



## Special Audit Committee

**Date** Monday 31 October 2011  
**Time** 11.00 am  
**Venue** Committee Room 1B - County Hall, Durham

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### Business

#### Part A

**Items during which the Press and Public are welcome to attend.  
Members of the Public can ask questions with the Chairman's  
agreement.**

1. Declarations of Interest
2. Statement of Accounts for the Year Ended 31 March 2011 - Report of Corporate Director, Resources (Pages 1 - 198)
3. Annual Governance Reports 2010/11 - Report of Corporate Director, Resources (Pages 199 - 222)
4. Such other business as, in the opinion of the Chairman of the meeting, is of sufficient urgency to warrant consideration.
5. Any resolution relating to the exclusion of the public during the discussion of items containing exempt information.

#### Part B

**Items during which it is considered the meeting will not be open to the public (consideration of exempt or confidential information)**

6. Such other business as, in the opinion of the Chairman of the meeting, is of sufficient urgency to warrant consideration.

**Colette Longbottom**  
Head of Legal and Democratic Services

County Hall  
Durham  
21 October 2011

To: **The Members of the Audit Committee**

Councillor E Bell (Chairman)  
Councillor O Temple (Vice-Chairman)

Councillors C Carr, B Harrison, M Hodgson, L Marshall, B Myers,  
R Ord and D J Southwell

**Co-opted Members:**

T Hoban and K Larkin-Bramley

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**Contact: Ros Layfield**

**Tel: 0191 383 4205**

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**Audit Committee**

**31 October 2011**



**Statement of Accounts for the year ended  
31 March 2011**

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**Report of Don McLure, Corporate Director Resources  
Cabinet Portfolio Member for Resources, Councillor Alan Napier**

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**Purpose of the Report**

- 1 To seek approval of the attached Statement of Accounts for the County Council for the financial year ended 31 March 2011.

**Background**

- 2 The 'Accounts and Audit Regulations 2003' as amended by the Accounts and Audit (Amendment) (England) Regulations 2006, 2009 and 2011 (the Regulations) set out the requirements for the production and publication of the annual Statement of Accounts.
- 3 Approval of the Statement of Accounts is a two stage approval process; the first stage in June was to have the Corporate Director Resources as the Section 151 Officer for the County Council sign and date the Statement of Accounts, and certify that it presents a true and fair view of the financial position of the County Council as at 31 March 2011. The Statement of Accounts is then subject to the views of the External Auditor.
- 4 The second stage, as set out in the Regulations require that on or before the 30 September, final approval needs to be given to the Statement of Accounts and the Annual Governance Statement that take into account the views of the External Auditor. This is done so that the Statement of Accounts can then be published.
- 5 As the Statement of Accounts was not completed at 30 September 2011, this approval is now requested of the Audit Committee at this meeting.
- 6 The Auditor will have completed the audit of the Statement of Accounts by the date of this meeting and the Annual Governance Report will be presented by the Auditor to the Committee.
- 7 During the audit, working in collaboration with the Auditor, a number of amendments have been identified and have been included in the Statement of Accounts presented today.

## Statement of Accounts

- 8 The Statement of Accounts for the financial year 2010/11 is prepared in accordance with the 'Accounts and Audit Regulations 2003', as amended by the 'Accounts and Audit (Amendment) (England) Regulations 2006 and 2009, the 'Accounts and Audit (England) Regulations 2011' and the 'Code of Practice on Local Authority Accounting 2010/11' (the Code) as published by the Chartered Institute of Public Finance and Accountancy (CIPFA).
- 9 The Code is based on approved accounting standards issued by the International Accounting Standards Board (IASB) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC), except where these are inconsistent with specific statutory requirements. The Code also draws on approved accounting standards issued by the International Public Sector Accounting Standards Board (IPSAS) and the UK Accounting Standards Board where these provide additional guidance. In England and Wales, the local authority Code constitutes 'proper accounting practice' under the terms of section 21(2) of the Local Government Act 2003. The County Council is therefore legally required to follow this Code of Practice. Explanatory notes are included to assist in the interpretation of the accounts, which are unfortunately, unavoidably technical and complex.
- 10 The Statement of Accounts for 2010/11 is the first to be prepared on an International Financial Reporting Standards (IFRS) basis. IFRS has required changes to the format of the main financial statements and has increased the number of disclosure notes. It has also led to the restatement of various balances, resulting in changes in the amounts presented in the Statement of Accounts from the equivalent balances presented in 2009/10. Although the changes have an impact on the content and format of the accounts, they are technical accounting changes that do not have a material impact on the financial performance of the County Council. The IFRS 1 note in the Notes to the Accounts details the movement in the Balance Sheet as a result of the move from UK GAAP to IFRS as at 31 March 2010 and 1 April 2009
- 11 A number of changes to the Notes to the Core Financial Statements to assist the reader's understanding of the document, to correct errors and ensure compliance with the requirements of the Code have been made.
- 12 During the Auditor's consideration of the Statement of Accounts a number of material errors and areas of non-compliance with the Code were identified and have been amended in the Statement of Accounts. These are listed in the Annual Governance Report.
- 13 In addition, a number of non material misstatements have been identified and remain unadjusted. These are listed in the Annual Governance Report. The total of these unadjusted misstatements do not materially affect the accuracy/integrity of the Statement of Accounts. It is not intended to adjust the Statement of Accounts for these items.

