

Statement of Accounts

Pension Fund Accounts

For the year ended 31 March 2013





I hope that this document proves to be both informative and of interest to readers. The Council is keen to try to improve both the quality and suitability of information provided. On that basis your feedback would be welcome.

If you have suggestions or comments on either the format of the report or its content, or you would like any further information or further copies of this document, please contact:

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Corporate Director Resources

Fund Account

2011-12			2012-13	
£000	£000	Notes	£000	£000
DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED IN THE FUND				
-96,448		Contributions receivable	7 -93,884	
-7,945		Transfers in from other pension funds	8 -5,365	
-5		Other income	-5	
	-104,398			-99,254
99,973		Benefits payable	9 95,978	
4,618		Payments to and on account of leavers	10 7,695	
1,204		Administrative expenses	11 1,302	
	105,795			104,975
	1,397	Net withdrawals/ -additions from dealings with members		5,721
RETURN ON INVESTMENTS				
-40,132		Investment income	12 -32,216	
-65,556		Profit and losses on disposal of investments and change in market value of investments	15 -175,578	
8,992		Investment management fees	14 5,403	
	-96,696	Net returns on investments		-202,391
-95,299		NET INCREASE IN THE NET ASSETS AVAILABLE FOR BENEFITS DURING THE YEAR		-196,670

Net Assets Statement

2011-12				2012-13	
£000	£000		Notes	£000	£000
INVESTMENT ASSETS					
44,332		Fixed interest securities	15	73,341	
814,163		Equities	15	435,804	
367,949		Index linked securities	15	410,966	
<u>585,487</u>	1,811,931	Pooled investment vehicles	15	<u>1,117,793</u>	2,037,904
425		Loans	15	408	
		Other cash deposits:			
35,287		Fund Managers	15	14,091	
25,370		Short term investments	15	20,882	
<u>17,534</u>	<u>78,616</u>	Derivative contracts	15	<u>13,739</u>	49,120
	1,890,547				2,087,024
Other Investment Assets					
6,816		Dividend accruals	15,18	4,974	
516		Tax recovery	15,18	527	
<u>21,844</u>	<u>29,176</u>	Other investment balances	15,18	<u>41,709</u>	47,210
	1,919,723	Total Investment Assets			2,134,234
INVESTMENT LIABILITIES					
-13,937		Derivative contracts	15	-11,984	
<u>-16,399</u>		Other investment balances	19	<u>-39,881</u>	
	<u>-30,336</u>	Total Investment Liabilities			<u>-51,865</u>
	1,889,387	NET INVESTMENT ASSETS			2,082,369
Current assets					
5,568		Contributions due from employers	18	7,891	
<u>2,537</u>		Other current assets	18	<u>974</u>	
	8,105				8,865
Current liabilities					
-480		Unpaid benefits	19	-538	
<u>-8,126</u>		Other current liabilities	19	<u>-5,140</u>	
	-8,606				-5,678
	<u>1,888,886</u>	NET ASSETS OF THE SCHEME AVAILABLE TO FUND BENEFITS AT 31 MARCH			<u>2,085,556</u>

The Pension Fund's accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the reported accounting period. The actuarial present value of promised retirement benefits, which does take account of such obligations, is disclosed in Notes 23 and 24.

These accounts should therefore be read in conjunction with the information contained within these notes.

1. Fund Operation and Membership

Durham County Council Pension Fund (the Fund) is part of the Local Government Pension Scheme (LGPS) which is administered by Durham County Council. The Council is the reporting entity for the Fund. The LGPS is a statutory scheme governed by regulations made under the Superannuation Act 1972. The fund is administered in accordance with the following secondary legislation:

- LGPS (Benefits, Membership and Contributions) Regulations 2007 (as amended)
- LGPS (Administration) Regulations 2008 (as amended)
- LGPS (Management and Investment of Funds) Regulations 2009
- LGPS (Miscellaneous) Regulations 2012.

The Pension Fund Committee has responsibility delegated from Durham County Council to discharge the powers and duties arising from Section 7 of the Superannuation Act 1972 and Regulations made thereunder, to ensure the effective stewardship of the Pension Fund's affairs. The delegation is wide ranging and covers the management of all of the Fund's activities, including the administration and investment of funds. The Committee meets at least quarterly to assess performance and annually to consider wider matters.

The Corporate Director Resources is responsible for the administration of the Pension Fund. He is assisted by the Pensions Administration and Strategic Finance teams in his statutory duty to ensure the Pension Fund remains solvent and is administered effectively.

The Fund was established in 1974 to cover the future pension entitlement of all eligible employees of the County Council and former District Councils. The Fund excludes provision for teachers, police officers and firefighters for whom separate pension arrangements exist. A number of other scheduled and admitted bodies also participate in the Scheme.

The LGPS is a defined benefit occupational pension scheme to provide pensions benefits for pensionable employees of participating bodies. On retirement contributors receive annual pensions (and where applicable, lump sum payments). Entitlement to these benefits arises mainly on the grounds of reaching retirement age and retirement through ill health through early retirement schemes or being made redundant. Contributors who leave and who are not immediately entitled to these benefits may have their pension rights transferred or preserved until reaching retirement age. In a minority of cases refunds of contributions can be made.

The following table provides a summary of contributing members, pensioners in payment and deferred pensioners over the last five years.

	2008/09	2009/10	2010/11	2011/12	2012/13
Contributing Members	19,303	19,405	18,526	17,235	16,837
Pensioners in Payment	14,641	14,922	15,341	16,049	16,145
Pensioners Deferred	9,823	9,715	10,595	11,573	12,211

When comparing the numbers at 31 March 2013 to those at 31 March 2012, the number of pensionable employees in the Fund has reduced by 398, the number of pensioners has increased by 337 and deferred pensioners have increased by 638.

At 31 March 2013 the number of pensionable employees in the Fund was 16,837, which is a reduction of 398, from 17,235 at 31 March 2012. The number of pensioners during 2012/13 has increased by 337 from 16,049 to 16,386.

Contributions represent the total amounts receivable from:

- employing authorities, at a rate determined by the Fund's Actuary, and
- pensionable employees, at a rate set by statute.

The Fund's total benefits and contributions are summarised in the following table:

2011-12			2012-13	
Benefits	Contributions		Benefits	Contributions
£000	£000		£000	£000
81,352	-66,630	Administering Authority	77,649	-64,694
16,381	-24,867	Scheduled Bodies	16,590	-25,714
2,240	-4,951	Admitted Bodies	1,739	-3,476
99,973	-96,448		95,978	-93,884

The names of all 99 contributing employers are as follows:

Scheduled Bodies

Local Authorities:

Durham County Council
Darlington Borough Council

Parish Councils:

Brandon & Byshottles Parish Council
Chilton Parish Council
Easington Colliery Parish Council
Easington Village Parish Council
Fishburn Parish Council
Framwellgate Parish Council
Horden Parish Council
Hutton Henry Parish Council
Lanchester Parish Council
Monk Haseden Parish Council
Murton Parish Council
North Lodge Parish Council
Shotton Parish Council
South Hetton Parish Council
Thornley Parish Council
Trimdon Foundry Parish Council
Trimdon Parish Council
Wheatley Hill Parish Council
Wingate Parish Council

Town Councils:

Barnard Castle Town Council
Ferryhill Town Council
Great Aycliffe Town Council
Peterlee Town Council
Seaham Town Council
Sedgefield Town Council
Shildon Town Council
Spennymoor Town Council
Stanley Town Council

Colleges:

Bishop Auckland College
Darlington College
Derwentside College
East Durham College
New College Durham
Queen Elizabeth 6th Form College

Statutory Bodies:

BRandH Academy Limited
Carmel College
Central Durham Joint Crematoria Committee
Dale and Valley Homes
Darlington School of Maths & Science
Durham & Darlington Fire and Rescue Authority
Durham Police Authority
Easington Academy
East Durham Homes

Statutory Bodies (continued):

Education Village
Excel Academy Partnership (Framwellgate School)
Federation of Abbey Schools Academy Trust
Glendene Academy
Heathfield Academy Trust
Hummersknott Academy Trust
Hurworth School Limited
King James I Academy
Longfield Academy Trust
Murton Community Primary School
New College Durham Academies Trust
New Seaham Primary School
Park View Academy
Parkside Sports College
Reid Street Primary School
Skerne Park Primary
St Aidans C of E Academy
St Bedes Academy
St Bedes RC Primary
St George CE
St John's Catholic School & Sixth Form College
St John's CE Primary School
Staindrop School
Teesdale Education Trust
The Academy at Shotton Hall
The Fed. of Mowden Schools
The Hermitage Academy Trust
Tudhoe Learning Trust
West Park Academy
Woodham College

Admitted Bodies:

Barnard Castle School
Bowes Museum
Carillion
Cestria Community Housing
Compass Group UK
Creative Management Services
Derwentside Homes
Future Leisure in Coxhoe
Hobson Golf Club Ltd
KGB Cleaning & Support Services
Kier Support Services
Leisureworks
Livin plc (formerly Sedgefield Borough Homes)
Mears
Mitie Cleaning
Mitie PFI
Morrison Facilities Management Ltd
Murton Welfare Association
Peterlee Fire Company
Taylor Shaw Longfield
Taylor Shaw Primaries
Teesdale Housing Association
The Forge
Three Rivers Housing Group

Further information about the Fund can be obtained from its separately published Annual Report which is available on the Council's website at durham.gov.uk

2. Basis of Preparation

The Pension Fund accounts have been prepared in accordance with:

- International Financial Reporting Standards (IFRS)
- CIPFA Code of Practice on Local Authority Accounting in the UK, 2012/13 (the Code)

The accounts have been prepared on an accruals and going concern basis.

The financial statements summarise the transactions and the available net assets of the Pension Fund available. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial valuations of the Fund, which do take account of such obligations, are carried out every three years. The Actuary completed a valuation during 2010/11, the results of which determined the contribution rates from 1 April 2011 to 31 March 2014. Details of the latest valuation are included in Note 24.

3. Statement of Accounting Policies

Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these accounts. The accounts have been prepared on the normal accruals basis of accounting.

Fund Account

Contributions Receivable

Contribution income is categorised and recognised as follows:

- Normal contributions, from both members and employers, are accounted for on an accruals basis;
- Employer's augmentation contributions are accounted for in the year in which they become due;
- Employer's other contributions are accounted for in accordance with the terms of the arrangement.

Transfers to and from other Schemes

Transfer Values represent amounts paid to or received from other local and public authorities, private occupational or personal pension schemes in respect of pension rights already accumulated by employees transferring from or to the participating authorities.

Individual transfer values paid and received are accounted for on a cash basis as the amount payable or receivable is not determined until payment is made and accepted by the recipient. Bulk (Group) transfers out and in are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

Pension Benefits Payable

Pension benefits are recognised and recorded in the accounting records and reported in the financial statements as an expense in the period to which the benefit relates. Any amounts due but yet to be paid are disclosed in the Net Assets Statement as current liabilities.

Administrative Expenses

All administration expenses are accounted for on an accruals basis. All costs of the pensions administration team and a proportion of the costs of the pension fund accounting team are charged to the Pension Fund as administrative expenses.

Investment Income

Investment income is accounted for as follows:

- income from equities is recognised in the fund account on the date stocks are quoted ex-dividend;

- income from fixed interest and index-linked securities, cash and short-term deposits is accounted for on an accruals basis;
- interest income is recognised in the fund account as it accrues;
- income from other investments is accounted for on an accruals basis;
- income from overseas investments is recorded net of any withholding tax where this cannot be recovered;
- foreign income has been translated into sterling at the date of the transactions when received during the year or at the exchange rates applicable on the last working day in March where amounts were still outstanding at the year end;
- changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year.

