

Pension Fund Committee

30th July 2007

Statement of Accounts for the year ended
31st March 2007



Report of Stuart Crowe, County Treasurer

Purpose of the Report

- 1 The purpose of the report is to present the Pension Fund Accounts that are included in the Statement of Accounts for the County Council for the financial year ended 31st March 2007.

Background

- 2 The 'Accounts and Audit Regulations 2003' as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 set out the requirements for the production and publication of the annual Statement of Accounts. The Regulations require the Statement of Accounts to be approved either by a full Council meeting or by a committee of the Council on or before 30th June 2007.
- 3 The Statement of Accounts, as approved by the County Council on 28th June 2007, is subject to audit by our external auditor, the Audit Commission. The audit of the accounts is ongoing. On completion, the auditor's report will be incorporated into the published version of the document.

Pension Fund Accounts

- 4 The Statement of Accounts has been prepared in accordance with the requirements of the 2006 '*Code of Practice on Local Authority Accounting in Great Britain*' as updated and published by the Chartered Institute of Public Finance and Accountancy (CIPFA). 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 2006: A Statement of Recommended Practice. As a result, the document contains a great deal of detailed financial information.
- 5 The Statement of Accounts for the County Council includes the accounts for Durham County Council Pension Fund for which the County Council is the Administering Authority. An extract of the Statement of Accounts is attached at Appendix 1.

Key Messages

- 6 The Pension Fund had positive investment returns for the year ended 31st March 2007 of £99.076m.
- 7 The cash received into the Fund, net of payments out of the Fund was £50.1 million.
- 8 The value of the Pension Fund increased from £1.334 billion at 31st March 2006 to £1.459 billion at 31st March 2007.

Summary

- 9 Members are asked to note the Pension Fund Accounts.

Contact: Hilary Appleton Tel: 0191 383 3544

23rd July 2007
p/reports/ha07-07



Pension Fund Accounts

For the year ended 31st March 2007



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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Stuart D. Crowe C.P.F.A.
County Treasurer

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1. INTRODUCTION

This document is an extract from the published accounts for Durham County Council for the year ended 31st March 2007 - 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 2006/07 is prepared in accordance with the 'Accounts and Audit Regulations 2003', as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 and the 2006 '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.

Independent auditor's report to the Members of Durham County Council

PENSION FUND ACCOUNT

31st March 2006			31st March 2007	
£000	£000		£000	£000
CONTRIBUTIONS AND BENEFITS				
77,419		Contributions receivable (See Note 12)	91,705	
12,629		Transfers in	8,044	
	90,048			99,749
57,182		Benefits payable (See Note 13)	66,709	
12,031		Payments to and on account of Leavers (See Note 14)	5,531	
1,122		Administration expenses (See Note 11)	1,111	
	<u>70,335</u>			<u>73,351</u>
	19,713	Net additions or withdrawals (-) from dealings with members		26,398
RETURN ON INVESTMENTS				
22,504		Investment income (See Note 15)	25,810	
279,513		Change in market value of investments (See Note 5)	74,823	
-1,312		Investment management fees (See Note 10)	-1,557	
	<u>300,705</u>	Net returns on investments		<u>99,076</u>
	320,418	NET INCREASE IN THE FUND DURING THE YEAR		125,474
	<u>1,013,282</u>	NET ASSETS OF THE FUND AT 1ST APRIL		<u>1,333,700</u>
	<u><u>1,333,700</u></u>	NET ASSETS OF THE FUND AT 31ST MARCH		<u><u>1,459,174</u></u>

NET ASSET STATEMENT

As at 31st March 2006			As at 31st March 2007	
£000	£000		£000	£000
Investments - (See Note 5)				
64,845		Fixed interest securities	69,293	
629,291		Equities	655,365	
1,241		Index linked securities	717	
582,862		Managed and unitised funds	631,014	
43,768		Cash and Short Term Investments	94,619	
5,854		Other investments	1,154	
	1,327,861			1,452,162
	<u>5,839</u>	Current assets and liabilities (See Note 19)		<u>7,012</u>
	<u><u>1,333,700</u></u>	NET ASSETS OF THE FUND AT 31 MARCH		<u><u>1,459,174</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 61 bodies 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

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
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

Apart from teachers, who have their own unfunded arrangements, membership of the LGPS is open to all County Council employees. Membership is automatic except for casual staff who have to opt in. 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 2006/07, the number of pensionable employees in the Fund was 19,199, and the number of pensioners was 14,035.