- 14 The audit of the Statement of Accounts will be complete by 31 October and there may be additional misstatements which may be adjusted or remained unadjusted. Should there be any, these will be presented to the Committee on 31 October.
- 15 At the time that the audit of the accounts is completed, a “letter of representation” will be completed and the reasons for not adjusting these items will be set out in that letter.
- 16 To help Members in reading and interpreting the contents, Appendix 2 to this report briefly explains the purpose of each section of the Statement.

### **Audit Opinion**

- 17 On completion of the audit of the accounts, auditors must give their opinion on the financial statements of Durham County Council, the Group and the Pension Fund, including:
- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
  - whether they have been prepared properly, in accordance with the relevant accounting rules.
- 18 The Auditor can issue a ‘qualified opinion’ where he has some reservations or concerns, or an ‘unqualified opinion’ where he does not have any reservations.
- 19 In addition, the Auditor issues a ‘Value for money conclusion’ which is the auditor’s conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Auditor’s opinion considers whether the County Council has proper arrangements for:
- Securing financial resilience, and
  - Challenging how it secures economy, efficiency and effectiveness.
- 20 For 2010/11 the Auditor intends to issue an unqualified opinion on the accounts of the County Council, the Group Accounting Statements and the Pension Fund Accounting Statements and the Value for Money conclusion.

### **Recommendation**

- 21 That the Audit Committee approves the attached Statement of Accounts for the County Council for the financial year ended 31 March 2011.

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**Contact: Don McLure Tel: 0191 383 3550**

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## **Appendix 1: Implications**

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### **Finance –**

Details the financial position at 31 March 2011.

### **Staffing -**

None

### **Risk -**

None

### **Equality and Diversity -**

None

### **Accommodation -**

None

### **Crime and Disorder -**

None

### **Human Rights -**

None

### **Consultation -**

None

### **Procurement -**

None

### **Disability Discrimination Act -**

None

### **Legal Implications -**

None

## Appendix 2: Statement of Accounts - Summary and Explanation

Item	Pages	Explanation of Purpose and Content
<b>Explanatory Foreword</b>	3 - 28	Summary of the most significant matters reported in the accounts, and the overall financial position of the County Council.
<b>Independent Auditor's Report to Durham County Council</b>	29 - 34	Gives the Independent Auditor's opinion on the Financial Statements. The opinion is that the Financial Statements presents a true and fair view and in accordance with legal and regulatory requirements the Council's, Group's and Pension Fund's financial position as at 31 March 2011.
<b>Durham County Council Core Financial Statements</b>		
Movement in reserves statement	35 - 36	<p>This statement is a summary of the changes that have taken place in the bottom half of the balance sheet over the financial year.</p> <p>This statement shows the movement in reserves held by the County Council analysed into 'usable' reserves and 'unusable' reserves.</p>
Comprehensive Income and Expenditure Statement	37	<p>This statement brings together all the gains and losses of the County Council for the financial year and shows the aggregate movement in the net worth in the Balance Sheet.</p> <p>The CIES is in two sections. The first section is very similar to the Income and Expenditure Account under the SORP and shows the surplus or deficit on the cost of services. The second section is very similar to the Statement of Total Recognised Gains and Losses (STRGL) under the SORP and shows any changes in the net worth that have not been reflected in the cost of services.</p>

