
121,632	Capital Adjustment Account	41-42		300,213
-7,368	Financial Instruments Adjustment A/c	28		-7,065
-	Available for sale revaluation reserve			-149
184,948	Revaluation Reserve	41,44a		59,690
-351,455	Pensions reserve	40-41		-309,639
563	Usable capital receipts reserve	41,44		2,469
<u>72,622</u>	Fund balances and reserves	41		<u>93,491</u>
<u>20,942</u>				<u>139,010</u>

Cash Flow Statement

2006/07 £'000	Notes	2007/08 £'000	£'000
Revenue activities			
<i>Cash outflows</i>			
429,810		453,547	
350,985		394,035	
780,795		847,582	
<i>Cash inflows</i>			
-206,689		-215,776	
-77,740		-81,481	
-15,007		-13,674	
-427,791	50	-481,760	
-62,170		-53,382	
-41,422		-54,205	
-50,024	46		-52,696
Returns on investments and servicing of finance			
<i>Cash outflows</i>			
17,745		18,942	
<i>Cash inflows</i>			
-4,930		-8,740	
	46		10,202
-37,209			-42,494
Capital activities			
<i>Cash outflows</i>			
82,619		74,686	
<i>Cash inflows</i>			
-5,445		-2,454	
-12,729	50	-30,830	
-			
-15,010		-14,247	
			27,155
12,226	49		-15,339
Management of liquid resources			
-5,066	47	45,376	
18,000	47	8,380	53,756
Financing			
<i>Cash outflows</i>			
3,001	47	22,050	
<i>Cash inflows</i>			
-28,000	47	-57,628	
-285	47	-272	
-209	47	-23	
			-35,873
-333			2,544
Increase(-)/decrease in cash			

Notes to the Accounts

1 Deployment of Dedicated Schools Grant

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

Details of the deployment of DSG receivable for 2007/08 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	48,851	245,305	294,156
Adjustment to finalised grant allocation	316	0	316
DSG receivable for the year	49,167	245,305	294,472
Actual expenditure for the year	47,143	245,903	293,046
Over (-)/underspend for the year	2,024	-598	1,426
Planned top-up funding of ISB from Council resources	0	0	0
Use of schools balances brought forward	0	598	598
Over (-)/underspend from prior year*	392	0	392
Over (-)/ underspend carried forward to 2008/09	2,416	0	2,416

2 Supporting People

Included within the Adult Care 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	2007/08 £'000
Expenditure	25,800	24,300	23,366
Transfer to Reserve	0	0	2,607
Grant Income	-25,800	-25,100	-25,491
Service Users Contribution	-96	-98	-97
Administration Grant	-353	-353	-385

3 Publicity

Expenditure on publicity, as required to be disclosed under section 5 of the Local Government Act 1986, totalled £3.161m in 2007/08. The details are as follows:

	2006/07 £'000	2007/08 £'000
Staff recruitment advertising	1,469	1,622
Public relations, communications and tourism officers	779	890
Publications, marketing and promotion	<u>226</u>	<u>649</u>
	<u>2,474</u>	<u>3,161</u>

4 Member's Allowances

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

	2006/07 £'000	2007/08 £'000
Members Allowance	777	794

5 Employees

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	2006/07 £'000 Nos	2007/08 £'000 Nos
£50,000 - £59,999	123	151
£60,000 - £69,999	34	35
£70,000 - £79,999	22	16
£80,000 - £89,999	7	11
£90,000 - £99,999	3	4

£100,000 - £109,999	3	3
£110,000 - £119,999	1	2
£120,000 - £129,999	1	0
£130,000 - £139,999	1	0
£140,000 - £149,999	<u>1</u>	<u>1</u>
	196	223

In 2007/08 the number of employees with remuneration in excess of £50,000 includes 142 school teaches (128 in 2006/07)

6 Local Authorities (Goods & 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.

	2006/07 £'000	2007/08 £'000
Police	334	354
Probation	135	103
Crown Courts	101	104
Learning & Skills Council	11	0
Health Trusts	72	134
Other Local Authorities	675	430
Other	<u>191</u>	<u>74</u>
	1,519	1,199

7 Leases

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

	2006/07 £'000	2007/08 £'000
Operating leases and lease rentals	369	420

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 (2008/09), analysed over the period of years in which the commitment expires. All the leases relate to vehicles and equipment in use with the Fire and Rescue Service.

Expiry	£000
2008/09	36
2009/10 – 2012/13	169
2013/14 and beyond	<u>176</u>
	381

8 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 note 50. The Director of Finance and Corporate Operations was Treasurer to Gloucestershire Probation Board and the Head of Finance: Police Authority is Treasurer to Gloucestershire Police Authority; the Council supplied support services to these bodies for which it charged £231,000 in 2007/08 (£266,000 in 2006/07). This amount is included within the total shown in note 6. There were no other declared related party transactions in the year with council members or chief officers.

In 2007/08 the Council provided funding for 29 police officers via Gloucestershire Police Authority at a cost of £902,000. This is contained within Central Services to the Public.

There is a contractual arrangement between the Council and Gloucestershire Care Partnership for the provision of places in care homes for older people, which involves sub-letting this to Order of St John's and Bedford Pilgrims Housing Association. In 2007/08 payments of £12.2m (£11.4m in 2006/07) were made to Order of St John's in relation to this contract.

There is a contractual arrangement between the Council and the Brandon Trust for the provision of Learning Disabilities Services. In 2007/08 payments of £10.7m (£10.8m in 2006/07) were made to the Brandon Trust, of this £7.0m (£7.2m in 2006/07) was funded by Glos PCT under a S75 agreement (formally referred to as S31 agreement) and a further £0.6m was collected as client contributions (£0.5m in 2006/07), leaving £3.1m (£3.1m in 2006/07) as the GCC contribution.

The Pension Fund's "in-house" surplus cash balances are held in the County Council's bank accounts and any payments to/from the Pension Fund go through these accounts. This cash forms part of the Council's daily treasury managements dealings. An average balance of £10.5m (£9.3m in 2006/07) was deposited with the Council during the year and £599,000 interest on these deposits (£448,000 in 2006/07) was paid to the Pension Fund. The Council charged £1,398,000 (£1,344,000 restated from £1,261,000 in 2006/07) for administering the Pension Fund. Previously recoverable expenditure had been netted off against the relevant expenditure category, this is now identified separately as income.

9 Audit fees

The Council paid the Audit Commission as follows:

	2006/07 £'000	2007/08 £'000
Certificate of Grant Claims and Returns	23	18
Statutory Inspection	14	84
Other (including Statement of Accounts)	211	230
Advise & Assistance / Other	28	15
	<u>276</u>	<u>347</u>

10 Partnership arrangements under Section 75 of the NHS Act 2006

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

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

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

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

In 2007/08 the gross expenditure of the partnership was £5.2m (£4.9m in 2006/07), gross income was £1.2m (£1.2m in 2006/07) and the Council's contribution was £4.0m (£3.7m in 2006/07)

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

In 2007/08 the gross expenditure of the partnership was £2.7m (£2.6m in 2006/07), gross income was £0.3m (£0.3m in 2006/07) and the Council's contribution was £2.4m (£2.3m in 2006/07)

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

In 2007/08 the gross expenditure of the partnership was £2.5m (£2.3m in 2006/07), gross income was nil (nil in 2006/07) and the Council's contribution was £1.0m (£0.8m in 2006/07)

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

In 2007/08 the gross expenditure of the partnership was £10.7m (£10.8m in 2006/07), gross income was £0.6m (£0.5m in 2006/07) and the Council's contribution was £3.1m (£3.1m in 2006/07)

This year, the Council has treated the income and expenditure related to these pooled budgets as Joint Arrangements that are "Not an Entity" and in accordance with the principles of FRS9 has applied a proportional consolidation split to assets, liabilities and income and expenditure relating to the partnership arrangement with the PCT. This differs from the treatment applied in previous years where only the net assets or liabilities have been included in the accounts.

11 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 £150,000 in 2007/08 (£190,000 in 2006/07). This was for grant payments to the Gloucestershire Neighbourhood Projects Network.