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:

	Benefits	Contributions
	£000	£000
Administering Authority	33,611	41,127
Scheduled Bodies	32,530	41,738
Admitted Bodies	568	8,840
	66,709	91,705

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.

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 2006: 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 most recent one was undertaken as at 31st March 2004, and set contribution rates from 1st April 2005 to 31st March 2008. Details of this 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 31st March.

Notes to Durham County Council Pension Fund Accounts

- 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 does not include accrued interest, which is included within accrued investment income.
- 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

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

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.

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.

Notes to Durham County Council Pension Fund Accounts

The latest valuation of the Fund was undertaken as at 31st March 2004, by the Pension Fund's Actuary, Hewitt Bacon and Woodrow. Contribution rates were set for the period 1st April 2005 to 31st March 2008. The results disclosed a funding deficit of £589.1m and a funding level of 61%. This was the result of the market value of the fund's assets of £897m and the application of a smoothing adjustment, compared to a funding target of £1,520.8m.

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 22 years except for a number of Admitted Bodies.

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 contribution rates were calculated by the Actuary using the projected unit actuarial method and taking account of 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:

Price inflation	2.90%
Pay Increases	4.40%
Pension increases in excess of guaranteed minimum pension	2.90%
Discount rate:	
for active members whilst in service	6.20%
for members not in service before retirement	5.20%
for members after retirement	5.20%
Investment return on bond type assets	5.20%
Investment return on equity and property	7.70%

If the Actuary's assumptions are borne out in practice, the funding deficit of £589.1m as at 31st March 2004 would be eliminated by an aggregate contribution increase of 190% of members contributions over the next 22 years reduced for the first three years by a short term adjustment, which has the effect of reducing contributions payable, on average, by 105% of members' contributions over the 3 year period to 31st March 2008. The benefits expected to accrue to members in the future are also calculated and the rate of contribution that would be appropriate, if the fund had no surplus or deficit and the assets were exactly equal to the funding target, is 230% of members' contributions.

The overall contribution rate applicable from 1st April 2005 to 31st March 2008 can be summarised as follows:

	% Members' Contributions
Long term rate	230
Deficit funding	190
Short term adjustment	-105
Overall contribution rate	315

4. VALUATION OF INVESTMENTS

The Fund's investments are 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.

Notes to Durham County Council Pension Fund Accounts

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

At 31st March 2006			At 31st March 2007	
£000	%		£000	%
424,900	33.24	Legal and General Investment Management	474,123	34.95
434,846	34.02	Baring Asset Management	454,326	33.50
418,063	32.71	Morley Fund Management	427,429	31.51
431	0.03	Managed in-house	511	0.04
1,278,240	100.00		1,356,389	100.00

5. ANALYSIS OF INVESTMENTS

Value at 31/03/06	Purchases at cost	Sales proceeds	Change in market value	Value at 31/03/07
£000	£000	£000	£000	£000
1,327,861	731,256	-681,778	74,823	1,452,162

The change in market value of investments during the year comprises all increases and decreased 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.

Notes to Durham County Council Pension Fund Accounts

31/03/06 £000		31/03/07 £000
	Fixed interest securities	
40,491	UK - Government	40,235
-	UK - other	3,992
24,354	Overseas - Government	25,066
-	Overseas - other	
<u>64,845</u>		<u>69,293</u>
	Equities	
444,446	UK quoted	470,288
431	UK unquoted	511
184,409	Overseas quoted	184,408
5	Overseas unquoted	158
<u>629,291</u>		<u>655,365</u>
	Index linked securities	
679	UK quoted	200
562	Overseas quoted	517
<u>1,241</u>		<u>717</u>
	Managed and unitised funds	
307,157	Managed funds - non-property-UK	59,089
161,787	Managed funds - non-property-Overseas	447,248
23,081	Unit Trusts - non-property-UK	10,097
59,679	Unit Trusts - non-property-Overseas	79,372
31,158	Unit Trusts - property	35,208
<u>582,862</u>		<u>631,014</u>
	Cash and Short Term Investments	
765	Loans - long term - local authorities	751
34,898	Loans - short term - money market	78,378
8,105	Cash in Hand	15,490
<u>43,768</u>		<u>94,619</u>
	Other Investments	
529	Investment Transactions	-3,446
5,263	Dividend Accruals	4,580
62	Recoverable Taxation	20
<u>5,854</u>		<u>1,154</u>

