



# **Statement of Accounts**

For the year ended 31<sup>st</sup> March 2008

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I hope that this document proves to be both informative and of interest to readers. It is important to try to improve the quality and suitability of information provided and feedback is welcomed.

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

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## 1. INTRODUCTION

This document presents the published accounts for Durham County Council for the year ended 31st March 2008 - the 'Statement of Accounts'. It is an important element in demonstrating the County Council's stewardship of public money. It shows the resources available and how they have been used to deliver services in County Durham.

This Statement of Accounts for the financial year 2007/08 is prepared in accordance with the 'Accounts and Audit Regulations 2003', as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 and the 2007 'Code of Practice on Local Authority Accounting in the United Kingdom', as updated and published by the Chartered Institute of Public Finance and Accountancy (CIPFA). The County Council is legally required to follow this Code of Practice. Explanatory notes are included to assist in the interpretation of the accounts, which are unavoidably technical and complex.

In summary, the County Council's net operating expenditure to be met from Government grant and council taxpayers during the year was £336.913m and capital spending on tangible and intangible fixed assets was £77.060m.

Those reserves which are earmarked for specific purposes, and are not therefore available for general use, increased from £68.910m to £79.723m and general reserves increased from £11.814m to £21.132m during 2007/08. The balance of general reserves remaining with the County Council represents 7.2% of the County Council's budget requirement for 2007/08.

The Statement also includes the 2007/08 accounts for the Durham County Council Pension Fund, for which Durham County Council is the administering authority.

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## 2. INFORMATION AND FINANCIAL STATEMENTS

The purpose of this explanatory foreword is to provide a clear guide to the most significant matters reported in the accounts. It explains the purpose of the financial statements that follow and provides a summary of the Council's financial activities during 2007/08 together with its financial position at 31st March 2008.

The information and financial statements are as follows:

### **STATEMENT OF ACCOUNTING POLICIES (Page 13)**

Showing the policies and procedures adopted in compiling the Accounts.

### **AUDITOR'S REPORT (Page 20)**

The Report of the Auditor on the County Council's Accounts and the Durham County Council Pension Fund Accounts for the year ended 31st March 2008.

### **INCOME AND EXPENDITURE ACCOUNT (Page 23)**

Provides a summary of the resources generated and consumed by the County Council in the year.

### **STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE (Page 24)**

This reconciliation statement summarises how the balance of resources generated or consumed in the year links with statutory requirement for raising council tax.

### **STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES (Page 25)**

This reconciliation brings together all the gains and losses of the Council for the year and shows the aggregate movement in the net worth in the Balance Sheet.

### **BALANCE SHEET (Page 26)**

Showing the financial position of the County Council at 31st March 2008 (excluding the Pension Fund and other Trust Funds).

**CASH FLOW STATEMENT (Page 27)**

Summarising the inflows and outflows of cash arising from transactions with other parties for revenue and capital purposes.

**NOTES TO THE CORE FINANCIAL STATEMENTS - (Page 30)**

**DURHAM COUNTY COUNCIL PENSION FUND ACCOUNTS (Page 64)**

Showing the operation and membership of the Fund, the expenditure and income during the year and its financial position at 31st March 2008. Following the Accounts are notes providing further information.

**STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS (Page 76)**

Setting out the responsibilities of the Council and the County Treasurer.

**ANNUAL GOVERNANCE STATEMENT (Page 77)**

Gives assurance that appropriate mechanisms are in place for the maintenance of good governance across the activities of the County Council.

**GLOSSARY OF TERMS (Page 86)**

A glossary of financial terms is provided to assist the reader.

**3. A REVIEW OF 2007/08 - REVENUE**

The analysis below summarises the information shown in the Income and Expenditure account which appears on page 23.

Where the money comes from:

	2006/07	2007/08
	£000	£000
Specific Government Grants	398,200	410,606
Income from Fees and Charges	112,572	111,261
<b>Net Cost of Services</b>	<b>510,772</b>	<b>521,867</b>
Specific Government Grants	26	25
Income from Fees and Charges	6,047	5,539
Interest and Dividends	14,291	7,824
<b>Net Operating Expenditure</b>	<b>20,364</b>	<b>13,388</b>
Revenue Support Grant	21,714	20,207
LPSA Performance Reward Grant	1,748	-
LABGI Grant	1,886	1,427
NNDR	112,812	120,410
Precepts	144,321	150,656
Collection Funds	1,913	1,859
<b>General sources of income</b>	<b>284,394</b>	<b>294,559</b>
<b>Total income for year</b>	<b>815,530</b>	<b>829,814</b>

How it was spent:

	2006/07	2007/08
	£000	£000
Children's and Education Services	475,404	528,174
Adult Social Care and Supporting People	193,922	198,556
Highways and Transportation	43,487	45,472
Cultural and Related Services	15,287	14,999
Environmental Services	23,303	22,641
Other Services	29,551	39,540
<b>Net Cost of Services</b>	<b>780,954</b>	<b>849,382</b>
Precepts and levies	270	290
Other operating expenditure (Trading accounts)	3,787	2,915
FRS17 pension cost adjustment	3,270	3,140
Interest payable	7,653	8,093
Loss on disposal of fixed assets	-	8,348
<b>Net Operating Expenditure</b>	<b>14,980</b>	<b>22,786</b>
<b>Total expenditure for year</b>	<b>795,934</b>	<b>872,168</b>
<b>Surplus/ (-) deficit for year</b>	<b>19,596</b>	<b>-42,354</b>

What it was spent on:

	2006/07	2007/08
	£000	£000
Employees	451,263	467,605
Running expenses	337,018	388,122
Interest payable	7,653	8,093
Loss on disposal of fixed assets	-	8,348
	<b>795,934</b>	<b>872,168</b>

The County Council's net revenue budget for 2007/08 was £305.668m which, after a contribution from reserves of £12.535m, left £293.133m to be financed from Formula Grant and Council Tax.

Formula Grant, comprising Revenue Support Grant and redistributed National Non Domestic Rates funded 48% of the budget requirement, the balance, 52% coming from council tax.

The 2007/08 Band D council tax was £995.49 and this helped to provide services to:

#### Adult and Community Services

- help over 16,000 vulnerable people to remain independent in their own home
- care for more than 3,300 people in residential and nursing care
- provide more than 2.5 million hours of home care each year
- protect vulnerable adults from abuse and harm
- provide 39 static and 6 mobile libraries, loaning over 3.5 million library items each year
- provide free internet access in libraries
- run three museums – Binchester Roman Fort, DLI Museum and Art Gallery and Killhope Lead Mining Museum
- receive 3.6 million visits to libraries and attractions
- handle 840,000 information and advice enquiries annually
- raise £9.2 million in 2005/06 in social security benefits for the people of County Durham
- promote safer communities through partnership working

## Explanatory Foreword

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### Services for Children and Young People

- improve the opportunities for all our children and young people
- educate almost 75,000 pupils in 292 schools
  - 12 nursery
  - 233 primary
  - 36 secondary
  - 10 special
  - 1 Pupil Referral Unit
- provide learning opportunities from three years old
- work to improve levels of pupil attainment
- safeguard and promote the welfare of our children and young people
- protect children and young people from neglect and harm
- support families and prevent family breakdown
- act as 'corporate parent' to care for 'looked after' children

### Environment

- maintain 3,699km (2,295 miles) of roads, 3,353km (2,144 miles) of footpaths and bridleways and 304km (189 miles) of railway paths and cycle ways
- improve the transport network and bus services
- maintain 83,000 streetlights and lit signs and 1,144 bridges
- handle 280,000 tonnes of waste annually of which 29% is recycled or composted
- safeguard the environment
- promote a safe and fair trading environment

### Chief Executive's Office

- Assist businesses to create over 1,261 jobs (2005/06)
- Secure external funding to promote the local economy

Under the harder test CPA, councils receive an overall performance category ranging from 0 to 4 stars, with 4 stars being the highest. The scoring system also includes a 'Direction of Travel Statement'. This gives an assessment of where each council's performance is heading, grading the direction of improvement as either 'improving strongly', 'improving well', 'improving adequately' or 'not improving adequately (or not improving)'.

Since 2004 we have been judged by the Audit Commission as a top performing Council and for the third year running, we were judged to be a four star council which is improving well. This puts Durham County Council in the top third for performance for all single tier and county councils in the country. Although it is good to be one of the best authorities, CPA helps focus the County Council on areas for improvement, and to put into place plans to continue to enhance the quality of services provided.

One part of the CPA assessment, the annual Use of Resources (UoR) assessment, evaluates how well councils manage and use their financial resources. The assessment focuses on the importance of having sound and strategic financial management to ensure that resources are available to support the Council's priorities and improve services, covering five themes. The County Council scored 3 'Consistently above minimum requirements – performing well' for Use of Resources.

**COMPARISON TO ORIGINAL BUDGET**

**Extract from Income and Expenditure Account**

The following tables analyse the movement in reserves balances compared to original budget.

	Original Budget £000	Actuals £000	Variance £000
Children's and Education Services	81,012	114,399	-33,387
Adult Social Care and Supporting People	126,727	124,970	1,757
Highways and Transportation	32,759	29,890	2,869
Cultural and Related Services	12,173	11,626	547
Environmental Services	18,928	20,257	-1,329
Other Services	42,754	26,372	16,382
<b>NET COST OF SERVICES</b>	<b>314,353</b>	<b>327,514</b>	<b>-13,161</b>
Precepts	281	290	-9
Surplus or deficit on trading activities not included in Net Cost of Services	-2,803	-1,490	-1,313
Insurance uncertain liabilities	-	-1,133	1,133
Interest payable and similar charges	8,124	8,068	56
Loss on disposal of fixed assets	-	8,348	-8,348
Interest and investment income	-4,132	-7,824	3,692
Pension interest costs and expected return on pension assets	3,140	3,140	-
<b>NET OPERATING EXPENDITURE</b>	<b>318,963</b>	<b>336,913</b>	<b>-17,950</b>
Demand on the Collection Fund	-152,515	-152,515	-
General government grants	-20,207	-21,634	1,427
Non-domestic rates redistribution	-120,410	-120,410	-
<b>SURPLUS (-)/DEFICIT FOR THE YEAR</b>	<b>25,831</b>	<b>42,354</b>	<b>-16,523</b>
<b>Reconciling transaction</b>	<b>-25,831</b>	<b>-51,672</b>	<b>25,841</b>
<b>Net change on General Fund Balance</b>	<b>-</b>	<b>-9,318</b>	<b>9,318</b>



**Extract from Note on Reconciling Items for the Statement of Movement on General Fund Balance**

	Original Budget £000	2007/08 £000	Variance £000
<b>Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the General Fund Balance for the Year</b>			
Loss on sale of fixed assets	-	-8,348	8,348
Amortisation of intangible fixed assets	-404	-50	-354
Depreciation and impairment of fixed assets	-21,665	-61,680	40,015
Government Grants Deferred amortisation	3,731	8,901	-5,170
Net charges made for retirement benefits in accordance with FRS 17	-44,190	-44,190	-
Deferred Charges	-	-7,587	7,587
	<u>-62,528</u>	<u>-112,954</u>	<u>50,426</u>
<b>Amounts not included in the Income and Expenditure Account but required to be included by statute when determining the Movement on the General Fund Balance for the Year</b>			
Minimum revenue provision for capital financing	11,737	9,145	2,592
Capital Expenditure charged in-year to the General Fund	1,673	3,216	-1,543
Employers contributions payable to the Durham County Council Pension Fund and retirement benefits payable direct to Pensioners	35,822	35,822	-
	<u>49,232</u>	<u>48,183</u>	<u>1,049</u>
<b>Transfers to or from the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund balance for the year</b>			
Voluntary revenue provision for capital financing	-	2,286	-2,286
Net transfer to or from earmarked reserves	-12,535	10,813	-23,348
	<u>-12,535</u>	<u>13,099</u>	<u>-25,634</u>
<b>Net additional amount required to be (-)credited or debited to the General Fund balance for the year</b>			
	<u><u>-25,831</u></u>	<u><u>-51,672</u></u>	<u><u>25,841</u></u>

During the year, the County Council spent £336.913m, when the effect of the capital charges are removed from the expenditure, at Net Cost of Service level there is an under spending in the County Council's services of £26.182m compared to original budget.

This comprises, in the main, of £20.960m which was budgeted for Equal Pay, £16.892m in County Council services and £4.068m in Schools. As there is no agreement with staff to settle this issue, this remains unspent.

The remaining £5.222m under spend is within services:

Children's and Education Services under spent £0.3m after removing the impact of not spending amounts set aside for Equal Pay claims.

Adult Social Care and Supporting People under spent by £2.1m due to reduced residential care costs, vacant posts and delays in investing growth allocated in 2007/08 budget.

Highways and Transportation under spent by £2.4m due to reduced energy costs for street lighting, lower public liability insurance charges and staff vacancies.

Within other Services, Corporate Services were over spent by £1.1m due to a reduced workload for Design Services and therefore less opportunity to recover costs and increased repairs and maintenance costs on premises. Also, the Chief Executives Office was £1.0m under spent due to vacant posts in Customer Services and Economic Development.

The under spend at 'Net Operating Expenditure' level increases due to higher than anticipated interest rates, slower than anticipated spend on capital, the non-settlement of Equal Pay claims and a surplus from DurhamNet which enabled the County Council to achieve £3.692m extra income from interest and investments.

Once the capital charges are included there was an overspend of £17.950m at Net Operating Expenditure level.

Finally, grants from government exceeded the original budget by £1.427m, as the Council had not budgeted for Local Authority Business Growth Initiatives grant.

The reconciling transaction of £25.841m is analysed in the extract from the 'Note on reconciling items for the Statement of Movement on the General Fund Balance'. It is made up of a transfer to earmarked reserves of £10.813m, compared to an original budget of £12.535m use of reserves, an under spend of £23.348m; and the net effect of the reversal of capital charges to ensure that these items have no impact on the amount required from Council Tax payers. This note also shows that capital financing charges are £1.237m more than anticipated due to additional items of capital expenditure identified in 2007/08 being financed directly from revenue.

The transfer of £10.813m represents that part of the under spend that has been identified for specific purposes. A new reserve of £2.548m has been established to allow the reallocation of under spends identified in 2007/08 to be available in 2008/09 for schemes agreed during 2007/08 but not yet implemented. A number of earmarked reserves have increased, notably for Equal Pay, Pensions and Insurances. £0.300m of specific non ring-fenced grants have not been spent during 2007/08, earmarked reserves have been established for this amount. The general reserve has increased by £9.318m during 2007/08. The schools' balances, which are retained at the discretion of governing bodies have increased by £4.275m from £21.215m as at 31<sup>st</sup> March 2007 to £25.490m as at 31<sup>st</sup> March 2008, due to schools providing reserves for the settlement of Equal Pay claims.

Although the statements show that the County Council spend including all capital charges was £17.950m above that originally budgeted, of which £12.535m was to have been drawn from reserves, this year the revaluation of Children's and Education Services' assets has led to a significant increase in the depreciation charge to the service over that in the original budget. This charge is reversed out through the Reconciling Item so that it has no effect on the council tax payer or the County Council's overall outturn position.

Recent changes to CIPFA's Statement of Recommended Practice (SORP) require that losses in value that assets have suffered during the year are charged to services' revenue expenditure. These charges are significant and were not included in the original budget, but again, they are reversed out through the Reconciling Item as part of the capital charges and have no effect.

LABGI grant of £1.427m was also received which was not anticipated at the time the budget was set. This gives an overall net over spend of £16.523m before the reconciling item from the Statement of Movement in the General Fund Balance is added. This results in an under spend of £9.318m which is transferred to the General Reserve.

**4. REVIEW OF 2007/08 – CAPITAL**

The table below shows the capital expenditure, by service, in 2007/08. Capital expenditure for 2007/08 was £77.1m, £7.7m less than original budget. £39.4m was invested in Education, £22.2m in Highways and Transportation, £4.3m in Environmental Services and £11.2m in Other Services.

The table below provides a summary of original budget and actual expenditure:

<b>Service</b>	<b>Original Budget</b>	<b>Outturn</b>	<b>Variance - Outturn v Original Budget</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Adult and Community Services	5,842	2,121	3,721
Chief Executives Office	1,907	3,347	-1,440
Children and Young People's Services	42,464	39,317	3,147
Connexions	0	0	0
Corporate Services	10,066	1,615	8,451
County Treasurer and Other Services	1,879	3,357	-1,478
Environment	21,401	26,599	-5,198
Service Direct	707	704	3
Other Minor Works (to be allocated)	500	0	500
<b>TOTAL</b>	<b>84,766</b>	<b>77,060</b>	<b>7,706</b>

Explanations for differences between original budget and actual:

	<b>£000</b>
Original budget	84,767
Add	
Slippage from previous years	29,438
Less	
Slippage to future years	-23,819
Revisions in year	-15,275
Overspend in year	1,949
	<u>77,060</u>

The major sources of financing of the capital programme are £18.6m from external borrowing, £39.9m from capital grants and contributions, capital receipts of £10.6m and £3.2m of direct revenue funding and the use of reserves. The Dedicated Schools Grant (DSG) has been used to finance £4.7m of capital expenditure in schools.

A total of £23.8m has been carried forward into 2008/09 for the completion of existing projects in future years.

## 5. MATERIAL ASSETS ACQUIRED, LIABILITIES INCURRED AND BORROWING

The following major items of capital expenditure were incurred during the year:

	Expenditure in 2007/08 £000
Adult & Community Services - new Greencroft Building	1,052
Children's Centres	1,740
Peterlee Eden Community Primary – new school	1,966
Seaham Princess Road Primary - new school	2,983
Byers Green Primary replacement	1,145
Ushaw Moor Junior - adaptations	1,520
Schools - other modernisation schemes	2,143
Durham Johnston - replacement school	8,333
Schools - structural maintenance of buildings	3,109
Schools - schemes funded from capital budgets delegated to schools (including deferred charges of £3.702m)	9,586
Other schools schemes	6,258
A688 Wheatley Hill to Bowburn	6,179
West Auckland Bypass Phase 2	2,125
Other Highways & Transportation schemes	13,357
Economic Development schemes	1,875
Hardwick Hall Country Park	1,990
Replacement Enterprise Resource Planning system	3,156
Vehicles, plant, furniture & equipment	1,577
Deferred Charges (other than schools' delegated):	
Expenditure on fixed assets that does not add value (impairment)	2,894
Assistance to other bodies/expenditure on assets not owned by the Council	2,792
Expenditure below de minimis	1,093

The total borrowing at 31st March 2008 was £174.6m. £1.2m of the total is due to be repaid by Durham Police Authority and £0.003m by Darlington Borough Council. An analysis of loans outstanding is shown in Note 23.

## 6. PENSIONS COSTS

The pensions liability disclosed in the Balance Sheet which shows the underlying commitment that the County Council has to pay future retirement benefits, has a substantial impact on the net worth of the County Council as reported in the Balance Sheet. However, statutory arrangements mean that the deficit on the Pension Fund will be made good by, amongst other things, increased contributions over the working life of employees, as assessed by the Fund actuary.

## 7. CHANGES IN STATUTORY FUNCTIONS

There were no major changes in statutory functions during the year.

## 8. PLANNED FUTURE DEVELOPMENTS IN SERVICE DELIVERY

## **Explanatory Foreword**

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The Council intends to continue its policy of making appropriate revenue and capital investments to respond to statutory requirements and identified needs for the maintenance and development of the delivery of services taking into account the resources available to it.

Building Schools for the Future is a government initiative which aims to transform secondary education through the renewal and refurbishment of schools over the next 10 to 15 years. In 2007/08 the County Council was engaged in the preparatory stages and the first schools are expected to be completed in 2010/11.

### **9. SOURCES OF FUNDS TO MEET CAPITAL EXPENDITURE AND OTHER PLANS**

Funding for expenditure on capital assets comes from a number of sources. Some of this expenditure is financed by loans, mainly provided by the Public Works Loans Board. Other sources of finance include grants and contributions from central government and other public bodies and the income received when surplus capital assets are sold. Capital expenditure can also be financed by contributions made directly from revenue.

Local authorities have the power to decide for themselves how much to borrow to finance capital expenditure. This power was given to local authorities on 1st April 2004, prior to which authorities could only borrow with the approval of central government, which then provided revenue support to fund the cost of repaying this borrowing and associated interest payments. Central government still provides revenue support in this way, and borrowing for which such funding has been provided is known as supported borrowing. Local authorities can also choose to undertake additional borrowing, known as unsupported borrowing, for which there is no government support. In deciding whether it can afford to undertake such borrowing, local authorities must follow the requirements of the Prudential Code for Capital Finance in Local Authorities, issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

At 31st March 2008, usable capital receipts of £20.2m and unapplied capital grants and contributions of £10.4m were held. These sums, together with other capital resources such as future supported borrowing, will be used to finance the Council's approved capital programme, which is subject to rolling review.

Reserves and provisions of a revenue nature, totalling £106.5m, were also held as at 31st March 2008. These are detailed in note 26 and 27 to the Core Financial Statements.