12 Undischarged obligations, Private Finance Initiative (PFI) scheme

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

13 Reconciliation of the deficit for the year on the income expenditure account to the surplus for the year on the general fund

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

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

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

The table in note 14 gives a detailed breakdown of the differences between the income and expenditure included in the Council's Income and Expenditure Account in accordance with the SORP, and the amounts that statute and non-statutory proper practice required the Council to debit and credit to the General Fund Balance.

14 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 not 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	-31,620	
Government Grants Deferred amortisation matching depreciation and impairments	38 & 39	3,636	
Write downs of deferred charges to be financed from capital resources	42	-213	
Net gain or loss on sale of fixed assets		0	
Amount by which pension costs calculated in accordance with the SORP (i.e. in accordance with FRS17) are different to the contributions due under the pension scheme regulations	17	-12,604	
Non earmarked grants and contributions		<u>4,181</u>	-36,620
Amount not included in the Income and Expenditure Account but required to be included by statute when determining the Movement of the General Fund Balance for the year			
Statutory provision for the repayment of debt	16	13,139	
Capital expenditure charged to the General Fund Balance	42	<u>3,323</u>	<u>16,462</u>
			-20,158
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	15		16,596
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>-3,562</u>

15 Contribution to earmarked reserves

	£'000
Transfer to Insurance Fund (net)	2,118
Unspent Dedicated Schools Grant	2,024
Transfer to capital funding (net)	3,965
Contribution to General Balances	1,224
Supporting People Reserve	2,607
Waste PFI smoothing Reserve	1,966
Invest to Save Reserve	2,285
Increase in unspent balances permitted to be carried forward under delegated schemes	<u>1,229</u>
	17,418
Waste LATs reserve	-743
Transfer to other reserves (net)	<u>-79</u>
	16,596

A detailed breakdown of the movement in reserves can be found in note 41 on page 54.

16 Minimum Revenue Provision (MRP)

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

	2006/07 £'000	2007/08 £'000
Minimum Revenue Provision (MRP)	12,139	13,139

17 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 Children, Schools and Families (DCfS) 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 charged 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 DCfS. The pension cost charged to the accounts is the contribution rate set by the DCfS on the basis of a notional fund. In 2007/08 the County Council paid £25.1m to Capita in respect of teachers' pension costs, which represents 14.1% of teachers' pensionable pay. Pension payments relating to added years it has awarded, together with the related increases, amounted to £283,000 in 2007/08, representing 0.2% of pensionable pay

The costs of retirement benefits are included in the *Net Cost of Services* when they are earned by employees, rather than when benefits are eventually paid as pensions. However, the charge made against council tax is based on the cash payable in the year, so that the real cost of retirement benefits is reversed out of the Consolidated Revenue Account after *Net Operating Expenditure*. The transactions made in the year were:

	2006/07 £'000	2007/08 £'000
<i>Net cost of services</i>		
Current service costs	29,871	29,212
Past service costs	591	279
Curtailment costs	894	398
<i>Net operating expenditure</i>		
Interest costs	40,522	45,572
Expected return on assets in the scheme	-29,719	-33,722
<i>Amount to be met from government grants and local taxpayers</i>		
Contribution from pensions reserve	-16,361	-12,604
<i>Actual amount charged against council tax for pensions in the year</i>		
Employers' contributions payable to the scheme	<u>25,798</u>	<u>29,135</u>

Note 40 to the Consolidated Balance Sheet on page 51 contains details of the assumptions made in estimating the figures included in this note. Further information can be found in Note 45 to the Statement of Total Movements in Reserves on page 57.

18 Intangible assets

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

	2006/07 £'000	2007/08 £'000
Balance as at 1 st April	196	606
Expenditure in year	<u>442</u> 638	<u>-</u> 606
Amortised Amount charged to Income and Expenditure Account	-32	-65
Net Book Value	<u>-</u> <u>606</u>	<u>-</u> <u>541</u>

19 Movement in fixed assets during the year

	Land & Buildings £'000	Vehicles & Equipment £'000	Infra- structure £'000	Non- operational £'000	Total £'000
Net book value 1st April 2007	<u>435,039</u>	<u>9,305</u>	<u>240,588</u>	<u>11,128</u>	<u>696,060</u>
<i>Gross book value 1st April 2007</i>	497,202	18,931	336,320	11,331	863,784
Additions	19,434	3,382	32,958	20,046	75,820
Disposals	-2,178	-948	-	-	-3,126
Revaluations	61,940	-	-	732	62,672
Impairments	-7,576	-	-	-	-7,576
Transfers between categories	1,870	1,751	-	-3,621	-
Gross book value 31st March 2008	<u>570,692</u>	<u>23,116</u>	<u>369,278</u>	<u>28,488</u>	<u>991,574</u>
<i>Accumulated depreciation 1st April 2007</i>	62,163	9,626	95,732	203	167,724
Depreciation for year	7,472	2,532	13,635	51	23,690
Depreciation on disposals	-130	-913	-	-	-1,043
Accum. depreciation 31st March 2008	<u>69,505</u>	<u>11,245</u>	<u>109,367</u>	<u>254</u>	<u>190,371</u>
Net book value 31st March 2008	<u>501,187</u>	<u>11,871</u>	<u>259,911</u>	<u>28,234</u>	<u>801,203</u>

20 Summary of capital expenditure and method of finance

	£'000		£'000
Fixed assets	75,821	Loans	30,999
Deferred charges	573	MRP	13,139
		Grants	22,277
		Contributions	6,656
		Revenue	<u>3,323</u>
	<u>76,394</u>		<u>76,394</u>

21 Fixed Asset Valuation

Land & Property

The Code requires all land and property to be formally revalued at least every five years. The latest five-year rolling programme of revaluations began on 1st April 2004 and covered the district council area of Stroud in 2007/08.

The valuations have been undertaken by qualified and unqualified valuers employed within Corporate Property Services in the Business Management Directorate.

- 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 2008.
- 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.

22 Commitments under capital contracts

At 31st March 2008 the Council has £272.2m of expenditure approved, but not all contracted, in its capital programme in future years, allocated as follows:

	£'000
Children & Young People	142,986
Environment	112,513
Community Safety	5,466
Community & Adult Care	6,094
Corporate Projects	<u>5,127</u>
	<u>272,186</u>

Schemes included with significant expenditure *contracted* at 31st March 2008 are Rednock School Dursley (£25.7m), Bettridge School Cheltenham (£7.9m), Cleeve School, Bishops Cleeve (£5m), A40 bus lane, Gloucester (£2m), Archway School, Stroud (£1.7m), Kingsholm Children's Centre, Gloucester (£1.3m), Beaufort School, Gloucester (£0.8m) and Cirencester Library (£0.7m)

23 Amounts due to or from related parties

The amount in the Balance Sheet for debtors includes £1.11m due from the Government and creditors includes £0.63m due to the Government as well £7.75m Receipts in Advance in respect of grants.

24 Trust Funds

In May 2007, fifteen Education Trust Funds were amalgamated with the Edith Foster and Mary Playne Trust. The remaining fund was transferred to Sir Thomas Rich's School. These funds do not represent assets of the Council and they have not been included in the Balance Sheet.