6. CURRENCY HEDGING

Baring Asset Management Ltd. have authority to enter into foreign exchange contracts to buy and sell US Dollars, Japanese Yen, Euros up to the value of 80% of the portfolio's American, Japanese, French, German and Italian holdings, in order to hedge against inflation in those currencies.

7. TAXATION

- 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.

Notes to Durham County Council Pension Fund Accounts

- 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

2005/06 £000		2006/07 £000
7,156	Contributions	7,223
-70	Transfer values	-6
158	Refunds and pensions	753
-1,405	Administration expenses	-1,410
171	DCC	455
-	Fire Authority	-3
6,010		7,012

10. INVESTMENT MANAGEMENT FEES

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

2005/06 £000		2006/07 £000
1,222	Administration, management and custody	1,407
11	Performance measurement services	12
79	Other advisory fees	138
1,312		1,557

11. ADMINISTRATION EXPENSES

2005/06 £000		2006/07 £000
962	Recharge from Durham County Council	949
45	CLASS - CPX	42
5	FRS 17	2
-	Actuarial consultancy fees	-
12	Audit fees	16
6	Subscriptions	7
-	FIDS and Manninen Claim	50
91	Consultancy Fees	65
3	Legal Services	3
13	Euraplan	11
7	Debts Written off	0
18	Publications	19
2	Other	-
	Receipts -	
-3	- costs received on pensions increase	-4
-39	- consultancy fees recharged	-49
1,122		1,111

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.

12. CONTRIBUTIONS RECEIVABLE

2005/06 £000		2006/07 £000
	Employers -	
56,877	- normal contributions	63,814
-	- additional contributions	-
1,301	- special contributions	7,531
	Employees -	
19,180	- normal contributions	20,216
61	- additional contributions	144
77,419		91,705
	Durham County Council	41,127
36,640	Scheduled Bodies	41,738
40,407	Admitted Bodies	8,840
372		
77,419		91,705

Notes to Durham County Council Pension Fund Accounts

13. BENEFITS PAYABLE

2005/06 £000		2006/07 £000
54,670	Pensions	57,014
6,644	Commutations and lump sum retirement grants	13,574
563	Lump sum death grants	935
-4,695	Recharged benefits	-4,814
57,182		66,709
28,621	Durham County Council	33,611
28,416	Scheduled Bodies	32,530
145	Admitted Bodies	568
57,182		66,709

14. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2005/06 £000		2006/07 £000
119	Refunds to members leaving service	13
191	Payments for members joining state scheme	-
10,470	Individual transfers to other schemes	5,518
1,251	Group Transfer - Centrex	-
12,031		5,531

15. INVESTMENT INCOME

2005/06 £000		2006/07 £000
UK Investments -		
2,384	Fixed interest securities	2,138
40	Index linked securities	3
13,165	Equities	14,923
2,029	Income from cash deposits	3,103
1,275	Property unit trusts	1,057
Overseas Investments -		
685	Fixed interest securities	740
16	Index linked securities	8
2,910	Equities	3,838
22,504		25,810

16. RELATED PARTY TRANSACTIONS

Durham County Council: Durham County Council administers the Durham County Council Pension Fund on behalf of 61 bodies, including district, parish and town councils, colleges, statutory bodies and admitted bodies. During 2006/07, the Pension Fund had an average balance of £49.66m of surplus cash deposited with the Council. The Council paid the fund a total of £2.48m in interest on these deposits. The Council charged the fund £1.11m 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 2007:

Employer	Amount Outstanding 31st March £
Wansbeck District Council	172,672.47
Sedgefield District Council	250,057.53
Sunderland City Council	328,618.48

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 is currently being reviewed as a result of the Myners Report which set out a number of principles of best practice.