Taxation

The fund is a registered public service scheme under Section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax would normally be accounted for as a fund expense as it arises, however when investment managers are not able to supply the necessary information, no taxation is separately disclosed in the fund account.

Investment Management Fees

All investment management fees are accounted for on an accruals basis. Fees of the external investment managers are agreed in the respective mandates governing their appointments. Where an investment manager's fee note has not been received by the balance sheet date, an estimate based upon the market value of their mandate as at the end of the financial year is used for inclusion in the fund account.

The cost of obtaining independent investment advice from consultants is also included in investment management fees. Independent advisers' fees are based on a retainer for attendance at Pension Fund Committee Meetings and the provision of advice to the Pension Fund Committee. Fees for any additional work are based on a daily or hourly rate, as provided for by agreement or by separate arrangement.

A proportion of the costs of the pension fund accounting team and treasury management team are charged to the Pension Fund for investment management activities.

Note 14 includes details relating to investment management fees.

Net Assets Statement

Valuation of Investments

Investments are included in the accounts at their fair value as at the reporting date. Fair value is the price for which an asset could reasonably be exchanged, or a liability settled, in an arm's length transaction. In the case of marketable securities fair value is equal to market value. Market value is the bid price quoted in an active market for securities and unitised investments.

All prices in foreign currency are translated into sterling at the prevailing rate on the last working day of March.

An investment asset is recognised in the Net Assets Statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes to the fair value of the asset are recognised by the Fund.

The values of investments as shown in the Net Assets Statement have been determined as follows:

- Quoted equity securities which are traded on an exchange are accounted for on a bid market price basis, where Investment Managers provide valuations in this manner;
- Fixed interest securities that are traded on an exchange are accounted for at bid market price where Investment Managers provide valuations in this manner;
- Index linked securities are valued at bid market value where Investment Managers provide valuations in this manner;
- Unitised securities are valued at the closing bid price if bid and offer prices are reported by the relevant exchange and in the Investment Manager's valuation report. Single priced unitised securities are valued at the reported price;
- Unquoted equity investments are included based on an estimated price of the investments held. Valuation techniques are used to establish a price at the year end date based on an arm's length exchange given normal business considerations;
- Derivative contracts outstanding at the year end are included in the Net Assets Statement at fair value (as provided by Investment Managers) and gains and losses arising are recognised in the Fund Account as at 31 March. The value of foreign currency contracts is based on market forward exchange rates at the reporting date. The value of all other derivative contracts is determined using exchange prices at the reporting date.

Where Investment Managers are unable to supply investment valuations in line with the above policies, valuations will be included as supplied by the Investment Manager, usually at mid-market price.

Cash and Cash Equivalents

Cash comprises cash in hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with insignificant risk of change in value.

Contingent Assets

A contingent asset arises where an event has taken place that gives a possible asset which will only be confirmed by the occurrence of uncertain future events not wholly within the control of the Pension Fund. Contingent assets are not recognised in the Net Assets Statement however details are disclosed in Note 22.

Investment Transactions

Investment transactions arising up to 31 March but not settled until later are accrued in the accounts. All purchases and sales of investments in foreign currency have been accounted for in sterling at the prevailing rate on the transaction date.

Acquisitions Costs of Investments

Acquisition costs of investments are added to book cost at the time of purchase.

Actuarial Present Value of Promised Retirement Benefits

The actual present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards. As permitted under IAS 26 the Pension Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the accounts (Note 24).

Additional Voluntary Contributions (AVCs)

The Fund provides an additional voluntary contribution (AVC) scheme for its members, the assets of which are invested separately from those of the Fund . In accordance with LGPS Regulations, AVCs are not recognised as income or assets in the Pension Fund Accounts, however a summary of the scheme and transactions are disclosed in Note 20 to these accounts.

If, however, AVCs are used to purchase extra years' service from the Pension Fund, this is recognised as contribution income in the Fund's accounts on an accruals basis. Amounts received in this way can be found in Note 7 as additional contributions from members.

4. Critical Judgements in Applying Accounting Policies

The preparation of the statements in conformity with IFRS requires management to make judgements, estimates and assumptions which affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. In applying the policies, the Pension Fund has to make certain judgements about complex transactions, or those involving uncertainty. Those with most significant effect are:

- the fair value of unquoted private equities is highly subjective and based upon forward looking estimates and judgements involving many factors. Investment managers provide the values to be recognised in the Net Assets Statement.
- the pension fund liability is calculated every three years by the appointed actuary. Assumptions underpinning the valuations are agreed with the actuary; the estimate is subject to significant variances based on changes to the underlying assumptions.

5. Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

The Pension Fund Accounts contain estimated figures that are based upon assumptions made about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, as balances cannot be determined with certainty, actual results may be materially different from the assumptions and estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Items in the Net Assets Statement for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual differs from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of actuaries is engaged to provide the fund with expert advice about the assumptions to be applied. Note 24 summarises the results of the actuarial valuation.	For instance a 3 year increase in life expectancy would reduce the funding target by 4%. A 1% fall in the yield from bonds would reduce the funding target by 13%. If pension increases were 1% higher than expected, the funding target would reduce by 9%. A 25% fall in the market value of equities and property investments would lead to a 12% fall in the funding target. If pensionable pay increases are 1% higher than assumed, the funding target will decrease by 5%.
Fair Value of investments	The Accounts are as at 31 March 2013 and all the investments held by the fund are valued as at that date using the best estimate possible of 'fair value', as detailed in 'Significant Accounting Policies - Valuation of Investments'.	The use of estimates for investment values is greatest for those assets classified at Level 3 and there is a risk that these investments may be over or under-stated in the accounts (see Note 16 for an explanation of Level 3 investments). The total value of Level 3 investments held by the Fund is £611.42m at 31/3/13. Every 1% increase/ decrease in fair value would result in an increase/ decrease in the value of the fund by approximately £6.1m

6. Post Net Assets Statement (Balance Sheet) Event

There have been no events after 31 March 2013 which require any adjustments to these accounts.

7. Contributions Receivable

2011-12 £000		2012-13 £000
	Employer contributions:	
-44,786	Normal	-43,861
-1,719	Augmentation	-120
-27,728	Deficit funding	-28,306
	Member contributions:	
-22,059	Normal	-21,257
-156	Additional contributions	-340
-96,448		-93,884
-66,630	Administering Authority	-64,694
-24,867	Scheduled Bodies	-25,714
-4,951	Admitted Bodies	-3,476
-96,448		-93,884

8. Transfers in From Other Pension Funds

2011-12 £000		2012-13 £000
-2,308	Group Transfers	-2,083
-5,637	Individual Transfers	-3,282
-7,945		-5,365

The Group Transfers figure of £2.083m for 2012/13 relates to the transfer value due from the Ministry of Justice to fund the pension benefits of Magistrates' Courts staff who have already transferred out of the DCC Pension Fund to the Civil Service Pension Scheme. The transfer will be paid to the Fund in equal instalments of £208,300 over 10 years, however the full amount has been accrued in 2012/13 in line with the Fund's accounting policy for group transfers in.

9. Benefits Payable

2011-12 £000		2012-13 £000
76,026	Pensions	81,656
27,678	Commutations and lump sum retirement benefits	17,484
1,290	Lump sum death benefits	1,815
-5,021	Recharged benefits	-4,977
-	Purchased annuities	-
99,973		95,978
81,352	Administering Authority	77,649
16,381	Scheduled Bodies	16,590
2,240	Admitted Bodies	1,739
99,973		95,978

10. Payments To and On Account of Leavers

2011-12 £000		2012-13 £000
5	Refunds to members leaving service	4
1	Payments for members joining state scheme	1
-	Purchase of annuities	-
4,612	Individual transfers to other schemes	4,491
-	Group transfers to other schemes	3,199
4,618		7,695

11. Administration Expenses

2011-12 £000		2012-13 £000
1,038	DCC support costs	1,054
64	Legal fees	37
43	External Audit fees	26
13	Internal Audit fees	25
46	Actuary fees	160
1,204		1,302

12. Investment Income

2011-12 £000		2012-13 £000
-2,430	Interest from fixed interest securities	-4,286
-4,291	Income from index-linked securities	-2,307
-27,042	Dividends from equities	-18,855
-177	Interest on cash deposits	-39
-6,192	Income from pooled investment vehicles	-6,729
-40,132		-32,216

13. Taxation

The Pensions SORP requires that any withholding tax that is irrecoverable should be disclosed in the Fund Account as a tax charge, however as Investment Managers have not been able to supply information for the full year, no amount of irrecoverable withholding tax has been disclosed.

- United Kingdom Income Tax
 - The Fund is an exempt approved Fund under Section 1(1) Schedule 36 of the Finance Act 2004, and is therefore not liable to UK income tax on interest, dividends and property income, or to capital gains tax.
- Value Added Tax
 - As Durham County Council is the administering authority for the Fund, VAT input tax is recoverable on most fund activities.
- Foreign Withholding Tax
 - Income earned from investments in stocks and securities in the United States, Australia and Belgium is exempt from tax. In all other countries dividends are taxed at source and, where the tax paid at source is greater than the rate of tax under the 'Double Taxation Agreement', the excess tax is reclaimable except in the case of Malaysia.

14. Investment Management Fees

Investment managers' fees are based on the value of assets under management. An ad-valorem fee is payable to one investment manager, whereas the others are paid a performance related fee, derived from a base fee plus a percentage of out-performance. All fees are payable in arrears.

Independent Advisers' fees are based on a retainer for attendance at Pension Fund Committee and Annual Meetings and the provision of advice. Fees for any additional work are based on a daily or hourly rate, as agreed in advance.

2011-12 £000		2012-13 £000
8,695	Manager Fees	5,068
149	Custody Fees	158
148	Adviser Fees	177
8,992		5,403

15. Investments

Analysis by Investment Manager

The following investment managers were employed in 2012/13 to manage the Pension Fund's assets:

- AllianceBernstein Limited (AllianceBernstein)
- Baring Asset Management Limited (Barings)
- BlackRock Investment Management UK Limited (BlackRock)
- CB Richard Ellis Collective Investors Limited (CBRE)
- Edinburgh Partners Limited (Edinburgh Partners)
- Royal London Asset Management (RLAM)

Following a review of the Pension Fund's investment strategy in 2012/13, it was decided to reduce and reshape the strategic allocation to equity holdings. Consequently, all investments held with Edinburgh Partners were removed and re-allocated to other (existing) investment managers during the year.

The long-term strategic allocation as at 31 March 2013 was as follows (the actual allocation varies slightly due to market movements):

31 March 2012 %	Investment Manager	Asset Class	31 March 2013 %
16	AllianceBernstein	Global Bonds	15
8	Barings	Dynamic Asset Allocation	20
20	Blackrock	Global equities)	37
6	Blackrock (pooled)	Global equities)	
8	CBRE	Global property	8
22	Edinburgh Partners	Global equities	0
20	RLAM	Investment grade sterling bonds	20
100			100

In October 2012 Durham County Council, on behalf of the Pension Fund, approached the market for global equity and emerging market investment managers to replace the existing manager of global/ UK equities. On 1 May 2013 the Pension Fund Committee approved the appointment of three new investment managers (subject to agreeing terms and conditions); two of which will manage global equity with an emerging market bias and one which will have an emerging market equity mandate. It is anticipated that the re-allocation of the Fund's equity assets will commence in the second quarter of 2013/14.