Item	Pages	Explanation of Purpose and Content
Balance Sheet	38	<p>Shows the financial position of the County Council at 31 March 2011(excluding the Pension Fund and other Trust Funds).</p> <p>The balance sheet's top half shows the assets and liabilities; what the County Council owns and what it owes, and in its bottom half reserves, as a local authority does not have equity. The reserves fall into two categories, 'usable' reserves and 'unusable' reserves.</p> <p>Usable reserves include revenue and capital resources available to fund future expenditure e.g. General Fund Balance.</p> <p>Unusable reserves include unrealised gains and losses, particularly in relation to the revaluation of property, plant and equipment e.g. Revaluation reserve, and adjustment accounts that take into account the differences between proper accounting practice and the requirements of statutory funding arrangements e.g. Capital Adjustment Account and Pensions Reserve.</p>
Cash Flow Statement	39	Summarises the inflows and outflows of cash arising from transactions with other parties for revenue and capital purposes.
Notes to the Core Financial Statements	40 - 110	Gives further explanation to the core financial statements. They aim to assist understanding by analysing balances shown in the Core Financial Statements and by providing information that is not provided elsewhere but is relevant to the understanding of the accounts and shows the policies and procedures adopted in compiling the Accounts.
<b>Durham County Council Group Financial Statements</b>	111 - 123	Gives an overall understanding of the County Council's economic activities and financial position by including in Group Financial Statements other entities over which the County Council has the ability to exercise control.
<b>The Housing Revenue Account (HRA)</b>	124 – 128	Records revenue expenditure and income relating to the Authority's housing stock. It is a statutory ring-fenced from the General Fund. It ensures that expenditure on managing tenancies and maintaining dwellings is balanced by rents charged to tenants.
<b>Collection Fund</b>	129 – 133	It is a statutory requirement for a billing authority to establish and maintain a separate fund for the collection and distribution of amounts in respect of council tax and National Non-Domestic Rates



<b>Item</b>	<b>Pages</b>	<b>Explanation of Purpose and Content</b>
<b>Durham County Council Pension Fund Accounts</b>	134 – 165	Full accounts and notes relating to Durham County Council Pension Fund to provide information about the financial position, performance and financial adaptability of the Fund.
<b>Statement of Responsibilities for the Statement of Accounts</b>	166	Sets out the responsibilities of the Council and the Corporate Director Resources for the Statement of Accounts.
<b>Annual Governance Statement</b>	167 - 178	Gives assurance that appropriate mechanisms are in place for the maintenance of good governance across the activities of the County Council.
<b>Glossary of Terms used in the Accounts</b>	179 - 190	To help the reader understand terminology used in the Statement of Accounts.

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

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

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Telephone: 0300 123 7070

**Don McLure C.P.F.A.**  
Corporate Director Resources

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## 14. Introduction

This document presents the published accounts for Durham County Council for the year ended 31 March 2011 – the 'Statement of Accounts'. It is a very 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.

The purpose of the Explanatory Foreword is to provide an understandable guide of the most significant aspects of the County Council's financial performance, year end financial position and cash flows. This foreword covers:

- ❖ The statutory background to the Statement of Accounts
- ❖ Information and Financial Statements
- ❖ A review of 2010/11
- ❖ Material assets acquired, liabilities incurred and borrowing
- ❖ Sources of funds to meet capital expenditure and other plans
- ❖ Pensions liability
- ❖ Investments in three Iceland Banks that went into liquidation in 2008
- ❖ Significant provisions, contingencies and material write-offs
- ❖ Changes in statutory functions
- ❖ Subsequent events
- ❖ Future plans

## 15. Statement of accounts

The Statement of Accounts for the financial year 2010/11 is prepared in accordance with the 'Accounts and Audit Regulations 2003', as amended by the 'Accounts and Audit (Amendment) (England) Regulations 2006 and 2009, the 'Accounts and Audit (England) Regulations 2011' and the 'Code of Practice on Local Authority Accounting 2010/11' (the Code) as published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

The Code is based on approved accounting standards issued by the International Accounting Standards Board (IASB) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC), except where these are inconsistent with specific statutory requirements. The Code also draws on approved accounting standards issued by the International Public Sector Accounting Standards Board (IPSAS) and the UK Accounting Standards Board where these provide additional guidance. In England and Wales, the local authority Code constitutes 'proper accounting practice' under the terms of section 21(2) of the Local Government Act 2003. The County Council is therefore legally required to follow this Code of Practice. Explanatory notes are included to assist in the interpretation of the accounts, which are unfortunately, unavoidably technical and complex.

The Statement of Accounts for 2010/11 is the first to be prepared on an International Financial Reporting Standards (IFRS) basis. IFRS has required changes to the format of the main financial statements and has increased the number of disclosure notes. It has also led to the restatement of various balances, resulting in changes in the amounts presented in the Statement of Accounts from the equivalent balances presented in 2009/10. Although the changes have an impact on the content and format of the accounts, they are technical accounting changes that do not have a material impact on the financial performance of the County Council. The IFRS 1 note in the Notes to the Accounts details the movement in the Balance Sheet as a result of the move from UK GAAP to IFRS as at 31 March 2010 and 1 April 2009

There has been a staged introduction of some IFRS requirements. Accounting for financial instruments changed from 2007/08 and IFRIC 12: Service concession arrangements, were implemented in 2009/10.