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

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

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. Funds may be invested in three funds: deposit, with-profits and managed.

Notes to Durham County Council Pension Fund Accounts

The table below refers only to the money purchase AVCs:

	Value at 31/03/06 £000	Purchases £000	Sales £000	Change in Market Value £000	Value at 31/03/07 £000
HECM	2,820	103	243	134	2,814
Prudential	1,211	776	0	-21	1,966
Standard Life	1,181	101	69	121	1,334
Total	5,212	980	312	234	6,114

Statement of Responsibilities for the Statement of Accounts

The Council's Responsibilities -

The Council is required to:-

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. For the 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
28th June 2007

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 28th June 2007

E. Hunter
Chairman of the County Council
Chair of the meeting approving the accounts

Statement on Internal Control

1. The County Council's responsibilities

Durham County Council (the Council) is responsible for making sure that its business is conducted in accordance with the law and to high standards. 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 must ensure that there is a sound system of internal control which facilitates the effective exercise of its functions. This includes arrangements for the management of risk and ensuring proper arrangements are in place for governing its affairs and looking after the resources at its disposal.

The Council's system of internal control is designed to manage risk to optimise the prospect of achieving its aims, objectives and strategic priorities. For this reason, it can therefore only provide reasonable and not absolute assurance of effectiveness. The internal control system is also designed to evaluate the likelihood of those risks being realised and the impact should they occur, and to manage them efficiently, effectively and economically.

2. Internal control and corporate governance framework

The Council believes in the principles of corporate governance which are openness and inclusivity, integrity and accountability. The key elements of the Council's internal control environment and corporate governance framework include its:

- clearly identified corporate aims and objectives;
- strong leadership through an effective executive;
- decision making framework and the transparent publication on our web-site of Cabinet and Committee decisions;
- clear scheme of delegation;
- system of continuous review for the Council's Constitution;
- established Overview & Scrutiny functions;
- newly constituted audit committee;
- performance management framework. This includes regular reporting arrangements to Cabinet, Overview & Scrutiny and the Corporate Management Team, as well as a corporate officer working group to assess performance and the extent to which all our objectives are being achieved;
- risk management arrangements;
- effective financial management, scoring level three in the 2005/06 Comprehensive Performance Assessment (CPA) use of resources assessment and contributing to retaining the Council's overall 4 star CPA rating;
- robust internal audit service which performs a comprehensive programme of work to ensure a healthy control environment;

Focusing on financial management, the Council's effective system of internal financial control includes:

- comprehensive budgeting systems;
- regular reviews of periodic and annual financial reports which indicate financial performance against the forecasts;
- setting targets to measure performance;
- clearly defined responsibilities under the Council's delegated financial management arrangements;
- clearly defined capital expenditure guidelines;
- comprehensive insurance arrangements.

3. Our commitment to reviewing and enhancing the Council's control environment

Our established system of internal control continues to be in place for the year ended 31 March 2007 and up to the date of approval of the Statement of Accounts. Its effectiveness is reviewed and monitored with a view to ensuring continuous improvement as follows:

Our Internal Audit Service continuously works with managers in assessing control environments and enhancing control where it is felt necessary. Internal Audit's objectives include:

- independently reviewing and appraising systems of control throughout the Council;
- ascertaining the extent of compliance with procedures, policies, regulations and legislation;
- providing reassurance to management that their agreed policies are being carried out effectively, recommending corrective action where not; and monitoring the implementation of improvements;
- facilitating good practice in managing risks;
- recommending improvements in control, performance and productivity in achieving corporate objectives;
- reviewing the value for money processes and performance management arrangements;
- working in partnership with our external auditors to ensure effective audit coverage and optimising available audit resources;
- working within the Council's anti-fraud and corruption strategy, supported by formal whistle-blowing arrangements, to identify fraud and undertake investigations as necessary, deterring crime and misappropriation of resources;
- monitoring adherence to Member and officer Codes of Conduct;

Other than by exception, our Head of Internal Audit reports to Cabinet on an annual basis, to give Members an insight into the work carried out by Internal Audit and to complement and expand on the review included in the County Treasurer's Business Plan. Importantly, the report also informs Members on the following issues: -

- the adequacy and effectiveness of the Council's internal control environment;
- the adequacy and effectiveness of the Council's response to External Audit's work and recommendations. An opinion on these issues is achieved by:
 - (a) discussing with the External Auditor the nature and scope of the audit of Council services and functions;
 - (b) receiving and considering External Audit reports and Audit Letters and monitoring management's responses and the implementation of recommendations.