	Balance at 1.4.07	Income	Expenditure	Balance at 31.3.08
Funds for which Gloucestershire County Council acts as sole trustee	£	£	£	£
<i>CYPD</i>				
15 Trust funds created for educational purposes. These provide for annual prizes or educational benefits to pupils at individual schools	65,954	628	66,582	0
<i>Library</i>				
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>3,181</u> <u>69,135</u>	<u>99</u> <u>727</u>	<u>75</u> <u>66,657</u>	<u>3,205</u> <u>3,205</u>
<i>Other funds:</i>				
<i>Edith Foster and Mary Playne Trust</i> – provides aid to college students	40,293	68,706	0	108,999
<i>Gloucestershire Heritage Trust Ltd</i> – preserves and renovates buildings and areas which are of historic interest	<u>6,131</u> <u>46,424</u>	<u>238</u> <u>68,944</u>	<u>0</u> <u>0</u>	<u>6,369</u> <u>115,368</u>

25 Capital Expenditure 2007/08

	£'000	£'000	%
Children & Young People			
Cleeve School, 6 th form centre and science block	3,657		
Rednock School, Dursley, new school	3,358		
Archway School, Stroud, refurbishment & extensions	3,063		
Beaufort School, Gloucester, new classroom block	1,384		
Chosen Hill School, Churchdown, 6 th form and learning resource centre	1,380		
Ribston Hall High School, Gloucester, new classrooms	1,129		
Whitecross School, Lydney, engineering facility and drama studio	1,023		
Heywood School, Cinderford, new artificial pitch	689		
Other secondary schools	3,116		
Severnbanks Children's Centre Lydney	730		
Northleach Primary School, new hall and administration area	686		
Forest View Children's Centre Cinderford	685		
Grange Children's Centre, Gloucester	574		
Other primary schools, early years and children's centres	8,377		
Bettridge School, Cheltenham, enlarged school	986		
Other special schools	168		
Structural maintenance, health and safety and other building works	3,185		
Other schemes	<u>968</u>	35,158	46.0
Environment			
Gloucester South West Bypass	4,282		
Other road construction schemes	3,439		
Structural maintenance of roads	19,733		
Structural maintenance of bridges	1,258		
Street lighting	735		
Other schemes	<u>3,626</u>	33,073	43.3
Community Safety			
Vehicles	674		
Other schemes	<u>521</u>	1,195	1.6
Community & Adult Care			
Tewkesbury Extra Care Housing	800		
Oakdene, Cinderford learning disability day centre, modernisation	440		
Office accommodation, Cirencester	208		
Structural maintenance of buildings	192		
Other schemes	<u>524</u>	2,164	2.8
Mobile Libraries, two new vehicles	177		
Cirencester Library, major refurbishment	119		
Other schemes	<u>228</u>	524	0.7
Central Services			
Structural maintenance, health and safety and other building works	1,299		
Rural Services, various farm schemes	386		
Gloucestershire Unified System	1,709		
Computer services and equipment	674		
Other schemes	<u>212</u>	<u>4,280</u>	<u>5.6</u>
		76,394	100

26 Assets owned by the County Council include the following:

		31.3.07 Nos	31.3.08 Nos
Schools	Primary	250	249
	Secondary	42	42
	Special	12	12
Pupil referral centres		3	3
Area resources centres (Educ)		4	4
Adventure & field study centres		5	5
Youth & Community Centres		33	33
Libraries		37	37
Records Office		1	1
Highways depots/stores		12	12
Park and Ride facilities		2	2
Gypsy sites		5	5
Fire stations		20	20
Adult Care establishments	Child care/family centres	10	9
	Centres for older people	3	3
	Care homes for older people	22	22
	Hostels and centres for the disabled	28	27
	Group homes	21	21
	Area offices and other offices	10	10
Registrars' Offices		3	3
General Administrations buildings		4	4
Staff Houses		8	8
Miscellaneous/surplus properties		19	20
Vehicles	Buses and minibuses	105	95
	People carriers	16	17
	Vans and pick-ups	43	40
	Land Rovers etc	16	11
	Cars	24	20
	Mobile libraries	5	7
	Mobile youth centres	4	4
	Snow blowers	3	3
	Tractors	1	1
	Fire and Rescue appliances	34	35
Country parks and picnic sites		5	5
County Farms (hectares)		3,491	3,452
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 291 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 (65) are Church-owned.

27 Deferred charges

Deferred charges and their treatment are explained on page 8.

	£'000	£'000
Balance as at 1 st April 2007		-
Expenditure in year	building grants smoke detectors	457 <u>116</u>
less Grant received towards expenditure		573 <u>-360</u> 213
Amount charged to Income and Expenditure Account		-213
Balance as at 31 st March 2008		<u>-</u>

28 Financial Instruments Adjustment Account

	£'000
Balance as at 1 st April 2007	7,368
Amounts written off to the Income & Expenditure Account	-303
Balance as at 31 st March 2008	<u>7,065</u>

Financial Instruments are explained on page 8.

29 Landfill Allowance Trading Scheme (LATS)

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

The authority is carrying forward an estimated 39,651 allowances at zero value.

30 Debtors

The amount is made up of:

	2006/07 £'000	2007/08 £'000
Gross Debtors	31,804	49,404
Provision for Bad Debt	<u>-1,068</u>	<u>-1,130</u>
	<u>30,736</u>	<u>48,274</u>

31 Special Contributions

These are those contributions paid by an employer to compensate the Pension Fund for early retirement costs, excess ill-health retirement costs or to improve their funding levels. These payments are either paid in one lump sum or over several years. At 31st March 2008 £372,797 was due to the Pension Fund, as in previous years these have not been included as an accrual in the accounts.

32 Insurance

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

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

33 Deferred liabilities

The amount of £2.351m represents the shares of the PFI project fund equalisation attributable to Avon Fire Authority and Devon and Somerset Fire Authority as explained on page 9.

34 Long-term borrowing

Source of loan	Range of Interest rates payable	Total outstanding	
		31.03.07 £'000	31.03.08 £'000
Public Works Loan Board	3% to 11.625%	294,385	312,520
Banks	3.99% to 4.99%	30,050	41,050
		<u>324,435</u>	<u>353,570</u>
Analysis of loans by maturity			
		Total outstanding	
		31.03.07 £'000	31.03.08 £'000
Maturing in 1-2 years		6,865	5,001
Maturing in 2-5 years		11,868	11,865
Maturing in 5-10 years		30,456	33,790
Maturing in 10-15 years		63,138	73,694
Maturing in 15-20 years		82,060	78,170
Maturing in more than 20 years		130,048	151,050
		<u>324,435</u>	<u>353,570</u>

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

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

In addition to the above, accrued interest of £4.48 million is added giving the Balance Sheet figure of £358.05m.

35 Provisions

	Balance at 01.04.07 £'000	Applications £'000	Additions £'000	Balance at 31.03.08 £'000
Insurance Fund	2,724	-985	1,771	3,510
Adult Care– client refunds	2,407	-2,100	-	307
Adult Care – VAT	400	-131	-	269
Adult Care – other liabilities	639	-308	57	388
Environment – GSWBP Land Claims	-	-	837	837
Environment – Contracts	-	-	739	739
Environment – VAT	-	-	60	60
Other provisions	230	-180	154	204
	<u>6,400</u>	<u>-3,704</u>	<u>3,618</u>	<u>6,314</u>

- Insurance Fund – see note 32 on page 49.
- The Adult Care provision for client refunds is for refunds of the costs of care services incorrectly charged to clients under Section 117 of the Mental Health Act. The level of the provision was set up based on expected need, in line with amounts set aside by OLA's however, despite significant efforts, the number of individuals eligible for refunds was significantly lower than expected, hence the decision to reduce the provision.
- The provision of VAT is for a potential VAT liability on a contract with an external service supplier. The timing of payment is uncertain as negotiations with Customs and Excise are ongoing.
- The other Adult Care liabilities also relate to external service suppliers and are concerned with disputed outstanding claims, additional fees and potentially irrecoverable contributions from clients.
- Environment provision for Gloucester South West Bypass Land & Claims is for claims relating to land acquisition which form part of the capital programme. The spend is not additional to that already allowed for in the cost of the capital works, as it already forms part of the existing scheme costs. As such, because the capital programme is already financed we have already made provision for it in future years.
- Environment Contracts – see note 52 on page 60.