The table overleaf gives an overview of the main changes:

	<b>Significant IFRS changes</b>	<b>The same as previous years</b>
Financial Statements	New statements and amended layouts. More flexibility - detail can be in the statements or the notes; terminology can be amended; and the order of the statements can be changed to suit the authority.	New formats consistent with those used in the Statement of Recommended Practice (SORP) where this is possible and helpful.
Purchase of goods and services	None.	Everything.
Salaries and Pensions	Untaken holiday pay and similar items accrued for at year end.	Everything else.
Government Grants and Contributions	Capital grants recognised immediately (unless there are conditions) rather than being deferred and matched to expenditure.	Only the same for capital grants if there are conditions.
Property, Plant and Equipment (Non-current Assets)	More emphasis on component accounting than under UK GAAP. Impairments taken initially to the Revaluation Reserve rather than Income and Expenditure – like revaluation losses. New class of 'assets held for sale'.	Everything else. Expenditure that can be capitalised under IFRS remains unchanged.
Private Finance Initiative (PFI)	Assets brought onto the balance sheet where the authority controls the asset. Changes made in SORP 2009 - no change for 2010/11.	
Leases	90% 'test' to separate finance and operating leases removed. Property leases classified and accounted for as separate leases of land and buildings. Need to assess whether other arrangements contain the substance of a lease.	Everything else. IFRS retains the concept of the finance lease / operating lease distinction, and the tests carried out to classify leases are substantially the same.
Financial Instruments	None – IFRS is identical to UK GAAP.	Everything.

## 16. Information and financial statements

The purpose of the explanatory foreword is to provide a concise and understandable guide for the reader of the accounts of the most significant aspects of the County Council's financial performance, year end position and cash flows.

The information and financial statements are as follows

### **Independent auditor's report**

The Report of the Independent Auditor on the County Council's Accounts and the Durham County Council Pension Fund Accounts for the year ended 31 March 2011.

### **Durham County Council's core financial statements**

#### **Movement in reserves statement**

This statement is a summary of the changes that have taken place in the bottom half of the balance sheet over the financial year.

This statement shows the movement in reserves held by the County Council analysed into 'usable' reserves and 'unusable' reserves.

### **Comprehensive income and expenditure statement (CIES)**

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

The CIES is in two sections. The first section is very similar to the Income and Expenditure Account under the SORP and shows the surplus or deficit on the cost of services. The second section is very similar to the Statement of Total Recognised Gains and Losses (STRGL) under the SORP and shows any changes in the net worth that have not been reflected in the cost of services.

### **Balance sheet**

Showing the financial position of the County Council at 31 March 2011 (excluding the Pension Fund and other Trust Funds).

The balance sheet's top half shows the assets and liabilities; what the County Council owns and what it owes, and in its bottom half reserves, as a local authority does not have equity. The reserves fall into two categories, 'usable' reserves and 'unusable' reserves.

Usable reserves include revenue and capital resources available to fund future expenditure e.g. General Fund Balance.

Unusable reserves include unrealised gains and losses, particularly in relation to the revaluation of property, plant and equipment e.g. Revaluation reserve, and adjustment accounts that take into account the differences between proper accounting practice and the requirements of statutory funding arrangements e.g. Capital Adjustment Account and Pensions Reserve.

### **Cash flow statement**

Summarising the flows of cash in and out of the County Council's bank accounts arising from transactions with other parties for revenue and capital purposes.

### **Notes to the accounts**

The notes are important in the presentation of a true and fair view. They aim to assist in understanding by presenting information about the basis of preparation of the core financial statements; by disclosing information required by the Code that is not presented elsewhere; and by providing information that is not provided elsewhere but is relevant to the understanding of the accounts and shows the policies and procedures adopted in compiling the Accounts.

### **Group financial statements**

Presents the overall picture of the Council's financial activities and the resources employed. As Durham County Council chooses to conduct some of its activities through a variety of undertakings, full understanding of its financial activities requires group financial statements to be prepared.

### **The housing revenue account (HRA)**

A record of revenue, income and expenditure relating to the Council's housing functions. Its primary purpose is to ensure that expenditure on managing tenancies and maintaining dwellings is funded by rents charged to tenants. Consequently the HRA is a statutory account, ring-fenced from the rest of the General Fund, so that rents cannot be subsidised from Council Tax.

### **Collection fund**

Showing the transactions relating to Council Tax and Non-Domestic Rates and illustrates how these have been distributed.

### **Durham County Council Pension Fund Accounts**

Showing the operation and membership of the Fund, the expenditure and income during the year and its financial position at 31 March 2011. Following the Accounts are notes providing further information.

### **Statement of responsibilities for the statement of accounts**

Setting out the responsibilities of the County Council and the Corporate Director Resources.

### **Annual governance statement**

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

### **Glossary of terms**

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

## **17. A review of 2010/11**

2010/11 is the second year of the new Unitary Durham County Council. The budget for the year was set against a background of national uncertainty about public finances over the medium term. At the same time, the County Council, working with partners and local communities, refocused the vision and priorities for the County and the County Council to reflect the renewed ambition and opportunities unitary status makes possible.