### **11. SUBSEQUENT EVENTS**

The Statement of Accounts is signed by the County Treasurer and approved by the County Council on 26th August 2008. As at this date, there have been no circumstances or events subsequent to the period end which require adjustment to the financial statements or in the notes thereto.

## 1. GENERAL PRINCIPLES

The general principles adopted in compiling the Accounts follow the 'Code of Practice on Local Authority Accounting in the United Kingdom 2007: A Statement of Recommended Practice' (SORP) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

The accounting policies and estimation techniques applied have been selected and exercised having regard to the accounting principles and concepts set out in FRS18. In particular:

- The qualitative characteristics of financial information:
  - Relevance
  - Reliability
  - Comparability
  - Understandability
- Materiality
- Pervasive accounting concepts
  - Primacy of legislative requirements
  - Accruals
  - Going concern

## 2. BEST VALUE

The Statement of Accounts has been compiled in accordance with the Best Value Accounting Code of Practice (BVACOP) 2007 published by CIPFA.

## 3. TANGIBLE FIXED ASSETS

Expenditure on fixed assets is capitalised if the asset provides a benefit to the Council for a period of more than one year.

Tangible fixed assets are valued on the basis recommended by CIPFA and in accordance with the Statements of Asset Valuation Principles and Guidance Notes issued by the Royal Institute of Chartered Surveyors. These assets are classified into one of the following categories and recorded in the Balance Sheet as follows:

### Operational assets

- Operational land and buildings  
At the lower of net current replacement cost or net realisable value in existing use
- Infrastructure assets (e.g. roads)  
At historical cost, net of depreciation
- Vehicles, plant, furniture and equipment  
At current written-down value

### Non-operational assets

- Assets under construction  
Historical cost of major new assets or additions to existing assets
- Surplus assets, held for disposal  
At open-market value where applicable. When assets are declared surplus they are revalued to their market value at the beginning of the financial year.

All valuations have been undertaken by or under the supervision of a fully qualified Chartered Surveyor. The effective date for valuations is 1st April of the financial year. All valuations undertaken in 2007/08 were carried out by County Council staff. In addition to the regular five-year programme of revaluations referred to above, assets which have been subject to a material change as a result of transactions, such as acquisitions, disposals, appropriations, capital expenditure and/or shifts in market conditions, are revalued as and when such changes occur.

Balance Sheet asset values are increased by the historical cost of capital expenditure in respect of expenditure on major new assets or additions to existing assets. Upon completion of these capital projects the asset is revalued to its current value. Balance Sheet values are also increased by expenditure on infrastructure, which is carried in the Balance Sheet at historical cost. Other capital

## **Statement of Accounting Policies**

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expenditure on tangible fixed assets which does not add value to the assets or which falls below the de minimis level for inclusion on the Balance Sheet is written off in full to the Income and Expenditure Account as a deferred charge.

### **4. INTANGIBLE FIXED ASSETS**

Intangible assets are assets that continue to provide an economic benefit to the Council, but which do not have a physical form, principally software licences and maintenance agreements.

These assets are valued at historical cost and are amortised to the Income and Expenditure Account on a straight-line basis, taking account of their expected residual value, if any.

### **5. DEFERRED CHARGES – CAPITAL**

Capital expenditure that does not result in the creation of a fixed asset owned by the Council is treated as a deferred charge. Examples include grants and financial assistance to others and expenditure on buildings not owned by the County Council (e.g. voluntary aided schools), as well as expenditure that does not add value to a fixed asset or which falls below de minimis. Accounting guidelines state that the amounts are charged to revenue over the period during which the Council gains a benefit. However, the SORP recognises that local authorities “seldom control the economic benefit arising from the expenditure”, therefore the Council amortises 100% of the deferred charge to revenue in the year the expenditure is incurred, matched where appropriate by any capital grants or contributions received to finance the expenditure. To avoid any impact on council tax, a credit is made to the General Fund (see Statement of Movement on the General Fund Balance).

### **6. FOREIGN CURRENCIES**

Stocks of foreign currency held at 31<sup>st</sup> March are expressed in sterling at the rates ruling at that date. Income and expenditure arising from a transaction in a foreign currency are translated into sterling at the exchange rate in operation on the day the transaction occurred.

### **7. BASIS OF CHARGES FOR CAPITAL**

Depreciation of tangible assets and amortisation of intangible assets, where appropriate, are charged to Service revenue accounts to show the true costs of using assets in providing services. In order to avoid any impact on the level of council tax these charges are credited to the General Fund Balance (see Statement of Movement on General Fund Balance)

All tangible fixed assets, other than non-depreciated land and non-operational assets under construction are depreciated over the useful life of the asset on a straight-line basis. Life expectancies of buildings vary according to their age and condition.

### **8. CAPITAL RECEIPTS**

Capital receipts arising from the sale of fixed assets are included in the Balance Sheet to be applied to finance capital expenditure as required.

### **9. BASIS ON WHICH DEBTORS AND CREDITORS ARE INCLUDED IN THE ACCOUNTS**

Revenue and capital transactions are recorded during the year on a system of receipts and payments. At the end of the year, expenditure is calculated by taking the payments and adding creditors for goods or services received by 31st March for which no payment has been made by this date and deducting payments made within the year relating to the previous year's outstanding creditors.

The basis for creditors is either payments made since 31st March or estimated amounts for goods and services received.

Debtors appearing on the Balance Sheet represent sums due to the Council, which have not been received by 31st March.

## 10. INTERNAL INTEREST

Interest is credited (or charged) to school balances carried forward.

## 11. GOVERNMENT AND OTHER SPECIFIC GRANTS

Government grants and other contributions are accounted for on an accruals basis and recognised in the accounting statements when the conditions for their receipt have been met and there is reasonable assurance that the grant or contribution will be received.

## 12. BASIS OF VALUATION OF STOCKS AND WORK IN PROGRESS

The present basis of showing stocks and work-in-progress does not comply with SSAP9 which requires them to be shown at the lower of cost and net realisable value, as the SORP notes that much of the detailed content of SSAP9 is irrelevant to local authorities. Stocks are held at cost, except for materials held by Service Direct, which are shown at current values. Work in progress is based on valuations at 31st March 2008 less payments on account already included in the Revenue Account. Profit/loss has been allowed for where the outcome can reasonably be foreseen.

## 13. BASIS OF ALLOCATION OF COSTS OF SUPPORT SERVICES

The costs of management and administration are fully allocated on the basis of time spent on each Service, including 'corporate management'. The costs of administrative buildings are similarly fully allocated on a user basis.

## 14. PROVISIONS AND RESERVES

Provisions have been created for liabilities or losses which are likely to be incurred or will be incurred but where the amounts or the dates on which they will arise are uncertain. The Council has a number of provisions, which are defined in accordance with financial reporting standard FRS12.

A provision counts as expenditure in the Income and Expenditure Account in the year in which the earmarking takes place.

Further details of provisions and reserves are shown in Notes 26 and 27 to the Core Financial Statements.

A reserve is created by appropriation from the General Fund after the surplus or deficit for the year has been calculated. This appropriation is debited to the General Fund Balance in the Statement of Movement in the General Fund Balance. When expenditure is incurred for which the reserve was created, the expenditure is charged to the Net Cost of Services and the reserve is released creating a credit in the Statement of Movement on the General Fund Balance.

## 15. BASIS OF PROVISIONS FOR PENSIONS

The County Council participates in two different pension schemes which meet the needs of particular groups of employees. All the schemes provide members with defined benefits related to pay and service.

The schemes are:

### **Teachers -**

An unfunded scheme administered by Capita Teachers' Pensions.

### **Other Employees -**

Other employees, subject to certain qualifying criteria, are eligible to join the Local Government Pension Scheme. The contributions are set by the Pension Fund's Actuary to meet the overall liabilities of the Fund.

Further costs arise for certain pensions paid to retired employees on an unfunded basis.



## Statement of Accounting Policies

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The Financial Reporting Standard FRS17 – Retirement Benefits requires the recognition of the Council's share of the Pension Fund assets and liabilities in the accounts as well as requiring recognition in the Council's Income and Expenditure Account of the full costs of providing for future retirement benefits.

### 16. ACCOUNTING FOR LEASES

#### Finance Leases

The Council accounts for leases as finance leases when substantially all the risks and rewards relating to the leased property transfer to the council. Rentals payable are apportioned between:

- a charge for the acquisition of the interest in the property (recognised as a liability in the Balance Sheet at the start of the lease, matched with a tangible fixed asset – the liability is written down as the rent becomes payable), and
- a finance charge (debited to Net Operating Expenditure in the Income and Expenditure Account as the rent becomes payable).

Fixed assets recognised under finance leases are accounted for using the policies applied generally to Tangible Fixed Assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life.

Where the Council acts as lessor (for example, the Home Computer Initiative where a finance lease in of computer equipment is matched by a finance lease out to employees), the lease (net of financing costs) is classed as a debtor, matched by a credit to fixed assets.

#### Operating Leases

Leases that do not meet the definition of finance leases are accounted for as operating leases. Rentals payable or receivable are charged or credited to the relevant service revenue account on a straight-line basis over the term of the lease, generally meaning that rentals are charged when they become due.

### 17. REDEMPTION OF DEBT

The Council is required to charge the Income and Expenditure Account with a minimum of 4% of its capital financing requirement at the start of the year. The capital financing requirement represents the Council's underlying need to borrow to finance capital expenditure. The underlying need to borrow is not necessarily the same as the total of outstanding loans, because authorities can also use their cash reserves to finance capital expenditure. Consequently, the capital financing requirement at the start of the year is the total of outstanding loans used to finance capital expenditure in previous years, plus the amount of capital expenditure financed by cash at the end of the previous financial year:

Outstanding loans used to finance capital expenditure in previous years	A
Capital expenditure financed by cash at the end of the previous financial year	B
Initial capital financing requirement =	A + B

### 18. INTERESTS IN COMPANIES AND OTHER ENTITIES

The County Council has financial relationships with a number of related companies. Details of the Council's interest in these organisations and the nature of the relationship are disclosed in note 22 to the Core Financial Statements. The value of shares held in relevant related companies is included in the accounts at historical cost and is disclosed in note 23 to the Core Financial Statements.

The 2007 SORP requires local authorities to prepare Group Accounts where they have an interest in subsidiary or associate companies or joint ventures with other organisations. The County Council has followed the prescribed process contained in the 2007 SORP to assess the relationship between itself and the various organisations used to deliver local services. It was concluded that the requirements of Group Accounts do not apply in the 2007/08 financial year, with the exception of the relationship with County Durham Development Company. Transactions in

respect of County Durham Development Company have, however, been excluded on the grounds of materiality.

The review revealed the following relationships:

- County Durham Development Company is wholly owned by the County Council
- The County Council owns the majority shareholding in the Durham County Waste Management Company
- The County Council has minority shareholdings in Newcastle International and Durham Tees Valley airports.
- Durham Dales Centre Ltd is jointly owned by the County Council and Wear Valley District Council.
- DurhamNet is a strategic partnership between Durham County Council and Derwentside District Council with the objective to deliver broadband services throughout the county.
- The County Council is a member of The County Durham e-Government Partnership. The aim of the partnership is to use the latest technology to maximise access to services for all local taxpayers.
- NewCo is a Local Authority Trading Company which began trading in 2007/08. It is wholly owned by the County Council.

## **19. FINANCIAL INSTRUMENTS**

Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Income and Expenditure Account for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. For most of the borrowings that the council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable and interest charged to the Income and Expenditure Account is the amount payable for the year in the loan agreement.

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

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

### **Financial Assets**

Financial assets are classified into two types:

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

### **Loans and Receivables**

Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Income and Expenditure Account for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable, and interest credited to the Income and Expenditure Account is the amount receivable for the year in the loan agreement.

## Statement of Accounting Policies

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However, the council makes a number of travel loans to employees at less than market rates (soft loans). When soft loans are made, the SORP requires that:

- a loss is recorded in the Income and Expenditure Account for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal.
- interest is credited at a marginally higher effective rate of interest than the rate receivable from the debtor, with the difference serving to increase the amortised cost of the loan in the Balance Sheet.
- in accordance with statutory provisions, the impact of soft loans on the General Fund Balance is the interest receivable for the financial year. The reconciliation of amounts debited and credited to the Income and Expenditure Account to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Statement of Movement on the General Fund Balance.

It has been determined that the value of the soft loans made and the balances carried on the balance sheet are not material, therefore no loss is charged to the Income and Expenditure Account.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Income and Expenditure Account.

Any gains and losses that arise on the derecognition of the asset are credited/debited to the Income and Expenditure Account.

### **Available-for-sale Assets**

Available-for-sale assets are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Income and Expenditure Account for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Income and Expenditure Account when it becomes receivable by the Council.

The fair values of available-for-sale assets are based on the following principles:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis
- equity shares with no quoted market prices – independent appraisal of company valuations.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

Changes in fair value are balanced by an entry in the Available-for-sale Reserve and the gain/loss is recognised in the Statement of Total Recognised Gains and Losses (STRGL). The exception is where impairment losses have been incurred – these are debited to the Income and Expenditure Account, along with any net gain/loss for the asset accumulated in the Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Income and Expenditure Account.

Any gains and losses that arise on the derecognition of the asset are credited/debited to the Income and Expenditure Account, along with any accumulated gains/losses previously recognised in the STRGL.

## 20. CHANGES IN ACCOUNTING POLICIES

Following changes to the SORP, the Council has adopted the following new accounting policies in the 2007/08 Statement of Accounts:

- Replacement of the Fixed Asset Restatement Account and the Capital Financing Account with the Revaluation Reserve and the Capital Adjustment Account – From 1st April 2007 the Fixed Asset Restatement Account and Capital Financing Account have been replaced by two new accounts, a Revaluation Reserve for each tangible fixed asset and the Capital Adjustment Account. This is a change of accounting policy that would normally require prior year adjustments, however the 2007 SORP has specified that these changes do not need to be applied retrospectively. The opening balance of the Revaluation Reserve is zero and the opening balance of the Capital Adjustment Account is established by combining the balances of the Fixed Asset Restatement Account and the Capital Financing Account.
  - The purpose of the Revaluation Reserve is to record the accumulated gains on the fixed 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 balance of the Revaluation Reserve for an individual asset cannot be negative and because the opening balance is zero, all downward revaluations (impairment) in 2007/08 have been charged to the Income and Expenditure Account, irrespective of the reason for the downward movement. Usually only impairment due to consumption of economic benefits is charged to the Income and Expenditure Account, whereas impairment due to changes in market prices is not. This change in accounting practice has resulted in a charge of £22.813m impairment to the Income and Expenditure Account in 2007/08.
  - The purpose of the Capital Adjustment Account is to accumulate the write down of the historical cost of fixed 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.
- Financial Instruments – Financial Instruments are now accounted for and disclosed according to the Financial Reporting Standards FRS25 (Financial Instruments: Presentation and Disclosures), FRS26 (Financial Instruments: Recognition and Measurement) and FRS29 (Financial Instruments: Disclosures). More details can be found in the Financial Instruments accounting policy and in the notes to the core financial statements.







## Income and Expenditure Account

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

2006/07 Net Expenditure £000		2007/08		
		Gross Expenditure £000	Gross Income £000	Net Expenditure £000
	Continuing Operations:			
72,623	Children's and Education Services	528,174	413,775	114,399
117,797	Adult Social Care	187,509	62,548	124,961
13	Supporting People	11,047	11,038	9
31,765	Highways and Transportation	45,472	15,582	29,890
8,685	Planning and Development	12,179	3,582	8,597
12,207	Cultural and Related Services	14,999	3,373	11,626
17,743	Environmental Services	22,641	2,384	20,257
654	Courts and Probation	881	146	735
	Central Services			
5,320	Corporate and Democratic Core	5,533	-	5,533
853	Central Services to the Public	1,275	619	656
2,877	Other Corporate Costs	11,008	48	10,960
-196	Other Services	3,506	3,616	-110
-159	Connexions	5,158	5,157	1
<b>270,182</b>	<b>NET COST OF SERVICES</b>	<b>849,382</b>	<b>521,868</b>	<b>327,514</b>
270	Precepts and levies			290
-1,623	Surplus on trading activities not included in Net Cost of Services			-1,490
-637	Insurance - uncertain liabilities			-1,133
7,627	Interest payable and similar charges			8,068
-14,291	Interest and investment income			-7,824
3,270	Pensions interest cost and expected return on pensions assets			3,140
-	Loss on disposal of fixed assets			8,348
<b>264,798</b>	<b>NET OPERATING EXPENDITURE</b>			<b>336,913</b>
-25,348	General Government Grants			-21,634
-112,812	Non-domestic rates redistribution			-120,410
-146,234	Precepts upon District Council Collection Funds			-152,515
<b>-19,596</b>	<b>SURPLUS (-) / DEFICIT FOR THE YEAR</b>			<b>42,354</b>

The above analysis of Net Cost of Services is in accordance with BVACOP 2007 which has split former Social Services to include Children's Social Services with Education Services as Children's and Education Services. Adult Social Services has been renamed Adult Social Care.

**Planning & Development** includes Building and Development Control, Planning Policy, environmental initiatives and Economic and Community Development.

**Cultural and Related Services** covers Libraries, Museums, Parks & Open Spaces and Tourism.

**Environmental Services** comprises Environmental Health, Agriculture, flood defence and land drainage, Consumer Protection and Waste Disposal.

**Central Services to the Public** includes Registration of Births, Deaths and Marriages, elections and Emergency Planning.

**Other Corporate Costs** includes non-distributed costs which relate to enhanced benefits provided to former employees on retirement or any discretionary benefits granted and the costs of holding unused assets.

2006/07 comparative figures have been revised to BVACOP 2007 format.



## Statement of Movement on the General Fund Balance

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

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

The General Fund Balance compares the Council's spending against council tax that it raised for the year, taking into account the use of reserves built up in the past and contributions to reserves earmarked for future expenditure.

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

<b>2006/07</b>	<b>2007/08</b>
<b>£000</b>	<b>£000</b>
-19,596 Surplus(-)/deficit for the year on the Income and Expenditure Account	42,354
19,844 Net additional amount required by statute and non statutory proper practices to be debited or credited to the General Fund Balance for the year	-51,672
<b>248 (-) Increase / Decrease in General Fund Balance for the Year</b>	<b>-9,318</b>
-12,062 General Fund Balance brought forward	-11,814
<b>-11,814 General Fund Balance carried forward</b>	<b>-21,132</b>
<b>-21,215</b> Balances held by governors under schemes to finance schools - held as earmarked reserves	<b>-25,490</b>

The General Fund Balance represents the amount generally available for new expenditure and excludes schools balances. School Balances include amounts set aside to meet equal pay claims.

Detailed analysis of the "amount required by statute and non statutory proper practices to be debited or credited to the General Fund Balance" is given in Note 13 to the Core Financial Statements.

## Statement of Total Recognised Gains and Losses

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

<b>2006/07</b>		<b>2007/08</b>
<b>£000</b>		<b>£000</b>
-19,596	(-) Surplus/Deficit for the year on the Income and Expenditure Account	42,354
-10,067	(-) Gain / Loss arising on revaluation of fixed assets	-423,690
	Actuarial gain on pension fund assets and liabilities	
-8,081	Actuarial (-) gains / losses relating to pensions	-43,100
<u>-8,081</u>		<u>-43,100</u>
<u><b>-37,744</b></u>	<b>Total recognised (-) gains / losses for the year</b>	<u><b>-424,436</b></u>

The 2006/007 total recognised gain in the year of £37.744m reconciles to the movement in net worth for 2005/06 to 2006/07 (restated), taking into account the changes detailed in Note 13 of the Notes to the Core Financial Statements.



## Cash Flow Statement

This consolidated statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes. Cash is defined as cash in hand and deposits repayable on demand less overdrafts repayable on demand.