36 Capital contributions unapplied

2006/07 £'000		2007/08 £'000	£'000
15,010	Receivable in the year		14,247
	Applied in the year for financing of capital expenditure		
-12,590	- contributions deferred	-6,187	
-2,044	- capital adjustment account	-469	-6,656
-149	Transfer to revenue		-207
227			7,384
4,009	Balance at start of year		4,236
<u>4,236</u>	Balance at end of year		<u>11,620</u>

37 Capital grants unapplied

2006/07 £'000		2007/08 £'000	£'000
13,044	Receivable in the year		40,534
	Applied in the year for financing of capital expenditure		
-2,877	- grants deferred	-18,205	
-10,221	- capital adjustment account	-3,712	-21,917
<u>-213</u>	Transfer to revenue for deferred charges		<u>-360</u>
-267			18,257
6,392	Balance at start of year		6,125
<u>6,125</u>	Balance at end of year		<u>24,382</u>

38 Capital contributions deferred account

2006/07 £'000		2007/08 £'000	£'000
12,590	Contributions applied to finance capital expenditure		6,187
-1,207	Amount released to Income & Expenditure Account		-1,525
	Transfer to capital financing account in respect of		-
<u>-150</u>	transferred assets		
11,233			<u>4,662</u>
19,553	Balance at start of year		30,786
<u>30,786</u>	Balance at end of year		<u>35,448</u>

39 Government grants deferred account

2006/07 £'000		2007/08 £'000	£'000
2,877	Grants applied to finance capital expenditure		18,205
-1,595	Amount released to Income & Expenditure Account		-2,110
	Transfer to capital financing account in respect of		
<u>-582</u>	transferred assets		
700			<u>16,095</u>
30,116	Balance at start of year		30,816
<u>30,816</u>	Balance at end of year		<u>46,911</u>

40 Pension Liabilities

Note 17 to the Income & Expenditure Account on page 40 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:

	31.03.07 £'000	31.03.08 £'000
Share of assets in Local Government Pension Scheme	490,976	480,059
Provision for discretionary added years (teachers)	<u>-30</u>	<u>-22</u>
<i>Total assets</i>	<u>490,946</u>	<u>480,037</u>
Share of liabilities in Local Government Pension Scheme	-724,357	-688,195
Estimated liabilities of the Firefighters' scheme (FPS)	-115,983	-99,183
Estimated liabilities of the New Firefighters' scheme (NFPS)	-17	-370
Estimated liabilities for discretionary added years (teachers)	<u>-2,044</u>	<u>-1,928</u>
<i>Total liabilities</i>	<u>-842,401</u>	<u>-789,676</u>
<i>Net Pension liability</i>		
Local Government Pension Scheme	-233,381	-208,136
Firefighters' scheme (FPS)	-115,983	-99,183
New Firefighters' scheme (NFPS)	-17	-370
Discretionary added years (teachers)	<u>-2,074</u>	<u>-1,950</u>
	<u>-351,455</u>	<u>-309,639</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.

	31.03.07 £'000	%	Expected return	31.03.08 £'000	%	Expected Return
Equities	312,002	63.5	7.8%	301,177	62.6	7.7%
Gilts/Bonds	117,783	24.0	4.9%	127,515	26.5	5.7%
Property	39,361	8.0	5.8%	44,282	9.2	5.7%
Cash	<u>21,830</u>	<u>4.5</u>	<u>4.9%</u>	<u>8,423</u>	<u>1.7</u>	<u>4.8%</u>
	<u>490,976</u>	<u>100.0</u>	<u>6.8%</u>	<u>481,397</u>	<u>100.0</u>	<u>6.9%</u>

Expected long-term returns are in line with the returns shown as at 31.03.08.

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 2007 the overall Fund was 74% funded. This compares with a funding level of 70% at the previous valuation at 31st March 2004. The main reasons for the funding level increase are that investment returns were greater than had been expected in the intervening three year period, and a reduction in the cost of benefits due to changes made in the LGPS benefit structure.

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 undated as at 31st March each year by the Fund Actuary. The estimated liabilities of £99m disclosed for the Firefighters' scheme (FPS) and £0.37m disclosed for the New Firefighters' Scheme (NFPS) have also been determined by an FRS17 valuation as at 31st March 2008.

The main financial assumptions used in the calculations are:

	LGPS		Firefighters (FPS & NFPS)	
	2006/07	2007/08	2006/07	2007/08
Rate of inflation	3.2%	3.6%	3.2%	3.6%
Rate of increase in salaries	4.7%	5.1%	4.7%	5.1%
Rate of increase in pensions	3.2%	3.6%	3.2%	3.6%
Rate for discounting scheme liabilities	5.4%	6.9%	5.4%	6.9%

The liabilities show the underlying commitments that the Council has in the long-term to pay retirement benefits. The total liability of £309m has a substantial impact on the net worth of the Council as recorded in the Consolidated Balance Sheet, reducing it from £453.2m to £143.6m as at 31st March 2008. 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 the Firefighters' pensions when the pensions are actually paid.

41 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 01.04.07 £'000	(Gains)/ Losses for the year £'000	Transfers Between Reserves £'000	Balance at 31.03.08 £'000
Fixed Asset Restatement Account	-184,948	-637	185,585	-
Capital Financing Account	-121,632		-178,581	-300,213
Financial Instruments Adjustment A/c	7,368	-303		7,065
Available for Sale Revaluation Reserve	-		149	149
Usable Capital Receipts Reserve	-563	-2,454	548	-2,469
Revaluation Reserve	-	-59,690	-	-59,690
Pension Reserve	351,455	-54,420	12,604	309,639
General Fund Balance				
General Fund Balance	-17,357	-564	-647	-18,568
Named Funds (see below)	-50,193		-16,853	-67,046
Earmarked General Fund Balance	-5,072		-2,805	* -7,877
Total Reserves	-20,942	-118,068	0	-139,010
Named Funds	Balance at 01.04.07 £'000	Applications £'000	Additions £'000	Balance at 31.03.08 £'000
Capital Fund	7,206	-487	4,452	11,171
Insurance Fund	5,863	-2,836	4,953	7,980
Supporting People Reserve	-	-	2,607	2,607
Education: amounts held under delegated schemes for schools	25,196	-25,327	26,556	26,425
Dedicated Schools Grant	392	-429	2,453	2,416
Standards Fund	155	-155	-	-
GWIST	264	-22	-	242
County Council Elections	387	-	-	387
Vehicle and plant replacement	157	-	28	185
Winter maintenance of roads	620	-	243	863
Fire Service pensions	444	-	240	684
Supply teachers for schools	569	-569	437	437
Structural maintenance of roads	-	-	-	-
Waste Disposal, consultancy costs	300	-	236	536
Waste LATs Reserve	743	-743	-	-
Waste PFI Smooth Reserve	-	-	2,966	2,966
Corporate Initiatives	304	-	-	304
Fire & Rescue Joint Training Centre	848	-	107	955
Fire PFI Project Fees reserve	1,000	-144	-	856
Invest to Save Reserve	4,154	-1,879	4,165	6,440
Grant Clawback Reserve	1,000	-	-	1,000
Other reserves	591	-2,711	2,712	592
	<u>50,193</u>	<u>-35,302</u>	<u>52,155</u>	<u>67,046</u>

* The Earmarked General Fund Balance as at 31st March 2008 of £7.877m assumes that the 2007/08 underspend of £6.123m will be carried forward and made available to support spending in 2008/09.

42 Capital adjustment account

2006/07 £'000		2007/08 £'000	£'000
	Capital financing		
12,250	- capital receipts		-
10,221	- non-earmarked grants		3,712
2,044	- non-earmarked contributions		469
4,684	- revenue		3,323
4,383	- capital reserve		-
12,139	- MRP		13,139
1,594	Amortisation of grants deferred		2,110
1,207	Amortisation of contributions deferred		1,525
	Transfer of grants/contributions deferred accounts in respect of transferred assets		
732	Adjustment to Revaluation Reserve for depreciation		1,433
-471	Write down of deferred charges	-573	
213	expenditure grants	360	-213
-32	Amortisation of intangible assets		-65
-21,754	Depreciation		-23,690
-	- Impairments		-7,865
-	- Book value of assets on disposal		-245
	Transfer of balance from Fixed Asset Restatement Acc		184,948
27,210			178,581
94,422	Balance at start of year		121,632
121,632	Balance at end of year		300,213

43 Fixed asset restatement account

2006/07 £'000		2007/08 £'000	£'000
-5,657	Revaluation of fixed assets		
-6,241	Disposal of fixed assets		
-39,777	Transferred assets		-
-51,675			
236,623	Balance at start of year		184,948
	Transfer balance to Capital Adjustment Account		-184,948
184,948	Balance at end of year		-

44 Usable capital receipts reserve

2006/07 £'000		2007/08 £'000	£'000
5,445	Receivable in the year		2,454
-12,250	Applied in the year for financing of capital expenditure		-
-	Repaid in year		-548
-6,805			1,906
7,368	Balance at start of year		563
563	Balance at end of year		2,469