The market values of investments analysed by Investment Manager as at 31 March were as follows:

31 March 2012			31 March 2013	
£000	%		£000	%
285,900	15.45	AllianceBernstein	301,217	14.67
143,727	7.77	Barings	397,393	19.35
515,369	27.84	Blackrock	807,330	39.31
122,132	6.60	CBRE	135,285	6.59
413,927	22.36	Edinburgh Partners	0	0.00
179	0.01	Other - NEL	99	0.00
369,581	19.97	RLAM	412,426	20.08
1,850,815	100.00		2,053,750	100.00

The totals in the above table include all assets held by Investment Managers on behalf of the Fund, including cash and derivatives. The total as at 31 March 2013 excludes loans of £0.408m, cash invested by the administering authority of £20.882m, other investment assets of £47.210m and liabilities of £39.881m (£0.425m, £25.370m, £29.176m and £16.399m respectively, as at 31 March 2012).

Of the total value of net investment assets reported in the Net Assets Statement as at 31 March 2013, £2.054m (98.5%) is invested through Investment Managers (£1.851m or 97.96% of the total in 2011/12).

Reconciliation of Movements in Investments 2012/13

Investment category	Value at 31 March 2012	Purchases at cost	Sales proceeds	Change in market value	Value at 31 March 2013
	£000	£000	£000	£000	£000
Fixed interest securities	44,332	339,972	-313,115	2,152	73,341
Equities	814,163	2,357,269	-2,623,648	-111,980	435,804
Index linked securities	367,949	1,642,392	-1,638,844	39,469	410,966
Pooled investment vehicles	585,487	1,647,159	-1,365,833	250,980	1,117,793
	1,811,931	5,986,792	-5,941,440	180,621	2,037,904
Derivative contracts:					
Futures, margins & options	2,628	3,687	-3,518	-1,457	1,340
Forward foreign currency	969			-554	415
	1,815,528	5,990,479	-5,944,958	178,610	2,039,659
Other investment balances:					
Loans	425				408
Other cash deposits	60,657			-3,032	34,973
Dividend accruals	6,816				4,974
Tax recovery	516				527
Other investment balances	5,445				1,828
Net Investment Assets	1,889,387			175,578	2,082,369

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

Reconciliation of Movements in Investments 2011/12

Investment category	Value at 31 March 2011	Purchases at cost	Sales proceeds	Change in market value	Value at 31 March 2012
	£000	£000	£000	£000	£000
Fixed interest securities	35,717	169,081	-164,929	4,463	44,332
Equities	898,953	228,094	-281,139	-31,745	814,163
Index linked securities	356,100	1,711,127	-1,771,561	72,283	367,949
Pooled investment vehicles	444,319	205,475	-82,765	18,458	585,487
	<u>1,735,089</u>	<u>2,313,777</u>	<u>-2,300,394</u>	<u>63,459</u>	<u>1,811,931</u>
Derivative contracts					
Futures, margins & options	-	1,281	-1,068	2,415	2,628
Forward foreign currency	-1,312			2,281	969
	<u>1,733,777</u>	<u>2,315,058</u>	<u>-2,301,462</u>	<u>68,155</u>	<u>1,815,528</u>
Other investment balances:					
Loans	441				425
Other cash deposits	39,649			-2,599	60,657
Dividend accruals	7,089				6,816
Tax recovery	566				516
Other investment balances	-3,475				5,445
Net Investment Assets	<u><u>1,778,047</u></u>			<u><u>65,556</u></u>	<u><u>1,889,387</u></u>

Analysis of Investments

2011-12			2012-13	
£000	£000		£000	£000
ASSETS INVESTED THROUGH FUND MANAGERS				
Fixed interest securities				
6,113		UK - Public sector	22,932	
8,474		UK - other	22,256	
29,745		Overseas - Public sector	28,153	
	44,332			73,341
Equities				
469,321		UK quoted	402,039	
179		UK unquoted	99	
344,663		Overseas quoted	33,666	
	814,163			435,804
Index linked securities				
358,390		UK quoted - Public sector	373,587	
9,559		Overseas quoted -Public sector	37,379	
	367,949			410,966
Pooled Investment Vehicles				
8,096		Managed funds - non property - UK - unquoted	24,875	
453,659		Managed funds - non property - Overseas - unquoted	944,643	
859		Unit Trusts - property - UK quoted	1,023	
33,416		Unit Trusts - property - UK unquoted	41,798	
28,504		Unit Trusts - property - Overseas quoted	28,851	
60,953		Unit Trusts - property - Overseas unquoted	76,603	
	585,487			1,117,793
Derivative Contracts				
17,534		Assets	13,739	
-13,937		Liabilities	-11,984	
	3,597			1,755
35,287	35,287	Fund Managers' cash	14,091	14,091
1,850,815	NET ASSETS INVESTED THROUGH FUND MANAGERS		2,053,750	
OTHER INVESTMENT BALANCES				
25,370		Short term investments (via DCC Treasury Management)		20,882
425		Loans		408
29,176		Other investment assets		47,210
-16,399		Other investment liabilities		-39,881
1,889,387	NET INVESTMENT ASSETS		2,082,369	

Several of the Managed Funds - Non Property investments were incorrectly classified in the 2011/12 accounts and have therefore been re-classified in the figures for 2011/12 in the table above. In summary, £267.439m has been moved out of Managed Funds - Non Property UK quoted, £44.840m has been moved from Managed Funds - Non Property Overseas quoted, Managed Funds - Non Property UK unquoted has been decreased by £141.380m to £8.096m and Managed Funds - Non Property Overseas unquoted has increased by £453.659m.

Analysis of Derivatives

Objectives and Policies for Holding Derivatives

Derivatives are financial instruments that derive their value from the price or rate of some underlying item. Underlying items include equities, bonds, commodities, interest rates, exchange rates and stock market indices.

The Fund uses derivatives to manage its exposure to specific risks arising from it's investment activities. Derivatives may be used to gain exposure to an asset more efficiently than holding the underlying asset or hedge against the risk of adverse currency movement on the Fund's investments. The use of derivatives is managed in line with the investment management agreement agreed between the Pension Fund and it's investment managers.

A summary of the derivative contracts held by the Pension Fund is provided in the following table:

2011-12		Derivative Contracts	2012-13	
£000	£000		£000	£000
		Forward foreign currency		
1,226		Assets	2,942	
<u>-257</u>		Liabilities	<u>-2,527</u>	
	969	Net Forward foreign currency		415
		Futures		
13,735		Assets	9,493	
<u>-13,680</u>		Liabilities	<u>-9,457</u>	
	55	Net Futures		36
		Options		
2,573		Assets	0	
<u>0</u>		Liabilities	<u>0</u>	
	2,573	Net Options		0
		Margins		
0		Assets	1,304	
<u>0</u>		Liabilities	<u>0</u>	
	0	Net Margins		1,304
	<u><u>3,597</u></u>	Net market value of derivative contracts		<u><u>1,755</u></u>

The Pension Fund invests in the following types of derivatives:

i. Forward Foreign Currency Contracts

Currency is bought and sold by investment managers (Barings, CBRE and Royal London) for future settlement at a predetermined exchange rate. Such contracts are used to hedge against the risk of adverse currency movements on the Fund's investments. Contracts are by their nature over the counter and are primarily in US dollars, euros and sterling.

Notes to the Durham County Council Pension Fund Accounts

Settlement	Currency bought	Local Value	Currency sold	Local Value	Asset Value £000	Liability Value £000
1 to 6 mths	GBP	4,316,734	SEK	44,959,000		-236
1 to 6 mths	GBP	4,335,714	SEK	44,931,000		-214
1 to 6 mths	GBP	3,974,561	SEK	42,981,100		-378
1 to 6 mths	GBP	4,390,654	SEK	42,817,000	55	
1 to 6 mths	GBP	5,452,206	CAD	8,517,000		-68
1 to 6 mths	GBP	7,198,646	EUR	8,323,000	159	
1 to 6 mths	GBP	5,097,381	CAD	8,048,000		-119
1 to 6 mths	GBP	4,471,910	USD	6,766,000	16	
1 to 6 mths	GBP	4,306,909	USD	6,764,000		-148
1 to 6 mths	GBP	5,438,673	EUR	6,685,400		-216
1 to 6 mths	GBP	3,770,098	CAD	6,038,000		-143
1 to 6 mths	EUR	6,861,000	GBP	5,569,554	233	
1 to 6 mths	CAD	8,063,000	GBP	5,184,876	41	
1 to 6 mths	GBP	3,720,498	EUR	4,471,000		-61
1 to 6 mths	CAD	6,469,000	GBP	4,077,786	115	
1 to 6 mths	SEK	42,811,000	GBP	4,058,492	277	
1 to 6 mths	EUR	4,621,000	GBP	3,974,060		-66
1 to 6 mths	EUR	4,584,000	GBP	3,880,952		-4
1 to 6 mths	GBP	2,075,930	EUR	2,529,000		-63
1 to 6 mths	GBP	950,586	EUR	1,121,000	2	
less than 1 mth	USD	4,047,000	GBP	2,711,194		-46
less than 1 mth	GBP	3,493,098	AUD	5,071,000	14	
less than 1 mth	GBP	1,324,976	AUD	1,932,000		
less than 1 mth	USD	1,358,000	EUR	1,058,993		-3
1 to 6 mths	EUR	24,576,325	GBP	21,433,652	628	
1 to 6 mths	USD	84,118,546	GBP	56,167,663	746	
1 to 6 mths	JPY	529,865,132	GBP	3,694,621		-21
1 to 6 mths	GBP	8,495,114	EUR	9,890,000	128	
1 to 6 mths	GBP	22,226,993	USD	34,680,000		-618
1 to 6 mths	GBP	12,074,642	USD	18,250,000	53	
1 to 6 mths	GBP	6,634,667	USD	9,883,000	124	
1 to 6 mths	GBP	11,250,311	JPY	1,555,000,000	351	
1 to 6 mths	GBP	8,178,023	JPY	1,173,000,000		-44
1 to 6 mths	GBP	6,369,802	JPY	920,000,000		-79
					2,942	-2,527
Net forward foreign currency contracts at 31 March 2013						415

Settlement	Currency bought	Local Value	Currency sold	Local Value	Asset Value £000	Liability Value £000
1 to 6 mths	USD	40,168,026	GBP	25,366,784	216	
1 to 6 mths	GBP	4,226,043	USD	6,637,000	70	
1 to 6 mths	USD	6,474,000	GBP	4,096,431		-42
1 to 6 mths	GBP	2,517,181	USD	4,029,000		-6
1 to 6 mths	GBP	26,513,257	EUR	31,843,052		-55
1 to 6 mths	GBP	35,991,020	USD	57,115,818	223	
1 to 2 mths	GBP	11,172,352	AUD	16,500,000	489	
1 to 2 mths	GBP	11,548,815	EUR	13,900,000		-38
up to 1 mth	GBP	439,985	EUR	530,000		-2
1 to 2 mths	GBP	6,325,031	USD	10,000,000	66	
up to 1 mth	GBP	499,301	USD	789,000	5	
up to 1 mth	USD	12,200,000	AUD	11,551,936	157	
up to 1 mth	USD	10,789,000	GBP	6,865,634		-114
					1,226	-257
Net forward foreign currency contracts at 31 March 2012						969

ii. Futures

When there is a requirement to hold cash assets, but the fund manager does not want this cash to be out of the market, index based futures contracts are bought which have an underlying economic value broadly equivalent to the cash held in anticipation of cash outflow required. Outstanding exchange traded futures contracts, held by Barings, are as follows:

	Expires	Product Description	Currency	Market Value at 31 March 13	
				£000	£000
Assets					
UK equity	1 to 3 months	FTSE 100 (LIFFE) (LG)	GBP	1,207	
Overseas equity	1 to 3 months	DOWJONESEURO STOXX 50	EUR	8,286	
Total assets					9,493
Liabilities					
UK equity	1 to 3 months	FTSE 100 (LIFFE) (LG)	GBP	-1,206	
Overseas equity	1 to 3 months	DOWJONESEURO STOXX 50	EUR	-8,251	
Total liabilities					-9,457
Net Futures Contracts at 31 March 2013					<u><u>36</u></u>

Type	Expires	Product Description	Currency	Market Value at 31 March 12	
				£000	£000
Assets					
UK equity	1 to 3 months	FTSE 100 (LIFFE) (LG)	GBP	2,977	
Overseas equity	1 to 3 months	S&P 500 (CME) (LG)	USD	10,758	
Total assets					13,735
Liabilities					
Overseas equity	1 to 3 months	IMM S&P 500	USD	-10,720	
UK equity	1 to 3 months	NEW FTSE 100	GBP	-2,960	
Total liabilities					-13,680
Net Futures Contracts at 31 March 2012					<u><u>55</u></u>

iii. Options

In order to benefit from potentially greater returns available from investing in equities whilst minimising the risk of loss of value through adverse equity price movements, the Fund, through Barings, has bought a number of equity option contracts to protect it from falls in value in the main markets in which it is invested. There were no option contracts held at 31 March 2013.

Type	Expires	Product Description	Currency	Market Value at 31 March 13
				£000
NIL				0
Net Options at 31 March 2013				<u><u>0</u></u>

Type	Expires	Product Description	Currency	Market Value at 31 March 2012
				£000
Assets				
UK equity	less than 1 year	LIF FTSE 100 ESX	GBP	14
UK equity	less than 1 year	LIF FTSE 100 ESX	GBP	150
UK equity	less than 1 year	LIF FTSE 100 ESX	GBP	14
UK equity	less than 1 year	LIF FTSE 100 ESX	GBP	70
UK equity	less than 1 year	LIF FTSE 100 ESX	GBP	297
Overseas equity	up to 1 month	UBS	EUR	0
UK equity	up to 1 month	UBS	GBP	337
Overseas equity	up to 1 month	UBS	USD	537
Overseas equity	up to 1 month	UBS	USD	1,154
Net Options at 31 March 2012				<u><u>2,573</u></u>

iv. Margins

The value of margin amounts outstanding at 31 March are as follows:

	Product Description	Currency	Market Value at 31 March 13 £000	Market Value at 31 March 13 £000
Assets	UBS	GBP	173	
	UBS	EUR	1,131	
Net Margins at 31 March 2013				<u>1,304</u>

Type	Product Description	Currency	Market Value at 31 March 12 £000	Market Value at 31 March 12 £000
	NIL		0	
Net Margins at 31 March 2012				<u>0</u>

Investments Exceeding 5% of the Market Value of the Fund

The following investments represented more than 5% of the Pension Fund's total net assets available for benefits:

- Aquila Life Fund S1, which is a pooled fund managed by Blackrock, was valued at £480.022m or 23.02% at 31 March 2013 (£123.262m or 6.5% at 31 March 2012);
- Diversified Yield Plus fund - a pooled fund of Broad Bonds through AllianceBernstein. The value of this investment at 31 March 2013 was £301.217m or 14.44% (£259.343m or 13.7% at 31 March 2012).

16. Financial Instruments

Classification of Financial Instruments

Accounting policies describe how different asset classes of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts (equal to fair value) of financial assets and liabilities by category and net assets statement heading:

LEVEL 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include unquoted equity investments and hedge fund of funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions. The values of the investment in private equity are based upon valuations provided by the general partners to the private equity in which the Fund has invested. These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS and US GAAP. Valuations are usually undertaken annually.

The following tables provide analyses of the financial assets and liabilities of the pension fund as at 31 March 2013 and 31 March 2012, grouped into Levels 1 to 3, based on the level at which the fair value is observable.

	Quoted market price	Using observable inputs	With significant unobservable inputs	Total
Values at 31 March 2013	Level 1	Level 2	Level 3	
	£000	£000	£000	£000
Financial Assets				
Financial Assets at fair value through profit and loss	1,169,977	317,456	611,420	2,098,853
Loans and receivables	44,246			44,246
Total Financial Assets	1,214,223	317,456	611,420	2,143,099
Financial Liabilities				
Financial Liabilities at fair value through profit and loss		-51,865		-51,865
Financial Liabilities at amortised cost	-5,678			-5,678
Total Financial Liabilities	-5,678	-51,865	0	-57,543
Net Financial Assets	1,208,545	265,591	611,420	2,085,556

	Quoted market price	Using observable inputs	With significant unobservable inputs	Total
Values at 31 March 2012	Level 1	Level 2	Level 3	
	£000	£000	£000	£000
Financial Assets				
Financial Assets at fair value through profit and loss	1,340,769	376,916	140,956	1,858,641
Loans and receivables	69,187			69,187
Total Financial Assets	1,409,956	376,916	140,956	1,927,828
Financial Liabilities				
Financial Liabilities at fair value through profit and loss		-30,336		-30,336
Financial Liabilities at amortised cost	-8,606			-8,606
Total Financial Liabilities	-8,606	-30,336	0	-38,942
Net Financial Assets	1,401,350	346,580	140,956	1,888,886

17. Nature and Extent of Risk Arising From Financial Instruments

Risk and Risk Management

The Pension Fund's activities expose it to a variety of financial risks. The key risks are:

- i. **MARKET RISK** the possibility that financial loss may arise for the Fund as a result of changes in, for example, interest rates movements;
- ii. **CREDIT RISK** the possibility that other parties may fail to pay amounts due to the Fund;
- iii. **LIQUIDITY RISK** the possibility that the Fund might not have funds available to meet its commitments to make payments.

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

The Fund's assets are managed by a number of Investment Managers, as disclosed in Note 15. The division of the management of the assets between all managers further controls risk. Asset allocation benchmarks have been set and performance is monitored relative to the benchmarks. This is to ensure the investment manager does not deviate from the Pension Fund Committee's investment strategy.

The Fund has appointed a Global Custodian that performs a range of services including collection of dividends and interest from the Investment Managers, administering corporate actions that the Pension Fund may join, dealing with taxation issues and proxy voting when requested. It also ensures that the settlement of purchases and sales of the Fund assets are completed. The Custodian has stringent risk management processes and controls. Client accounts are strictly segregated to ensure that the Fund assets are separately identifiable. Conservative investment practices are ensured by the Custodian where they invest cash collateral.

The Fund also employs a specialised service as an independent check to ensure that all dividends receivable are compared against those collected by the Custodian and that they were received on the due date; any discrepancies are investigated.

Durham County Council will invest the short term cash balances on behalf of the Pension Fund. This is done in line with the administering authority's Treasury Management Policy and interest is paid on a quarterly basis to the Fund.

Durham County Council's overall risk management procedures focus on the unpredictability of financial markets and are structured to implement suitable controls to minimise these risks. The procedures for risk management are set out through a legal framework based on the Local Government Act 2003 and associated regulations. These require the Council to comply with the CIPFA Prudential Code, the CIPFA Code of Practice on Treasury Management in the Public Services and investment guidance issued through the Act.

i. MARKET RISK

Market risk is the risk of loss from fluctuations in market prices, interest and foreign exchange rates. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix. The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

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

These risks are managed in two ways:

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

Other Price Risk

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

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

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

Other Price Risk – Sensitivity Analysis

Following analysis of historical volatility, investment manager volatility and expected investment return movement during the financial year, in consultation with the Fund's investment advisers, the Fund has determined that the potential market movements in market price risk, shown in the table below, are reasonably possible for the 2013/14 reporting period. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

If the market price of the Fund investments were to increase/ decrease in line with these potential market movements, the value of assets available to pay benefits in the market price by Investment Manager would vary as illustrated in the following table (the prior year comparator is also shown below):

Manager	Asset type	Asset value at 31 March 2013	Potential market movements	Value on increase	Value on decrease
		£000	%	£000	£000
Alliance Bernstein	Broad Bonds	301,217	6%	319,290	283,144
Barings	DAA	390,795	8%	422,059	359,531
BlackRock	UK/ Passive Global Equity	803,427	21%	972,147	634,707
CBRE	Unlisted property	101,525	10%	111,678	91,373
CBRE	Listed property	29,874	24%	37,044	22,704
RLAM	UK Index Linked Gilts	410,967	8%	443,844	378,090
Other	UK Equity	99	24%	123	75
	Loans	408	0%	408	408
	Cash	34,973	0%	34,973	34,973
	Net derivative assets	1,755	0%	1,755	1,755
	Net investment balances	7,329	0%	7,329	7,329
Total change in net investment assets available		2,082,369		2,350,650	1,814,089

Manager	Asset type	Asset value at 31 March 2012	Potential market movements	Value on increase	Value on decrease
		£000	%	£000	£000
Alliance Bernstein	Broad Bonds	259,344	7%	277,498	241,190
Alliance Bernstein	PPIP	26,213	21%	31,718	20,708
Barings	DAA	129,406	8%	139,758	119,054
BlackRock	Global Equity	508,849	21%	615,707	401,991
CBRE	Unlisted property	87,525	13%	98,903	76,147
CBRE	Listed property	29,363	20%	35,236	23,490
Edinburgh Partners	Global Equity	403,103	21%	487,755	318,451
RLAM	Global Linked Gilts	367,949	7%	393,705	342,193
Other	UK Equity	179	21%	217	141
	Loans	425	0%	425	425
	Cash	60,657	0%	60,657	60,657
	Net derivative assets	3,597	0%	3,597	3,597
	Net investment balances	12,777	0%	12,777	12,777
Total change in net investment assets available		1,889,387		2,157,953	1,620,821

Interest Rate Risk

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

The Fund's interest rate risk is routinely monitored by the administering authority (as part of its Treasury Management Service for investment of surplus cash), its managers, custodian and investment advisers in accordance with the Fund's risk management strategy. This includes monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks. During periods of falling interest rates and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns.

Interest Rate Risk - Sensitivity Analysis

The Fund recognises that interest rates can vary and can affect income to the fund and the value of the net assets available to pay benefits. The following table shows the fund's asset values having direct exposure to interest rate movements as at 31 March 2013 and the effect of a +/- 50 BPS change in interest rates on the net assets available to pay benefits (assuming that all other variables, in particular exchange rates, remain constant). The prior year comparator is also provided:

Asset type	Asset Values at 31 March 2013	Change in year in the net assets available to pay benefits	
		+50 BPS	-50 BPS
	£000	£000	£000
Cash and cash equivalents	34,973	175	-175
Fixed interest securities	73,341	367	-367
Total change in net investment assets available	108,314	542	-542

Asset type	Asset Values at 31 March 2012	Change in year in the net assets available to pay benefits	
		+50 BPS	-50 BPS
	£000	£000	£000
Cash and cash equivalents	60,657	303	-303
Fixed interest securities	44,332	222	-222
Total change in net investment assets available	104,989	525	-525

Currency Risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund (GBP). The fund holds both monetary and non-monetary assets denominated in currencies other than GBP. The Fund's currency rate risk is routinely monitored by the Fund and its investment advisers in accordance with the fund's risk management strategy, including monitoring the range of exposure to currency fluctuations.