2006/07			2007/08	
£000	£000		£000	£000
<b>REVENUE ACTIVITIES -</b>				
<b>Cash outflows -</b>				
-449,248		Cash paid to and on behalf of employees	-462,943	
-304,146		Other operating cash payments	<u>-313,872</u>	
	-753,394			-776,815
<b>Cash inflows -</b>				
21,714		Revenue Support Grant	20,207	
402,452		Other Government and EU grants	418,048	
112,812		Redistributed Non-Domestic Rates	120,410	
144,321		Precepts	150,656	
1,913		Share of Net Surplus on District Council Collection Funds	1,861	
<u>121,240</u>		Cash received for goods and services	<u>126,183</u>	
	804,452			837,365
	<u>51,058</u>	<b>NET CASH INFLOW - REVENUE ACTIVITIES</b>		<u>60,550</u>
<b>RETURNS ON INVESTMENTS AND SERVICING OF FINANCE -</b>				
<b>Cash outflows -</b>				
-7,396		Interest paid	-8,128	
-		Interest element of finance lease rental payments	<u>-21</u>	
	-7,396			-8,149
<b>Cash inflows -</b>				
	10,219	Dividend received		-
	4,408	Interest received		7,535
	<u>7,231</u>	<b>NET CASH OUTFLOW - SERVICING OF FINANCE</b>		<u>-614</u>
<b>CAPITAL ACTIVITIES -</b>				
<b>Cash outflows -</b>				
	-80,258	Purchase of fixed assets		-78,334
<b>Cash inflows -</b>				
4,977		Sale of fixed assets	20,176	
33,296		Government and EU capital grants received	32,814	
<u>3,547</u>		Other capital cash receipts	<u>911</u>	
	41,820			53,901
	<u>-38,438</u>	<b>NET CASH OUTFLOW - CAPITAL ACTIVITIES</b>		<u>-24,433</u>
	<u>19,851</u>	<b>NET CASH OUTFLOW(-)/INFLOW BEFORE FINANCING</b>		<u>35,503</u>
<b>MANAGEMENT OF LIQUID RESOURCES -</b>				
	<u>-40,059</u>	Net increase(-)/decrease in short term deposits		<u>-29,923</u>
<b>FINANCING -</b>				
<b>Cash outflows -</b>				
-2,413		Repayments of amounts borrowed	-2,131	
-		Capital element of finance lease rental payments	<u>-954</u>	
	-2,413			-3,085
<b>Cash inflows -</b>				
22,000		New loans raised	-	
<u>125</u>		Repayment of amounts	<u>265</u>	
	22,125			265
	<u>19,712</u>	<b>NET CASH INFLOW - FINANCING</b>		<u>-2,820</u>
	<u>-496</u>	<b>INCREASE/DECREASE(-) IN CASH</b>		<u>2,760</u>

## Cash Flow Statement

### RECONCILIATION OF INCOME AND EXPENDITURE ACCOUNT TO CASH FLOW

	£000	£000
<b>Deficit on Income and Expenditure Account for the year</b>		-42,354
<b>Surplus/deficit(-) for the year</b>		
<b>Non-cash transactions -</b>		
Amounts included in Income & Expenditure Account but required by statute to be excluded when determining the movement on the General Fund Balances	112,954	
Amounts included in Income & Expenditure Account but required to be included by statute when determining the movement on the General Fund Balances	-48,183	
Movements on provisions	-1,581	
Internal capital financing transactions	<u>17,075</u>	
		80,265
<b>Items on an accruals basis -</b>		
Increase in debtors, payments in advance, stocks and work in progress	4,992	
Decrease in creditors and receipts in advance	<u>17,054</u>	
		22,046
<b>Items classified elsewhere in the Cash Flow Statement -</b>		
Investment & Dividend Income	-7,535	
Interest paid	<u>8,128</u>	
		593
<b>NET CASH INFLOW FROM REVENUE ACTIVITIES</b>		<u><u>60,550</u></u>

### RECONCILIATION OF MOVEMENT IN CASH TO MOVEMENT IN NET DEBT

	£000	£000
<b>Increase in Cash as per Cash Flow Statement</b>		2,760
<b>Less -</b>		
Net cash flow from Revenue Activities	-60,550	
Net cash flow from Capital Activities	24,433	
Net cash flow from Servicing of Financing	<u>614</u>	
		-35,503
		<u><u>-32,743</u></u>
<b>Movement in Net Debt</b>		
Loans raised		-
Increase in short term deposits		-29,923
Repayment of amounts borrowed		-2,131
Repayment of finance lease principal		-954
Repayment of long term investments		<u>265</u>
		<u><u>-32,743</u></u>

### Definition of Liquid Resources

Liquid resources have been defined as the short term investments that are disclosed on the face of the Balance Sheet.

## MOVEMENT IN CASH AND SHORT TERM DEPOSITS

	Balance at 1st April	Movement in year	Balance at 31st March
	£000	£000	£000
Cash in hand and at bank	1,084	-180	904
Bank overdraft	-8,834	2,940	-5,894
<b>INCREASE IN CASH</b>	<b>-7,750</b>	<b>2,760</b>	<b>-4,990</b>
Short term deposits	<b>110,378</b>	<b>29,923</b>	<b>140,301</b>

## ANALYSIS OF OTHER GOVERNMENT AND EU REVENUE GRANTS

2006/07		2007/08
£000		£000
255,591	Dedicated Schools Grant	267,453
35,886	Standards Fund	36,008
22,598	Learning and Skills Council	23,587
13,006	School Standards	16,075
13,819	Supporting People Programme	13,536
6,660	Early Years Development Child Care	7,626
9,052	Sure Start	7,626
6,677	Access and Systems Capacity	6,497
4,945	Connexions	5,187
-	LAA (for County Council services)	3,556
1,195	Teacher Training	2,589
2,021	Carers	2,276
2,306	Preserved Rights	2,098
1,332	Mental Health	1,426
1,846	Children's Fund	1,412
1,190	Delayed Discharges	1,164
1,116	One NorthEast	1,085
1,059	National Training Strategy	1,082
990	DETR-Rural Bus Service	1,013
264	Department for Transport	884
118	Transition and Informed Choice	823
699	CAMHS	713
1,800	Neighbourhood Renewal Fund	573
349	Preventative Technology	524
491	Human Resource Development Strategy	502
10,462	Total Other Grants	8,663
1,886	LABGI	256
3,346	LAA	3,814
1,748	LPSA	-
<b>402,452</b>	<b>TOTAL</b>	<b>418,048</b>

These figures represent the cash received by the County Council and may differ from the amounts included in the Income and Expenditure Account, which is prepared on an accruals basis.

## Notes to the Core Financial Statements

### 1. PRIOR PERIOD AND EXCEPTIONAL / EXTRAORDINARY ITEMS

Several prior period adjustments have been made to the 2006/07 balance sheet:

- Unapplied Grant and Contributions – following clarification of the treatment set out in the SORP, the balance of unapplied capital grants and contributions has been relocated to the top half of the balance sheet, under Current Liabilities, Creditor and Receipts in Advance, reducing net worth by £13.885m
- Corrections to tangible fixed assets:
  - Computer servers acquired in 2006/07 under a three-year finance lease had been omitted from the balance sheet. The 2006/07 balance sheet has been restated to include these assets under Vehicles, Plant, Furniture and Equipment at a value of £1.456m, together with a deferred liability (under Long-term Liabilities) of £0.800m to reflect the outstanding obligations payable under the lease at 31<sup>st</sup> March 2007. Further details of the rentals payable and outstanding obligations can be found in the Finance Lease note.
  - Surestart and Children's Centres land and building valuations were included in the balance sheet for the first time in 2006/07. However, following further review by the Valuer during which the ownership of some of the centres was clarified and it was also identified that some of the valuations were already included within those of schools, it was determined that the valuations had been overstated by £8.705m.
  - Following examination of the fixed asset registers, other corrections to land and buildings and vehicle, plant, furniture and equipment valuations have also been made, reducing net worth by £0.799m.
- In conjunction with the review of Surestart and Children's Centre asset values, it was also identified that a further £5.756m of capital grants received for the construction of the centres should be included within Government Grants Deferred (under Long-term Liabilities), to be released to the Income and Expenditure Account over the life of the assets.

The impact of the above changes is a reduction of £28.491m in the total net worth at 31<sup>st</sup> March 2007, from £281.765m to £253.274m, detailed as follows:

	2006/07 Balance Sheet	Adjustment	2006/07 Balance Sheet (restated) £000
	£000	£000	
Fixed Assets			
Operational Assets:			
Land and Buildings	531,667	-9,046	522,621
Vehicles, Plant, Furniture & Equipment	13,437	1,510	14,947
Non-operational Assets:			
Surplus Assets	27,972	-514	27,458
Current Liabilities:			
Creditors and Receipts in Advance	-100,511	-13,885	-114,396
Long-term Liabilities			
Government Grants Deferred	-124,736	-5,756	-130,492
Deferred Liabilities	-279	-800	-1,079
<b>Impact on Net Worth</b>		<b>-28,491</b>	
Financed by:			
Fixed Asset Restatement Account	256,608	-8,850	247,758
Capital Financing Account	224,873	-5,756	219,117
Unapplied Grants and Contributions	13,885	-13,885	0
<b>Impact on Net Worth</b>		<b>-28,491</b>	

As a result of these changes the total recognised gains in 2006/07, as detailed in the Statement of Total Recognised Gains and Losses, have been reduced to £37.744m.

There are no exceptional or extraordinary items included in the accounts.

**2. TRADING OPERATIONS**

There are no significant trading operations other than Service Direct (Direct Service Organisation). The Summary Revenue Account for Service Direct is shown separately below. The impact of FRS17 on Service Direct for 2007/08 is to reduce gross expenditure by £0.151m and therefore increase the amount included in Trading Account surpluses by the same figure.

2006/07 £000		2007/08 £000
	<b>EXPENDITURE -</b>	
16,043	Direct labour	15,212
11,374	Materials	11,136
7,515	Transport and plant	7,862
8,865	Sub-contractors	8,671
10,164	Overheads	10,796
	Exceptional Items -	
154	Redundancy costs	37
-	Contribution to Vehicle & Plant Reserve	-
	Changes during the year in -	
-731	Work-in-progress	-229
-216	Provisions	-43
<b>53,168</b>	<b>Total Expenditure</b>	<b>53,442</b>
	<b>INCOME -</b>	
54,663	Charge to Services and other bodies	55,282
<b>54,663</b>	<b>Total Income</b>	<b>55,282</b>
<b>1,495</b>	<b>SURPLUS FOR YEAR</b>	<b>1,840</b>

**MOVEMENT IN RESERVES**

2006/07			2007/08	
£000	£000		£000	£000
	<b>2,414</b>	<b>DSO Reserve at 1st April</b>		<b>2,015</b>
1,495		Add: Surplus for the year - defined activities	1,840	
-529		Less: Pension Fund contributions financed from reserves	-640	
	<b>966</b>	<b>Contribution to County Fund</b>		<b>1,200</b>
	559	Add: Depreciation		606
	-545	Less: Capital expenditure financed from reserves		-607
	-143	Less: Contribution towards costs of early retirement		-30
	-1,236	Less: Transfer to General Reserve		-1,319
	<b>2,015</b>	<b>DSO Reserve at 31st March</b>		<b>1,865</b>
	61	<b>Vehicle &amp; Plant Reserve at 1st April</b>		61
	-	Add: Contribution from DSO surplus		-
	<b>61</b>	<b>Vehicle &amp; Plant Reserve at 31st March</b>		<b>61</b>
	<b>2,076</b>	<b>Total Reserves at 31st March</b>		<b>1,926</b>



**3. DISCRETIONARY EXPENDITURE**

Section 137 of the Local Government Act allowed a local authority to spend a limited amount on activities for which it has no specific power, but which the authority considers “will bring direct benefit to the area, or any part of it, or all or some of its inhabitants.” Most of this power was repealed and replaced with a ‘well-being’ power in the Local Government Act 2000.

Section 137 remains as a power only for contributions to charities and not-for-profit bodies. In 2007/08 spending under Section 137 amounted to £0.16m (£0.16m in 2006/07) on grants to various voluntary bodies.

**4. EXPENDITURE ON PUBLICITY**

Section 5 of the Local Government Act 1986 requires local authorities to keep separate account of expenditure on publicity.

The following table shows the type of spending on publicity by the County Council. The expenditure is all included under the appropriate headings in the Income and Expenditure Account.

2006/07 £000		2007/08 £000
	<b>Advertising</b>	
733	Staff	976
265	Other	327
	<b>Contributions and fees paid to other organisations which undertake promotional activities -</b>	
1,145	County Durham Development Company Ltd	1,068
11	Other bodies	11
	<b>- Local Government Reorganisation</b>	71
1,686	<b>Other Publicity</b>	1,276
<b>3,840</b>	<b>Total</b>	<b>3,729</b>

**5. SCHEMES UNDER THE TRANSPORT ACT 2000**

The Act empowers the County Council to impose charges in respect of the use of motor vehicles on roads. The Durham Road User Scheme, which was the first of its type in the Country, reduces traffic entering Durham’s historic peninsula by applying a charge to each vehicle. Whilst the scheme has been successful in achieving its aim to remove non essential traffic, it is also designed to exempt essential users. The revenue from the charge is used to subsidise the low floor easy access Cathedral bus service. The bus gives the opportunity for those who do not own a car and are unable to use a conventional bus or tackle the steep walk to the cathedral to now access the area.

The relevant expenditure and income for the Scheme is summarised below:

2006/07 £000	2007/08 £000
49	56
Expenditure (including capital charges)	75
67	75
Income	-19
<b>-18</b>	<b>-19</b>
<b>Net Expenditure</b>	

**6. LOCAL AUTHORITY (GOODS AND SERVICES) ACT 1970**

The Act empowers the County Council to provide goods and services to other local authorities and public bodies. The relevant expenditure and income details are summarised below.

The details are included under the appropriate headings in the Income and Expenditure Account

2006/07 £000		2007/08 £000
	<b>Expenditure -</b>	
9,124	Other Local Authorities	11,646
6,296	Other Public Bodies	6,569
730	Police	680
374	Fire	327
18	Connexions	27
177	SureStart	317
122	Colleges	117
<b>16,841</b>		<b>19,683</b>
<b>16,889</b>	<b>Income (Charges to Other Bodies)</b>	<b>20,058</b>
<b>-48</b>	<b>Net Expenditure</b>	<b>-375</b>

Of the £16.0m of goods and services provided to other local authorities and public bodies, £9.0m relates to administrative, clerical and technical services and £10.7m to goods and materials.

**7. HEALTH ACT 1999 POOLED FUNDS AND SIMILAR ARRANGEMENTS**

Section 31 of the Health Act 1999 enables the establishment of joint working arrangements between National Health Service (NHS) Bodies and local authorities to improve and coordinate services.

The County Council is the lead body for the Learning Disabilities Services Pooled Budget within the County. This is administered by the Council on behalf of the partners: Durham County Council, North East Strategic Health Authority, Tees Esk and Wear Valley NHS Trust, Darlington PCT and County Durham PCT.

The aims and outcomes of the pooled budget are –

- To provide a framework which enables finance to be used in an efficient and effective manner to meet the social and health care needs of service users.
- To provide a clear structure to enable effective monitoring of the pooled budget.
- To assist in the development of flexible support packages to individuals with a learning disability.
- To develop learning disability services in line with the local strategy to provide a range of services to meet the needs of users.
- To develop a coordinated approach to the commissioning and provision of services.
- To enable flexible packages of care that are responsive to individual needs.
- To develop shared values of person centred services; equality of access; support to use services and social inclusion.
- To develop partnership and cooperation by all stakeholders and with service users and carers.
- To develop shared responsibility to provide healthy lifestyles and to avoid adverse experiences.
- To enable greater access to universal services – leisure, health promotion and screening.
- To support individuals to access primary and secondary health services as appropriate.

## Notes to the Core Financial Statements

	2006/07	2007/08
	£000	£000
<b>Learning Disabilities</b>		
Gross Partnership Expenditure	16,905	17,935
Gross Partnership Income	16,416	18,210
<b>Net Expenditure</b>	<b>489</b>	<b>-275</b>
<b>Contribution from Durham County Council</b>	<b>11,022</b>	<b>12,405</b>

The pooled budget underspend will not be carried forward to 2008/09 and the contribution from Durham County Council has been reduced to reflect this.

### 8. MEMBERS' ALLOWANCES

The total of allowances paid to elected members during 2007/08 was £992,664 (£976,716 in 2006/07).

### 9. OFFICERS' EMOLUMENTS

The number of employees whose remuneration in 2007/08, excluding pension contributions, was £50,000 or greater is detailed in the table below:

2006/07				Remuneration Band	2007/08			
School Staff	Other Staff	Total	Left in Year		School Staff	Other Staff	Total	Left in Year
130	60	190	3	£50,000 to £59,999	158	69	227	3
27	28	24	-	£60,000 to £69,999	32	26	58	-
5	7	11	-	£70,000 to £79,999	13	14	27	1
7	2	7	2	£80,000 to £89,999	7	2	9	-
1	5	6	-	£90,000 to £99,999	3	1	4	-
-	2	1	-	£100,000 to £109,999	-	1	1	-
-	2	-	-	£110,000 to £119,999	-	3	3	-
-	-	-	-	£120,000 to £129,999	-	2	2	-
-	-	-	-	£130,000 to £139,999	-	-	-	-
-	1	1	-	£140,000 to £149,999	-	-	-	-
-	-	-	-	£150,000 to £159,999	-	-	-	-
-	-	-	-	£160,000 to £169,999	-	-	-	-
-	-	-	-	£170,000 to £179,999	-	1	1	1

'Remuneration' is measured as gross pay (before deduction of employees' pension contributions), plus compensation for loss of office and any other payments receivable on the termination of employment in line with SORP guidance.

### 10. LOCAL AREA AGREEMENT

The council is a participant in a Local Area Agreement (LAA) – a partnership with other public bodies involving the pooling of government grants to finance work towards jointly agreed objectives for local public services. In 2007/08 the LAA has completed the second year of the three-year agreement.

The purpose of the LAA is:

- To form an agreement between partners in County Durham and Government (represented by Government Office for the North East) as a means of securing significant improvements in services for the people of County Durham.
- To agree specific outcomes and targets that will be achieved each year for the three years of the agreement.

- To improve the effectiveness and efficiency of public services in County Durham by pooling funding streams.

The LAA partners are:

- Local Government Bodies – Durham County Council, City of Durham Council, District of Easington Council, Sedgfield Borough Council, Wear Valley District Council, Derwentside District Council, Chester-le-Street District Council and Teesdale District Council.
- Community Protection Authorities – Durham Police Authority and County Durham and Darlington Fire and Rescue Authority.
- Health Bodies – County Durham Primary Care Trust.
- Learning Bodies – Learning & Skills Council, North East Chamber of Commerce and Connexions.
- Voluntary Organisations – Community & Voluntary Service, One Voice Network.
- Other Organisations – Chester-le-Street LSP, City of Durham LSP, Derwentside LSP, East Durham LSP, Sedgfield Borough LSP, Teesdale LSP, Wear Valley LSP, Jobcentre Plus and Government Office for the North East.

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

The total amount of LAA Grant received by the County Council in 2007/08 was £24.120m (£5.492m in 2006/07). The Council received £4.676m of this total to fund services in 2007/08 (nil in 2006/07). In addition, the Council also received £0.15m (£0.2m in 2006/07) of LAA Pump Priming Grant which was carried forward from 2006/07.

## 11. RELATED PARTIES

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

**Central Government** has effective control over the general operations of the Council – it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties. Central Government grants are received from the Department for Children, Schools and Families, the Department of Health, the Department of Communities & Local Government and the Department of Environment, Food and Rural Affairs.

The Council also receives specific grants from the European Union.

**Members of the Council** have direct control over the Council's financial and operating policies. Details of transactions relating to members' interests are recorded in the Register of Members' Interest open to public inspection at County Hall, Durham, DH1 5UL. This is also available on the Durham County Council website.

**Officers:** There were no related party transactions involving chief officers of the Council.

## Notes to the Core Financial Statements

**Pension Fund:** Durham County Council administers the Durham County Council Pension Fund on behalf of 64 bodies, including district, parish and town councils, colleges, statutory bodies and admitted bodies. During 2007/08, the Pension Fund had an average balance of £109.756m (£49.660m in 2006/07) surplus cash deposited with the Council. The Council paid the fund a total of £6.559m (£2.480m in 2006/07) in interest on these deposits. The Council charged the fund £1.276m (£1.111m in 2006/07) for expenses incurred in administering the Fund.

**DurhamNet:** DurhamNet is a strategic partnership between Durham County Council and Derwentside District Council with the objective to deliver broadband services throughout the county. Derwentside District Council is the Accountable Body for the partnership.

**Youth & Community Associations:** Each year, Durham County Council provides financial support towards the running of various youth and community groups.

**Beamish** – In conjunction with other Councils the Authority operates a number of joint ventures. The County Council is a member of the Joint Committee responsible for running Beamish – The North of England Open Air Museum.

**e - Government Partnership** - The County Durham e-Government Partnership was established in November 2003. The partnership includes Durham County Council and the seven district councils (Wear Valley, Easington, City of Durham, Sedgefield, Derwentside, Teesdale and Chester-le-Street) within the boundaries of County Durham. The aim of the partnership is to promote the use of technology to offer all local taxpayers the freedom to access services provided by the member authorities in different ways. In 2007/08 Durham County Council made a contribution of £263,875 to the partnership. The contribution in 2006/07 was £187,355.

Wear Valley District Council acts as the Accountable Body for the partnership and has prepared the following financial summary:

	2006/07 £000	2007/08 £000
Balance as at 1st April	1115	834
Contributions from Partners	545	675
Interest Credited in Year	34	32
Less: Expenditure in Year	860	878
<b>Balance as at 31st March</b>	<b>834</b>	<b>663</b>

## 12. AUDIT COSTS

	2006/07 £000	2007/08 £000
Fees payable to Audit Commission with regard to external audit services carried out by the appointed auditor	206	316
Fees payable to the Audit Commission for certification of grant claims and returns	67	31
Fees payable in respect of other services provided by the appointed auditor	-	1
	<b>273</b>	<b>348</b>

The increase in fees payable to The Audit Commission is due mainly to inspections relating to both the Access to Services Assessment and The Corporate Assessment as well as the review of the base data submissions to central government relating to local government reorganisation.

The reduction in fees payable for the certification of grant claims is due to the fact that the testing threshold for all grants has been raised. This change is in line with the Audit Commission's

strategic aim of minimising the burden on local authorities by changing the requirements of certain grant claims.