44a Revaluation Reserve

2006/07		2007/08	
£'000		£'000	£'000
	Revaluation in year		62,961
	Depreciation		-1,433
	Disposals		<u>-1,838</u>
			59,690
	Balance at start of year		-
	Balance at end of year		<u>59,690</u>

45 Pensions Reserve

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

	31.03.04 £'000	31.03.05 £'000	31.03.06 £'000	31.03.07 £'000	31.03.08 £'000
Net Pension liability at start of year	-266,177	-214,035	-329,931	-370,897	-351,455
Movements in the year:					
Contribution to Consolidated Revenue Account	-9,262	-10,671	-14,576	-16,361	-12,604
Revenue Account					
Actuarial gains/losses (-)	<u>58,804</u>	<u>-105,225</u>	<u>-26,390</u>	<u>35,803</u>	<u>54,420</u>
Net pension liability at end of year	<u>-216,635</u>	<u>-329,931</u>	<u>-370,897</u>	<u>-351,455</u>	<u>-309,639</u>

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

	%	31.03.04 £'000	%	31.03.05 £'000	%	31.03.06 £'000	%	31.03.07 £'000	%	31.03.08 £'000
Difference between the expected and actual return on assets	13.13%	45,730	1.70%	6,036	13.34%	60,090	-0.11%	-558	-12.02%	-57,764
Difference between actuarial assumptions about liabilities and actual experience	2.31%	13,074	1.86%	-12,661	-0.22%	1,800	0.69%	-5,836	2.12%	-16,827
Change in the demographic and financial assumptions used to estimate liabilities	-	<u>-58,804</u>	14.35%	<u>-98,600</u>	10.75%	<u>-88,280</u>	-5.01%	<u>42,197</u>	-16.35%	<u>129,011</u>
				<u>-105,225</u>		<u>-26,390</u>		<u>35,803</u>		<u>54,420</u>

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

	£'000	£'000
Income and Expenditure Account surplus (-)/deficit for the year		-1,427
Movement on General Fund		-3,038
Non-cash transactions		
Minimum revenue provision	-13,139	
Revenue financing of fixed assets	-3,323	
Decrease in provisions	86	
Contribution to earmarked reserves	-16,595	
Capital Contributions Returned to Revenue	204	
Deferred charges written off	573	
Deferred premiums written off	<u>-303</u>	<u>-32,497</u>
		-36,962
Items on an accruals basis		
Increase in creditors	-12,853	
Increase in receipts in advance	-427	
Increase in debtors	7,833	
Increase in stocks and work in progress	-1,634	
Increase in payments in advance	<u>1,246</u>	<u>-5,835</u>
		-42,797
Net interest payments		<u>-9,899</u>
<i>Net cash flow from revenue activities</i>		<u>-52,696</u>

The interest and discounts received figure on the cash flow statement is the sum of the net interest payments (-£9,899) and deferred premiums written off (-£303).

47 Movements in financing and management of liquid resources activities

	Balance 01.04.07 £'000	Balance 31.03.08 £'000	Movements in year £'000
Long term borrowing	324,435	358,050	33,615
Borrowing repayable within 12 months	5,000	6,963	1,963
Deferred liabilities	2,079	2,351	272
Loans to other bodies	-32	-15	17
Loans to Transferred Services	-81	-75	6
Short-term investments	-106,643	-152,020	-45,376
Long-term investments	<u>-18,000</u>	<u>-26,380</u>	<u>-8,380</u>
	206,758	188,532	-17,883

48 Liquid resources

These consist of short-term investments. Currently £36.8m (£34.5m at the 31st March 2007) 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. Short term lending policy is approved by the County Council

49 Movement in net debt

	Balance 01.04.07 £'000	Balance 31.03.08 £'000	Movements in year £'000
Movement in cash			
Cash in hand	-187	-191	-4
Cash in bank	-14,052	-14,105	-53
Pension Fund cash	<u>7,849</u>	<u>10,449</u>	<u>2,600</u>
<i>Increase(-)/decrease in cash</i>	-6,390	-3,847	2,543
Movement in financing and liquid resources	<u>206,758</u>	<u>188,876</u>	<u>-17,882</u>
<i>Increase/decrease (-) in net debt</i>	<u>200,368</u>	<u>185,029</u>	<u>-15,339</u>

50 Analysis of government grants – cash received in 2007/08

	Revenue £'000	Capital £'000	Total £'000
Department for Children, Schools & Families	380,790	21,077	401,867
Department for Transport	2,457	7,230	9,687
Department for Work and Pensions	68	-	68
Department for Communities and Local Government	27,478	1,136	28,614
Department for Health	19,804	214	20,018
Home Office	1,366	-	1,366
Department for Environment, Food and Rural Affairs	-84	363	279
Other Governing Bodies	<u>49,881</u>	<u>810</u>	<u>50,691</u>
	<u>481,760</u>	<u>30,830</u>	<u>512,590</u>

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

The council is a participant in an LAA – a partnership with other public bodies involving the pooling of government grants to finance work towards jointly agreed objectives for local public services. In 2007/08, the LAA completed the first year of its three-year agreement.

The purpose of the LAA is:

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

The LAA partners are:

- Local Government bodies – Gloucestershire County Council, Cheltenham Borough Council, Cotswold District Council, Forest of Dean District Council, Gloucester City Council, Tewkesbury Borough Council, Stroud District Council
- Community protection authorities – Gloucestershire Fire and Rescue Service, Gloucestershire Constabulary, Gloucestershire Police Authority and Gloucestershire Probation Service
- Health bodies – Gloucestershire PCT, Gloucestershire Hospitals NHS Foundation Trust and Gloucestershire Partnership NHS Trust

External Agencies – Gloucestershire Assembly for the Voluntary & Community Sector, Gloucestershire First, Learning and Skills Council

Gloucestershire County Council acts as the accountable body for the LAA. This means that we are responsible for managing the distribution of grant paid by the Government Office to the partners involved, but the council does not determine which bodies are due payments – this is determined by the Community Strategy Executive Board. In this context, the council acts as agent to the partnership and has therefore not recognised the full amount of the LAA Grant in its financial statements, but only that part to be spent by the council in providing services.

The total amount of LAA Grant received by the LSP in 2007/08 is £6.7m. The council received £5.0m of this total to fund its own services.

As accountable body, the council is potentially responsible for repaying to the Government any element of grant that is found to have been misused by its partners. Systems in place for distributing grant that are designed to limit the possibility that this will happen. It has not been necessary to recognise any contingent liabilities for possible repayments and no provisions have been made for any such eventuality.

52 Disclosure on the Highways and Transportation Services contract

The percentage top-slice GCC apply to all spend through Atkins changes from year to year. In year 1 of the Gloucestershire Highways contract it was 16%, in year 2 it was 19%, and for the current year it is set at 18%.

Ordered works and services supplied by Atkins are subject to a NIL fee percentage. Overheads (PI, head office, management fee, accommodation, IT etc) are recovered by way of tendered lump sums adjusted each year for inflation. Profit is earned through performance, scored each year against a set of performance indicators.

The 'profit pot' and monies for overheads are ring fenced by top-slicing the budget. This cash is also used to settle commercial issues or contract changes, employer's risk events etc. The money is sliced across both revenue and capital budgets and care is taken to ensure that where surplus is reintroduced back into works/services, the proportionality of where it came from is maintained.

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

53 July 2007 Floods

Significant floods experienced by Gloucestershire resulted in the County Council incurring additional costs in relation to the emergency, clean up, recovery operations and the repair the damage caused by the floods.

The table 1 below shows the total additional costs incurred / estimated to be incurred as a result of the floods, the amounts reimbursed to GCC by Central Government as at the end of May 2008, and/or from insurance claims, and the outstanding amount currently funded by GCC. Table 2 at the end of this note shows the flood related expenditure and income actually included within the 2007/8 accounts.

Table 1 – Total additional flood costs incurred / estimated to be incurred.