The County Council's budget was funded by a Band D Council tax of £1,282.86. This enabled revenue investment in the County Council's priority areas including £6.30m in Adult, Wellbeing and Health (AWH), £3.94m in Children and Young People's Services (CYPS), £5.95m in Neighbourhood Services and revenue financing of £8.1m for the capital programme. Savings of £15.27m, including £6.77m of Local Government Reorganisation (LGR) related savings were planned.

The County Council developed a Medium Term Financial Plan (MTFP) for the period 2010 to 2013 and noted that this is a particularly challenging time to complete such work. The national uncertainty over the medium term was well-documented with the postponement of the Comprehensive Spending Review (CSR) and the impending general election making it necessary to base the MTFP on assumptions about grant levels beyond 2010/11. All political parties and commentators were in agreement that public sector expenditure would be reduced during the lifetime of the MTFP. The MTFP was therefore developed against that backdrop.

The following paragraphs detail the actual outturn position against this budget. It was anticipated at the time the budget was set that £3.502m would be drawn from reserves to finance the budget, the actual drawing from reserves was £0.171m from earmarked reserves and £9.682m from general reserves.

- 1) The County Council faced a major challenge in 2010/11 when, on 10 June 2010 'in year' Government Grant reductions of £18m for Durham were announced in the Government's 'Emergency' Budget.
- 2) 2010/11 also saw the introduction of Cash Limits for Service Groupings. This section provides detail of the outturn for the County Council's Service Grouping Cash Limits.

### **General Fund Outturn**

- 3) This section shows the following:
  - (i) Cash Limit Outturn for Service Groupings;
  - (ii) Overall Revenue Outturn for the General Fund with summarised Service Grouping commentary;
  - (iii) Overall Capital Outturn of the General Fund with summarised Service Grouping commentary;

### **Cash Limit Outturn**

- 4) The overall outturn for the County Council for 2010/11 is detailed overleaf:



	Agreed Budget	Service Groupings Final	Variance	Cash Limit Adjustments			Cash Limit Position
				Sums Outside the Cash Limit	LGR Transition Costs	Movement on Reserves	
Children & Young People	126,016	114,778	-11,239	7,101	0	2,885	-1,253
Adult Wellbeing and Health	194,268	197,324	3,056	-6,877	0	-1,602	-5,423
Neighbourhood Services	111,437	135,868	24,431	-25,476	-286	39	-1,292
Regeneration and Economic Dev Resources	66,189	63,884	-2,305	-7,414	-78	7,406	-2,391
Assistant Chief Executive	17,906	28,679	10,773	-10,445	-1,441	240	-873
	14,411	13,866	-545	-2,730	0	2,381	-894
	530,227	554,399	24,171	-45,841	-1,805	11,349	-12,126
Contingencies	7,674	246	-7,428		0		
LGR Transition Costs	1,260	0	-1,260		1,805		
<b>NET COST OF SERVICES</b>	<b>539,161</b>	<b>554,645</b>	<b>15,483</b>	<b>-45,841</b>	<b>0</b>	<b>11,349</b>	<b>-12,126</b>
Capital charges	-49,019	-90,991	-41,972				
Interest and Investment income	-1,577	-1,827	-250				
Interest payable and similar charges	24,527	32,088	7,561				
Reversal of HR Accrual	0	8,239	8,239				
LPSA Performance Reward Grant	0	-255	-255				
LABGI Grant	0	-436	-436				
Area Based Grant	-55,940	-55,539	401				
<b>Net Operating Expenditure</b>	<b>457,152</b>	<b>445,924</b>	<b>-11,228</b>	<b>-45,841</b>	<b>0</b>	<b>11,349</b>	<b>-12,126</b>
Amount required from council tax payers	-198,813	-198,813	0				
Use of earmarked reserves	-21,573	-4,165	17,408				
Estimated net surplus on Collection Fund	-1,924	-1,924	0				
Revenue Support Grant	-29,333	-29,333	0				
Re-distributed Non Domestic Rates	-202,007	-202,007	0				
Use of general reserve	-3,502	-9,682	-6,180				
<b>TOTAL</b>	<b>0</b>	<b>-0</b>	<b>0</b>	<b>-45,841</b>	<b>0</b>	<b>11,349</b>	<b>-12,126</b>

The table above details how the Cash Limit Outturn for each Service Grouping is calculated. Three key elements must be excluded from the Service Grouping Outturn to calculate the Cash Limit Outturn as detailed below:

(i) Sums Outside the Cash Limit

Expenditure and Income can be excluded from the Cash Limit for a number of reasons. Some of these are detailed below:

- ❖ Items not controlled by the Service Groupings e.g. Capital Charges, Central Administration Recharges and items relating to International Financial Reporting Standards (IFRS).
- ❖ Expenditure pressures which were not accounted for in base budget build e.g. exceptional winter maintenance costs in Neighbourhoods and Building Schools for the Future (BSF) abortive costs in Children's and Young People Service Grouping due to the Government's scaling back of the BSF Programme.
- ❖ LGR Pension Augmentation Costs – originally these costs were to be spread over a five-year period. The 2011/12 County Council Budget Report to County Council on 23 February 2011 identified that it could be prudent if all of these costs were paid in 2010/11.

