

**Pension Fund Committee**

**28<sup>th</sup> July 2008**

**Statement of Accounts for the year ended  
31<sup>st</sup> March 2008**



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**Report of Stuart Crowe, County Treasurer**

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**Purpose of the Report**

- 1 To inform Members of the Pension Fund Accounts that are included in the Statement of Accounts for the County Council for the financial year ended 31<sup>st</sup> March 2008.

**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 30<sup>th</sup> June 2008.
- 3 The Statement of Accounts 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 2007 '*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 2007: A Statement of Recommended Practice. As a result, the document contains a great deal of detailed financial information.
- 5 The Statement of Accounts includes the accounts for Durham County Council Pension Fund for which the County Council is the Administering Authority. An extract from the Statement of Accounts is attached at Appendix 2.

## **Key Messages**

- 6 The Pension Fund had negative investment returns for the year ended 31<sup>st</sup> March 2008 of £54.420m.
- 7 The cash relating to dealings with Members, received into the Fund, net of payments out of the Fund was £23.1 million.
- 8 The value of the Pension Fund decreased from £1.459 billion at 31st March 2007 to £1.428 billion at 31st March 2008.

## **Summary**

- 9 Members are asked to note the contents of this report.

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**Contact: Hilary Appleton Tel: 0191 383 3544**

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**Appendix 1: Implications**

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**Finance**

Details the financial position of the Pension Fund at 31<sup>st</sup> March 2008.

**Staffing**

None

**Equality and Diversity**

None

**Accommodation**

None

**Crime and disorder**

None

**Sustainability**

None

**Human rights**

None

**Localities**

None

**Young people**

None

**Consultation**

None

**Health**

None





# **Pension Fund 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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**Stuart D. Crowe C.P.F.A.**  
County Treasurer

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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.

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

## Pension Fund Account and Net Assets Statement

### 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	7,311	
	1,452,162			1,425,182
	<u>7,012</u>	<b>Current assets and liabilities (See Note 9)</b>		<u>2,672</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>

## 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

## Pension Fund Account and Net Assets Statement

retirement schemes or being made redundant. Contributors who leave and who are not immediately entitled to these benefits may have their pension rights transferred or preserved until reaching retirement age. In a minority of cases refunds of contributions can be made.

In 2007/08, the number of pensionable employees in the Fund was 19,249 (19,199 in 2006/07), and the number of pensioners was 14,353 (14,035 in 2006/07).

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:

2006/07		2007/08	
Benefits £000	Contributions £000	Benefits £000	Contributions £000
33,611	41,127	35,847	43,032
32,949	43,986	36,498	48,481
149	6,592	465	1,926
<b>66,709</b>	<b>91,705</b>	<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 31st March 2004, and set contribution rates from 1st April 2005 to 31st 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 31st 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.

## Pension Fund Account and Net Assets Statement

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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 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 Associates Limited (formerly Hewitt Bacon and Woodrow Limited). 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:

	<b>% Pensionable Pay</b>
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 investment 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):

<b>Investment Manager</b>	<b>%</b>	<b>Asset Classes</b>	<b>Investment Style</b>
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:

<b>At 31st March 2007</b>		<b>At 31st March 2008</b>	
<b>£000</b>	<b>%</b>	<b>£000</b>	<b>%</b>
<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	3,286,976	-3,228,706	-85,250	1,425,182

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	-
<u>35,208</u>	Unit Trusts - property	<u>63,906</u>
<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	6,975
20	Recoverable Taxation	69
<u>1,154</u>		<u>7,311</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	-2,262
455	DCC	-2,896
-3	Fire Authority	18
<b>7,012</b>		<b>2,672</b>

## 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

## Pension Fund Account and Net Assets Statement

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.

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.

**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
43,986	Scheduled Bodies	48,481
6,592	Admitted Bodies	1,926
<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
32,949	Scheduled Bodies	36,498
149	Admitted Bodies	465
<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
<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
255	Wansbeck District Council	-
323	Sedgefield District Council	316
173	Sunderland City Council	168
<b>751</b>		<b>484</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)

Regulation 5(2)(c) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 do not permit AVCs to be paid into the Pension Fund, so 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 2008 and its income and expenditure for the year ended 31st March 2008

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.



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

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### **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.

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

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

- 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.

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

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

### **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.

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

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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 national 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 which 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

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

### **Annual Governance Statement**

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

### **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.

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

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### **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.

### **Fair Value**

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

### **FIDs and Manninen**

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

### **Finance Lease**

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

### **Financial Instrument**

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

**Financial 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 support the revenue expenditure of local authorities. It comprises Revenue Support Grant and redistributed National Non-Domestic Rates. It is distributed by formula through the Local Government Finance Settlement.

**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 towards 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**

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

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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.

### **Investment**

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.

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

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### **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 had no specific legal powers but which it considered 'would 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 revenue government grant distributed outside of the main Local Government Finance Settlement. Some specific grants are ring-fenced to control local authority spending. Others are unfenced and there are no restrictions as to how they are spent.

**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.

**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.

**Variance**

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



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

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### **Work-in-Progress**

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