The Head of Internal Audit also supports the County Treasurer with his delegated responsibility for the provision of an adequate and effective Internal Audit. In turn, the work of Internal Audit is monitored by the County Treasurer and his management team who:

- (a) receive and approve an annual internal audit plan from the Head of Internal Audit;
- (b) monitor progress against the plan through the receipt of progress reports and an annual Internal Audit report;
- (c) receive and consider major Internal Audit findings and recommendations, where necessary;

In addition to our internal and external audit arrangements, the Council has other mechanisms to review and enhance its control environment. These include a Standards Committee, Overview and Scrutiny Committee and corporate senior officer working groups covering communication, performance management, risk management, equality and diversity, efficiency and improvement, access to Services, procurement and asset management.

4. Audit of the Corporate Governance Arrangements

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 2005/06, an action plan, containing 28 recommendations was produced. The progress made in implementing each of the recommendations was monitored by Internal Audit in liaison with the Corporate Risk Management Group (CRMG) and formed the starting point of the work carried out in producing the SIC for 2006/07.

Statement on Internal Control

In addition to the issues contained within the action plan, Internal Audit identified other key issues for 2006/07 using various approaches, including discussions with Chief Officers, the use of tailored questionnaires issued to all Members and a sample of 164 Senior Officers, and through audit work carried out during the year.

All of those issues which have been identified for inclusion within the SIC for 2006/07 were agreed with the CRMG prior to being approved by Cabinet on 21 June 2007.

This structured approach is in accordance with guidance issued by CIPFA as best practice. Our comprehensive review has covered governance arrangements in place in relation to; service delivery; organisation; performance management; project management, financial management; risk management, policies and procedures and the pension fund. The key issues for 2006/07 from each of these areas are detailed below. In accordance with our established procedures, a report to our newly established Audit Committee which details the key issues and provides an updated responsibility driven Action Plan for improvement will follow to enable the progress of these issues to be tracked. The Audit Committee will begin its work in 2007/08, seeking to give an enhanced focus on the activities which are currently performed in a distributed way and will greatly assist in the further development of our corporate governance arrangements.

Service Delivery

- Managers are confident that service delivery can be maintained, however, there continues to be difficulties in recruiting staff in certain disciplines. Management of sickness absence continues to provide a challenge, in meeting this the development of a Health at Work Strategy and the capturing of more detailed sickness absence data will enable the main causes of sickness absence to be identified.
- The Council continues to have a strong commitment to meeting the needs of communities. The Local Area Agreement (LAA) has been established as a means of securing significant improvements in services for the people of County Durham and has set challenging targets which focus on four key areas; children and young people, economic development and enterprise, healthy communities and older people and safe and stronger communities. In delivering these targets the LAA has put in place interim governance arrangements, but further work is required to integrate the strategic partnership framework in the County with the LAA governance arrangements taking account of new guidance on the development of LAAs and sustainable community strategies.
- 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. In March 2007, an updated version of the Business Continuity advice to businesses pack, entitled "Is your Business Prepared to Survive", developed in liaison with partners was added to the Council's web site. The high level Business Continuity Plan which identifies all of the key functions has been comprehensively revised and subsequently reviewed by CMT but it is important that the Plan is supported by Service specific Business Continuity Plans which will give details of those functions of a lower priority.
- The Council has reviewed its extensive partnership arrangements with the Private and Public sector in order to confirm the effectiveness of its governance arrangements and to be in a position to demonstrate that each partnership continues to enhance choice and provide value for money. Further work is needed to identify areas of overlap and duplication, overall investment and value for money issues, consistency of governance processes and whether there are significant accumulations of low - level risks that need to be addressed. In addition services now need to undertake the next level of partnership assessments.
- The Plan for the roll-out of Single Status across the Council is still being developed against an increasingly difficult legal background. Agreement and then monitoring by management of the roll-out is essential to achieve the Council's objectives.