Expenditure Area	Total Expenditure incurred/estimated to be incurred by Gloucestershire County Council £000	Reimbursed to GCC by end of May 2008 £000	Still Outstanding / Met by GCC £000
Emergency Revenue Expenditure (Bellwin) (Note 1)	4,017	2,808	1,209
Insurance / Self Insurance re damaged buildings including schools (Note 2)	2,833	1,938	895
DCFS Flood Grant (Note 4)	1,007	1,007	0
Capital Repairs to Roads (Note 3)	19,100	10,048	9,052
Misc	104	0	104
TOTAL	27,061	15,801	11,260

- (1) The County Council has received just over £2.8 million from Government under the Bellwin scheme to recover some of the costs of the emergency response. Under the scheme the council has been required to fund about £1.2million.
- (2) Although all schools were insured against floods, resulting in a claim in the region of £2 million, excess levels of £100,000 per school plus the cost of repairing self insured non educational buildings, resulted in additional costs of around £900,000.
- (3) Total cost of flood damage to highways is approximately £20.8m (£19.1m capital and £1.7m revenue). A grant of £10.048m has been announced from the DfT and a further claim has been submitted, and £1.7m was received under the Bellwin claim. This leaves £9.052 million of additional roads expenditure currently funded by GCC, of which £2.2 million has been funded from the 15% of the LTP Maintenance Allocation as required under the DfT emergency scheme.
- (4) The County Council allocated the £1m funding from DCSF to support recovery projects to benefit children and young people. This included extra activities during holidays, study support facilities, and improved playgrounds.
- (5) Current Outstanding Costs outstanding to/met by GCC total £11.26 million.
- (6) A claim for water distribution costs incurred by the County Council during the emergency has been submitted to Severn Trent Water. The claim is still being considered.

- (7) The Government has recently announced the creation of a Restoration Fund, amounting to almost £31m, for local authorities affected by the summer 2007 floods. The total sum available will be apportioned to individual authorities on the basis of total costs incurred less amounts reimbursed. GCC has submitted a claim based on the figures above.

Table 2 – Flood related expenditure and income included within the 2007/8 accounts.

Expenditure Area	Gross Expenditure £000	Income £000	Net Expenditure £000
Emergency Revenue Expenditure	4,017	2,808	1,209
Insurance / Self Insurance re damaged buildings including schools	1,251	856	395
DCFS Flood Grant	1,007	1,007	0
Capital Repairs to Roads	8,576	8,576	0
Misc	104	0	104
TOTAL	14,955	13,247	1,708

54 Financial Instruments

Credit Risk

Deposits are not made with banks and financial institutions unless their credit rating is a minimum of A2 for banks and building societies, AAA for money market funds and AAA for supranational bonds. The authority has a policy of not lending more than £80m to Banks, £80m to Building Societies and £15m to Standard Life's Money Market Fund of its surplus balances.

Customers are assessed, taking into account their financial position, past experience and other factors, with individual credit limits being set in accordance with parameters set by the council.

The following analysis summarises the authority's potential maximum exposure to credit risk, based on experience of default and uncollectability over the last three financial years, adjusted to reflect current market conditions.

	Amount at 31 March 2008 £'000	Historical experience default %	Historical experience adjusted for market conditions at 31 st March 2008 %	Estimated maximum exposure to default to and uncollectability £'000
Deposits with banks and financial institutions	184,682	0	0	0
Bonds	0	0	0	0
Customers	49,381	3.7	2.3	1,130

No credit limits were exceeded during the reporting period. The authority does not expect any losses from non performance by any of its counterparts in relation to deposits and bonds.

Liquidity Risk

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

The maturity analysis of the financial liabilities is as follows:

	£'000
Less than 1 year	6,865
Between one and two years	5,001
Between two and five years	11,865
More than 5 years	<u>336,704</u>
	<u>360,435</u>

Market risk

Interest Rate Risk

The authority is exposed to significant risk in terms of its exposure to interest rate movements on its borrowing and investments. Movements in interest rates would have the following effects.

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

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

The authorities strategy for managing interest rate risk is based on the prevailing interest rates and market forecasts by looking for the highest rate for investments and borrowing when the rates are low. The risk of loss is ameliorated by the fact that a proportion of government grant payable on financing costs will normally move with prevailing interest rates or the authorities cost of borrowing and provide higher compensation for a proportion of any higher costs. As it was not practical to reliably estimate the impacts on government grant fund, due to the complexity of the four block model, government grant funding has been assumed to be constant.

The treasury management team has an active strategy for assessing interest rate exposure that is used to monitor the budget during the year.

According to this assessment strategy, at 31st March 2008, if interest rates had been 1% higher or 1% lower, with all variables held constant, the financial effect would be zero, as GCC currently only holds fixed rate borrowing and investments.

Price Risk

The authority has no equity investments and thus has no exposure to loss arising from movements in equity market.

Foreign Exchange Risk

The authority has no financial assets or liabilities denominated in foreign currencies and thus has no exposure to loss arising from movements in exchange rates.

Fair Value Adjustments

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

- 1 Estimated interest rates at 31st March 2008 of actual interest rate from notice number 064/08 for loans from the PWLB and 4% for other loans receivable and payable
- 2 No early repayment or impairment is recognised, however the PWLB fair value redemption figure is £354M.
- 3 Where an instrument will mature in the next 12 months, carrying amount is assumed to be approximate to fair value
- 4 The fair value of trade or other receivables is taken to be the invoiced amount

The fair values are calculated as follows:

	March 2007		March 2008	
	Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value £'000
Financial Liabilities	329,435	329,435	360,435	360,435

The fair value is the same as the carrying value, as the majority of the authority's portfolio of loans is made up of fixed rate loans with the carrying amount is equal to the redemption value, the remainder are fixed rate loans where the interest rate payable is either lower or higher than the rates available for similar loans at the Balance Sheet date. The reason these haven't shown an impact is because the amount outstanding, including interest, is £6,000 and all the loans will be paid during the next 5 years.

Loans and receivables	-1,064	-1,064	-1,206	-1,206
-----------------------	--------	--------	--------	--------

The fair value is the same as the carrying amount because the authority's receivable amount is mainly due to charges on property which will become due when the property is sold. The date of sale has been assumed to be within the current year.

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

	Long Term		Current		Total	
	31.03.07 £'000	31.03.08 £'000	31.03.07 £'000	31.03.08 £'000	31.03.07 £'000	31.03.08 £'000
Financial liabilities at amortised cost	324,435	353,570	5,000	6,865	329,435	360,435
Financial liabilities at fair value through the profit and loss	0	0	0	0	0	0
Total Borrowings	324,435	353,570	5,000	6,865	329,435	360,435
Loans & Receivables	0	0	1,064	1,206	1,064	1,206
Available for Sale Financial Assets	18,000	26,380	106,643	152,020	124,643	178,400
Unquoted Equity Investments at cost	0	0	0	0	0	0
Total Investments	18,000	26,380	107,707	153,226	125,707	179,606

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

	Financial Liabilities	Financial Assets		
	Liabilities measured at amortised cost £'000	Loans & receivable £'000	Available for sale assets £'000	Total £'000
Interest Expense	0	0	0	0
Loss on de-recognition	0	0	0	0
Impairment losses	0	0	0	0
Interest payable and similar charges	0	0	0	0
Interest Income	0	0	0	0
Gains on de-recognition	0	0	0	0
Interest and investment income				
Gains on revaluation			263	
Losses on revaluation			-412	
Amounts recycled to the I & E account after impairment			0	
Surplus /loss (-) on revaluation of financial assets			<u>-149</u>	
Net gain/loss (-) recognised in year	0	0	-149	