(ii) LGR Transition Costs

The 2010/11 budget identified a range of continuing LGR Transition costs which would be met from General Reserve.

(iii) Use of or Contribution to Earmarked Reserves

## Explanatory Foreword

Service Groupings have either utilised or contributed to Earmarked Reserves throughout the year, which need to be outside the calculation of the Cash Limit.

- 5) After taking into account the above exclusions, all Service Groupings have generated a Cash Limit underspend in 2010/11. It should be noted that the Adults, Wellbeing and Health figure is inflated by the receipt of Primary Care Trust (PCT) income in February 2011 of £1.92m. This sum is fully committed against activity in 2011/12 and onwards.
- 6) The Cash Limit underspend for 2010/11, for each Service Grouping is detailed below:

	<b>£m</b>
Assistant Chief Executive	0.89
Adults, Wellbeing & Health	5.42
Children & Young People's Service	1.25
Neighbourhood Services	1.29
Regeneration & Economic Development	2.39
Resources	0.88
<b>TOTAL</b>	<b>12.12</b>

## Revenue Outturn

- 7) The table in paragraph 4) provides a detailed Outturn position for the County Council General Fund by Service Grouping. In addition, the table below provides a detailed Outturn position for the County Council by type of expenditure and income.

	Cash Limit Adjustments						
	Agreed Budget	Service Groupings Outturn	Variance	Sums Outside the Cash Limit	LGR Transition	Movement on Reserves	Cash Limit Position
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Employees</b>	620,856	631,125	10,269	-6,257	-787	-10,877	-7,652
<b>Premises</b>	52,359	49,792	-2,567	211	-116	0	-2,472
<b>Transport</b>	54,849	57,179	2,330	2,182	0	0	4,512
<b>Supplies &amp; Services</b>	216,146	215,960	-186	-575	-755	2,125	609
<b>Agency &amp; Contracted</b>	229,216	231,814	2,598	-324	0	0	2,274
<b>Transfer Payments</b>	253,969	246,853	-7,116	4,873	0	1,104	-1,139
<b>Central Costs</b>	85,399	129,877	44,478	-39,173	0	14,625	19,930
<b>Other</b>	0	1,001	1,001	-2	0	0	999
<b>RCCO</b>	0	9,199	9,199	0	-147	0	9,052
<b>Capital Charges</b>	49,019	90,991	41,972	-41,972	0	0	-0
<b>GROSS EXPENDITURE</b>	<b>1,561,813</b>	<b>1,663,792</b>	<b>101,979</b>	<b>-81,037</b>	<b>-1,805</b>	<b>6,977</b>	<b>26,114</b>
<b>Income</b>							
- Specific Grants	655,340	653,851	-1,489	5,525	0	-2,015	2,021
- Other Grants & conts	40,658	50,433	9,775	-220	0	-254	9,301
- Sales	5,611	9,246	3,635	0	0	0	3,635
- Fees & charges	104,419	106,709	2,290	-141	0	-40	2,109
- Recharges	206,483	264,068	57,585	-40,172	0	-524	16,889
- Other	19,075	25,086	6,011	-188	0	-1,539	4,284
<b>Total Income</b>	<b>1,031,586</b>	<b>1,109,393</b>	<b>77,807</b>	<b>-35,196</b>	<b>0</b>	<b>-4,372</b>	<b>38,239</b>
<b>NET EXPENDITURE</b>	<b>530,227</b>	<b>554,399</b>	<b>24,172</b>	<b>-45,841</b>	<b>-1,805</b>	<b>11,349</b>	<b>-12,126</b>

The table below provides a summary of the Final Outturn position:

	£m	£m
Net Operating Expenditure		445.92
Financed by:		
Redistributed Non-Domestic Rates	202.01	
Revenue Support Grant	29.33	
Council Tax	198.81	
Net Surplus on Collection Fund	1.93	
Net Use of Earmarked Reserves	4.16	
Use of General Reserves	9.68	
<b>TOTAL FINANCING</b>		<u>445.92</u>

8) The final Outturn position for General Reserve is detailed below:

	£m
Opening Balance as at 1 April 2010	28.54
Less	
Restatement of opening balance due to IFRS	(1.56)
Use of General Reserve in 2010/11	(9.68)
<b>Closing General Reserve Balance as at 31 March 2011</b>	<u><u>17.30</u></u>

9) The County Council's current General Reserve policy is to maintain balances at between 3% - 4% (£13m - £17m) of the Net Budget requirement. The final outturn position complies with the policy.