Other services provided by the auditors included a review of the proposed accounting treatment outlined in the Business Case of the County Council's Building Schools for the Future Programme.

Fees relating to the audit of the Pension Fund to the value of £15,750 in 2007/08 have been excluded from the above table but are included in note 11 of the Pension Fund Accounts on page 72 (The corresponding fee for auditing the Pension Fund in 2006/07 was £16,430).

**13. ANALYSIS OF RECONCILING ITEMS IN THE STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE**

2006/07 £000	2007/08 £000
<b>Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the General Fund Balance for the Year</b>	
- Loss on the disposal of fixed assets	-8,348
-59 Amortisation of intangible fixed assets	-50
-21,480 Depreciation and impairment of fixed assets	-61,680
4,701 Government Grants Deferred amortisation	8,901
-37,420 Net charges made for retirement benefits in accordance with FRS 17	-44,190
-1,022 Deferred Charges	-7,587
-55,280	-112,954
<b>Amounts not included in the Income and Expenditure Account but required to be included by statute when determining the Movement on the General Fund Balance for the Year</b>	
8,113 Minimum revenue provision for capital financing	9,145
3,301 Capital Expenditure charged in-year to the General Fund	3,216
Employers contributions payable to the Durham County Council Pension Fund and retirement benefits payable direct to Pensioners	35,822
33,915	48,183
45,329	48,183
<b>Transfers to or from the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund balance for the year</b>	
- Voluntary revenue provision for capital financing	2,286
29,795 Net transfer to or (-) from earmarked reserves	10,813
29,795	13,099
<b>Net additional amount required to be (-)credited or debited to the General</b>	
<b>19,844</b>	<b>-51,672</b>
<b>Fund balance for the year</b>	

14. CAPITAL FINANCING REQUIREMENT

2006/07 £000		2007/08 £000
202,825	<b>Opening Capital Financing Requirement</b>	228,616
76,655	<b>Capital Expenditure</b>	77,060
	<b>Sources of Finance</b>	
-6,812	Capital Receipts	-10,781
-27,409	Government grants and other contributions	-39,872
	Sums set aside from revenue	
-8,530	Revenue contributions and reserves	-7,931
-8,113	Minimum Revenue Provision and Voluntary set-aside	-11,431
228,616	<b>Closing Capital Financing Requirement</b>	235,661
	<b>Explanation of movement in the year</b>	
17,254	Increase in underlying need to borrow (supported by Government financial assistance)	7,045
8,537	Increase in underlying need to borrow (unsupported by Government financial assistance)	-
25,791	<b>Increase / (decrease) in Capital Financing Requirement</b>	7,045

The capital expenditure figure in 2007/08 is made up as follows:

	£000
Intangible Assets	629
Fixed Assets	65,474
Deferred Charges:	
Expenditure on fixed assets that does not add value (treated as Impairment)	2,894
Assistance to other bodies/expenditure on assets not owned by the Council	3,504
Expenditure below de minimis	4,083
Repayment of equipment lease (deferred liability)	476
	<u><u>77,060</u></u>

15. TANGIBLE ASSETS

Notes to the Core Financial Statements

	Operational			Non-Operational		Total Operational & Non Operational Assets £000
	Land & Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Surplus Assets £000	Assets Under Construction £000	
<b>Gross Book Value at 1 April 2007:</b>						
At 31 March 2007 (2006/07 accounts)	585,570	39,101	279,353	27,985	13,972	945,981
Prior Period Adjustment	- 9,244	1,352	-	- 514	-	- 8,406
<b>At 1 April 2007 (restated)</b>	<b>576,326</b>	<b>40,453</b>	<b>279,353</b>	<b>27,471</b>	<b>13,972</b>	<b>937,575</b>
<b>Accumulated Depreciation at 1 April 2007:</b>						
At 31 March 2007 (2006/07 accounts)	- 53,903	- 25,663	- 34,581	- 13	-	- 114,160
Prior Period Adjustment	199	158	-	-	-	357
<b>At 1 April 2007 (restated)</b>	<b>- 53,704</b>	<b>- 25,505</b>	<b>- 34,581</b>	<b>- 13</b>	<b>-</b>	<b>- 113,803</b>
<b>Net Book Value at 1 April 2007 (restated)</b>	<b>522,622</b>	<b>14,948</b>	<b>244,772</b>	<b>27,459</b>	<b>13,972</b>	<b>823,772</b>
<b>Movement in 2007/08</b>						
Additions (capital expenditure)	19,943	1,016	21,661	-	22,853	65,474
Additions (donated)	-	86	-	-	-	86
Disposals	- 9,572	- 270	-	- 19,342	-	- 29,185
Transfers between categories	- 3,447	-	-	7,890	- 4,442	-
Revaluation gains	406,582	-	-	12,302	-	418,884
Revaluation losses (impairment)	- 21,715	-	-	- 1,098	-	- 22,814
Depreciation charge for the year	- 25,325	- 3,246	- 7,255	- 146	-	- 35,972
<b>Net Book Value at 31 March 2008</b>	<b>889,087</b>	<b>12,533</b>	<b>259,179</b>	<b>27,063</b>	<b>32,383</b>	<b>1,220,245</b>
<i>Gross Book Value at 31 March 2008</i>	<i>917,331</i>	<i>39,589</i>	<i>301,014</i>	<i>27,222</i>	<i>32,383</i>	<i>1,317,539</i>
<i>Accumulated Depreciation at 31 March 2008</i>	<i>- 28,244</i>	<i>- 27,056</i>	<i>- 41,836</i>	<i>- 159</i>	<i>-</i>	<i>- 97,294</i>



## Notes to the Core Financial Statements

Education assets, a large proportion of the Council's land and buildings assets, were revalued in 2007/08, resulting in a major increase in the total valuation. The rise can be attributed to increases in development land values and building costs since the previous revaluation five years ago.

In addition, there have been some reductions in value where there have previously been demolitions or a revision of the depreciation applied to the property. As the balance on the revaluation reserves of all assets was zero at 1 April 2007, the full decrease in value must be charged as impairment to the Income and Expenditure account. To avoid any impact on council tax, this charge is reversed in the Statement of Movement on the General Fund Balance.

### INFORMATION ON ASSETS HELD

The written-down value of tangible assets in the Balance Sheet is £1,220.245m. A analysis of the major classes of tangible assets is shown below.

2006/07			2007/08	
£000	%		£000	%
		Operational		
522,622	63	Land & buildings	889,087	73
14,948	2	Vehicles, plant, furniture & equipment	12,533	1
244,772	30	Infrastructure	259,179	21
		Non-operational		
27,459	3	Surplus Assets	27,063	2
13,972	2	Assets under construction	32,383	3
<b>823,773</b>	<b>100</b>		<b>1,220,245</b>	<b>100</b>

A more detailed analysis of land and buildings is shown below:

	£000	%
Secondary Schools	380,337	42.8
Nursery & Primary Schools	307,452	34.6
Special Schools	44,444	5.0
Other Children's Young People's Services Assets	69,973	7.9
Adult & Community Services	32,016	3.6
Office Accommodation	24,432	2.7
Industrial Estates	10,704	1.2
Environment Assets	9,786	1.1
Service Direct	4,728	0.5
Other	5,215	0.6
	<b>889,087</b>	<b>100</b>

### 16. INFORMATION ABOUT DEPRECIATION METHODOLOGIES

All assets, other than non-depreciable land and non-operational assets under construction, are depreciated over the expected useful life of the asset on a straight-line basis. Life expectancies of buildings vary according to their age and condition, up to a maximum of 50 years. Infrastructure is depreciated over 40 years. Vehicles, plant and equipment lives vary from 3 to 10 years.

### 17. VALUATION INFORMATION

Assets are valued in the Balance Sheet at either historic or current cost.

Land and buildings are valued on a current-cost basis when they are acquired or become operational and are then subject to a rolling revaluation programme over a five-year cycle. Specific assets may be revalued between major valuations if there is a significant change in value, for example because of major alterations. In addition assets that are declared surplus are

**Notes to the Core Financial Statements**

revalued and this may be on a different basis to the basis of valuation when operational. The table below shows valuations at 31 March for the last five years including 2007-08.

	Major Revaluation	Gross Book Values				
		2003/04	2004/05	2005/06	2006/07	2007/08
		£000	£000	£000	£000	£000
<b>Valued at Historic Cost</b>						
<i>Infrastructure</i>		223,257	245,708	272,983	279,353	301,014
<i>Assets Under Construction</i>		-	25,789	21,548	13,972	32,383
<b>Valued at Current Cost</b>						
<i>Land &amp; Buildings</i>						
Cultural Services	2003/04	10,972	10,946	10,946	10,946	11,194
Surplus Property	2003/04	25,160	17,152	15,669	27,471	27,222
		<b>36,132</b>	<b>28,098</b>	<b>26,615</b>	<b>38,417</b>	<b>38,416</b>
County Farms	2004/05	3,395	3,369	2,601	2,338	1,934
Service Direct	2004/05	769	1,587	1,587	4,854	4,795
Highways	2004/05	912	1,456	2,395	7,554	7,547
Administrative Buildings	2004/05	18,978	19,917	20,516	20,861	21,101
		<b>24,054</b>	<b>26,329</b>	<b>27,099</b>	<b>35,607</b>	<b>35,377</b>
Environment	2005/06	619	614	1,119	1,063	1,053
Registrars	2005/06	302	302	442	460	485
Waste Disposal	2005/06	2,548	2,548	1,260	1,260	1,260
Reclamation	2005/06	1,859	2,165	2,653	2,674	2,478
		<b>5,328</b>	<b>5,629</b>	<b>5,474</b>	<b>5,457</b>	<b>5,276</b>
Economic Development	2006/07	7,612	6,798	6,637	10,937	10,985
Sure Start & Children's Centres	2006/07	-	-	859	16,570	21,602
Social Care and Health	2006/07	18,707	18,679	18,718	26,700	28,384
		<b>26,319</b>	<b>25,477</b>	<b>26,214</b>	<b>54,207</b>	<b>60,971</b>
Education	2007/08	412,632	423,775	440,248	470,109	804,513
		<b>412,632</b>	<b>423,775</b>	<b>440,248</b>	<b>470,109</b>	<b>804,513</b>
Magistrates' Courts *		8,070	8,070	-	-	-
<b>Total Land &amp; Buildings</b>		<b>512,535</b>	<b>517,378</b>	<b>525,650</b>	<b>603,797</b>	<b>944,553</b>
<i>Vehicles, Plant, Furniture &amp; Equipment</i>		40,556	40,412	39,286	40,453	39,589
<b>Total All Assets</b>		<b>776,348</b>	<b>829,287</b>	<b>859,467</b>	<b>937,575</b>	<b>1,317,539</b>

\* Transferred to Department for Constitutional Affairs (now the Ministry of Justice) on 1st April 2005.

18. Intangible Assets

	<b>Purchased software licences £000</b>
Cost at 1 April 2007	999
Accumulated amortisation at 1 April 2007	- 657
<b>Net Book Value at 1 April 2007</b>	<b>342</b>
<b>Movement in 2007/08</b>	
Additions (capital expenditure)	629
Amortisation charge for the year	- 50
<b>Net Book Value at 31 March 2008</b>	<b>921</b>
<i>Cost at 31 March 2008</i>	<i>1,628</i>
<i>Accumulated amortisation at 31 March 2008</i>	<i>- 707</i>

The intangible assets included in the Balance Sheet consist of software licences and a software maintenance agreement. These assets are valued at historic cost and are written off to the Income and Expenditure Account on a straight-line basis over their estimated useful life.

During 2006/07, work started on the introduction of Oracle, financial software that will replace the current accounting software. The licence fee, of which the first two instalments have been paid, is classified as an intangible asset. Amortisation of the licence will commence when Oracle is fully implemented. The development costs of the system, including salaries, are included in the Balance Sheet under Assets under Construction.

Details of the intangible assets are shown below:

Type of asset	Nature of asset	Date purchased	Cost (£000)	Life (years)	Method of amortisation
Accounting Software	Licence	Apr-96	358	10	Straight-line
Remote Host Software	Licence	Jul-03	250	5	Straight-line
Remote Host Software	Maintenance agreement	Jul-03	112	3	Straight-line
Accounting Software	Licence	Aug-06	908	(at 31/03/08)	Under development

19. ANALYSIS OF NET ASSETS EMPLOYED

<b>31 March 2007</b>	<b>31 March 2008</b>
<b>£000</b>	<b>£000</b>
266,292 General Fund	667,702
15,473 Direct Service Organisations	10,008
<b>281,765 Net Assets Employed</b>	<b>677,710</b>

**20. COMMITMENTS UNDER CAPITAL CONTRACTS**

The capital commitments for future years, in respect of schemes that are already underway, are shown below:

	<b>£000</b>
Durham Johnston School New Build Replacement	17,982
Peterlee Eden Community Primary New Build	4,049
Children's Centres	3,613
Seaham Princess Road School New Build	3,536
Building Schools for the Future Phase 1 funding gap	2,290
Broadband in schools	501
Waste minimisation schemes	3,849
Environmental Improvement schemes	6,661
Hardwick Hall Country Park	542
A688 Wheatley Hill to Bowburn	4,691
A167 detrunking	1,884
A688 West Auckland Bypass	730
Netpark Incubator 2	4,692
St John's Square Seaham multi-user centre	5,438
PC/Server replacement programme	3,167
Replacement Enterprise Resource Planning and Payroll systems	1,370
	<b><u>64,995</u></b>

**21. ASSETS HELD UNDER / FOR LEASES****Operating leases**

The County Council operates a variety of cars, vans and buses financed under the terms of operating leases. The County Council was committed at 31st March 2008 to making payments of £0.785m under operating leases in 2007/08 (£0.669m in 2006/07) comprising the following elements:

	<b>Vehicles, Plant and Equipment £000</b>
Leases expiring in 2008/09	15
Lease expiring between 2009/10 and 2010/11	732
Lease expiring after 2011/12	38
	<b><u>785</u></b>

Land and Buildings.

Durham County Council leases land and buildings from a variety of organisations to provide services in line with stated priorities.

- Leases paid for rent of buildings £2,018,340.

Durham County Council has granted leases to different organisations and individuals to generate income from land and buildings and to encourage commercial activity within the county.

- The leases for the industrial units generated £341,798 in 2007/08, however, the Council shares ownership of some of the units with the District Councils of Teesdale, City of Durham, Derwentside, Wear Valley, Sedgfield Borough Council and One North East and therefore the net income generated in 2007/08 was £187,680.

## Notes to the Core Financial Statements

- The leases for farms and allotments generated £145,542 in 2007/08
- The leases for buildings generated £761,905

### Finance Leases

#### Home Computer Initiative

In 2005/06 the Council acquired computer equipment under a three-year finance lease to lend to employees, also under a finance lease, as part of the Home Computer Initiative:

- For the lease in, where the Council acts as lessee, the rentals payable in 2007/08 were £213,521, with £37,594 financing costs (i.e. interest) charged to the Income and Expenditure Account and £175,927 relating to the reduction of amounts owed to the leasing company (debited to long-term liabilities).
- For the lease out, where the Council acts as lessor, the rentals receivable from employees in 2007/08 were £213,521. The finance element (£37,594) has been credited to the Income and Expenditure Account, with the principal element (£175,927) reducing long-term debtors, both elements offsetting the costs paid as lessee.

#### Computer Servers

In 2006/07, the Council acquired computer servers under a three-year finance lease, as part of the PC/Server replacement programme. The rentals payable in 2007/08 were £496,164, with £20,560 financing costs (i.e. interest) charged to the Income and Expenditure Account and £475,604 relating to the reduction of amounts owed to the leasing company (debited to long-term liabilities).

The servers are accounted for as part of Tangible Fixed Assets, as follows:

	<b>£000</b>
Value at 1st April 2007	1,456
Depreciation	-292
Value at 31st March 2008	<b>1,164</b>

Outstanding obligations to make payment under both finance leases (excluding finance costs) at 31st March 2008, accounted for as part of long-term liabilities, are as follows:

	<b>£000</b>
Obligations payable in 2008/09	255
Obligations payable in 2009/10	172
Total liabilities at 31st March 2008	<b>427</b>

The above amounts are partly offset by outstanding rentals (excluding finance costs) of £103,000 due from employees at 31st March 2008 under the Home Computer Initiative, accounted for as short-term debtors.

## 22. INTERESTS IN COMPANIES

### Group Accounts

The 2007 SORP requires all local authorities to examine the relationship between themselves and other organisations used to deliver local services in order to establish whether to prepare Group Accounts. The aim of Group Accounts is to provide information about the risks and benefits associated with organisations over which the County Council could exercise control or significant influence.

A thorough review was carried out of the information held on all the organisations with which services are delivered. The review was based on information held by the authority as well as discussions with officers from departments and other local authorities in the area. From the information gathered, the County Council followed the 2007 SORP guidance to assess the nature

of the relationship with each entity/organisation and to establish whether the production of Group Accounts was necessary.

The County Council has financial relationships with a number of related companies. It was concluded that there is no group relationship with any of the organisations reviewed in the 2007/08 financial year, with the exception of the County Durham Development Company Ltd and Service Direct NewCo Ltd. Transactions in respect of these two organisations have been excluded on the grounds of materiality.

The level of investments held in local airports, Durham Dales Centre Ltd, County Durham Development Company Ltd and Durham County Waste Management Company Ltd are detailed in the table on interests in companies below.

	County Durham Development Company Limited		NIAL Holdings Limited		Durham Tees Valley Airport		Durham County Waste Management Company Limited		Durham Dales Centre Limited	
	2006/2007	2007/2008	2006/2007	2007/2008	2005/2006	2006/2007	2005/2006	2006/2007	2006/2007	2007/2008
% Share Capital held/ ownership	100	100	6	6	3.3	3.3	84	84	50	50
Net Assets/ Liabilities (£000)	930	1,101	-25,147	-106,033	21,982	21,204	3,598	6,780	-12	-14
Profit/ Loss before tax (£000)	-494	170	-21,468	-696	2,661	-1,916	1,784	2,265	-112	-112
Profit/ Loss after tax (£000)	-494	170	-15,126	2,080	2,013	-1,431	1,275	1,951	-112	-112
Dividend received (£000)	-	-	9,848	-	n/a	n/a	nil	n/a	n/a	n/a
Reason not applicable for group accounts	Not material		No dominant influence		No dominant influence		No influence due to legislative restrictions		No dominant influence	

It should be noted that the information above for NIAL Holdings Limited is for the year to 31<sup>st</sup> December 2007.

### County Durham Development Company Limited

The Company is wholly owned by the County Council and limited by guarantee. The County Council will continue to support the Company in order that its liabilities will be met as they fall due. It was established in 1986 to promote, encourage and secure the economic development of the County. During 2007/08, the Company engaged in a number of economic development activities, on which expenditure totalling £1.281m was incurred, (£2.580m in 2006/07) together with £0.731m (£0.242m in 2006/07) on operational expenses. The Company received grants of £1.648m (£2.240m in 2006/07) from the County Council in respect of promotional activities and other income amounted to £0.535m (£0.088m in 2006/07). The Company's net assets at 31st March 2008 were £1.101m (£0.930m as at 31st March 2007). After taking into account interest on investments and income tax due, the profit for the year amounted to £0.171m (£0.494m loss in 2007/08). At 31st March 2008 £0.282m (£0.472m in 2006/07) was due to the County Council from the Company and £2.042m (£2.148m in 2006/07) was owed to the Company from the County Council. The company's accounts are subject to audit.

Copies of the Company's accounts can be obtained from its Registered Office at County Hall, Durham, DH1 5UT.

**NIAL Holdings Limited**

The former North East Regional Airport became a limited company under the Airports Act 1986. In consideration of the transfer of the property, rights, liabilities and functions, the former constituent authorities received share allocations. The County Council received £4.702m (14%) of the issued share capital. On 4th May 2001, the seven local authority shareholders of Newcastle International Airport Ltd entered into a strategic partnership with Copenhagen Airports. This involved the creation of a new company NIAL Holdings PLC to hold 100% of shares in Newcastle International Airport Ltd. 51% of the shareholding of NIAL Holdings Ltd is held by the original local authority shareholders and 49% is held by Copenhagen Airports for which they paid the local authority shareholders £95m in cash. In addition, NIAL Holdings PLC issued £100m of loan notes to the local authority shareholders in recognition of the value built up in Newcastle International Airport over the years, which were redeemed in April 2002. As a consequence of this transaction the County Council's holding was revalued as detailed in Note 23. £25m of the loan notes (of which the Council's share was £3.108m) were long-term investments to be repaid in equal instalments over ten years, with the last instalment being due in 2012/13. This is shown on the Balance Sheet as a debtor matched by a deferred capital receipt. The balance at 31<sup>st</sup> March 2007 was £1.865m

The NIAL Holdings Ltd has a called up share capital of 10,000 shares with a nominal value of £1. Durham County Council has a shareholding of 1,183 shares representing 11.84% interest in the company, which has an effective shareholding of 6% of Newcastle Airport Ltd.