Gloucestershire Pension Fund

Fund Account for the year ended 31st March 2008

2006/07 £'000		2007/08 £'000	£'000	Note
	Dealings with members, employers and others directly involved in the scheme			
	Contributions receivable			
-39,704	from employers – normal	-45,282		
-5,482	- special	-2,546		
-14,552	from members – normal	-15,345		
-59,738			-63,173	P 7
	Transfers in			
	individual transfers in from other schemes		-5,881	
-7,329			-69,054	
-67,067				
-851	Other income		-1,093	P 21 & P 22
	Benefits payable			
36,056	pensions	38,869		P 22
5,877	lump sum retirement benefits	7,422		
827	lump sum death benefits	712		
42,760			47,003	P 7
	Payments to and on account of leavers			
24	refunds to contributions	32		
	individual transfers out to other schemes	4,003		
5,592	state scheme premiums	-5		
3			4,030	
5,619				
1,344	Administrative expenses		1,398	P 9 & P 22
	Net additions from dealings with scheme members		-17,716	
-18,195	Returns on investments			
-25,002	Investment Income	-25,857		P 13
-32,556	Change in market value of investments	69,933		
2,736	Investment management expenses	2,770		
-54,822	Net returns on investments	46,846		
	NET INCREASE (-)/DECREASE IN THE FUND DURING THE YEAR		29,130	
-73,017				
876,872	Opening net assets of the scheme		949,889	
949,889	Closing net assets of the scheme		920,759	P 5

Gloucestershire Pension Fund

Net Assets Statement as at 31st March 2008

31.03.07 £'000		31.03.08 £'000	£'000	Note
	Investment assets			
	Fixed interest securities			
64,354	UK – Public sector	59,135		
78,873	UK – Other	95,204		
-6,526	Overseas – Public sector	-13,741		P 14
<u>5,829</u>	Overseas – Other	<u>15,059</u>		P 14
142,530			155,657	
	Equities			
268,590	UK	<u>254,671</u>		
			254,671	
	Index-linked securities			
52,095	UK	52,563		
<u>1,626</u>	Overseas	<u>1,298</u>		
53,721			53,861	
	Pooled investment vehicles			
32,158	UK	9,576		
<u>318,058</u>	Overseas	<u>321,488</u>		
350,216			331,064	P 16
	Unit trusts			
75,958	UK Property Unit Trusts		82,526	
	Cash instruments held on behalf of the investment managers		12,663	
42,376	Other investment balances		16,234	P 18
<u>939,774</u>			<u>906,676</u>	
	Current assets			
3,222	Contributions due from employers	9,496		
451	Debtors	1,062		
<u>7,849</u>	Cash	<u>10,450</u>		
11,522			21,008	
	Current liabilities			
-1,405	Creditors	-6,903		
<u>-2</u>	Unpaid benefits	<u>-22</u>		
-1,407			-6,925	
<u>10,115</u>	Net current assets and liabilities		<u>14,083</u>	
<u>949,889</u>	Net assets as at 31st March 2008		<u>920,759</u>	P 5

Gloucestershire Pension Fund

Notes

P 1 The County Council administers the Pensions 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 2008 has again increased in line with prior years. A full analysis of membership can be found in the Pension Fund’s Annual Report. The Fund exists to provide pensions to former employees and certain other benefits. (As the Pension Fund is not a County Council fund, balances are not included in the Consolidated Balance Sheet).

P 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) have 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 P 6).

P 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.

P 4 Turnover of investments

A total of £431.6m (2006/07 £272.1m) of investments were purchased and £350.6m (2006/07 £211.1m) book value of sales were realised.

P 5 Management of Fund assets

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

	2006/07		2007/08	
	£'000	%	£'000	%
Western Asset Management Company	227,657	23.97	241,020	26.18
Barclays Global Investors	266,269	28.03	263,567	28.62
UBS Global Asset Management	156,322	16.46	125,631	13.64
Standard Life Investments	161,143	16.96	150,162	16.31
Hermes Investment Management				
Property Unit Trust	76,135	8.02	83,414	9.06
Acadian	31,649	3.33	39,222	4.26
Hermes Focus Asset Management	19,946	2.10	-	-
Yorkshire Fund Managers	454	0.05	1,712	0.19
Total External Managers	939,575	98.92	904,728	98.26
In-house cash and accruals	10,115	1.06	14,083	1.53
Cash instruments with Custodian	199	0.02	1,948	0.21
	<u>949,889</u>	<u>100.00</u>	<u>920,759</u>	<u>100.00</u>

P 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 2008.
- Results showed that the required level of contributions to be paid to the Fund by the County Council for the year to 31st March 2008 was 18.9% (2006/07 16.9%) 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 took place as at 31st March 2007. This valuation details the level of employer contributions that are required to be paid in the financial year commencing 1st April 2008 and each of the subsequent two years. Details of the results of this valuation will be disclosed as a note to the 2008/09 Accounts but the market value of the Fund's assets disclosed at 31st March 2007 by the valuation was £950m which represented 74% of the Fund's accrued liabilities.

P 7 Analysis of contributions receivable and benefits payable

	Contributions receivable	2006/07 Benefits payable accounts	Benefits payable re-stated*	2007/08 Contributions receivable	Benefits payable
	£'000	£'000	£'000	£'000	£'000
Gloucestershire County Council (<i>administering authority</i>)	31,853	22,462	22,648	35,463	23,967
Scheduled bodies (46) (<i>bodies admitted by right</i>)	25,320	17,735	18,317	24,730	21,181
Admitted bodies (16) (<i>bodies admitted by agreement</i>)	<u>2,565</u>	<u>1,795</u>	<u>1,795</u>	<u>2,980</u>	<u>1,855</u>
	<u>59,738</u>	<u>41,992</u>	<u>42,760</u>	<u>63,173</u>	<u>47,003</u>

* See note P 22

P 8 Statement of Investment Principles

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

P 9 Related party transactions

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

	2006/07 accounts	2006/07 re-stated*	2007/08
	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
Administrative expenses	<u>1,261</u>	<u>1,344</u>	<u>1,398</u>

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.

**See note P 22*

P10 Contingent liabilities and contractual commitments

During 2002/03 the Pension Fund invested 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 made a further commitment, now a maximum of £3m to the Chandos Fund, another Yorkshire Fund Manager product. The Fund mainly provides expansion capital for high growth businesses.

P11 Unlisted holdings

The following holdings are unlisted:

	2006/07 £'000	2007/08 £'000
<u>Pooled investment vehicles</u>		
UK equity unit trusts	8,207	6,264
UK equity unitised insurance policy	4,005	3,312
Overseas equity managed fund	31,649	38,860
Overseas equities unitised insurance policies	277,286	263,566
Overseas limited liability partnerships	<u>9,122</u>	<u>19,062</u>
	330,269	331,064
Overseas Other Fixed Interest	<u>207</u>	<u>0</u>
	<u>330,476</u>	<u>331,064</u>

P12 Stocklending

The Pension Funds' custodian is authorised to release stock to a third party under a stock lending arrangement. At 31st March 2008 the value of stock out on loan was £75.9m (31.03.07 £99.4m) comprising of £35.4m (31.03.07 £27.9m) in UK equities and £40.5m (31.03.07 £71.5m) in UK Government stock. Collateral to the value of 106% (31.03.07 103%) 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 £27.2m (2006/07 £18.2m).

P13 Investment Income

Investment income arises from the following investment categories:

	2006/07 £'000	2007/08 £'000
Fixed interest	7,397	8,856
Equities	12,777	10,530
Index-linked	1,363	1,454
Pooled investment vehicles	2,665	3,830
Interest on cash deposits	774	1,141
Other income	26	46
	<u>25,002</u>	<u>25,857</u>

P14 Fixed interest securities

A further breakdown is given of holdings within the Overseas Public Sector Fixed Interest and Overseas.

Other Fixed Interest totals below:

	2006/07 £'000	2007/08 £'000
<u>Overseas public sector fixed interest stock</u>		
Overseas public sector fixed interest stock	13,169	19,063
US treasury bond futures	-13,143	-29,084
US treasury options	-	164
European government bond futures	<u>-6,552</u>	<u>-3,884</u>
	-6,526	-13,741
<u>Overseas other fixed interest stock</u>		
Overseas quoted other fixed interest stock	5,622	15,059
Overseas unquoted other fixed interest stock	<u>207</u>	<u>-</u>
	<u>5,829</u>	<u>15,059</u>
	<u>-697</u>	<u>1,318</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 loss is made.

P15 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 regulations 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 £588,840 (2006/07 £575,224). As at 31st March 2008 the value of separately invested additional voluntary contributions was £7.6m (31.03.07 £7.2m).