Currency Risk - Sensitivity Analysis

Having consulted with the Fund's independent investment advisers, the Fund considers the likely volatility associated with foreign exchange rate movements will range between 7% and 13%. For prudence, the Fund has applied a 13% fluctuation (as measured by one standard deviation) based on the adviser's analysis of long-term historical movements in the month end exchange rates over a rolling 12 month period. This analysis assumes that all other variables, in particular interest rates, remain constant.

Notes to the Durham County Council Pension Fund Accounts

The following table exemplifies, by Fund Manager, to what extent a 13% strengthening/ weakening of the pound, against the various currencies in which the fund holds investments, would increase/ decrease the net assets available to pay benefits (a prior year comparator is also provided) :

Manager	Currency exposure by asset type	Level of unhedged exposure	Total Volatility	Asset value at 31 March 13	Value on increase	Value on decrease
				£000	£000	£000
Alliance Bernstein	Broad Bonds	0%	0%	301,217	301,217	301,217
Barings	DAA	20%	3%	390,795	402,519	379,071
BlackRock	UK Equity	0%	0%	323,405	323,405	323,405
BlackRock	Global Equity	90%	12%	480,022	537,625	422,419
CBRE	Global Property	15%	2%	131,399	134,027	128,771
RLAM	UK Index Linked Gilts	0%	0%	410,967	410,967	410,967
Other	UK Equity	0%	0%	99	99	99
	Loans	0%	0%	408	408	408
	Cash	0%	0%	34,973	34,973	34,973
	Net derivative assets	0%	0%	1,755	1,755	1,755
	Net investment balances	0%	0%	7,329	7,329	7,329
Total change in net investment assets available				2,082,369	2,154,324	2,010,414

Manager	Currency exposure by asset type	Level of unhedged exposure	Total Volatility	Asset value at 31 March 12	Value on increase	Value on decrease
				£000	£000	£000
Alliance Bernstein	Broad Bonds & PPIP	0%	0%	285,557	285,557	285,557
Barings	DAA	20%	3%	129,406	133,288	125,524
BlackRock	Global Equity	0%	0%	508,849	508,849	508,849
CBRE	Global Property	10%	1%	116,888	118,057	115,719
Edinburgh Ptns	Global Equity	100%	13%	403,103	455,506	350,700
RLAM	Global Linked Gilts	0%	0%	367,949	367,949	367,949
Other	UK Equity	0%	0%	179	179	179
	Loans	0%	0%	425	425	425
	Cash	0%	0%	60,657	60,657	60,657
	Net derivative assets	0%	0%	3,597	3,597	3,597
	Net investment balances	0%	0%	12,777	12,777	12,777
Total change in net investment assets available				1,889,387	1,946,841	1,831,933

ii. CREDIT RISK

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

The Fund's entire investment portfolio (except derivatives) is exposed to some form of credit risk. The Fund minimises credit risk by undertaking transactions with a large number of high quality counterparties, brokers and institutions.

Fund managers adopt procedures to reduce credit risk related to its dealings with counterparties on behalf of its clients. Before transacting with any counterparty, the Manager evaluates both credit worthiness and reputation by conducting a credit analysis of the party, their business and reputation. The credit risk of approved counterparties is then monitored on an ongoing basis, including periodic reviews of financial statements and interim financial reports as required.

The Pension Fund has sole responsibility for the initial and ongoing appointment of custodians. Uninvested cash held with the custodian is a direct exposure to the balance sheet of the custodian. Arrangements for investments held by the custodian vary from market to market but the assets of the Fund are held in a segregated client account. As at 31 March 2013, this level of exposure to the custodian is only 0.7% of the total value of the portfolio.

Surplus cash is invested by Durham County Council only with financial institutions which meet identified minimum credit criteria, in accordance with the Fitch, Moody's and Standard & Poors' Credit Ratings Services. The Annual Investment Strategy sets out the maximum amounts and time limits in respect of deposits placed with each financial institution; deposits are not made unless they meet the minimum requirements of the investment criteria.

The Fund believes it has managed its exposure to credit risk. No credit limits were exceeded during the reporting period and the Fund does not expect any losses from non-performance by any of its counterparties in relation to deposits.

The cash holding under its treasury management arrangements at 31 March 2013 was £21.39m (£25.37m at 31 March 2012). This was held with the following institutions:

	Rating	Balances	Rating	Balances
		as at 31 March 2013		as at 31 March 2012
		£000		£000
Bank Deposit Accounts				
Bank of Scotland	A	11,631	A	0
Barclays	A	4,846		
The Co-operative Bank	BBB-	455	A-	889
Natwest Bank	A	2,326	A	7,201
Santander UK Plc			A+	1,800
Fixed Term Deposits				
Barclays			A	1,260
Bank of Scotland			A	9,000
Nationwide Building Society			A+	2,700
Natwest Bank	A	1,939	A	1,800
UK Local Authorities			N/A	540
Income Bond				
National Savings & Investments	N/A	194	N/A	180
Total		21,391		25,370

iii. LIQUIDITY RISK

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. Steps are taken to ensure that the Fund has adequate cash resources to meet its commitments. Management prepares quarterly cash flow forecasts to understand and manage the timing of the Fund's cash flows. The appropriate strategic level of cash balances to be held forms part of the fund investment strategy and rebalancing policy.

The vast majority of the Fund's investments are readily marketable and may be easily realised if required. Some investments may be less easy to realise in a timely manner but the total value of these types of investments is not considered to have any adverse consequences for the Fund.

Durham County Council, as administering authority, invests the cash balances of the Fund in line with its Treasury Management Policy and as agreed by the Pension Fund Committee. The Council manages its liquidity position to ensure that cash is available when needed, through the risk management procedures set

out in the prudential indicators and treasury and investment strategy reports, and through a comprehensive cash flow management system.

Regulation 5 of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, gives Durham County Council a limited power to borrow on behalf of the Pension Fund for up to 90 days. The Council has ready access to borrowings from the money markets to cover any day to day cash flow need. This facility is only used to meet timing differences on pension payments and as they are of a short-term nature, exposure to credit risk is considered negligible.

18. Analysis of Debtors

2011-12 £000		2012-13 £000
928	Central government bodies	1,680
5,767	Other local authorities	5,649
0	NHS bodies	0
0	Public corporations and trading funds	0
30,586	Other entities and individuals	48,746
<u>37,281</u>	Total debtors	<u>56,075</u>
	Included in the Net Assets Statement as:	
29,176	Other Investment Balances	47,210
8,105	Current Assets	8,865
<u>37,281</u>		<u>56,075</u>

Of the £56.075m, £54.617m is repayable within 12 months after the year end; the remaining £1.458m falls due after 12 months.

19. Analysis of Creditors

2011-12 £000		2012-13 £000
-663	Central government bodies	-41,929
-1,404	Other local authorities	0
0	NHS bodies	0
0	Public corporations and trading funds	0
-22,938	Other entities and individuals	-3,630
<u>-25,005</u>	Total creditors	<u>-45,559</u>
	Included in the Net Assets Statement as:	
-16,399	Other Investment Liability Balances	-39,881
-8,606	Current Liabilities	-5,678
<u>-25,005</u>		<u>-45,559</u>

All of the £45.559m is expected to be paid by the Pension Fund within 12 months after the year end.

20. Additional Voluntary Contributions (AVCs)

AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. The Pension Fund offers two types of AVC arrangement:

- ❖ Purchase of additional pension, which is invested as an integral part of the Fund's assets;
- ❖ Money purchase scheme, managed separately by HECM, Standard Life and Prudential. AVCs may be invested in a range of different funds.

The table below refers only to the money purchase AVCs:

	Value at 31 March 2012 £000	* Purchases £000	Sales £000	Change in Market Value £000	Value at 31 March 2013 £000
HECM	2,265	44	210	134	2,233
Prudential	2,605	831	700	128	2,864
Standard Life	1,220	58	70	131	1,339
Total	6,090	933	980	393	6,436

* Purchases represent the amounts paid to AVC providers in 2012/13.

The financial information relating to money purchase AVCs, as set out above, is not audited by the Fund's External Auditors as it is not included in the Fund's Net Asset Statement or Fund Account in accordance with regulation 5(2) c of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

21. Related Party Transactions

Related parties are bodies or individuals that have the potential to control or influence the Pension Fund or to be controlled or influenced by the Pension Fund. Influence in this context is expressed in terms of a party:

- ❖ being potentially inhibited from pursuing at all times its own separate interests by virtue of the influence over its financial and operating policies; or
- ❖ actually subordinating its separate interests in relation to a particular transaction.

Related parties of the Pension Fund fall into three categories:

- a) Employer related
- b) Member related
- c) Key management personnel

a) EMPLOYER RELATED

There is a close relationship between an employer and the Pension Fund set up for its employees and therefore each participating employer is considered a related party.

The following table details the nature of related party relationships.

Transaction	Description of the Financial Effect	Amount	
		2011/12	2012/13
Contributions receivable	Amounts received from employers in respect of contributions to the Pension Fund	£96.448m	£93.884m
Debtors	Amounts due in respect of employers and employee contributions	£5.568m	£7.891m
Creditors	Amounts due to the Administering Authority in respect of administration expenses	£1.032m	£1.343m
Administration Expenses	The administration of the Pension Fund is undertaken by officers of the County Council. The Council incurred the following costs, including staff time, which have been subsequently reimbursed by the Fund	£1.032m	£1.343m
Long term loans	The Pension Fund made loans to Durham County Council prior to January 1974 which earn interest of between 5.75% and 9.875% pa of the outstanding balance, in addition to capital repayments	Loans outstanding £0.283m	Loans outstanding £0.272m
Investment Income	Part of the Pension Fund's cash holding is invested in the money markets by Durham County Council. The average surplus cash balance and interest earned were:	Balance = £19.535m Interest = £0.187m	Balance= £20.395m Interest = £0.303m

b) MEMBER RELATED

Member related parties include:

- ❖ Member and their close families or households
- ❖ Companies and businesses controlled by the Members and their close families which have a financial contractual relationship with any of the organisations that contract with the Pension Fund.

Durham County Council and Darlington Borough Council have a number of members who are on the Pension Fund Committee. These members are subjected to a declaration of interest circulation as with all Durham County Council members. Each member of the pension fund committee is also required to declare their interests at the start of each meeting. There were no material related party transactions between any members or their families and the Pension Fund.

There are 3 members of the pension fund committee who are in receipt of pension benefits from Durham County Council Pension Fund; a further 4 members are active members of the Pension Fund.

c) KEY MANAGEMENT PERSONNEL

Related parties in this category include:

- ❖ Key management i.e. Senior officers and their close families
- ❖ Companies and businesses controlled by the key management of the Pension Fund or their close families.

Disclosure requirements for officer remuneration and members allowances can be found in the main accounts of Durham County Council.

There were no material related party transactions between any officers or their families and the Pension Fund.

22. Contingent Assets

a) PENSION CONTRIBUTIONS ON EQUAL PAY PAYMENTS

Originally equal pay settlements were not deemed to be pensionable however, this has now changed and an element of choice has been introduced. Individuals can choose to have their settlements considered to be pensionable. This provision has now been added to the agreements that individuals with pending equal pay settlements sign.