The principal activity of Newcastle International Airport Ltd is the provision of landing services for both commercial and freight operators.

No dividends were declared in 2007/08. During 2006/07 dividends of £83.265m were declared by NIAL Holdings, of which the County Council's share was £9.848m.

The most recent figures available are detailed below:

	2006/07	2007/08
	£000	£000
Net Assets	-25,147	-106,033
Profit/Loss(-) before tax	-21,468	-696
Profit/Loss(-) after tax	-15,126	2,080

Further information regarding the consolidated accounts of Newcastle International Airport Limited and NIAL Holdings PLC can be obtained from the Company Secretary at its Registered Office at Newcastle International Airport Limited, Woolsington, Newcastle upon Tyne, NE13 8BZ.

**Durham Tees Valley Airport**

The former Teesside Airport became a limited company under the Airports Act 1986. In consideration of the transfer of the property, rights, liabilities and functions, the former constituent authorities received share allocations. The County Council received £7.600m (40%) of the issued share capital. With effect from 1st April 2003, 75% of the total shareholding in the now renamed Durham Tees Valley Airport was acquired by Peel Airports Limited. The County Council now holds 3.3% of the total shareholding in Peel Airports Limited at a value of £0.883m. The Company accounts for 2007/08 are not yet available. The most recent information is detailed below. No dividend was declared for the year.

	2005/06	2006/07
	£000	£000
Net Assets	21,982	21,204
Profit/Loss(-) before tax	-2,661	-1,916
Profit/Loss(-) after tax	-2,013	-1,431

Further information regarding the Company's accounts can be obtained from its Registered Office at Durham Tees Valley Airport Limited, Darlington, DL2 1LU.

**Durham County Waste Management Company Limited**

The Company is a 'Local Authority Waste Disposal Company' created under the Environmental Protection Act 1990. The waste disposal assets and liabilities of Durham County Council were formally vested in the Company in 1993. The Council holds 84% of the share capital. The Council has a contract with the Company for waste disposal, for which in 2007/08 the Council paid £15.804m including £5.190m for landfill tax (£15.391m including £4.931m for landfill tax in 2006/07). In 2007/08, £0.367m (£0.282m in 2006/07) was due to the Council from the Company and £1.495m (£1.262m in 2006/07) was owed from the Council to the Company. The Council has issued a loan to the Company for capital expenditure. The balance outstanding on the loan at 31st March 2008 was £1.358m (£1.497m in 2006/07) which is included under Long-Term and Short-Term Debtors in the Balance Sheet.

The Company's accounts for 2007/08 have not yet been finalised but further information regarding them can be obtained from its Registered Office at County Hall, Durham DH1 5TH. The financial information at 31st March 2007 is detailed below. No dividend was declared in 2007/08 (£nil in 2006/07).

	2005/06	2006/07
	£000	£000
Net Assets	3,598	6,780
Profit/Loss(-) before tax	1,784	2,265
Profit/Loss(-) after tax	1,275	1,951

**Durham Dales Centre Limited**

The Company is limited by guarantee and is principally engaged in the stimulation and support of the economic regeneration of the Durham Dales. This is achieved by providing business training and advice and essential office services in the Dales Centre at Stanhope, which also incorporates a tourist information centre, a business centre and tea room. The Company is jointly owned by the County Council and Wear Valley District Council who each underwrite 50% of the Company's operating deficit, which amounted to £112,078 in 2007/08 (£112,127 in 2006/07). Net liabilities at 31st March 2007 amounted to £13,763 (£11,535 in 2006/07). At 31st March 2007, the County Council owed the Dales Centre £3,973 (£3,994 in 2005/06) and the Dales Centre owed the County Council £82,166 (£40,963 in 2006/07). The accounts for Durham Dales Centre Limited are subject to audit.

Further information about the Company's accounts can be obtained from its Registered Office at County Hall, Durham DH1 5UL.

**Service Direct NewCo Limited**

Service Direct NewCo Ltd is a Local Authority Trading Company established to provide services to non local authority customers initially focused around building maintenance, civil engineering, grounds maintenance, vehicle fleet services and domestic services.

Durham County Council owns 100% of NewCo, which began trading in 2007/08. The value of transactions in 2007/08 totalled approximately £45,000.

Further information about the Company's accounts can be obtained from its Registered Office at County Hall, Durham DH1 5UL.

**23. FINANCIAL INSTRUMENTS**

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



**Items of Income, Expense, Gains or Losses**

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

	31st March 2008		
	Financial Liabilities	Financial Assets	
	Measured at amortised cost	Loans and receivables	Available-for-sale assets
	£000	£000	£000
Interest expense	8,068	-	-
<b>Interest payable and similar charges</b>	<b>8,068</b>	-	-
Interest Income		- 7,824	-
<b>Interest and investment income</b>	<b>-</b>	<b>- 7,824</b>	<b>-</b>
<b>Net (-) gain / loss for the year</b>	<b>8,068</b>	<b>- 7,824</b>	<b>-</b>

**Reclassification (Equity Shares)**

The Council holds equity shares in Durham County Waste Management Company, Newcastle International Airport and Durham Tees Valley Airport. In accordance with FRS26 these shares have been reclassified as Available-for-Sale and are now recorded in the Balance Sheet at fair value. However there is no active market for the shares, as they are not quoted on the stock market; therefore fair value has been assessed as cost less impairment.

**Categories of Financial Assets and Financial Liabilities**

Financial assets and financial liabilities have been recognised on the balance sheet as follows:

31st March 2007			31st March 2008	
Long-Term £000	Current £000		Long-Term £000	Current £000
		<b>Financial liabilities (at amortised cost):</b>		
-	-75,409	Trade creditors	-	-81,667
-174,564	-2,131	Borrowing	-172,774	-1,790
<b>-174,564</b>	<b>-77,540</b>	<b>Total financial liabilities</b>	<b>-172,774</b>	<b>-83,457</b>
		<b>Loans and receivables (at amortised cost):</b>		
-	110,378	Short-term investments	-	140,301
324	227	Car loan	298	208
1,536	-	Independent Sector Care Providers	1,453	-
1,358	139	Loan to Durham County Waste Management Company	1,219	139
5	11	Loan - vehicle sharing	-	-
103	176	Home Computer Initiative lease out	-	103
1,554	311	Newcastle Airport Loan Notes	1,243	311
1,296	-	Long-term Loan - Durham Police Authority	1,051	123
6	-	Long-term Loan - Darlington Borough Council	-	3
-	25,385	Trade debtors	-	33,056
		<b>Available-for-sale financial assets (at fair value):</b>		
1,158	-	Durham County Waste Management Company shares	1,158	-
8,085	-	Newcastle International Airport shares	8,085	-
883	-	Durham Tees Valley Airport shares	883	-
<b>16,308</b>	<b>136,627</b>	<b>Total financial assets</b>	<b>15,390</b>	<b>174,244</b>

*Short-Term Investments*

The short-term investments figure of £140.301m at 31st March 2008 is made up of £65.156m invested with banks and £75.145m with building societies. £127.596m of the balance is made up of fixed-rate, fixed-term deposits, all of which mature within 364 days. The remaining £12.705m is held in variable rate instant access accounts.

*Soft loans*

The SORP also requires that local authorities that grant loans to third parties at below market rates (soft loans) account for them on a fair value basis. The fair value is the present value of all future cash receipts discounted using the prevailing market interest rate for a similar instrument and for an organisation with a similar credit rating. Local Authority Accounting Panel Bulletin 73 (LAAP73) confirms that materiality needs to be taken into consideration and where the value is not material the new accounting adjustments need not be followed.

The SORP requires that the difference between cash lent and fair value be recognised immediately in the Income and Expenditure Account. The fair value of a soft loan will increase over the term of the loan, because the amount of interest forfeited will reduce. Increasing the carrying value of the loan to reflect the unwinding of the discount reflects this process. The resulting increase in value is recognised in the Income and Expenditure Account. The impact of a soft loan upon the Income and Expenditure Account will be neutral over the period of the loan.

The value of soft loans given by the Council amounts to £505,967 at 31st March 2008, in respect of car loans to employees. The difference between the carrying amount and the fair value of the soft loans is considered to be insignificant and have no material impact on the accounts and therefore the Income and Expenditure account has not been adjusted.

**Fair value of Assets and Liabilities carried at Amortised Cost**

Financial assets and liabilities represented by loans and receivables are carried in the Balance Sheet at amortised cost. Their fair value has been assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- For loans from the Public Works Loans Board (PWLB) and other market loans payable, premature repayment rates from the PWLB have been applied to provide the fair value under PWLB debt redemption procedures.
- Where an instrument has a maturity of less than 12 months or is a trade or other receivable the fair value is taken to be the actual principal outstanding or the invoiced or billed amount.
- No early repayment or impairment is recognised.

31st March 2007			31st March 2008	
Carrying amount	Fair value		Carrying amount	Fair value
£000	£000		£000	£000
		<b>Financial Assets</b>		
		<b>Loans and receivables</b>		
110,378	110,378	Short-term investments	140,301	140,301
		Long-term debtors:		
864	864	- element due within 12 months	887	887
6,182	6,182	- element due after 12 months	5,264	5,264
25,385	25,385	Trade debtors	33,056	33,056
142,809	142,809		179,508	179,508
		<b>Financial Liabilities (current and long-term)</b>		
-176,661	-173,730	PWLB borrowing	-174,546	-179,972
-34	-34	Other borrowing	-18	-18
-75,409	-75,409	Trade creditors	-81,677	-81,677
-252,104	-249,173		-256,241	-261,667

The fair value of financial liabilities at 31st March 2008 is greater than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans in the market at the balance sheet date. It should be noted that the redemption rules applying to PWLB debt changed on 1st November 2007, and are now much less favourable than the previous arrangements. As a result the fair value figures for 31st March 2008 are relatively higher (more costly to redeem) than the 31st March 2007 comparators.

### **Nature and extent of risks arising from financial instruments**

The Council's activities expose it to a variety of financial risks:

- credit risk – the possibility that other parties might fail to pay amounts due to the Council
- liquidity risk – the possibility that the Council might not have funds available to meet its commitments to make payments
- market risk – the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates and stock market movements.

Short-term investments are carried out under policies approved by the Council in the annual treasury management strategy.

### **Overall Procedures for Managing Risk**

The Council's overall risk management procedures focus on the unpredictability of financial markets, and implementing restrictions to minimise these risks. The procedures for risk management are set out through a legal framework set out in the *Local Government Act 2003* and the associated regulations. These require the Council to comply with the CIPFA Prudential Code, the CIPFA Treasury Management in the Public Services Code of Practice and Investment Guidance issued through the Act. Overall these procedures require the Council to manage risk in the following ways:

- By formally adopting the requirements of the Code of Practice;
- By approving annually in advance prudential indicators for the following three years limiting:
  - The Council's overall borrowing;
  - Its maximum and minimum exposures to fixed and variable rates;
  - Its maximum and minimum exposures in respect of the maturity structure of its debt;
  - Its maximum annual exposures to investments maturing beyond a year.
- By approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investment counterparties in compliance with the Government Guidance.

These are required to be reported and approved at or before the Council's annual Council Tax setting budget. These items are reported with the annual treasury management strategy that outlines the detailed approach to managing risk in relation to the Council's financial instrument exposure. Actual performance is also reported annually to Members.

The County Treasurer is responsible for implementing the policies outlined above. The Council maintains written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash through Treasury Management Practices (TMPs). These TMPs are a requirement of the Code of Practice and are reviewed regularly.

### **Credit risk**

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined above.

The following analysis summarises the Council's potential maximum exposure to credit risk in respect of deposits with banks and financial institutions, based on experience of default assessed by the ratings agencies (based on long-term ratings), adjusted to reflect current market conditions:

Deposits with banks and financial institutions	Amount at 31st March 2008	Historical experience of default	Historical experience adjustment for market conditions at 31st March 2008	Estimated maximum exposure to default and uncollectability £000 (AxC)
	£000 A	% B	% C	
AAA rated counterparties	131	0.001	0.001	0
AA rated counterparties	38,709	0.027	0.027	10
A rated counterparties	101,461	0.627	0.627	636
	<u>140,301</u>			<u>646</u>

The Council does not anticipate any losses from non-performance by any of its counterparties in relation to deposits.

The likelihood of default by customers is assessed on past experience, age profile of the debt and other factors, which result in a prudent provision for bad debts for the County Council overall. As at 31st March 2008, the amount due to the Council in respect of invoices raised was £26.583m and a provision for bad debt of £1.094m was made.

The age profile of the outstanding debt is:

	£000
Less than one month old	19,988
One to three months	1,980
Three to six months	617
Six months to one year	900
More than one year	3,098
	<u>26,583</u>

### **Liquidity risk**

The Council has ready access to borrowings from the Money Markets to cover any day to day cash flow need, and whilst the PWLB provides access to longer term funds, it also acts as a lender of last resort to councils (although it will not provide funding to a council whose actions are unlawful). The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the authority will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates.

The Council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through cash flow management procedures required by the Code of Practice. The maturity analysis of borrowing is as follows:

## Notes to the Core Financial Statements

31st March 2007 £000		31st March 2008 £000
	<b>Source:</b>	
176,661	Public Works Loan Board	174,546
34	Other Local Authorities	18
<u>176,695</u>		<u>174,564</u>
	<b>Analysis by Maturity Date:</b>	
	Short-Term Borrowings (Current Liability) -	
2,131	Repayable within 1 year	1,790
	Long-Term Borrowings -	
1,790	Between 1 and 2 years	1,338
3,319	Between 2 and 5 years	2,926
1,840	Between 5 and 10 years	895
167,615	More than 10 years	167,615
174,564		172,774
<u>176,695</u>		<u>174,564</u>

All trade and other payables are due to be paid in less than one year.

### **Market risk**

#### **Interest rate risk**

The Council is exposed to significant risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council. For instance, a rise in interest rates would have the following effects:

- borrowings at fixed rates – the fair value of the liabilities borrowings will fall
- investments at variable rates – the interest income credited to the Income and Expenditure Account will rise
- investments at fixed rates – the fair value of the assets will fall.

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Income and Expenditure Account or STRGL. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Income and Expenditure Account and affect the General Fund Balance. Movements in the fair value of fixed rate investments will be reflected in the STRGL.

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together the Council's prudential indicators and its expected treasury operations. From this Strategy a prudential indicator is set which provides maximum and minimum limits for fixed and variable interest rate exposure.

If interest rates had been 1% higher during 2007/08 with all other variables held constant, the financial effect would be an increase in interest earned on short-term investments of £1.179m (impact on the Income and Expenditure Account). The impact of a 1% fall in interest rates would be the reverse.

#### **Foreign exchange risk**

The Council has no financial assets or liabilities denominated in foreign currencies, other than a small stock of cash. The Council therefore has no exposure to loss arising from movements in exchange rates.

## 24. CURRENT ASSETS

## Stock and Work in Progress

As at 31st March 2007 £000		As at 31st March 2008 £000
	<b>Stocks -</b>	
463	Highways and Transportation	288
753	Service Direct	858
81	Other	90
	<b>Work in Progress (External Bodies only) -</b>	
994	Rechargeable Works	1,561
119	Service Direct	209
<b>2,410</b>		<b>3,006</b>

## Debtors and Payments in Advance

As at 31st March 2007 £000		As at 31st March 2008 £000
	<b>Debtors –</b>	
12,783	Government Departments	11,334
550	European Union Funds	160
26,249	Other Debtors	33,943
-1,711	Less: bad debt provision	-1,094
37,871	Total Debtors	44,343
3,294	<b>Payments in Advance</b>	3,232
<b>41,165</b>		<b>47,575</b>

## 25. CREDITORS AND RECEIPTS IN ADVANCE

As at 31st March 2007 £000		As at 31st March 2008 £000
	<b>Creditors -</b>	
23,865	Government Departments	34,312
-	European Union Funds	123
75,409	Other Creditors	81,677
99,274		116,112
4,157	<b>Receipts in Advance</b>	6,423
<b>103,431</b>		<b>122,535</b>

**26. PROVISIONS**

The provisions at 31st March 2008 were as follows:

**S117 Refunds Provision -**

To meet the cost of refunding contributions made under s117 of the Mental Health Act 1983. Payments began in 2004/05; more are expected in future years.

**Insurance Provision**

The County Council operates a self insurance scheme for the following risks:

- Claims below the excess level for externally insured risks
- Schools contents
- Theft of cash
- Flood damage

The provision is based on external insurers' estimates of the cost of identified claims for damages and associated costs in respect of fire, public and employer's liabilities, to be borne by the County Council. Settlement of the claims will continue over the coming years and the provision will be reassessed on an annual basis.

	<b>Frozen Holiday Entitlements</b>	<b>Insurance</b>	<b>S117 Refunds</b>	<b>Local Area Agreement</b>	<b>Totals</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Balance at 1st April 2007</b>	<b>15</b>	<b>6,011</b>	<b>101</b>	<b>21</b>	<b>6,148</b>
Increases during the year	0	3,442	0	0	3,442
Utilised during the year	-15	-2,025	0	-21	-2,061
Written-off during the year	0	-1,895	0	0	-1,895
<b>Balance at 31st March 2008</b>	<b>0</b>	<b>5,533</b>	<b>101</b>	<b>0</b>	<b>5,634</b>

**27. RESERVES**

The Council keeps a number of reserves in the Balance Sheet. Some are required to be held for statutory reasons. Some are needed to comply with proper accounting practices, and others have been set up voluntarily to earmark resources for future spending plans.

Notes to the Core Financial Statements

Reserve	Balance at 31st March 2007 £000	Net Movement in Year £000	Balance at 31st March 2008 £000	Purpose of Reserve	Further Details of Movement
Revaluation Reserve	-	399,540	399,540	Store of gains on revaluation of fixed assets not yet realised through sales	(a) below
Capital Adjustment Account	-	427,362	427,362	Store of capital resources set aside to meet past expenditure	(b) below
Fixed Asset Restatement Account	247,758	-247,758	-	Store of gains on revaluation of fixed assets	
Capital Financing Account	219,117	-219,117	-	Store of capital resources set aside to meet past expenditure	
Deferred Capital Receipt	1,865	-311	1,554	Capital income to be received where deferred payment has been agreed	
Usable Capital Receipts	10,347	9,852	20,199	Proceeds of fixed assets sales available to meet future capital investment	(c) below
FRS 17 Pensions Reserve	-315,505	34,737	-280,768	Balancing account to allow inclusion of Pensions Liability in the Balance Sheet	Note 31 on page 57
Revaluation Reserve - Airport companies	8,968	-	8,968	Store of gains on revaluation of airports shares	
General Fund	11,814	9,318	21,132	Resources available to meet future running costs	Statement of Movement on General Fund Balance page 23
Other Reserves	68,910	10,813	79,723	Resources set aside for future spending plans	(d) below
	<b>253,274</b>	<b>424,436</b>	<b>677,710</b>		



(a) Revaluation Reserve

2006/07 £000		2007/08 £000
-	<b>Opening Balance</b>	-
	Movement in year:	
-	Revaluation gains	418,884
-	Excess of current cost depreciation over historic cost depreciation written off to Capital Adjustment Account	-15,095
-	Balance written off to Capital Adjustment Account on disposal of asset	-4,250
-	<b>Closing Balance</b>	<b>399,539</b>

(b) Capital Adjustment Account

2006/07 £000		2007/08 £000
-	<b>Opening Balance</b>	-
	Movement in year:	
-	Fixed Asset Restatement Account Balance transferred in	247,758
-	Capital Financing Account Balance transferred in	219,117
-	Capital Financing from revenue and capital receipts	18,659
-	Minimum Revenue Provision/Voluntary Set Aside	11,431
-	Amounts included in I&E account but required by statute to be excluded from General Fund Balance	-60,417
-	Amounts written off from Revaluation Reserve:	
-	Excess of current cost depreciation over historic cost depreciation	15,095
-	Reserve balance on disposal of fixed asset	4,250
-	Other amounts written off on disposal of fixed assets:	
-	Net Book Value	-29,185
-	Government Grants Deferred balance	654
-	<b>Closing Balance</b>	<b>427,362</b>

(c) Useable Capital Receipts

2006/07 £000		2007/08 £000
12,182	<b>Unapplied Balance at 1st April</b>	10,347
	Movement in year:	
4,977	Received in year	20,633
-6,812	Applied in year	-10,781
<b>10,347</b>	<b>Unapplied Balance at 31st March</b>	<b>20,199</b>

**(d) Other Reserves**

The significant reserves at 31<sup>st</sup> March 2008 were as follows:

**Insurance Reserve**

To provide resources to cover selected risks. The major risks relate to fire, public liability and employer's liability claims below the policy excess levels.

**Direct Service Organisation's Reserve**

To provide, on a first call basis, any losses incurred by the Direct Service Organisation and thereafter is available to fund Capital Expenditure and to make contributions to the County Council.

**Early Retirement Pensions Reserve**

To provide for the costs of early retirements approved. The balance is available to pay to the Pension Fund to reduce future pension contributions.

**Aycliffe Young People's Centre Reserve (previously Social Services Reserve)**

The reserve comprises several Aycliffe Young People's Centre balances including: Aycliffe Young People's Centre Development Reserve, Aycliffe Secure Services Capital Reserve, Aycliffe Secure Services Operating Surplus and Aycliffe Trustees Reserve.