10) The Original Budget identified that General Reserves of £3.7m would be utilised and £0.2m would be contributed to reserves during 2010/11 as follows:

	£m
LGR Pension Augmentation	2.5
LGR Transition Costs	1.2
Contribution to Crematoria Reserve	(0.2)
<b>Total Use of General Reserve</b>	<u><u>3.5</u></u>

11) Examples of why the Use of General Reserve has increased are detailed below:

- ❖ Paying all LGR Pension Augmentation costs in 2010/11 – an additional £6.8m.
- ❖ Additional costs of winter maintenance over the base budget provision – an additional £1.5m.
- ❖ Abortive costs relating to the withdrawal of the BSF Programme - £0.3m.
- ❖ LGR Transition costs were higher than originally budgeted - £0.5m.
- ❖ Housing Benefit Subsidy Repayment – a sum of £1.2m is estimated to have to be repaid to the Department for Works and Pensions relating to errors identified in the Housing Benefit Subsidy claim for some of the former District Councils in 2008/09.

12) The final outturn for Earmarked Reserves is detailed below with fuller detail provided in the Notes to the Accounts. School Balances are shown separately. The net use of earmarked reserves detailed below differs from the sum in the table at paragraph 7) as the table below excludes the creation of an Earmarked Reserve for the 2010/11 Cash Limit underspends detailed at paragraph 6);

	<b>Non-Schools</b>	<b>Schools</b>	<b>TOTAL</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Opening Earmarked Balance as at 1 April 2010	81.30	13.84	95.14
Less			
Net (use of) / contribution to Earmarked Reserve	(6.06)	1.90	(4.16)
<b>Closing Earmarked Reserve Balance as at 31 March 2011</b>	<b>75.24</b>	<b>15.74</b>	<b>90.98</b>

### Service Grouping Commentary

13) A summary from each Service Grouping Outturn follows.

#### Assistant Chief Executive Service Grouping (ACE)

14) The final 2010/11 Revenue Outturn position for ACE is an underspend against Cash Limit of £0.89m. The key sums outside the Cash Limit for ACE are as follows:

- ❖ £0.14m Repair and Maintenance and Design Service Recharge costs incurred.
- ❖ £0.79m Additional Pension Augmentation and Adjustment for IFRS accumulated Balance Adjustment.
- ❖ £2.72m Additional charge relating to Central Admin Charges.
- ❖ £1.21m Over recovery relating to Central Services – Income.
- ❖ £0.11m Additional Capital Charges.

Transfer to Earmarked Reserves

- ❖ £1.30m Member Initiative Fund (MIF) and Neighbourhood Budget
- ❖ £1.10m Area Action Partnership (AAP) contribution Budgets.

15) The Cash Limit underspend of £0.89m is mainly due to the conscious decision to maintain vacancies (to allow for flexibility going forward) and to actively seek additional external funding. The key reasons contributing to the Cash Limit underspend are as follows:

- ❖ A managed net reduction of £0.64m on employee costs;
- ❖ Accessing of additional income of £0.33m.
- ❖ Savings on Transport and Transfer payments of £0.12m.

Partially offset by:

- ❖ Increased supplies and services expenditure totalling £0.16m required by and funded from additional external grant income achieved by Managers.

#### Adults Wellbeing and Health Service Grouping (AWH)

16) The final 2010/11 revenue outturn position for Adults, Wellbeing and Health is an underspend against cash limit budgets of £5.42m. This represents a variation of 2.77% against the net revenue budget for the service of £193.2m.

17) The service has continually targeted a planned underspend throughout 2010/11 in recognition of the Medium Term Financial Planning position and to assist in the management of the significant demographic pressures facing the service over the MTFP period.

18) Key variations against budget are as follows:

- ❖ Through the careful management and control of vacant posts and general budgets across the service, an underspend of £2.6m has been achieved. This approach has ensured that the planned underspend for the service was achieved as targeted and also created opportunities for

achieving restructures and service rationalisation required whilst minimising the impact of such changes on existing employees and services.