- In December 2006, a relatively significant number of staff were granted early retirement from the Customer Services Division of the Chief Executive's Office and the plan was to implement a new structure within Customer Services from 01 January 2007. However, there have been delays in the implementation of the new structure, with no new appointments having been made by 01 June 2007. Although interim arrangements have been in place during this time of transition, it is considered that there have been gaps in some specialist areas, and also in the development of key policy documents. Action is currently being taken to address these issues.

Organisation

- The Council achieved a maximum 4 star CPA rating from the Audit Commission and continued, through its challenging Change programme, to strive to provide even better services to the people of County Durham. The Council invited the Improvement and Development Agency (IDeA) to carry out a Peer Review which took place in December 2006. The resulting recommendations are the basis for an action plan to drive a further programme of improvement and change across the Council. The Council will also need to respond to the implementation requirements arising from the Local Government White Paper whilst ensuring continuing service improvement through a period of change.
- The Audit Commission has now published proposals for a change from CPA to Comprehensive Area Assessments (CAAs) from April 2009. There will be transitional arrangements during 2007/08 and 2008/09. The Council will need to work closely with key partners to identify local priorities through the LAA and agree appropriate delivery plans to achieve improved outcomes in these priority areas. This will require robust performance management arrangements.
- The Audit Commission has conducted an Ethical Governance Survey with Members and Senior Officers to assess levels of awareness and understanding of ethical standards across the Council. The Commission will soon provide a report analysing the results of the survey, including comparative data with other authorities, and highlighting as necessary key issues. This will be presented to Members in August 2007 and is likely to result in a plan of further action. The Council adopted a new Member Code of Conduct on 28 June 2007 based upon the Government Model and is considering the implications of the Local Government and Health Improvement Bill which will place additional responsibilities on the Council for dealing, in the first instance, with all complaints about Member conduct. A new Officer Code of Conduct is still awaited from the Government, learning the lessons from the new Member Code.
- Recent changes in the Council's political leadership, and the membership of Cabinet, Overview and Scrutiny, and other Regulatory Committees bring with them the risks associated with any major change. With this in mind, the Chief Executive and CMT have been working closely with the Council's political leadership to ensure the impact of these risks is minimised.
- The Council achieved Level 3 of the Equality Standard for Local Government in November 2006 and will seek external validation regarding achievement of Level 4 by November 2008.

Performance Management

- There is a general consensus amongst managers that Services are performing strongly, and this is supported by various other sources of assurance and inspection. There is still some inconsistency, however, in the identification and use of performance measures across all aspects of Services. The Corporate Performance Management system captures BVPIs and key performance indicators across all Services. A new format for quarterly performance monitoring reports was introduced in 2006/07, which has been supported by all Services. Further work is 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.

Statement on Internal Control

Project Management

- Work on developing a common methodology for project management across the Council has been instigated by the Efficiency and Improvement Steering Group (EISG) and will continue to be developed during 2007. The objectives are to improve the Council's capacity and capability to manage change. This will also complement work that has been instigated as a result of the IDeA peer review. The work being developed is feeding into Corporate HR to support the development of a set of Management Core Competencies, to be used to develop managers across the Council.
- The Council continues to develop its arrangements in relation to major projects including those in relation to Building Schools for the Future, the Waste Management Contract and Strategic Building Alliance. It is essential that resources are focussed to ensure that our aspirations in these areas are delivered including, where required, the achievement of milestones specified as part of the Gateway process.

Financial Management

- Managers have confidence with the core financial support provided, but for some, the format and timeliness of information could be improved. 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 implementation phase with the work on defining business processes and the operating model completed. An implementation partner has been identified and will be starting to work with the Council shortly. A communication plan is being developed to ensure regular and appropriate communication is made with all relevant staff. The project remains on track to meet the target implementation date of April 2008 but will clearly require careful management.
- The Council's financial management dual accountability pilot has been successfully completed and has been rolled out across all Services. In accordance with the outcome of the Best Value Review of Support Services and in seeking to drive further improvement, the Council should now look to formalise the application of these principles across all of its remaining centrally supported functions.