There is no certainty that an individual will pay pension contributions on their Equal Pay settlement. The agreements signed by individuals are 'open-ended' in that an individual's ability to determine their settlement as 'pensionable' is not time limited, so the timing of any liability to pay contributions are not certain. The level of contributions likely to be received by the Pension Fund, are unlikely to have a material effect on the Pension Fund accounts.

b) FOREIGN INCOME DIVIDENDS (FIDs)

The Pension Fund is involved in claims for tax reclaims due to EC Legislation. The outcome of the Court cases will determine the reclaim of taxes, neither the amount of income nor the timing of the income is certain.

Up until 1 July 1997 UK Pension Funds were entitled, under UK tax law, to reclaim tax credits attaching to dividends received from UK resident companies. However, Pension Funds which received dividends designated by UK companies as FIDs, or dividends received from overseas companies, were not entitled to a refundable tax credit. Since UK sourced dividends came with a 20 percent tax credit, the net investment income return from UK companies paying such dividends was significantly higher than UK companies paying FIDs or from overseas companies, for which no credit was available. As a result there was a disincentive for Pension Funds to invest in such companies.

The UK tax law which gave rise to these consequences was arguably contrary to EU law, notably Article 56EC, in that it treated UK Pension Funds investing directly into overseas companies, or UK companies paying FIDs, less favourably than UK companies paying ordinary dividends.

The legal arguments to support the strongest element of the FID and Manninen type claims (for EU sourced dividends and FIDs) are considered to be very good. The points in issue are currently being considered at the High Court via a Group Litigation Order containing over 65 UK Pension Funds, including Durham County Council Pension Fund.

c) WITHHOLDING TAX (WHT) CLAIMS

Pension funds, investment funds and other tax exempt bodies across Europe have in recent years been pursuing claims against a number of EU Member States for the recovery of withholding taxes suffered on EU sourced dividend income. These claims were made in the light of the Fokus Bank (Case E-1/04) ruling in December 2004 on the grounds that the WHT rules of those Member States are in breach of the free movement of capital principle of the EC Treaty. The legal arguments used to support Fokus claims are strong and rely on existing case law. The EU Commission announced that it is taking action against a number of member states which operate discriminatory rules regarding the taxation of outbound dividends.

A test case in the Netherlands on behalf of a number of UK pension funds was successful and in January 2009 notification from the Dutch Tax Authorities was received that the claims brought by the test claimant for the recovery of withholding taxes going back to 2003 had been accepted and would be repaid in the near future. Following the ruling in the Netherlands which essentially states that the Dutch tax authorities should not have levied a "withholding tax" (WHT) on dividend payments to tax exempt bodies (such as UK pension funds) located within the European Union but outside the Netherlands, a similar process for reclaiming WHT in other EU Member States is now on-going.

It is likely that now a precedent for the change in WHT has been set by the Netherlands, and that other states have reduced the level of WHT of non-residents, recovery is probable.

23. Funding Arrangements

In line with the LGPS (Administration) Regulations 2008, the Fund's actuary undertakes a funding valuation every 3 years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last full valuation took place as at 31 March 2010. The next one will take place as at 31 March 2013.

The key elements of the funding policy are to:

- ensure the long term solvency of the fund, i.e. that sufficient funds are available to meet all pension liabilities as they fall due for payment;
- ensure that employer contribution rates are as stable as possible;
- minimise the long term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return;
- reflect the different characteristics of employing bodies in determining contribution rates where the administering authority considers it reasonable to do so;
- use reasonable measures to reduce the risk to other employers and ultimately the taxpayer from an employer defaulting on its pension obligations.

The aim is to achieve 100% solvency over a period of 19 years and to provide stability in employer contribution rates by spreading any increases in rates over a period of time. At the 31 March 2010 actuarial valuation, the Fund was assessed as being 80% funded (79% at 31 March 2007).

The required level of contributions to be paid into the Fund by participating bodies (in aggregate) with effect from 1 April 2011 was 13.1% of pensionable pay plus additional monetary amounts of £29.1m in 2011/12 and £28.4m in 2012/13 and £29.9m in 2013/14, increasing broadly by 5.3% p.a. thereafter.

The actuarial valuation of the Fund has been undertaken using the projected unit method for most participating bodies, whereby the salary increase for each member is assumed to increase until they leave active service. The principal assumptions made by the actuary when assessing the funding target and contribution rates are as follows:

Discount rate for periods in service	
Scheduled Bodies	6.80% p.a.
Admission Bodies	6.25% p.a.
Discount rate for periods after leaving service	
Scheduled Bodies	6.80% p.a.
Admission Bodies	4.75% p.a.
Rate of pay increases	5.3% p.a.
Rate of increases in pensions in payment (in excess of guaranteed minimum pension)	3.3% p.a.

24. Actuarial Present Value of Promised Retirement Benefits

The actual present value of promised retirement benefits (or defined benefit obligation) is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards. As permitted under IAS 26 the Pension Fund has opted to disclose the actuarial present value of promised retirement benefits by way of this note to the accounts. The Fund Accounts do not take account of liabilities to pay pensions and other benefits in the future.

The following table provides the actuarial present value of the promised retirement benefits in the Fund at the last valuation date i.e. 31 March 2010. The corresponding fair value of fund assets is also shown in order to illustrate the level of surplus or deficit within the Fund when the liabilities are valued using IAS 19 assumptions. For comparison purposes information from the previous triennial valuation is also provided.

	Value as at 31-Mar-10 £m	Value as at 31-Mar-07 £m
Fair value of net assets	1,682	1,459
Actuarial present value of the promised retirement benefits	2,833	2,172
Surplus / -deficit in the Fund as measured for IAS26 purposes	-1,151	-713

Assumptions

The principal assumptions used by the Fund's independent qualified actuaries were:

Financial Assumptions

	31-Mar-10 (% p.a.)	31-Mar-07 (% p.a.)
Discount rate	5.5	5.3
RPI Inflation	3.9	3.2
CPI Inflation	3	N/A
Rate of increase to pensions in payment*	3.9	3.2
Rate of increase to deferred pensions*	3.9	3.2
Rate of general increase in salaries **	5.4	4.7

* In excess of Guaranteed Minimum Pension increases in payment where appropriate

** In addition, we have allowed for the same age related promotional salary scales as set out in the 2010 Valuation Report for 31 March 2010 measurement date and as set out in the 2007 Valuation Report for 31 March 2007 measurement date.

Commutation Assumption

31 March 2010	31 March 2007
Each member is assumed to exchange 60% of the maximum amount permitted of their past service pension rights on retirement for additional lump sum.	Each member is assumed to exchange 50% of the maximum amount permitted of their past service pension rights on retirement for additional lump sum.
Each member is assumed to exchange 80% of the maximum amount permitted of their future service pension rights on retirement for additional lump sum.	

Demographic Assumptions

Post retirement mortality	31 March 2010	31 March 2007
Males		
Base table	Standard SAPS Normal Health All Amounts (S1NMA)	Standard tables PNMA00 making allowance for improvements in mortality in line with the Medium Cohort factors to 2007
Scaling to above base table rates **	105%	125%
Allowance for future improvements	In line with CMI 2009 with long term improvement of 1.25% p.a.	In line with Medium Cohort improvements with an underpin to the improvements of 1.0% p.a.
Future lifetime from age 65 (currently aged 65)	21.7	20.2
Future lifetime from age 65 (currently aged 45)	23.6	22.1
Females		
Base table	Standard SAPS Normal Health All Amounts tables (S1NFA)	Standard tables PNFA00 making allowance for improvements in mortality in line with the Medium Cohort factors to 2007
Scaling to above base table rates **	105%	125%
Allowance for future improvements	In line with CMI 2009 with long term improvement of 1.25% p.a.	In line with Medium Cohort improvements with an underpin to the improvements of 0.5% p.a.
Future lifetime from age 65 (currently aged 65)	23.9	22.4
Future lifetime from age 65 (currently aged 45)	25.9	23.6

* A rating of x years means that members of the Fund are assumed to follow the mortality pattern of the base table for an individual x years older than them. The ratings shown apply to normal health retirements.

** The scaling factors shown apply to normal health retirements

25. Statement of Investment Principles

In accordance with the Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2009, the Council has prepared and reviewed a written statement of the investment policy of the Pension Fund. This statement has been adopted by the Pension Fund Committee and is published in the Durham County Council Pension Fund Annual Report, a copy of which is available on the Council's website at durham.gov.uk

26. Funding Strategy Statement

The Local Government Pension Scheme (England and Wales) (Amendment) Regulations 2004 require Administering Authorities to prepare a Funding Strategy Statement. The Funding Strategy Statement was published in March 2005 and has been reviewed by the Pension Fund Committee during 2012/13. As a minimum it must be revised whenever there is a material policy change in matters set out in the Funding Strategy Statement or the Statement of Investment Principles. The Funding Strategy Statement has been adopted by the Pension Fund Committee and is published in the Durham County Council Pension Fund Annual Report, a copy of which is available on the Council's website at durham.gov.uk

27. Prior Period Adjustment

The Public-Private Investment Plan (PPIP), an unquoted pooled investment vehicle managed by Alliance Bernstein, was incorrectly classified in the 2011/12 accounts as Managed Funds - Non Property- UK Unquoted, rather than Managed Funds - Non Property- Overseas Unquoted. The market value of this investment was £26.087m at 31 March 2012. The Aquila Life World Fund, managed by Blackrock, was also incorrectly classified in the 2011/12 accounts as Managed Funds - Non Property- UK Unquoted, rather than Managed Funds - Non Property - Overseas Unquoted. The market value was £123.263m at 31 March 2012.

These have been re-classified in the comparator figures for 2011/12 in Note 15 of these accounts.

The Council's Responsibilities

The Council 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. For the Council that officer is the Corporate Director Resources.
- ❖ manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- ❖ approve the Statement of Accounts.

The Corporate Director Resources' Responsibilities

The Corporate Director Resources is responsible for the preparation of the Council's Statement of Accounts which is in accordance with proper practices as set out in the Chartered Institute of Public Finance and Accountancy (CIPFA) and Local Authority (Scotland) Accounts Advisory Committee (LASAAC) Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts, the Corporate Director Resources has:

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

The Corporate Director Resources has also: -

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

Certificate of the Corporate Director Resources

I certify that the Statement of Accounts presents a true and fair view of the financial position of the Council as at 31 March 2013 and its expenditure and income for the year ended 31 March 2013.

Don McLure
Corporate Director, Resources
28 June 2013

Academy School

Academy Schools are directly funded by Government and are independent of the Council's control.

Accounting Period

The period of time covered by the Statement of Accounts, normally a period of 12 months starting on 1 April. The end of the period is the balance sheet date.

Accounting Policies

The principles, conventions, rules and practices applied that specify how transactions and other events should be reflected in the financial statements.

Accounting standards

Accounting standards are authoritative statements of how particular types of transactions and other events should be reflected in financial statements and accordingly compliance with accounting standards will normally be necessary for financial statements to give a true and fair view.

Accruals

The concept that income, and expenditure are recognised as they are earned or incurred, not as money is received or paid.

ACE

Assistant Chief Executives Service

Actuary

An actuary is an expert on pension scheme assets and liabilities. Every three years, the Actuary for the Local Government Pension Scheme determines the rate of employer contributions due to be paid to the Pension Fund.

Actuarial Basis

The technique applied when estimating the liabilities to be recognised for defined benefit pension schemes in the financial statements.