P16 Pooled investment vehicles

Pooled investment vehicles may be categorised as follows:

	2006/07 £'000	2007/08 £'000
<u>Managed Funds</u>		
Overseas equities managed from outside the UK - unquoted	31,650	38,860
<u>Unit Trusts</u>		
UK equities – unquoted	8,207	6,264
<u>Limited Liability Partnerships</u>		
UK	19,946	-
Overseas	9,122	19,062
<u>Unitised Insurance Policies</u>		
UK equities – unquoted	4,005	3,312
Overseas equities - unquoted	<u>277,286</u>	<u>263,566</u>
	<u>350,216</u>	<u>331,064</u>

P17 Futures and Options

At 31st March 2008 futures contracts and options with a value of £35.5m (31.03.07 £19.69m) had been entered into. The futures contracts and options are included within the underlying asset class.

	2006/07 £'000	2007/08 £'000
<u>Futures Contracts</u>		
UK Public sector	-	19,477
Overseas Public Sector Fixed Interest	-19,694	-32,968
Other Investment Balances	-	<u>48,734</u>
	<u>-19,694</u>	<u>*35,243</u>
<u>Options</u>		
Overseas Public Sector Fixed Interest	-	164
Other Investment Balances	-	<u>101</u>
	<u>-19,694</u>	<u>35,508</u>

* A corresponding entry of - £35.2m (2006/07 £19.69m) has been included within Other Investment Balances which reflects the cash position that would have arisen if the futures contracts were closed.

P18 Other investment balances

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

	2006/07 £'000	2007/08 £'000
<u>Other Investment Balances</u>		
Outstanding sales	34,934	7,229
Outstanding purchases	-19,122	-14,862
Cash futures contracts	-	48,734
Cash backing futures	20,369	-33,222
Outstanding dividends and tax reclaims	5,484	6,542
Venture capital/private equity	454	1,712
Currency options	257	101
	<u>42,376</u>	<u>16,234</u>

P19 Investments exceeding 5 per cent of Total Net Assets

At 31st March 2008 the Pension Fund held 4 (31.03.07, 4) investments that each exceeded 5 per cent of the total value of the net assets of the scheme. These are detailed as follows:

	2006/07		2007/08	
	£'000	%	£'000	%
Hermes Property Unit Trust	75,958	8.0	80,066	8.7
BGI European Equity Fund	85,863	9.0	81,629	8.9
BGI Japanese Equity Fund	49,438	5.2	46,672	5.1
BGI US Equity Fund	<u>106,442</u>	<u>11.2</u>	<u>99,160</u>	<u>10.8</u>
	<u>317,701</u>	<u>33.4</u>	<u>307,527</u>	<u>33.5</u>

Barclays Global Investments (BGI) are Ascent Life unitised insurance policies

P20 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 2008 £367,922 (31.03.07 £736,805) was due to the Pension Fund.

P21 Other income

Other income relates to expenditure incurred by the Pension Fund on behalf of other bodies which is then rechargeable i.e. employer specific actuarial fees and some payments to pensioners. These have not been identified separately in prior years and were set against the relevant expenditure category.

	2006/07 £'000	2007/08 £'000
Recoveries for services provided	83	98
Cost recoveries	<u>768</u>	<u>995</u>
	<u>851</u>	<u>1,093</u>

P22 Changes to comparative figures

Previously, recoverable expenditure has been netted off against the relevant expenditure category. This is now identified separately as income.

	2006/07 accounts	2006/07 re-stated
Pensions	35,288	36,056
Other income (note P21)	-	-851
Administrative expenses	<u>1,261</u>	<u>1,344</u>
	<u>36,549</u>	<u>36,549</u>

Fire Pension Accounts

Fund Account for the year ended 31st March 2008

2006/07 £'000		FPS £'000	NFPS £'000	Total £'000
Total	Contributions Receivable			
	From employer			
-1,568	normal	-1,603	-139	-1,742
0	early retirements	0	0	0
-70	other: Ill Heath Retirement	-54	0	-54
	From members			
-812	normal	-838	-114	-952
-5	other: Added Years	-5	0	-5
	Transfers In			
-13	Individual transfers in from other schemes	-3	-127	-130
0	other	0	0	0
	Benefits Payable			
2,066	pensions	2,150	0	2,150
	commutations & lump sum retirement			
384	benefits	574	0	574
0	lump sum death benefits	0	30	30
876	other: Annual increase in pensions	953	0	953
	Payments to and on account of leavers			
	refunds to contributions			
21	individual transfers out to other schemes	56	0	56
-	other	-	-	-
<u>872</u>	Sub Total	<u>1,230</u>	<u>-350</u>	<u>880</u>
	Net amount payable/receivable for the year before top-up grant receivable/amount payable to sponsoring department			
-872	Top-up grant receivable/payable to sponsoring department	-1,230	350	-880
<u>0</u>	Net amount payable/receivable for year	<u>0</u>	<u>0</u>	<u>0</u>

Net Assets Statement for the year ended 31 March 2008

Total £'000		FPS £'000	NFPS £'000	Total £'000
	Net current assets and liabilities			
0	contributions due from employer	0	0	0
	pension top-up grant receivable			
-238	from sponsoring department	-906	350	-556
0	unpaid pension benefits	0	0	0
	amount due to sponsoring	0	0	0
0	department			
0	other current assets and liabilities	906	-350	556
<u>238</u>	Amount owing to general fund	<u>0</u>	<u>0</u>	<u>0</u>
<u>0</u>		<u>0</u>	<u>0</u>	<u>0</u>

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 wholetime firefighters who were employed before 5th April 2006 and have not transferred to the new scheme and the 'New Firefighters Pension Scheme' (NFPS) for all wholetime firefighters who have joined since 6th April 2006, those that have transferred from the old scheme and all Retained Firefighters.

It is an unfunded scheme which is "contracted out" of the state scheme and is termed a defined benefit (or final salary) scheme. The funding arrangements for this scheme changed on the 1st April 2006. The fund is financed by contributions paid in by existing firefighters and the Fire Service with any balance receivable from or payable to the Department for Communities and Local Government. Therefore there are no investment assets belonging to the Fund

- b) Employees and employers contribution levels are based on percentages of pensionable pay set nationally by the DCLG and subject to triennial revaluation by the Government Actuary's Department.
- c) The Fund has been prepared to meet the requirements of the Statement of Recommended Practice (SORP) Code of Practice on Local Authority Accounting in the United Kingdom 2007. There are no administration charges included in the accounts and also the accounts do not take account of liabilities to pay pensions and other benefits in the future.
- d) The fund's financial statements do not take into account any liabilities to pay pensions or other benefits after the period end.
- e) The liability under FRS 17 is disclosed in note 40 on page 51 of the Notes to the Accounts
- f) A Fire Service Pensions Circular was issued on 21st May 2008 advising that commutation factors for Firefighters in the FPS would be changed from 1st October 2007. All Firefighters who have retired between 1st October 2007 and 31st March 2008 are subject to a revised commutation factor and will receive an additional payment amount which includes interest. The effect of this has been included in these statements at a cost of £28k.

GLOSSARY OF TERMS

Accounting Policies

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

Actuarial Gains and Losses

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

Capital Expenditure

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

Class of Tangible Fixed Assets

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

Operational assets

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

Non-operational assets

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

Community Assets

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

Consistency

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

Contingent Asset

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

Contingent Liability

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

Corporate and Democratic Core

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

Deferred Charges

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

Depreciation

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

Discretionary Benefits

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

Estimation Techniques

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

Events After the Balance Sheet Date

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

Exceptional Items

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

Extraordinary Items

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

Fair Value

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

Finance Lease

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

Going Concern

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

Government Grants

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

Impairment

A reduction in the value of a fixed asset.

Infrastructure Assets

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

Liquid Resources

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

Long-term Contracts

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

Net Book Value

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

Non-operational Assets

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

Operating Leases

A lease other than a finance lease.

Operational Assets

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

Past Service Cost

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

Pension Interest Cost and Expected Return on Pensions Assets

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

Prior Period Adjustments

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

Related Parties

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

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

Examples of related parties of an authority include:

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

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

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

Related Party Transaction

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

Examples of related party transactions include:

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

Remuneration

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

Residual Value

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

Retirement Benefits

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

Stocks

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

Tangible Fixed Assets

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

Useful Life

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