**Schools' Revenue Balances**

Surplus or deficit balances of locally managed schools, which are committed to be spent on the education service. The net surplus at 31<sup>st</sup> March 2008 comprised individual school balances totalling £25.490m, net of loans outstanding of £2.171m.

**Equal Pay Reserve**

To provide resources to meet the cost of additional employee costs as a result of Equal Pay and Job Evaluation effective from 1<sup>st</sup> April 2005.

**Regeneration and Communities Reserve**

To provide a resource to deliver projects, determined by Members that will be linked to regeneration and communities.

**Special Projects Reserve**

To provide a resource for Members to deliver special projects in line with the County Council's priorities.

**Cabinet Reserve**

A special dividend from Newcastle Airport shares to be used to deliver one-off projects.

## Movements on Reserves

	Balance at 31st March 2007 £000	Contributions to Reserves £000	Contributions from Reserves £000	Transfer between Reserves £000	Balance at 31st March 2008 £000
<b>Earmarked Reserves</b>					
Chief Executive's Office	15	-	-15	-	-
Children's Fund Returned Grant	86	127	-	-	213
Computer & IT Reserve	337	-	-299	-	38
Connexions	498	-	-2	-	496
Continuing Professional Development	219	69	-	-	288
Corporate Reserve	783	82	-397	-	468
Culture & Leisure	239	36	-44	-	231
Direct Service Organisation	2,075	1,806	-1,228	-727	1,926
Early Retirement Pensions	3,647	1,598	-	29	5,274
Education Reserve	37	91	-37	-	91
Equal Pay Reserve	11,103	5,091	-	698	16,892
Information & Technical Support Service	465	100	-	-	565
Insurance	9,723	1,133	-	-	10,856
Schools' Revenue Balances	21,215	9,151	-4,876	-	25,490
Aycliffe Young People's Centre	1,285	728	-412	-	1,601
Non-ringfenced Grants	603	-	-559	-	44
Centralised IT Renewals	299	500	-593	-	206
Landfill Allowances Trading Scheme	1,307	-	-1,307	-	-
Regeneration and Communities	2,000	-	-	-	2,000
Special Projects	3,000	-	-	-	3,000
Cabinet	9,974	-	-2,478	-	7,496
Reallocated underspends	-	2,548	-	-	2,548
<b>Total Earmarked Reserves</b>	<b>68,910</b>	<b>23,060</b>	<b>-12,247</b>	<b>-</b>	<b>79,723</b>

## 28. CONTINGENT LIABILITIES – EQUAL PAY

Durham County Council, in common with many councils in the region, has received equal pay claims from current or previous members of staff. The Council denies there has been any discrimination or breach of the right to receive equal pay, but to limit lengthy legal proceedings, offers of compensation payments were made to a number of groups of employees and former employees. Most of these offers have been accepted. In 2004/05, £8.9m was paid and a further £4.3m was charged to the 2005/06 accounts in respect of offers made in 2005/06, and in respect of the cost of income tax and National Insurance liabilities arising from these payments. Both the 2004/05 and 2005/06 amounts have been capitalised following approval from the Department for Communities and Local Government. In addition, £0.005m was charged in 2006/07 to schools' reserves for settlements accepted in respect of schools' employees. For the future, this issue is being addressed by the imminent implementation of a new system of pay and conditions.

A contingent liability has been recognised for the ongoing costs associated with Equal Pay and Job Evaluation, which is effective from 1st April 2005. Although there is an obligation to pay employees, it cannot be recognised in the accounts, as there is no agreement and no proposal for settlement. A reserve for non-schools' employees was established in 2005/06 based on calculations undertaken in November 2004. The balance on the reserve at 1st April 2007 was £11.103m and a further £5.789m has been added to the reserve in 2007/08. At 1st April 2007, £7.621m was earmarked in schools reserves for the costs of schools' employees. In 2007/08 a further £4.068m was added to the reserve. The total amount held in reserves to meet contingent liabilities is £28.581m.

## 29. EVENTS AFTER THE BALANCE SHEET DATE

No events that have an effect on the financial statements or disclosure notes have taken place since the Balance Sheet date and the approval of the accounts on 26<sup>th</sup> June 2008.

**30. TRUST FUNDS (NOT INCLUDED IN THE BALANCE SHEET)**

The County Council is responsible for administering 47 individual Trust Funds. The Funds have been established from donations or bequests by benefactors who specified the uses which may be made of them, usually for the provision of educational prizes and scholarships.

2006/07 £000	2007/08 £000
<b>344 Balance at 1st April</b>	<b>356</b>
- New Funds opened in year	-
19 Interest on balances, dividends etc. received	21
-7 Expenditure on prizes etc.	-3
<b>356 Balance at 31st March</b>	<b>374</b>

The transactions, assets and liabilities of the Trust Funds are not part of the County Council's Core Financial Statements.

**31. RETIREMENT BENEFITS****Participation in Pensions Schemes**

As part of the terms and conditions of employment of its officers and other employees the County Council offers retirement benefits. Employees are admitted to the Durham County Council Pension Fund ("the Fund") which is administered by Durham County Council under the Regulations governing the Local Government Pension Scheme (LGPS), a defined benefits scheme based on members' final pensionable salary. With effect from March 2004 entry to the LGPS was extended to county councillors who may now opt to join the scheme.

It is a funded scheme, meaning that the authority and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

**Transactions Relating to Retirement Benefits**

In accordance with Financial Reporting Standard FRS17, the cost of retirement benefits is recognised in the Net Cost of Services when they are earned by employees rather than when the benefits are eventually paid as pensions. However, the charge required to be made against council tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out in the Statement of Movement in the General Fund Balance. The following transactions have been made in the Income and Expenditure Account and the Statement of Movement in the General Fund Balance during the year:

## Notes to the Core Financial Statements

	2006/07 £000	2007/08 £000
<b>Income and Expenditure Account</b>		
<i>Net Cost of Services:</i>		
Current service cost	29,344	29,774
Past service cost	1,950	8,520
<i>Net operating expenditure:</i>		
Current service cost	2,856	2,756
Interest costs	46,660	53,090
Expected return on assets in scheme	-43,390	-49,950
<b>Net Charge to the Income and Expenditure Account</b>	<b>37,420</b>	<b>44,190</b>
<b>Statement of Movement in the General Fund Balance</b>		
Reversal of net charges made for retirement benefits in accordance with FRS 17	-37,420	-44,190
Actual amount charged against General Fund Balance for pensions in the year		
Employers' contributions payable to scheme	33,915	35,822

A new benefit structure was introduced in the LGPS from 1 April 2008. This change affects both the value of benefits earned up to 31 March 2008 and the cost going forward from that date.

The changes introduced in the 2008 scheme that affect the active members' benefits earned before 1 April 2008 are:

- An increase in the period of the pension guarantee following retirement from 5 to 10 years.
- The introduction of contingent dependants' benefits for co-habitees.
- An increase in the lump sum on death in deferment benefits following the member leaving service from three times to five times the deferred pension.
- A change to service enhancements for ill-health and death in service pensions.

This change is accounted for as a past service cost.

### Assets and Liabilities in Relation to Retirement Benefits

The underlying assets and liabilities for retirement benefits attributable to the authority at 31 March 2008 are as follows:

	31 March 2007 £000	31 March 2008 £000
Estimated funded liabilities in scheme	-956,910	-894,240
Estimated unfunded liabilities in scheme	-41,810	-39,730
Estimated assets in scheme	682,990	653,180
<b>Net Pension Liability</b>	<b>-315,730</b>	<b>-280,790</b>

The assets shown as held by the Fund as at 31 March 2007 have changed from the 2006/07 FRS17 calculation due to the required change to the fair value of assets.

	£000
<b>Deficit in the Fund at 31st March 2007</b>	-315,730 *
Contributions Paid	35,800
Current Service Costs	-32,530
Past Service Costs	-8,520
Expected Return on Pension Fund Assets	49,950
Interest on Pension Fund Liabilities	-53,090
Actuarial Loss	43,330
<b>Deficit in the Fund at 31st March 2008</b>	<b>-280,790 *</b>

\*These figures differ from that given for the FRS17 pension liability and reserve on the Balance Sheet of £315.505m as at 31st March 2007 and £280.768m as at 31st March 2008. This is due to the substitution of actual contributions to the Pension Fund to replace estimated figures arrived at by the Authority's actuary for these years. This has been performed to produce a more accurate assessment of the authority's FRS17 liability.

The liabilities show the underlying commitment that the County Council has to pay future retirement benefits. The pension liability of £280.768m has a substantial impact on the net worth of the County Council as reported in the Balance Sheet. However, statutory arrangements mean that the deficit on the Pension Fund will be made good by increased contributions, amongst other things, over the working life of employees, as assessed by the Fund actuary.

#### Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. The scheme has been assessed by Hewitt, Bacon and Woodrow Limited, an independent firm of actuaries. The latest valuation of the Fund took place as at 31<sup>st</sup> March 2007.

	31st March 2007	31st March 2008
	% pa	% pa
Rate of Inflation	3.2	3.7
Rate of increase in salary	4.7	5.2
Rate of increase in pensions	3.2	3.7
Rate of increase to deferred pensions	3.3	3.7
Rate of discounting scheme liabilities	5.3	6.8
Take-up of option to convert annual pensions into retirement grant	50.0	50.0

The fair values of each main class of assets held by the Fund and the expected rates of return are set out in the following table:

	At 31st March 2007		At 31st March 2008	
	Long Term Expected Return	Fair Value	Long Term Expected Return	Fair Value
	%	£000	%	£000
Equities	7.7	1,231,600	7.6	659,400
Property	6.7	35,200	6.6	65,900
Government Bonds	4.7	109,300	4.6	443,000
Corporate Bonds	5.3	-	6.8	109,300
Other	5.6	71,800	6.0	100,100
<b>Total</b>	<b>7.3</b>	<b>1,447,900</b>	<b>6.4</b>	<b>1,377,700</b>

## Notes to the Core Financial Statements

The mid market value of the assets of the Fund at 28<sup>th</sup> February 2008 was £1,388.2m. The assets as at 31<sup>st</sup> March 2008 have been estimated using index returns appropriate to the mix of assets between 28<sup>th</sup> February 2008 and 31<sup>st</sup> March 2008.

### Actuarial Gain

The actuarial gain identified as movements on the Pension Reserve in 2007/08 net of the adjustment for the difference between actual contributions and the actuary's estimate can be analysed into the following categories measured as amounts and as a percentage of assets or liabilities at 31<sup>st</sup> March 2008.

	2003/04		2004/05		2005/06		2006/07		2007/08	
	£000	%	£000	%	£000	%	£000	%	£000	%
Differences between the expected and actual return on assets	53,700	13.4	21,060	4.3	97,230	15.5	5,320	0.8	-89,050	-13.6
Differences between actuarial assumptions about liabilities and actual experience*	-4,456	0.7	5,663	0.7	-3,486	-0.3	1,161	0.2	-5,120	-0.5
Changes in the demographic and financial assumptions used to estimate liabilities	-9,800	1.5	-91,490	-10.9	-65,890	-6.9	1,600	0.2	137,270	14.7
	<b>39,444</b>		<b>-64,767</b>		<b>27,854</b>		<b>8,081</b>		<b>43,100</b>	

\* reflects the adjustment for actual contributions.

### Teachers' Pension Scheme

Teachers employed by the County Council are members of the Teachers' Pension Scheme administered by Capita Teachers' Pensions. It provides teachers with defined benefits upon their retirement and the authority contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

In 2007/08 the County Council paid £21.382m to Teachers' Pensions in respect of teachers' retirement benefits representing 14.1% of pensionable pay. The amount in 2006/07 was £20.135m representing 13.5% of pensionable pay for April to December and 14.1% of pensionable pay from January to March.

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

The authority is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These benefits are fully accrued in the pensions liability disclosed above.

In 2007/08 the costs associated with early retirement of teachers amounted to £2.498m (£2.471m in 2006/07), representing 1.7% (1.7%) of pensionable pay.

**32. DEDICATED SCHOOLS GRANT**

The Council's expenditure on schools is funded by grant monies provided by the Department for Education and Skills, the Dedicated Schools Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget. The Schools budget includes elements for a restricted range of services provided on an authority-wide basis and for the Individual Schools Budget which is divided into a budget share for each school. Over- and under-spends on the two elements are required to be accounted for separately. Details of the deployment of DSG receivable for 2007/08 are as follows:

	<b>Central Expenditure £000</b>	<b>Individual Budgets £000</b>	<b>Total £000</b>
Original grant allocation to Schools Budget for the current year in the authority's budget	-18,428	-249,064	-267,492
Adjustment to finalised grant allocation	39		39
<b>DSG receivable for the year</b>	<b>-18,389</b>	<b>-249,064</b>	<b>-267,453</b>
Actual expenditure for the year	18,374	244,789	263,163
<b>Over/(-)underspend for the year</b>	<b>-15</b>	<b>-4,275</b>	<b>-4,290</b>
Over/(-)underspend from 2006/07	59		59
<b>Over/(-)underspend carried forward to 2008/09</b>	<b>44</b>	<b>-4,275</b>	<b>-4,231</b>

The underspend on Individual Schools Budgets is carried forward to 2007/08 as part of Schools' Revenue Balances as detailed in reserves note 27. The overspend on central expenditure will be carried forward as the first call on DSG for 2008/09.

**33. LOCAL GOVERNMENT REORGANISATION**

On 25<sup>th</sup> February 2008 it was agreed by Parliament that a single unitary council for County Durham would replace the existing County and District Councils in County Durham with effect from 1<sup>st</sup> April 2009. All rights and obligations of the existing council will vest in the new council, when established.

On 1<sup>st</sup> May 2008 elections were held to elect new Members to the County Council and these Members will form the new Unitary Council for Durham on 1<sup>st</sup> April 2009.



## Durham County Council Pension Fund

### PENSION FUND ACCOUNT

31st March 2007			31st March 2008	
£000	£000		£000	£000
<b>CONTRIBUTIONS AND BENEFITS</b>				
91,705		Contributions receivable (See Note 12)	93,439	
8,044		Transfers in	8,947	
	99,749			102,386
66,709		Benefits payable (See Note 13)	72,810	
5,531		Payments to and on account of Leavers (See Note 14)	5,200	
1,111		Administration expenses (See Note 11)	1,276	
	<u>73,351</u>			<u>79,286</u>
	26,398	<b>Net additions or withdrawals (-) from dealings with members</b>		23,100
<b>RETURN ON INVESTMENTS</b>				
25,810		Investment income (See Note 15)	32,937	
74,823		Change in market value of investments (See Note 5)	-85,250	
-1,557		Investment management fees (See Note 10)	-2,107	
	<u>99,076</u>	<b>Net returns on investments</b>		<u>-54,420</u>
	125,474	<b>NET INCREASE/(DECREASE) IN THE FUND DURING THE YEAR</b>		-31,320
	<u>1,333,700</u>	<b>NET ASSETS OF THE FUND AT 1ST APRIL</b>		<u>1,459,174</u>
	<u><u>1,459,174</u></u>	<b>NET ASSETS OF THE FUND AT 31ST MARCH</b>		<u><u>1,427,854</u></u>

### NET ASSETS STATEMENT

As at			As at	
31st March 2007			31st March 2008	
£000	£000		£000	£000
<b>Investments - (See Note 5)</b>				
69,293		Fixed interest securities	19,560	
655,365		Equities	642,607	
717		Index linked securities	285,311	
631,014		Managed and unitised funds	342,099	
94,619		Cash and Short Term Investments	128,294	
1,154		Other investments	5,913	
	1,452,162			1,423,784
	<u>7,012</u>	<b>Current assets and liabilities (See Note 19)</b>		<u>4,070</u>
	<u><u>1,459,174</u></u>	<b>NET ASSETS OF THE FUND AT 31 MARCH</b>		<u><u>1,427,854</u></u>

## 1. FUND OPERATION AND MEMBERSHIP

Durham County Council is the Administering Authority for the Durham County Council Pension Fund. The County Council administers the Scheme on behalf of 64 contributing employers including District, Parish and Town Councils, Statutory Bodies and Colleges. These include:

### **Local Authorities -**

Durham County Council  
Darlington Borough Council  
Chester-le-Street District Council  
Derwentside District Council  
Durham City Council  
District of Easington  
Sedgefield Borough Council  
Teesdale District Council  
Wear Valley District Council

### **Parish Councils -**

Brandon and Byshottles  
Chilton  
Easington Colliery  
Easington Village  
Esh  
Fishburn  
Framwellgate Moor  
Horden  
Hutton Henry  
Monk Hesleden  
Murton  
North Lodge  
Shotton  
South Hetton  
Thornley  
Trimdon  
Wheatley Hill  
Wingate

### **Town Councils -**

Ferryhill  
Great Aycliffe  
Peterlee  
Seaham  
Sedgefield  
Shildon  
Spennymoor

### **Statutory Bodies -**

Durham Police Authority  
Valuation Tribunal Service  
Central Durham Joint Crematorium Committee  
County Durham and Darlington Fire and Rescue Authority  
National Probation Service County Durham  
East Durham Homes  
Dale and Valley Homes  
Eastbourne Academy

### **Colleges -**

Bishop Auckland College  
Darlington College  
Queen Elizabeth Sixth Form College  
Derwentside College  
New College, Durham  
East Durham & Houghall Community College

### **Admitted Bodies -**

Barnard Castle School  
Leisureworks  
Derwentside Leisure Ltd  
Shildon & Darlington Training Ltd  
Bowes Museum  
Three Rivers Housing  
Murton Welfare Association  
Hobson Golf Club  
Peterlee Fire Company  
Mitie PFI Ltd  
Compass Group UK  
The Forge  
Teesdale Housing Association  
Mitie Cleaning  
Derwentside Homes  
Cestria Community Housing Association  
Mears Limited

Apart from teachers, who have their own unfunded arrangements, membership of the LGPS is open to all County Council employees. Membership is automatic for staff with a contract of employment of at least 3 months. Employees can opt not to join the Scheme. The County Council is not required to administer a Stakeholder Scheme, so employees have to make their own arrangements with an appropriate provider.

The Fund provides benefits for employees of the bodies listed above. On retirement, contributors receive payments of lump sums and annual pensions. 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

## Notes to Durham County Council Pension Fund Accounts

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.

In 2007/08, the number of pensionable employees in the Fund was 19,249, and the number of pensioners was 14,353.

Contributions represent the total amounts receivable from employing authorities in respect of their own contributions which are at a rate determined by the Fund's Actuary and those made by pensionable employees which are set by statute. The benefits and contributions are analysed as follows:

	<b>Benefits</b>	<b>Contributions</b>
	<b>£000</b>	<b>£000</b>
Administering Authority	35,847	43,032
Scheduled Bodies	36,764	48,814
Admitted Bodies	199	1,593
	<b>72,810</b>	<b>93,439</b>

Further information about the Fund can be obtained from its separately published Annual Report, available from the County Treasurer, County Hall, Durham, DH1 5UE and is available on the County Council's website: [www.durham.gov.uk](http://www.durham.gov.uk).

## 2. STATEMENT OF ACCOUNTING POLICIES

### BASIS OF PREPARATION

The Pension Fund accounts have been prepared in accordance with the accounting recommendations of Financial Reports of Pension Schemes Section 2: A Statement of Recommended Practice. However, disclosures have been limited to those required by the Code of Practice on Local Authority Accounting in the United Kingdom 2007: A Statement of Recommended Practice.

The financial statements summarise the transactions and the net assets of the Fund. 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 has undertaken a valuation during 2007/08, the results of which will determine the contribution rates from 1<sup>st</sup> April 2008 to 31<sup>st</sup> March 2011. The previous valuation was undertaken as at 31<sup>st</sup> March 2004, and set contribution rates from 1<sup>st</sup> April 2005 to 31<sup>st</sup> March 2008. Details of the latest valuation are included in Note 3.

The following principal accounting policies, which have been applied consistently, have been adopted in the preparation of the financial statements:

### BASIS OF ACCOUNTING

The accounts have been prepared on the normal accruals basis of accounting.

Transfer values are the only exception to this, they have been prepared on a cash basis as the amount payable or receivable is not determined until payment is made and accepted by the recipient.

### INVESTMENTS

#### a) Valuation of investments –

Investments are shown at their market value, which has been determined as follows:

- Securities traded through the Stock Exchange Electronic Trading Service (SETS) are valued on the basis of the latest mid-market price. Other quoted investments are valued on the basis of the mid-market value quoted on the relevant stock market at 31<sup>st</sup> March.

- Unit Trusts and managed funds are valued at the average of the bid and offer prices provided by the relevant fund managers, which reflect the market value of the underlying investments.
- Overseas securities and cash are translated into sterling at the rate ruling at the Balance Sheet date.
- Fixed Interest Stocks have been included in the accounts at Market value, which do include accrued interest.
- Unlisted securities are valued by the fund managers at the year-end in accordance with generally accepted guidelines.

**b) Investment income -**

Income from equities is accounted for on the date stocks are quoted ex-dividend. Income from overseas investments is recorded net of any withholding tax where this cannot be recovered.