Actuarial Gains

These may arise on a defined benefit pension scheme's liabilities and assets. A gain represents a positive difference between the actuarial assumptions and actual experience (e.g. liabilities during the period were lower than estimated).

Actuarial Losses

These may arise on a defined benefit pension scheme's liabilities and assets. A loss represents a negative difference between the actuarial assumptions and actual experience (e.g. liabilities during the period were higher than estimated).

Added Years

Additional years of service awarded discretionally to increase the benefits to employees taking early retirement.

Admitted Bodies

Organisations that take part in the Local Government Pension Scheme with the agreement of the Pension Fund. Examples of such bodies are housing associations and companies providing services that were once provided by local authorities in the Pension Fund.

Annual Governance Statement

The statement gives assurance that appropriate mechanisms are in place to direct and control the activities of the Council.

Amortisation

Amortisation is the equivalent of depreciation for intangible assets.

Apportionment

A way of sharing costs using an appropriate method, e.g. floor area for an accommodation-related service.

Appropriation

The transfer of sums to and from reserves, provisions, and balances.

Assets

An item having a monetary value to the Council, e.g. property, investments or cash.

Assets Held for Sale

Long term assets that are surplus to the Council's operational needs that are being actively marketed for sale with the expectation that disposal will occur within a 12 month period.

Assets Under Construction

Capital expenditure on assets, where the work is incomplete.

Associate

An associate is an organisation over which the Council has significant influence, but not control. An associate cannot be a subsidiary or an interest in a joint venture.

Audit of Accounts

An independent examination of the Council's financial affairs.

Authorised Limit

This is the maximum limit of external borrowings or other long term liabilities.

Available for Sale Financial Instruments Reserve

The reserve carries the valuation surplus on those investments with a quoted market price or otherwise do not have fixed or determinable payments, which under the Code, are classified as available for sale. The surplus is the amount by which fair value exceeds historical cost.

Balance Sheet

This is a financial statement that shows the financial position of the Council at a point in time, the balance sheet date, which for the Council is 31 March. It shows the value of the fixed and net current assets and long term liabilities, as well as the reserves and balances.

Bid Price

In the context of stock trading on a stock exchange, the bid price is the highest price a buyer of a stock is willing to pay for a share of that given stock.

Billing Authority

Durham County Council is the billing authority responsible for the collection of Council tax and non-domestic rates. The Council tax includes amounts for precepting authorities.

Bonds

A type of investment in certificates of debt issued by the government of a company. These certificates represent loans which are repayable at a future specified date with interest.

Borrowing

Loans from the Public Works Loans Board, and the money markets, that finance the capital programme of the Council.

Budget

The Council's plans and policies for the period concerned, expressed in financial terms.

Building Schools for the Future (BSF)

Government investment programme with the aim of rebuilding or renewing every secondary school in England over a 10-15 year period.

Capital Adjustment Account (CAA)

This account accumulates the write down of the historical cost of non-current assets as they are consumed by depreciation and impairments or written off on disposal. It also accumulates the resources that have been set aside to finance capital expenditure. The balance on the account represents timing differences between the amount of the historical cost of non-current assets that has been consumed and the amount that has been financed in accordance with statutory requirements.

Capital Charge

Charges made to local authority services to reflect the 'cost' of using non-current assets in the provision of services. The charge comprises the annual provision for depreciation. To ensure that these notional charges do not impact on local taxation they are reversed out in the Movement in Reserves Statement.

Capital Expenditure

Expenditure on the acquisition or construction of non-current assets that have a value to the Council for more than one year, or expenditure which adds to and not merely maintains the value of existing non-current assets.

Capital Financing Costs

These are the revenue costs of financing the capital programme and include the repayment of loan principal, loan interest charges, loan fees and revenue funding for capital.

Capital Financing Requirement (CFR)

This sum represents the authority's underlying need to borrow for capital purposes. It is calculated by summing all items on the Balance Sheet that relate to capital expenditure, e.g. non-current assets, financing leases, government grants deferred etc. The CFR will be different to the actual borrowing of the authority. This figure is then used in the calculation of the Council's Minimum Revenue Provision.

Capital Grants Unapplied Account

Grants that have been recognised as income in the Comprehensive Income and Expenditure Account (CI&E) but where expenditure has not yet been incurred

Capital Receipts

The proceeds from the sale of capital assets such as land, and buildings. These sums can be used to finance capital expenditure.

Carbon Reduction Commitment (CRC)

The Council has to account for its obligations in relation to the purchase and surrender of CRC allowances and for the eventual settlement of the liability.

CAS

Children and Adults Services

Cash Flow Statement

This Statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.

Chartered Institute of Public Finance and Accountancy (CIPFA)

The principal accountancy body dealing with local government finance.

CLG

Department for Communities and Local Government

Code

The Code of Practice on Local Authority Accounting. A publication produced by CIPFA constituting proper accounting practice for Local Authorities.

Collection Fund

An account kept by the Council into which Council tax is paid and through which national non-domestic rates pass, and which pays out money to fund expenditure from the General Fund and the precept made by the Police and Fire Authority.

Community Assets

Assets held that are planned to be held forever, that have no set useful life and may have restrictions on how they can be sold or otherwise disposed of. e.g. parks, historic buildings.

Componentisation

The process by which assets are analysed into various components that have significantly different estimated lives. The Council's accounting policy is detailed in paragraph 20 of the Accounting Policies.

Comprehensive Income and Expenditure Account (CI&E)

This statements reports the net cost of services for which the Council is responsible and demonstrates how that cost has been financed.

Constitution

The document that sets out how the County Council operates, how decisions are made and the procedures that are followed.

Contingent Asset

Potential benefits that the Council may reap in the future due to an event that has happened in the past.

Contingent Liabilities

Potential costs that the Council may incur in the future due to something that has happened in the past.

Corporate Democratic Core

The corporate and democratic management costs are the costs of activities that local authorities undertake specifically because they are elected multi-purpose authorities. They cover corporate policy making, representing local interests, services to elected members as local representatives and duties arising from public accountability.

Corporate Governance

The promotion of corporate fairness, transparency, and accountability. The structure specifies the responsibilities of all stakeholders involved and the rules and procedures for making decisions.

Council Tax

This is a tax which is levied on the broad capital value of domestic properties, and charged to the resident or owner of the property.

Creditors

Persons or bodies to whom sums are owed by the Council.

CSR

Comprehensive Spending Review.

Debtors

Persons or bodies who owe sums to the Council.

Dedicated Schools Grant (DSG)

A specific grant paid to Local Authorities to fund the cost of running their schools.

Deficit

A deficit arises when expenditure exceeds income or when expenditure exceeds available budget.

Defined Benefit Scheme

Also known as a final salary scheme. Defined benefit pension schemes prescribe the amounts members will receive as a pension regardless of contributions and investment performance. Employers are obliged to fund any shortfalls.

Delegated Budgets

Budgets for which schools or other services have complete autonomy in spending decisions.

DfE

Department for Education

Depreciation

The fall in the value of an asset, as recorded in the financial records, due to wear and tear, age, and obsolescence.

Derivatives

Derivatives are financial instruments that derive their value from the price or rate of some underlying item.

Direct Revenue Financing (DRF)

The cost of capital projects that is financed directly from the annual revenue budget.

Direct Service Organisations (DSOs)

Workforces employed directly by local authorities to carry out works of repair, maintenance, construction etc. of buildings, grounds and roads and to provide catering and cleaning services and repairs and maintenance of vehicles.

Equities

Ordinary shares in UK and overseas companies traded on a stock exchange. Shareholders have an interest in the profits of the company and are entitled to vote at shareholder's meetings.

Fair Value

The value for which an asset can be exchanged or a liability can be settled in a market related transaction.

FIDs and Manninen

A claim has been lodged for Durham County Council Pension Fund and other Pension Funds for repayment of tax credits overpaid on Foreign Income Dividends (FIDs) and other dividends, referred to by name of the person whose case set the precedent, Manninen.

Finance Lease

A lease that transfers substantially all of the risks, and rewards of ownership of a fixed asset to the lessee. The payments usually cover the full cost of the asset, together with a return for the cost of finance.

Financial Instrument

A contract that gives rise to a financial assets of one entity, and a financial liability, or equity instrument of another.

Financial Instruments Adjustment Account (FIAA)

This account is an unusable reserve which absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. Transfers are made to ensure that the General Fund records the amount required by the applicable regulations or statutory guidance, the FIAA carries the excluded surplus or deficit.

Fitch

Fitch Ratings is a rating agency providing credit ratings research and risk analysis of financial institutions across the world. Credit ratings are used by investors as indications of the likelihood of receiving the money owed to them in accordance with the terms on which they invested.

Fixed Interest Securities

Investments in mainly government, but also company stocks, which guarantee a fixed rate of interest. The securities represent loans that are repayable at a future date but which can be traded on a recognised stock exchange before the repayment date.

Formula Grant

The general government grant paid to support the revenue expenditure of local authorities. It comprises Revenue Support Grant and redistributed National Non-Domestic Rates. It is distributed by formula through the Local Government Finance Settlement.

Foundation Schools

Foundation Schools are run by their governing body and they employ the staff. Land and buildings are usually owned by the governing body or a charitable foundation.

Funding Strategy Statement

The Funding Strategy Statement is a clear and transparent fund-specific strategy which identifies how employers' pension liabilities are best met going forward; supports the regulatory requirement to maintain as nearly constant employer contribution rates as possible; and takes a prudent longer-term view of funding the Fund's liabilities. The single strategy for all employers in the Fund is implemented and maintained by Administering Authority.

Futures

A contract made to purchase, or sell an asset at an agreed price on a specified future date.

GAAP

Generally Accepted Accounting Practice.

Going Concern

The assumption that an organisation is financially viable, and will continue to operate for the foreseeable future.

Government Grants

Assistance by Government and inter-government agencies etc., whether local, national or international, in the form of cash or transfer of assets towards the activities of the Council.

Group Accounts

Many local authorities now provide services through partner organisations. Where an authority has material financial interests or a significant level of control over one or more entities it should prepare Group Accounts.

Heritage Assets

This is a separate class of asset (land, building, or artefact/exhibit) that is held principally for its contribution to knowledge or culture and meets the definition of a heritage asset.

Historical Cost

The original purchase cost of an asset.

Housing Benefit

A system of financial assistance to individuals towards certain housing costs administered by Local Authorities and subsidised by central Government.

Housing Revenue Account (HRA)

This is a separate account to the General Fund, which includes the expenditure and income arising from the provision of housing accommodation by the Authority. The HRA is ring-fenced: no cross subsidy is allowed between the HRA and General Fund.

IAS

International Accounting Standard – regulations outlining the method of accounting for activities, currently being replaced by International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

ICT

Information and Communications Technology

IFRIC

Interpretations originated from the International Financial Reporting Interpretations Committee.

IFRS

International Financial Reporting Standards – issued and set by the International Accounting Standards Board (IASB). These are standards that companies and organisations follow when compiling their financial statements. They have been adapted to apply to local authorities and are consolidated in the Code of Practice on Local Authority Accounting (the Code). The Code applied to the Council's Statement of Accounts for the first time in 2010/11.

Impairment

Impairment of an asset is caused either by a consumption of economic benefits e.g. physical damage (e.g. fire at a building) or deterioration in the quality of the service provided by the asset (e.g. a school closing and becoming a storage facility). A general fall in prices of a particular asset or type of asset is treated as a revaluation.