Risk Management

- The Council continues to make progress in moving forward on its risk management agenda. In the CPA review in 2006, it was concluded that the Council has robust risk identification procedures in place at Service and corporate levels. The significant partnerships in the Council have been risk assessed using the guidance provided by the CRMG. This has been a key contribution to improving the governance of our significant partnerships. Members are supported in their strategic decision-making following the implementation of a process to assess and report risks associated with Key Decisions. Risk management training for both Members and staff, has been delivered and more courses are planned. The facilitation of a number of risk management workshops on key projects, such as Building Schools for the Future, has made a major contribution to support the projects in their Gateway reviews. A number of key risk management documents, including a risk management manual and revised risk management strategy and risk assessment criteria, have been implemented. The responsibilities of the CRMG have been broadened to monitor, on a quarterly basis, progress towards implementing recommendations agreed in the SIC. In looking to continue the process of making risk management part of our everyday consideration it is essential that the Council's risk management database, Magique, is rolled out across Services at the appropriate time.

Policies and Procedures

- Whilst a minority of Services already have quality assurance procedures in place, the Council should look to adopt these principles universally in line with best practice. The Council will need to continue to develop robust arrangements for ensuring the quality of data taking account of new guidance from the Audit Commission, which will include voluntary standards for data quality.

Pension Fund

- The management of the Pension Fund is currently subject to a tendering exercise which will effectively create six investment mandates to be operated by Investment Managers on an active basis. Until such time a transitional arrangement has been established, it is essential that the change process is managed effectively and in a timely manner to minimise any reduction in Fund performance.

5. Auditor Opinions

The Audit Commission, our External Auditor, issued an unqualified opinion on the Council's accounts (including the Pension Fund) for 2005/06 when reporting to Cabinet on 28 September 2006 and presented the annual Audit and Inspection Letter for 2005/06 to Cabinet on 24 May 2007.

The Head of Internal Audit reported to Cabinet on 21 June 2007 on the work performed by Internal Audit during the year ended 31st March 2007, and provided the opinion that "the key financial systems continue to provide an adequate basis for effective control ensuring the efficient, effective, and economic operation of the Council's affairs. With regard to the limited work that has been undertaken by Internal Audit in respect of the systems of non-financial control, no significant control weaknesses have been identified or brought to our attention by Senior Officers who have responsibility for these controls".

6. Developing the Council's Approach to Corporate Governance for 2007/08

The Council is fully committed to the principles of corporate governance and has further strengthened its arrangements across its areas of activity. An action plan for implementation of the issues identified within the SIC which already formed a central part to our approach has been developed and responsible officers have provided quarterly assessments of progress made in relation to all issues identified. The CRMG has assumed responsibility for both the progressing of these issues and compilation, together with Internal Audit, of all future statements prepared.

In June 2007 CIPFA/SOLACE published a framework, called 'Delivering Good Governance in Local Government', which is an update of the original guidance first published in 2001. The Authority's structure will be tested against this revised framework during 2007/08. The additional requirements of moving to an Annual Governance Statement (AGS) from 2007/08 as introduced by Government within the 2006 Statement of Recommended Practice (SORP) will also need to be considered.

7. Opinion

It is our opinion, based on the assurances provided, that the Council's internal control environment and corporate governance framework accord with proper practice and we can take reasonable assurance that our developing arrangements are working effectively.

Signed: Albert Nugent
Leader of Durham County Council

Mark Lloyd
Chief Executive

Stuart Crowe
County Treasurer

on behalf of the Members and senior officers of Durham County Council.

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.

Glossary of Terms Used in the Accounts

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 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 represents 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.

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.

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.

Glossary of Terms Used in the Accounts

Fixed Asset Restatement Account (FARA)

This account reflects 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.

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 (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.

Glossary of Terms Used in the Accounts

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

Public Works Loans Board (PWLB)

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

Reserves

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

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.

Glossary of Terms Used in the Accounts

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.

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.