Income from fixed interest and index-linked securities, cash and short-term deposits is accounted for on an accruals basis.

Income from other investments is accounted for on an accruals basis.

Foreign income has been translated into sterling at the date of the transactions, when received during the year, or at the exchange rates applicable at 31st March where amounts were still outstanding at the year-end.

**c) Investment transactions -**

Investment transactions arising up to 31st March but not settled until later are accrued in the Accounts.

**d) Investment Management Expenses**

During 2007/08 the Pension Fund Committee has appointed new investment managers. The fees relating to the managers are described in Note 10.

**e) Acquisitions costs of investments**

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

**f) Interest on property development**

The Fund holds no direct property investments; all property investment is made through Pooled Investment Vehicles.

**g) Administrative expenses**

A proportion of relevant officers' salaries have been charged to the Fund on the basis of actual time spent on investment and related matters and pensions administration. Certain specific expenses have been charged directly to the Fund and other office expenses and related overheads have been charged to the Fund in proportion to the salaries charged.

Independent Advisers' fees are based on a retainer for attendance at Pension Fund Committee and Annual 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.

Any additional work will be subject to a suitable fee arrangement or subject to separate tendering exercises.

### 3. ACTUARIAL POSITION OF THE FUND

The accounts summarise the transactions and net assets of the fund. They do not take account of liabilities to pay pensions and other benefits in the future. Actuarial valuations, which do not take account of such liabilities, are carried out every three years.

The latest valuation of the Fund was undertaken as at 31st March 2007, by the Pension Fund's Actuary, Hewitt Bacon and Woodrow. Contribution rates were set for the period 1<sup>st</sup> April 2008 to 31<sup>st</sup> March 2011. The results disclosed a funding deficit of £382.1m and a funding ratio of 79%. This was the result of the market value of the fund's assets of £1,459.2m compared to a funding target of £1,841.3m.

The Actuary has set contribution rates for all employers who contribute to the Fund to eliminate the funding deficit over an agreed period of time, the recovery period. The Administering Authority has agreed that the recovery period should be 19 years apart from those employers who are now closed to new entrants and those whose contract period ends at an earlier date. Nine of the 64 employers have recovery periods which are different to 19 years.

For some employers the contribution rate payable increases in 3 steps up to the rate required to finance the funding target over the recovery period. Different rates are payable by different employers.

The Projected Unit Method with a one year control period has been used for most Employers to calculate the future service contribution rate. The Attained Age Method has been used for some Employers who do not permit new employees to join the Fund. The Actuary has taken into account the Pension Fund's funding strategy as described in the Funding Strategy Statement.

The valuation results are sensitive to the choice of financial assumptions. The table below shows the key financial assumptions used for the valuation:

	%
In Service Discount Rate:	
Scheduled Bodies	6.2
Admitted Bodies	6.2
Left Service Discount Rate:	
Scheduled Bodies	6.2
Admitted Bodies	5.2
Rate of Pay increases	4.7
Rate of Price Inflation	3.2
Rate of Pension Increases:	
On benefits in excess of guaranteed minimum pension (GMP)	3.2
on post 5 <sup>th</sup> April 1988 GMP's	2.7
Rate of deferred pension increases	3.2
Rate of GMP increases in deferment	4.7

The shortfall relative to the funding target will be removed through payment of additional contributions, expressed as a percentage of pay, by Employers over a range of different recovery periods. The majority of employers in the Fund will pay contributions over a recovery period of 19 years from 1<sup>st</sup> April 2008. The overall contribution rate applicable from 1<sup>st</sup> April 2008 to 31<sup>st</sup> March 2011 is 20.2% of pensionable pay. This consists of 13.9%, which is the long-term rate, the rate of contribution that would be appropriate if the Fund had no shortfall, and 6.3%, the rate of contribution which will recover the shortfall over 19 years.

## Notes to Durham County Council Pension Fund Accounts

The overall contribution rate applicable from 1st April 2008 to 31st March 2011 can be summarised as follows:

	% Pensionable Pay
Long-term rate	13.9
Deficit funding (19 years from 1 <sup>st</sup> April 2008)	6.3
<b>Overall Contribution rate</b>	<b>20.2</b>

#### 4. VALUATION OF INVESTMENTS

The Fund's investments were managed by three Fund Managers: Legal and General Investment Management (appointed with effect from 1st October 1993), Barings Investment Management (appointed with effect from 1st October 1993) and Morley Fund Management (appointed with effect from 1st July 1999). Apart from the funds under the control of the Managers a small proportion is managed in house.

During 2007/08 the Pension Fund Committee has appointed six Investment Managers: Edinburgh Partners Limited ('Edinburgh Partners'), BlackRock Investment Management (UK) Limited ('BlackRock'), AllianceBernstein Limited ('AllianceBernstein'), Royal London Asset Management ('RLAM'), CB Richard Ellis Collective Investors Limited ('CBRE') and Baring Asset Management Limited ('Barings') to manage the assets of the Pension Fund.

The long-term strategic allocation is as follows (the actual allocation may vary due to market movements):

Investment Manager	%	Asset Classes	Investment Style
Edinburgh Partners	28	Global Equities	Active
BlackRock	20	UK Equities	Active
AllianceBernstein	16	Global Bonds	Active
RLAM	20	Investment grade sterling bonds	Active
CBRE	8	Global Property	Active
Barings	8	Dynamic Asset Allocation – All major asset classes with derivative overlay	Active

The market values of investments in the hands of each Manager were as follows:

At 31st March 2007		At 31st March 2008	
£000	%	£000	%
<b>Outgoing Managers</b>			
474,123	34.95	-	
454,326	33.50	-	
427,429	31.51	-	
<b>Incoming Managers</b>			
		363,220	28.16
		263,774	20.45
		221,296	17.16
		288,098	22.34
		59,275	4.60
		93,436	7.25
		2	0.00
511	0.04	477	0.04
<b>1,356,389</b>	<b>100.00</b>	<b>1,289,578</b>	<b>100.00</b>

5. ANALYSIS OF INVESTMENTS

Value at 31/03/07	Purchases at cost	Sales proceeds	Change in market value	Value at 31/03/08
£000	£000	£000	£000	£000
1,452,162				1,452,162

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.

31/03/07 £000		31/03/08 £000
	<b>Fixed interest securities</b>	
40,235	UK - Government	13,406
3,992	UK - other	2,388
25,066	Overseas - Government	3,766
-	Overseas - other	-
<u>69,293</u>		<u>19,560</u>
	<b>Equities</b>	
470,288	UK quoted	338,891
511	UK unquoted	477
184,408	Overseas quoted	303,239
158	Overseas unquoted	-
<u>655,365</u>		<u>642,607</u>
	<b>Index linked securities</b>	
200	UK quoted	285,311
517	Overseas quoted	-
<u>717</u>		<u>285,311</u>
	<b>Managed and unitised funds</b>	
59,089	Managed funds - non-property-UK	221,298
447,248	Managed funds - non-property-Overseas	1,890
10,097	Unit Trusts - non-property-UK	55,005
79,372	Unit Trusts - non-property-Overseas	-
35,208	Unit Trusts - property	63,906
<u>631,014</u>		<u>342,099</u>
	<b>Cash and Short Term Investments</b>	
751	Loans - long term - local authorities	484
78,378	Loans - short term - money market	71,144
15,490	Cash in Hand	56,666
<u>94,619</u>		<u>128,294</u>
	<b>Other Investments</b>	
-3,446	Investment Transactions	267
4,580	Dividend Accruals	5,577
20	Recoverable Taxation	69
<u>1,154</u>		<u>5,913</u>

6. CURRENCY HEDGING

All Investment Managers have agreement subject to prior consultation with the County Treasurer to enter into foreign exchange contracts in order to hedge against inflation in foreign currencies.

## 7. TAXATION

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

- United Kingdom Tax  
The Fund is an exempt approved Fund under the Finance Act 1970 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.

## 8. CAPITAL COMMITMENTS

At present the Pension Fund has invested £400,000 in Capital North East, but has entered into a commitment to invest up to £500,000 in this organisation, which provides start-up and development capital for businesses in the North East.

## 9. CURRENT ASSETS AND LIABILITIES

2006/07 £000		2007/08 £000
7,223	Contributions	8,551
-6	Transfer values	-2
753	Refunds and pensions	-737
-1,410	Administration expenses	-864
455	DCC	-2,896
-3	Fire Authority	18
<u>7,012</u>		<u>4,070</u>

## 10. INVESTMENT MANAGEMENT FEES

The three out-going investment managers were paid quarterly fees in arrears on a sliding scale based on the market value of the investments managed at the end of each quarter.

The six in-coming Investment Managers' fees are based on the value of assets under management. In the case of four investment managers, a performance related fee structure is in place based on a base fee plus a percentage of out-performance. In the case of the two remaining investment managers an ad-valorem fee is payable. All fees are payable quarterly in arrears.

The new managers were allocated their assets for management on 11<sup>th</sup> February 2008. This has increased the fees payable by the Pension Fund for the management of the assets in the last quarter of 2007/08. The higher fees payable to the new managers reflect the more challenging performance targets that have been given to the investment managers.



## Notes to Durham County Council Pension Fund Accounts

Included as 'Other Advisory Fees', Independent Advisers' fees are based on a retainer for attendance at Pension Fund Committee and Annual 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.

2006/07 £000		2007/08 £000
1,407	Administration, management and custody	1,959
12	Performance measurement services	12
138	Other advisory fees	136
<u>1,557</u>		<u>2,107</u>

### 11. ADMINISTRATION EXPENSES

2006/07 £000		2007/08 £000
949	Recharge from Durham County Council	1,020
42	CLASS - CPX	66
2	FRS 17	2
-	Actuarial consultancy fees - Triennial valuation	26
16	Audit fees	16
7	Subscriptions	2
50	FIDS and Manninen Claim	5
65	Consultancy Fees - Actuarial Services	135
3	Legal Services	90
11	Euraplan	4
19	Publications	6
	Other	
	Receipts -	
-4	- costs received on pensions increase	-22
-49	- consultancy fees recharged	-74
<u>1,111</u>		<u>1,276</u>

Regulations permit local authorities to charge scheme administration to the Fund. A proportion of relevant officers' salaries have therefore been charged to the Fund on the basis of actual time spent on investment and related matters and pensions administration. Certain specific expenses have been charged directly to the Fund and other office expenses and related overheads have been charged to the Fund in proportion to the salaries charged.

Any additional work will be subject to a suitable fee arrangement or subject to separate tendering exercises.

12. CONTRIBUTIONS RECEIVABLE

2006/07 £000		2007/08 £000
	Employers -	
63,814	- normal contributions	70,177
-	- additional contributions	-
7,531	- special contributions	1,486
	Employees -	
20,216	- normal contributions	21,507
144	- additional contributions	269
<b>91,705</b>		<b>93,439</b>
41,127	Durham County Council	43,032
41,738	Scheduled Bodies	48,814
8,840	Admitted Bodies	1,593
<b>91,705</b>		<b>93,439</b>

13. BENEFITS PAYABLE

2006/07 £000		2007/08 £000
57,014	Pensions	60,106
13,574	Commutations and lump sum retirement grants	16,578
935	Lump sum death grants	1,026
-4,814	Recharged benefits	-4,900
<b>66,709</b>		<b>72,810</b>
33,611	Durham County Council	35,847
32,530	Scheduled Bodies	36,764
568	Admitted Bodies	199
<b>66,709</b>		<b>72,810</b>

14. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2006/07 £000		2007/08 £000
13	Refunds to members leaving service	20
-	Payments for members joining state scheme	3
5,518	Individual transfers to other schemes	5,177
-	Group Transfer - Centrex	-
<b>5,531</b>		<b>5,200</b>

**15. INVESTMENT INCOME**

2006/07 £000		2007/08 £000
	<b>UK Investments -</b>	
2,138	Fixed interest securities	1,882
3	Index linked securities	1,289
14,923	Equities	15,393
3,103	Income from cash deposits	7,515
1,057	Property unit trusts	1,105
	<b>Overseas Investments -</b>	
740	Fixed interest securities	730
8	Index linked securities	55
3,838	Equities	4,968
<b>25,810</b>		<b>32,937</b>

**16. RELATED PARTY TRANSACTIONS**

**Durham County Council:** Durham County Council administers the Durham County Council Pension Fund on behalf of 64 bodies, including district, parish and town councils, colleges, statutory bodies and admitted bodies. During 2007/08, the Pension Fund had an average balance of £109.756m (£49.660m in 2006/07) of surplus cash deposited with the Council. In 2007/08 the Council paid the fund a total of £6.559m (£2.48m in 2006/07) in interest on these deposits. The Council charged the fund £1.276m in 2007/08 (£1.111m in 2006/07) for expenses incurred in administering the Fund.

**Long-Term Loans:** The Long-Term Loans referred to in note 5 are loans made to a number of the current and former participating employers of the Fund. The loans outstanding were made between March 1964 and May 1967, this being common practice at the time. No further loans have been granted since January 1974. The Pension Fund receives interest of between 5.75% and 6.875% of the outstanding balance per annum in addition to capital repayments. The maximum amount outstanding on these loans at any time during the year was the opening balance. The table below shows the balance outstanding on these loans as at 31st March 2008:

Amount Outstanding 31st March 2007 £000	Employer	Amount Outstanding 31st March 2008 £000
253	Wansbeck District Council	-
238	Sedgefield District Council	314
173	Sunderland City Council	167
<b>664</b>		<b>481</b>

**17. STATEMENT OF INVESTMENT PRINCIPLES**

The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 1999 require the County Council to prepare and review a written statement of the investment policy of the Pension Fund. Such a Statement has been adopted by the Pension Fund Committee and is published in the Annual Report. The Statement has been reviewed during 2007/08.

A copy of the Annual Report can be obtained from the County Treasurer, County Hall, Durham DH1 5UE and is available on the County Council's website: [www.durham.gov.uk](http://www.durham.gov.uk)

**18. 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. It is to be revised whenever there is a material change in policy in matters set out in the Funding Strategy Statement or the Statement of Investment Principles. The Funding Strategy Statement is available on the County Council's website: [www.durham.gov.uk](http://www.durham.gov.uk)

**19. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVC)**

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 do not permit AVCs to be paid into the Pension Fund, so that contributions administered by the County Council have not been consolidated into the figures disclosed in the Accounts.

The Pension Fund offers two types of AVC arrangement:

- Purchase of additional years of service, 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:

	<b>Value at 31/03/07 £000</b>	<b>Purchases £000</b>	<b>Sales £000</b>	<b>Change in Market Value £000</b>	<b>Value at 31/03/08 £000</b>
HECM	2,814	105	345	12	2,586
Prudential	1,966	634	851	380	2,129
Standard Life	1,334	92	131	0	1,295
<b>Total</b>	<b>6,114</b>	<b>831</b>	<b>1,327</b>	<b>392</b>	<b>6,010</b>

## **Statement of Responsibilities for the Statement of Accounts**

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### **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 County Council that officer is the County Treasurer.
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- approve the Statement of Accounts.

### **The County Treasurer's Responsibilities -**

The County Treasurer 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 of Practice').

In preparing this Statement of Accounts, the County Treasurer has:-

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

The County Treasurer 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 County Treasurer**

I certify that the Statement of Accounts presents fairly the financial position of the County Council as at 31st March 2007 and its income and expenditure for the year ended 31st March 2007

S. D. Crowe C.P.F.A.  
County Treasurer  
26th June 2008

### **Certificate of Chairman**

In accordance with Regulation 10 (3) (b) of the Accounts and Audit Regulations 2003, I certify that these Accounts were approved by the County Council at the meeting held on 26th June 2008

L. O'Donnell  
Chairman of the County Council  
Chair of the meeting approving the accounts

## 1. SCOPE OF RESPONSIBILITY

Durham County Council (the Council) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

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

The Council has approved, adopted and published on its website, a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework – “Delivering Good Governance in Local Government”. This statement explains how the Council has complied with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit regulations 2003 as amended by the Accounts and Audit (Amendment) (England) regulations 2006 in relation to the publication of a Statement on Internal Control.

## 2. THE PURPOSE OF THE GOVERNANCE FRAMEWORK

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

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

The governance framework has been in place at the Council for the year ended 31 March 2008 and up to the date of approval of the statement of accounts.

## 3. THE GOVERNANCE FRAMEWORK

The key elements of the systems and processes that comprise the Council's governance arrangements include:

### **Identifying and communicating the Council's vision of its purpose and intended outcomes for citizens and service users**

The Council published its Strategic Vision for County Durham as a central plan to influence and guide the work and activities of partner organizations in a way that best meets community needs and aspirations. The Council, in delivering its vision, explains and reports regularly on activities, performance and the Council's financial position. Timely, objective and understandable information about the Council's activities, achievements, performance and financial position is provided through the publishing of:

- An Annual Corporate Plan;
- Community Development Policy and Strategy;
- Externally audited accounts;
- Independently verified performance information.

### **Reviewing the Council's vision and its implications for the Council's governance arrangements**

The Council considers the governance implications of its actions. The Council has revised its Code of Corporate Governance in a way that is consistent with the principles of the CIPFA/SOLACE Framework – “Delivering Good Governance in Local Government”.

### **Measuring the quality of services for users, for ensuring they are delivered in accordance with the Council's objectives and for ensuring that they represent the best use of resources.**

The Council is committed to delivering quality services to the public in an efficient and effective way. The Council does this by:

- Delivering services to meet local needs through the Sustainable Community Strategy, and put in place policies and processes to ensure that they operate effectively in practice;
- Directing resources to those that need services most;
- Developing effective relationships and partnerships with other public sector agencies and the private and voluntary sectors;
- Responding positively to the findings and recommendations of external auditors and statutory inspectors and putting in place arrangements for the implementation of agreed actions;
- Comparing information about our services with services provided by similar organisations, assessing why levels of efficiency, effectiveness and quality are different elsewhere and considering other alternative means of service provision and procurement to maximise opportunities and improve value for money where appropriate.

### **Defining and documenting the roles and responsibilities of the executive, non- executive, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication**

The Council ensures that the necessary roles and responsibilities for the Governance of the Council are identified and allocated so that it is clear who is accountable for decisions that are made. The Council does this by:

- Electing a Leader of the Council and Executive Members with defined executive responsibilities;
- Agreeing a scheme of delegated responsibilities to Directors;
- Annually appointing Committees to discharge the Council's Regulatory responsibilities;
- Annually appointing Committees to discharge the Council's Scrutiny responsibilities;
- Undertaking a regular review of the operation of the Council's Constitution;
- Having in place effective and comprehensive arrangements for the scrutiny of services and for holding the Executive to account;
- Making the Chief Executive responsible and accountable for all aspects of operational management;
- Making a nominated Senior Officer responsible for the proper administration of its financial affairs (S151 Officer);
- Making a nominated Senior Officer responsible for actions taken in accordance with Statute and Regulation (Monitoring Officer);
- Developing protocols that ensure effective communications between Members and Officers;
- Development of a Councillor Compact outlining the mutual expectations of the officers and councillors in the new unitary council: taking into account new and transformational ways of working.

### **Developing, communicating and embedding codes of conduct, defining the standards of behaviour for members and staff**

The Council fosters a culture of behaviour based on shared values, high ethical principles and good conduct. The Council does this by establishing and keeping under review:

- The Council's own values on Leadership as enshrined in the Corporate Plan and evidenced in Codes of Conduct that set a standard for behaviour;
- A Member Code of Conduct;
- A Code of Practice for Members responsible for determining Planning Applications;
- An Officer Code of Conduct;
- A Protocol governing Member/Officer relations;
- A Register of Interests and declaration of Gifts and Hospitality accepted;
- Equality and Diversity arrangements;
- A Whistleblowing policy (Confidential Reporting Code);
- The roles of Members and officers in decision-making;
- Appropriate and timely advice, guidance and training for both Members and Officers;
- The Councillor Compact
- Systems for reporting and dealing with any incidents of fraud and corruption.

The Council has appointed a Standards Committee with responsibilities for promoting and monitoring the application and delivery of these codes and protocols and promoting positive and trusting relationships within the Council.

The Council will also look to agree a set of behavioural values with our key partners.

**Reviewing and updating standing orders, standing financial instructions, a scheme of delegation and supporting procedure notes/manuals, which clearly define how decisions are taken and the processes and controls required to manage risks**

The Council's Constitution sets out how the Council operates, how decisions are made and the procedures which are followed to ensure that these are effective, transparent and accountable to local people. Areas of potential change to the Constitution are identified through the year and amended on an annual basis.

The Council operates a risk management approach that aids the achievement of its strategic objectives, supports its decision making processes, protects the Council's reputation and other assets and is compliant with statutory and regulatory obligations. The Council ensures that the risk management approach:

- Enables a culture of risk awareness;
- Formally identifies and manages risks;
- Involves elected members in the risk management process;
- Maps risks to financial and other key internal controls;
- Documents and records details of risks in a risk management information system;
- Monitors the progress in mitigating significant risks, and reports this to appropriate Members; and
- Reviews and, if necessary, updates its risk management processes at least annually.