Index Linked Securities

Investments in government stock that guarantee a rate of interest linked to the rate of inflation. These securities represent loans to government which can be traded on recognised stock exchanges.

Infrastructure Assets

A fixed asset that cannot be taken away or transferred, and which can only continue to benefit from it being used. Infrastructure includes roads and bridges.

Intangible Assets

Intangible assets do not have physical substance but are identifiable and controlled by the authority through custody or legal rights, for example software licences.

Intangible Heritage Asset

An intangible asset with cultural, environmental, or historical significance. Examples of intangible heritage assets include recordings of significant historical events.

Inventory

Items of raw materials, work in progress or finished goods held at the financial year end, valued at the lower of cost or net realisable value.

Investment

An asset which is purchased with a view to making money by providing income, capital appreciation, or both.

Investment Properties

Interest in land and/or buildings in respect of which construction work and development have been completed and which are held for their investment potential rather than for operational purposes, any rental income being negotiated at arms length.

IPSAS

International Public Sector Accounting Standards Board.

Joint Venture

An entity in which the reporting authority has an interest on a long term basis and is jointly controlled by the reporting authority and one or more entities under a contractual or other binding arrangement.

LAAP Bulletin

CIPFA's Local Authority Accounting Panel (LAAP) periodically issues bulletins to local authority practitioners, providing guidance on topical issues and accounting developments and, when appropriate, clarification on the detailed accounting requirements.

Leasing

A method of funding expenditure by payment over a defined period of time. An operating lease is similar to renting; the ownership of the asset remains with the lessor and the transaction does not fall within the capital system. A finance lease transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee and do fall within the capital system.

Levy

A levy is a charge made by one statutory body to another in order to meet the net cost of its services, e.g. payments to the Environment Agency for flood defence and land drainage purposes.

Liabilities

An obligation to transfer economic benefits. Current liabilities are usually payable within one year.

LGR

Local Government Re-organisation.

Long-Term Investments

Investments intended to be held for use on a continuing basis in the activities of the Council where that intention can be clearly demonstrated or where there are restrictions on the ability to dispose of the investment.

Major Repairs Allowance (MRA)

The MRA was an element of housing subsidy, and represented the capital cost of keeping HRA dwellings stock in its current condition. It largely replaced credit approvals as a means of financing HRA capital expenditure.

Managed Funds

A type of investment where a number of investors pool their money into a fund, which is then invested by a fund manager.

Materiality

An expression of the relative significance of a particular issue in the context of the organisation as a whole.

Market Value

The monetary value of an asset as determined by current market conditions.

Mid-Market Price

The mid-point between the bid price and the offer price for a security based on quotations for transactions of normal market size by recognised market-makers or recognised trading exchanges.

Minimum Revenue Provision (MRP)

The minimum amount, which must be charged to revenue in the year, for the repayment of debt (credit liabilities and credit arrangements). The formula for calculating this amount is specified in legislation and requires authorities to make an annual provision of 4% of its underlying need to borrow. In addition, authorities can choose to make additional provision, known as a voluntary set-aside.

Minority Interest

The interest in a subsidiary entity that is attributable to the share held by, or on behalf of persons other than the reporting authority.

Moody's

Moody's Investor Service is a rating agency, providing credit ratings, research, and risk analysis of financial institutions across the world. Credit ratings are used by investors as indications of the likelihood of receiving the money owed to them in accordance with the terms on which they invested.

Movement in Reserves Statement

This statement is a summary of the changes that have taken place in the bottom half of the balance sheet over the financial year. It shows the movement in reserves held by the Council analysed into 'usable reserves and 'unusable' reserves.

MTFP

Medium Term Financial Plan.

Myners' Principles

A set of ten principles issued by Government which Pension Schemes are required to consider and to which they must publish their degree of compliance.

National Non-Domestic Rates (NNDR)

The means by which local businesses contribute, to the cost of providing local authority services. The rates are paid into a central pool which is divided between all authorities as part of Formula Grant.

Net Book Value

The amount at which non-current assets are included in the Balance Sheet. It represents historical cost or current value less the cumulative amounts provided for depreciation or impairment.

Net Cost of Service

The actual cost of a service to the Council after taking account of all income charged for services provided. The net cost of service reflects capital charges and credits for government grants deferred made to services to reflect the cost of employing non-current assets.

Net Expenditure

The actual cost of a service to the Council after taking account of all income charged for services provided.

Net Realisable Value

The expected sale price of stock, in the condition in which it is expected to be sold. This may be less than cost due to deterioration, obsolescence or changes in demand.

Non Current Assets

Tangible or intangible assets that yield benefits to the authority and the services it provides for a period of more than one year. Tangible assets have physical substance, for example land, buildings and vehicles. Intangible assets do not have physical substance but are identifiable and controlled by the authority through custody or legal rights, for example software licences.

Non Distributed Costs

These are overheads from which no service user benefits. They include the costs associated with unused assets and certain pension costs.

Non-Operational Assets

Non-operational assets are those held by an authority but not directly occupied, used or consumed in the delivery of services, or for the service or strategic objectives of the authority. Examples include; assets under construction, land awaiting development, commercial property, investment property, and surplus assets held for disposal.

Operating Lease

A lease where the asset concerned is returned to the lessor at the end of the period of the lease.

Operational Assets

Property, plant and equipment held and occupied, used or consumed by the authority in the direct delivery of those services for which it has either a statutory or discretionary responsibility.

Operational Boundary

This is the expected level of debt and other long term liabilities during the year.

Outturn

Actual expenditure within a particular year.

Past Service Cost

The increase in the present value of Pension Fund liabilities related to employees' service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits or other long-term employee benefits. Past service costs may be either positive, where benefits are introduced or improved) or negative (where existing benefits are reduced).

Portfolio

A number of different assets considered and managed as a whole by an investment manager, to an agreed performance specification.

Precept

An amount charged by another Authority to the Councils Collection Fund. There are two major preceptors in Durham County Councils collection fund: the Police and Fire Authorities.

Precept Income

County Councils obtain part of their income from precepts levied on the district councils in their area. Precepts, based on the council tax base of each district council, are levied on a collection fund, administered separately by each district council.

Prior Period Adjustment (PPA)

Those material adjustments relating to prior years accounts, that are reported in subsequent years arising from changes in accounting policies or from the correction of fundamental errors. They do not include minor corrections or adjustments of accounting estimates made in prior years.

Private Finance Initiative (PFI)

A government initiative that enables authorities to carry out capital projects, in partnership with the private sector, through the provision of financial support.

Property, Plant and Equipment (PPE)

Property, Plant and Equipment covers all assets with physical substance (tangible assets) that are held for use in the production or supply of goods and services, for rental to others, or for administrative purposes, and expected to be used during more than one period.

Provisions

Provisions represent sums set aside to meet any specific future liabilities or losses arising from contractual obligations or as a result of past events. These events are likely or certain to be incurred and a reliable estimate can be made of the amount of the obligation.

Prudential Code

The Government removed capital controls on borrowing and credit arrangements with effect from 1st April 2004 and replaced them with a Prudential Code under which each local authority determines its own affordable level of borrowing. The Prudential Code requires authorities to set specific prudential indicators on an annual basis.

Public Works Loans Board (PWLB)

A government agency providing long and short-term loans to local authorities at interest rates only slightly higher than those at which Government itself can borrow.

RED

Regeneration and Economic Development Service.

Related Party

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.

Remuneration

Includes taxable salary payments to employees less employees' pension contributions, together with non-taxable payments when employment ends (including redundancy, pension enhancement payments, and pay in lieu of notice), taxable expense allowances and any other taxable benefits.

Reserves

Sums set aside to fund specific future purposes rather than to fund past events. There are two types of reserve, 'usable' reserves and 'unusable' reserves.

Revaluation Reserve

The Revaluation Reserve records the accumulated gains on the non-current assets held by the Council arising from increases in value, as a result of inflation or other factors (to the extent that these gains have not been consumed by subsequent downward movements in value). The overall balance on the Reserve represents the amount by which the current value of non-current assets carried in the Balance Sheet is greater because they are carried at revalued amounts rather than depreciated historical cost.

Revenue Contributions

See 'Direct Revenue Financing'

Revenue Expenditure and Income

Expenditure and income arising from the day-to-day operation of the Council's services, such as salaries, wages, utility costs, repairs, and maintenance.

Revenue Expenditure Funded from Capital Under Statute

Expenditure that legislation allows to be classified as capital for funding purposes. However, it does not result in the expenditure being shown in the Balance Sheet as a fixed asset. This expenditure is charged to the relevant Service revenue account in the year.

Examples of this are grants and financial assistance to others, expenditure on assets not owned by the Council and amounts directed by the Government.

Revenue Support Grant (RSG)

A Government grant that can be used to finance expenditure on any service.

RICS

Royal Institution of Chartered Surveyors

Section 151 Officer

The officer designated under Section 151 of the Local Government Act 1972 to have overall responsibility for the administration of the financial affairs of the Council and the preparation of the Council's Statement of Accounts.

Service Reporting Code of Practice (SeRCOP)

The Code of Practice provides guidance to Local Authorities on financial reporting. It details standard definitions of services and total cost, which allows direct comparisons of financial information to be made with other local authorities.

Specific Grant

A revenue government grant distributed outside of the main Local Government Finance Settlement. Some specific grants are ring-fenced to control local authority spending. Others are unfenced and there are no restrictions as to how they are spent.

Statement of Investment Principles (SIP)

The Statement of Investment Principles details the policy which controls how a pension fund invests.

Subsidiary

An entity is a subsidiary of a reporting entity if the authority is able to exercise control over the operating and financial policies of the entity and is able to gain benefits or be exposed to risk of potential losses from this control.

Supported Capital Expenditure (SCE)

SCEs represent the amount of capital expenditure that the Government will support through the provision of revenue grant to cover the cost of borrowing, i.e. repayments of principal and interest.

Surplus

Arises when income exceeds expenditure or when expenditure is less than available budget.

Surplus Properties

Those properties that are not used in service delivery, but do not meet the classification of investment properties or assets held for sale.

Tangible Heritage Asset

A tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.

Transfer Values

Amounts paid to or received from other local and public authorities, private occupational or personal pension schemes in respect of pension rights already accumulated by employees transferring from or to the participating authorities.

Treasury Management Policy and Strategy

A plan outlining the Council's approach to treasury management activities. This includes setting borrowing and investment limits to be followed for the following year and is published annually in the Medium Term Financial Plan document.

Trust Funds

Funds established from donations or bequests usually for the purpose of providing educational prizes and scholarships.

Unit Trusts

A pooled fund in which small investors can buy, and sell units. The pooled Fund then purchases investments, the returns on which are passed on to the unit holders. It enables a broader spread of investments than investors could achieve individually.

Usable Capital Receipts Reserve

Represents the resources held by the Council from the sale of non-current assets that are yet to be spent on other capital projects.

Unusable Reserves

Unusable reserves are reserves that the Council are not able to use to provide services, such as the revaluation reserve that arise from accounting requirements.

Usable Reserves

Usable reserves are reserves that the Council may use to provide services subject to the need to retain prudent levels of reserves and any statutory limitations to their use. Usable reserves include Earmarked Reserves and the General Reserve.

Useful Life

The period in which an asset is expected to be useful to the Council.

Variance

The difference between budgeted expenditure and actual outturn also referred to as an over or under spend.

Work-in-Progress

The value of rechargeable work that had not been recharged at the end of the financial year.