**Undertaking the core functions of an audit committee, as identified in CIPFA's Audit Committees – Practical Guidance for Local Authorities**

The Council established in May 2007 an Audit Committee with responsibility for monitoring and reviewing the risk, control and governance processes and associated assurance processes to ensure Internal Control systems are effective and that policies and practices are in compliance with statutory and other regulations and guidance. This includes considering the work of External Audit, Internal Audit and Risk Management and making recommendations concerning relevant governance aspects of the Constitution.

**Ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful**

The Council ensures that appropriate legal, financial and other professional advice is always considered as part of the decision-making process and observes both specific requirements of legislation and general responsibility by Law.

The Council is transparent about how decisions are taken and recorded. The Council does this by:



## **Annual Governance Statement**

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- Ensuring that all decisions are made in public and recording those decisions and relevant information and making them available publicly (except where that information is exempt under the provisions of the Freedom of Information Act or determined as being confidential by Government or otherwise exempt by the Council);
- Having rules and procedures which govern how decisions are made.

### **Whistle-blowing and procedures for receiving and investigating complaints from the public**

A Confidential Reporting (Whistle-blowing) Code is in place to enable individuals within the Council to raise issues of concern without the fear of intimidation or reprisal.

The Council ensures that effective, transparent and accessible arrangements are in place for dealing with complaints;

- Complaints policies and procedures are in place to support the timely resolution of service complaints and to learn the lessons from such complaints for future service planning and delivery. The Standards Committee receives regular reports on Complaints handling within the Council.
- Policies and procedures are in place to deal with allegations about Member misconduct.

### **Identifying the development needs of members and senior officers in relation to their strategic roles, supported by appropriate training**

The Council ensures that those charged with the governance of the Council have the skills, knowledge and experience they need to perform well. The Council does this by:

- Consistent application of the Council's People Strategy;
- Ensuring that the Council maintains an effective and skilled workforce by applying the Workforce Development Plan;
- Operating robust recruitment and selection processes;
- Implementing a Member Development Strategy;
- Maintaining the Investor in People Standard;
- Cascading regular information to Members and staff;
- Investing in Member and Officer Leadership training;
- Providing resources that support Member and Officer development;
- Promoting schemes supporting ongoing professional development.

### **Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation**

The Council responds to the views of stakeholders and the community. The Council does this by:

- Forming and maintaining relationships with the leaders of other organisations;
- Ensuring Partnership arrangements demonstrate clear and appropriate governance accountabilities;
- Producing plans for service delivery within the community;
- Publishing a Forward Plan of Key Decisions;
- Having a Community Engagement and Consultation Strategy and providing access to a range of consultation methods, particularly to those groups which are harder to reach;
- Using an approach that recognises that people are different and gives everyone the same or an equal opportunity to information, advice and support in ways that are suited to the needs or circumstances of the individual;
- Encouraging and supporting the public in submitting requests for aspects of the Council's Service to be scrutinised;
- Providing and supporting ways for Citizens to present community concerns to the Council;
- Providing for the public the opportunity to ask questions or make representations at full Council and Regulatory Committees;
- Publishing annually a corporate plan providing information in relation to the Council;
- Continually developing clear channels of communication;

- Providing a modernised ICT Service that meets the needs and aspirations of the organisation and the communities we serve.

**Incorporating good governance arrangements in respect of partnerships and other group working as identified by the Audit Commission's report on the governance of partnerships, and reflecting these in the Council's overall governance arrangements**

The Council has a strong commitment to working with partners to meet the needs of its communities. The Council ensures good governance in respect of partnerships by establishing a comprehensive and detailed partnership performance management framework, and by having Internal Audit review the governance arrangements. This review has identified further improvement opportunities which are included within an agreed action plan

**4. REVIEW OF EFFECTIVENESS**

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the senior managers within the Council who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

In readiness for the move to Unitary status from April 2009 revised, the Government has increased the size of the Council from 63 to 126 Members, who meet together to decide the Council's overall policies and set the budget. The Council is responsible for appointing the Leader of the Council and the Cabinet which together are known as the Executive. As a group the Executive is responsible for most decisions. Where a decision is identified as key, these are published in advance in the Executive's Forward Plan.

The Council also maintains an Overview and Scrutiny Management Committee and six Scrutiny Committees that support the work of the Executive and the Council as a whole in the interests of achieving common aims and continuous improvement. In doing this, Overview and Scrutiny may make recommendations on policies, budget and service delivery and can call-in a decision of the Executive which has been made but not yet implemented.

A Standards Committee has responsibility for promoting high ethical standards across the Council, overview of the Member and officer codes and other relevant protocols together with the Council's complaints handling regime.

The Audit Committee described in the previous section contributes to this review.

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit Committee/Corporate Risk Management Group, and a plan to ensure continuous improvement of the system is in place.

**5. SIGNIFICANT GOVERNANCE ISSUES**

The Council is fully committed to the principles of corporate governance, and has made further progress during the past twelve months in developing its arrangements. Following the production of the Statement on Internal Control (SIC) for 2006/07, an action plan, containing 23 recommendations was produced. The progress made in implementing each of the recommendations was monitored by the Corporate Risk Management Group (CRMG) in liaison with Internal Audit and formed the starting point of the work carried out in producing the AGS for 2007/08.

In addition to the issues contained within the action plan, Internal Audit identified other issues for the AGS using various approaches, including discussions with Senior Officers, the use of tailored questionnaires issued to all Members and Service Senior Management Team officers, and through the detailed audit work carried out during the year.

All of those issues, detailed below were agreed by CRMG prior to being reported to the Audit Committee on 06 June 2008.

## **Annual Governance Statement**

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### **Political makeup**

In readiness for the move to unitary status from April 2009, the May 2008 Election has resulted in a new Council with overall a significantly different political make-up.

Once again, resultant changes in the membership of Cabinet, Overview and Scrutiny and the Regulatory Committees bring with them the risks associated with any such major change. However, a very comprehensive induction and personal development programme has been introduced for Members to support them in their new roles.

Members across all parties, together with the Acting Chief Executive and the rest of the Corporate Management Team are committed to work together to make the new Unitary Council a success.

### **Ethical Governance/Codes of Conduct**

The Ethical Standards Framework provisions, within the Local Government and Public Involvement in Health Act 2007, came into force in May 2008, and the Council is now assimilating Guidance from the Standards Board for England.

The Standards Committee membership and terms of reference have been expanded to deal with its new responsibilities and relevant training will be provided to its Members on their new role. Ethical Standards and an appreciation of the relevant provisions of the Constitution were a core element of the Member Induction Programme in May 2008. This programme will be further supplemented in due course.

The action points from the 2007 Audit Commission Ethical Governance survey have been initially addressed but need to be further emphasised during the course of the next 12 months.

The Standards Committee needs to consider how best to raise its profile both within the organisation and with the public in order to fulfil its responsibilities under the 2007 Act.

Along with Member colleagues on the Human Resources Committee, the Standards Committee needs to determine how best to monitor and promote high ethical standards amongst officers. A new Officer Code of Conduct is still awaited from the Government, reflecting the lessons learned from the recent implementation of the new Member Code. The Standards Committee and Human Resources Committee will need to review this in due course. In the meantime, the existing Code will be reinforced to staff. Staff awareness and understanding of relevant sections of the Constitution needs to be embedded within the organisation.

Work will begin soon in the relevant LGR workstream/group to plan for the Unitary Authority's Ethical Standards responsibilities in relation to Parish/Town Councils in the County from 1 April 2009.

### **Health and Wellbeing**

The Council continues to develop a strategic approach to workplace health and wellbeing with the aim to improve the health and wellbeing of the workforce. Current initiatives include developing a programme of offering individual lifestyle screening based on Coronary Heart Disease risk to employees. Another major initiative has been the further development of the Stress Management Policy and associated guidance for managers which provided for more proactive applications of the policy and generated enhanced guidance on potential interventions in individual cases. In parallel with this further improvements are being developed as a result of work in conjunction with a review by an Overview & Scrutiny Working Party.

### **Business Continuity and Disaster Contingency Plans**

The Civil Contingencies Act highlights the importance of business continuity management. It is essential that the Council can demonstrate that it is performing its duties outlined in the Act which includes the provision of advice to the wider business community. Good business continuity management makes provision for ensuring that services can be continued to the level required in the event of a wide range of disruptions.

A Corporate Business Continuity Plan is in place, however, it is important that this high level plan is supported by more detailed service plans. Specific recovery plans for critical service areas need to be completed, as well as defining and assigning key roles to ensure that planned activities occur in the event of a business interruption.

Procedures also need to be put in place to ensure that there are appropriate links between these business continuity plans and the IT disaster contingency arrangements.

### **County Durham Partnership and Wider Partnership working**

The Council has a strong commitment to working with partners to meet the needs of the communities.

The County Durham partnership has undergone a refresh process, and a workshop to discuss thematic partnership working was held at the County Durham Partnership meeting on 20<sup>th</sup> February 2008. The partnership has now agreed an overall framework that aligns the work of the partnership with the LAA themes and integrates the former CDSP (County Durham Strategic Partnership) with the LAA interim Board to create the County Durham Partnership. New governance arrangements for the County Durham Partnership were agreed by the Partnership Board in April. Further developmental work in relation to the Partnership is planned for this next year; in particular the partnership will be undertaking work relating to the roles of Elected Members, the level of community engagement and the wider support arrangements for the partnership.

A considerable amount of work has been undertaken to revise the County Vision and develop a draft Sustainable Community Strategy, which is presently being prepared for consultation. The Partnership has also agreed to the Local Area Agreement.

### **Single Status**

Work continues towards introducing an equality proofed pay structure based on job evaluation results. This will help deliver pay equality, and should remove the risk of legal challenge. Options are currently under consideration regarding the way forwards for a new pay structure. The difficulty with this is the need to achieve a balance between finding a structure which is acceptable to the trade unions and the workforce, while remaining affordable, and at the same time enabling the Council to continue to provide efficient and effective services. There are significant challenges in finding a solution that is appropriate and acceptable. The implications of all of the equal pay issues have the potential to have significant impact on the Council's pay bill, though provision for this has been anticipated.

The situation regarding Single Status is made more complex by LGR and the implications of TUPE. Whilst work is underway to develop a pay structure for the new Unitary Authority, it is not feasible to project a date for this implementation other than that it will be post April 2009.

### **Implementation of the White Paper**

The Local Government White Paper (October 2006), 'Strong and Prosperous Communities' is a major driver for change in Local Authorities, and has been the fundamental basis for the Durham County Council unitary bid submission. The most relevant aspects of the White Paper and the subsequent Local Government and Public Involvement in Health Act 2007 relate to:

- Continued improvement of public services and the quality of life in communities;
- An enhanced role for councils as strategic leaders and place-shapers through stronger Local Strategic Partnerships, Sustainable Community Strategies (SCS) and next-generation Local Area Agreements (LAAs) which have wider scope and importance;
- A new national performance framework and revised inspection arrangements which focus on outcomes for local people in the area that are delivered by strengthened partnership working; and
- An emphasis on involving and empowering local communities.

Work is being undertaken across the authority to ensure that all of these areas and new duties are being suitably addressed and embedded in the authorities working.

The greatest challenge derived from the white paper, is, however, in relation to the formation of a new single tier authority. County Durham's bid for a unitary authority for the county was successful, and the authority is presently undergoing a transition for a new authority to be in existence in April 2009. A dedicated LGR programme team with support officers has been put in place, and this team is working with over 32 work streams in ensuring the new authority will be fit for purpose and will drive forward improvements in outcomes for communities within the County.

### **Performance management**

The recent Corporate Assessment identified that 'The approach to performance management is generally good, leading to a culture in most services in which performance matters and achievements are planned and monitored'. The latest Comprehensive Performance Assessment score and Direction of Travel have confirmed that performance within the authority is improving.

There is some inconsistency, in the approaches to performance management. The corporate performance management system captures BVPIs and key performance indicators across all services. In bringing together the 8 authorities in the County, we will be co-ordinating performance reporting for a new nation Indicator set with a revised Performance Management Framework from 2008/09 onwards.

A new format for quarterly performance monitoring reports was introduced in 2006/07. The format of the integrated financial and performance management reports has been reviewed and a further revised format was introduced in 2007/08. Further work is underway in the Policy and Partnerships LGR workstream to consider the format of performance management reports for 2008/09. Additional work will be needed to develop the format and content of these reports and to get better alignment between the Council's systems and the LAA performance management framework.

### **Project management**

The work undertaken to develop a common project management methodology for the Council has progressed and a number of the Council's key projects have been resourced with professional project managers. However, other commitments, particularly around LGR, have resulted in delays in implementing the methodology which in turn impacts on the number of suitably skilled project managers at the Council's disposal.

### **DRIVE**

The project to replace the Core Financial IT systems with an Enterprise Resource Planning (ERP) system, the Durham Re-engineering and ImproVement with Oracle E-business Suite (DRIVE), is now moving into the latter stages of its implementation. However, this implementation has been delayed from its original planned date of 1<sup>st</sup> April 2008, with a revised target date of 1<sup>st</sup> October 2008.

### **Risk management**

The Council continues to make progress in moving forward its risk management agenda. Risk management is assessed as part of the Key Lines of Enquiry in the Use of Resources element of the Comprehensive Performance Assessment. In the 2007 assessment, the score improved from level 2 to level 3. Internal and external reviews of the risk management function, undertaken during the year, concluded that the Council is embedding risk management into the wider business processes. Key developments which have been made over the last year include delivering training to appropriate staff and Members, and supporting Members in their strategic decision-making following the implementation of a process to assess and report risks associated with key decisions.

The key improvement opportunity for the risk management process relates to further developing and rolling out the use of the Council's risk management software.

**Data quality**

Data quality has previously been identified as an area which needed greater consistency across the authority. A new data quality policy has been agreed by Corporate Management Team to ensure that robust arrangements are in place which take account of the Audit Commission's guidance.

Further consideration of data quality issues are being undertaken as part of the work to create the new unitary authority. This work is being done by the LGR Policy and Partnerships work stream which has been tasked to review and create a fit for purpose data quality policy, standards and processes, which are compatible with the Council's own approach to partnership performance management.

**Pension Fund**

Pension Fund governance arrangements have been strengthened in year alongside the appointment of six investment managers. In light of the approved manager mandates, the investment structure of the Pension Fund has been reviewed, a written Statement of Investment Principles published and asset allocations revised with new benchmarks and performance targets established. The assets of the Fund were transferred to the new managers on 11th February 2008 and monitoring of performance will now begin. Performance reporting will be from both Managers and the Global Custodian with advice from the two Pension Fund Advisors as the Committee reviews the Manager's performance on a quarterly basis. Pension Fund Advisor contracts have been renewed to enable the Committee to benefit from the advisors' knowledge of the structure that has been put in place and the Committee's expectations of the managers.

The Pension Fund Committee also approved in January 2008, the Governance Compliance Statement the Council has to submit to Communities and Local Government (CLG), although the statement has not been published yet as CLG has yet to issue the final statutory guidance.

**Governance assurance framework**

The Corporate Risk Management Group currently has responsibility for preparing the AGS. However, as the nature of the AGS continues to change, members of this group do not have direct responsibility for key governance issues and may no longer be best placed for this task.

We propose over the coming year to take steps to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed:

Simon Henig  
Leader of Durham County Council

John Richardson  
Acting Chief Executive

Stuart Crowe  
County Treasurer

behalf of the Council

## **Glossary of Terms Used in the Accounts**

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### **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.

### **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.

### **Amortisation**

Amortisation is the equivalent of depreciation for intangible assets.

### **Appropriation**

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

### **Assets Under Construction**

Capital expenditure on assets where the work is incomplete.

### **Best Value Accounting Code of Practice (BVACOP)**

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.

### **Borrowing**

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

**Budget**

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

**Building Schools for the Future**

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 was established on 1<sup>st</sup> April 2007 from the balances of the Capital Financing Account and the Fixed Asset Restatement Account. This account accumulates the write down of the historical cost of fixed 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 fixed 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 fixed 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 Statement of Movement on the General Fund.

**Capital Expenditure**

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

**Capital Financing Account (CFA)**

This account represented amounts set aside from revenue resources or capital receipts to finance expenditure on fixed assets, or for the repayment of external loans and certain other financing transactions. On 1<sup>st</sup> April 2007, the balance of this account was transferred to a new account, the Capital Adjustment Account.

**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. fixed 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 County Council's Minimum Revenue Provision.

**Capital Receipts**

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

**Chartered Institute of Public Finance and Accountancy (CIPFA)**

The principal accountancy body dealing with local government finance.

**Contingent Liabilities**

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



## **Glossary of Terms Used in the Accounts**

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### **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.

### **Creditors**

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

### **Debtors**

Persons or bodies who owe sums to the County Council.

### **Deferred Charges - Capital**

Capital expenditure, which does not result in the creation of a fixed asset that is owned by the County Council. Examples of this are grants and financial assistance to others, expenditure on properties not owned by the County Council and amounts directed by the government. The amounts are charged to revenue over the period during which the Council gains a benefit from the expenditure.

### **Depreciation**

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

### **Direct Revenue Financing**

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.

### **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 Reporting Standards (FRS)**

Statements developed by the Accounting Standards Board laying down common standards of accounting practice.

### **Financial Reporting Standard 17 (FRS 17) – Accounting for Retirement Benefits**

This Financial Reporting Standard requires local authorities to reflect the true value of the assets and liabilities relating to the Pension Fund in their financial statements. This creates a notional amount in the Balance Sheet but does not impact on council tax.

### **Fixed 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 fixed assets have physical substance, for example land, buildings and vehicles. Intangible fixed assets do not have physical substance but are identifiable and controlled by the authority through custody or legal rights, for example software licences.

### **Fixed Asset Restatement Account (FARA)**

This account represented any surpluses or deficits arising from valuations and disposals of fixed assets and also any balances arising from the introduction of the capital accounting system on 1st April 1994. On 1<sup>st</sup> April 2007, the balance of this account was transferred to a new account, the Capital Adjustment Account

### **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 local authorities. It comprises Revenue Support Grant and redistributed National Non-Domestic Rates.

### **Futures**

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

### **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 in return for past or future compliance with certain conditions relating to the activities of the County Council.

### **Government Grants Deferred**

Grants and other external contributions towards capital expenditure are written off to the revenue account as the assets to which they relate are depreciated. The balance on the Government Grants deferred account represent grants not yet written off.

### **Group Accounts**

Where an authority has an interest in another organisation group accounts have to be produced. These accounts report the financial position of the authority and all organisations in which it has an interest.

### **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

## **Glossary of Terms Used in the Accounts**

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(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**

Fixed assets such as roads and bridges.

### **Intangible Assets**

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

### **Investments**

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

### **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.

### **Liabilities**

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

### **Local Authority Business Growth Incentive Grant (LABGI)**

A reward for promoting growth in local businesses.

### **Local Public Service Agreement Performance Reward Grant (LPSA)**

A reward for achieving more demanding performance in the delivery of local services.

### **Long-Term Investments**

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

### **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.

### **Minimum Revenue Provision**

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.

### **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 fixed 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 County 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 fixed assets.

### **Net Expenditure**

The actual cost of a service to the County 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-Operational Assets**

Accumulated cost of assets under construction for which there is no valuation and which are not yet operational.

### **Operating Lease**

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

### **Operational Assets**

Fixed assets 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.

### **Outturn**

Actual expenditure within a particular year.

### **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 Year Adjustments**

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.

### **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 1<sup>st</sup> 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.

### **Reserves**

Sums set aside to fund specific future purposes rather than to fund past events.

#### **Revaluation Reserve**

The Revaluation Reserve was established on 1<sup>st</sup> April 2007 with a zero opening balance. The Reserve records the accumulated gains on the fixed 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 fixed 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 County Council's services, such as salaries, wages, utility costs, repairs and maintenance.

### **Revenue Support Grant (RSG)**

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

### **Section 137**

Section 137 of the Local Government Act 1972 allowed a local authority to spend a limited amount on activities for which it has no specific legal powers but which it considers 'will bring benefit to the area, or any part of it or some of its inhabitants'. Most of this power was repealed and replaced with a 'well-being' power in the Local Government Act 2000.

**Specific Grant**

A government grant towards the expenditure of particular service or project that cannot be spent on anything else.

**Statements of Recommended Accounting Practice (SORP)**

A publication produced by CIPFA, recognised by the Accounting Standards Board (ASB), that provides comprehensive guidance on the content of the County Council's Statement of Accounts

**Statements of Standard Accounting Practice (SSAP)**

Accounting standards developed by the Accounting Standards Committee (ASC) and adopted by the Board are known as SSAPs. The statements ensure accounting consistency.

**Statement on Internal Control (SIC)**

Local authorities are required to carry out an annual review of the effectiveness of the system of internal control, the outcome of this review, along with details of the actual controls that are in place, is reported in the statement on internal control which is included within the Statement of Accounts.

**Supported Capital Expenditure (SCE)**

SCE's 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.

**Tangible Assets**

Tangible fixed assets have physical substance, for example land, buildings and vehicles.

**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 County 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 County Council from the sale of fixed assets that are yet to be spent on other capital projects.

## **Glossary of Terms Used in the Accounts**

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### **Variation**

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.