- ❖ The proactive approach to the management of the approved closure of the seven residential care homes and the introduction of the new reablement service, created additional employee savings of £1.5m. In addition to generating savings in 2010/11, this proactive approach also ensured that the 2011/12 MTFP savings in relation to these services will also be fully achieved.
- ❖ Additional committed spend in relation to the Supporting People programme of £2.2m has been undertaken as a result of the carry forward of unspent grant from 2009/10 and additional contributions from partners.
- ❖ Additional initiatives and projects in Social Inclusion (£0.68m), in respect of Preventative Technology (£0.21m), in Libraries and Learning (£0.15m) and in Museums and Arts (£0.53m) have been possible due to the successful sourcing of additional grants and contributions. Additional grant and contributions of £0.47m has also been received in respect of the Carers Service.
- ❖ The net spend on adult services care packages, after taking into account partner contributions and contributions from service users, was largely on budget. It should be noted however that this has been achieved through a closely managed process through carefully managed care packages in relation to the consistent application of the existing eligibility criteria.
- ❖ Ringfenced Social Care Reform Grant of £2.79m and related budget underspends of £1.3m have been identified to be carried forward into 2011/12 to meet delivery requirements and double-running costs associated with the full implementation of Adult Care personalisation.
- ❖ The government allocated additional funding to PCT's late in 2010/11 financial year to support winter pressures and improve reablement services. Following negotiation with the PCT, it was agreed that the additional winter pressures allocation of £1.92m be fully transferred to the County Council and be utilised to fund existing spend and pressures within 2010/11. This has allowed equivalent resources to be carried forward in the service cash limit to cover demographic pressures and develop further preventative services in 2011/12 and 2012/13. Funding of £0.19m was also successfully bid for in respect of developing reablement services.
- ❖ A provision for the potential loss of income had been created in the previous financial year in relation to a legal action against a specific adult care charging policy. Through a successful legal defence against the case it was possible to return the earmarked cost provision of £0.5m to the revenue account.

### **Children and Young Peoples Service Grouping (CYPS)**

- 19) The final 2010/11 Revenue Outturn position for CYPS is an underspend against Cash Limit of £1.25m.
- 20) Throughout the year, reference was made to the need for CYPS to manage an in year cut to Area Based Grant of £2.76m, additional specific grant reductions and the continuing pressures on Safeguarding and Specialist Services. Budgets were reduced at Quarter Two and future budget monitoring reports reflected the grant loss.
- 21) By 31 March 2011, the anticipated outturn position was largely as predicted. Spending on transport budgets was around £0.4m above budget and pressures on foster placements, legal fees and contact visits exceeded budget by over £2m. To counter these overspends, Service Managers continued to limit spend on all aspects of their budgets, staff slippage in some areas was significant and the service also made use of 'one off' reserves and deployed grant funding to best effect.
- 22) Abortive preparation and development costs in relation to Wave 6 of the BSF programme that had been planned for County Durham, impacted on the County Council's revenue budget, as some of the BSF capital projects will not be proceeding. The revenue pressure outside the CYPS cash limit for 2010/11 was £0.28m.

- 23) From January 2011, Private Finance Initiative (PFI) unitary charges were due for 3 new schools. This has increased expenditure and income by around £2m, but will have a net nil effect on the 2010/11 revenue budget, as the cost is covered by a mix of grants and school contributions. However, as part of this expenditure relates to capital financing, then £0.04m appears in the accounts as an underspend (outside the cash limit) and has been balanced as part of the County Council's final year end accounts process.
- 24) By 31 March 2011, a high volume of redundancy payments were actioned, linked to either savings or grant loss referred to in the Medium Term Financial Plan. £1.05m was set against Corporate contingencies as part of the year end accounting process.
- 25) School balances have increased during 2010/11 from £13.84m to £15.74m which includes £0.64m of unspent grants. Schools make their own spending decisions against their delegated budget and in this uncertain climate as to future school funding levels, schools quite naturally are taking the opportunity to carry forward a buffer against future commitments. In 2010/11, the County Council also released the balance of equal pay/job evaluation monies being held up to the initial settlement date of 31 December 2008 (£2.8m) and many schools are still carrying forward such monies in case of potential disproportionate effects on their budgets when Job Evaluation is eventually settled.
- 26) The DfE introduced a scheme for the 'Capping of Balances' in 2007/08 which was agreed by the Schools Forum. This agreed a scheme for monitoring balances at the end of the Financial Year which allows schools to carry forward the greater of 8% of their budget or £0.03m for Primary Schools and 5% of their budget or £0.03m for Secondary Schools. Any sums in excess of this require a Capping of Balances Return to be completed by schools with a case for this to be carried forward (an allowable commitment) - this is monitored by the School Funding Team in the following financial year. The Schools Forum has the power to claw back any excess balance where the commitment does not materialise.

### **Neighbourhood Services Service Grouping**

- 27) The final 2010/11 Revenue Outturn position for Neighbourhood Services was an underspend against Cash Limit of £1.29m. The main reasons for this net underspend are as follows:
- ❖ An underspend on Employees across the service of £3.10m after adjusting for MTFP related redundancy costs of £1.10m that were met from the Strategic Reserve. This saving is the result of the management of vacant posts, along with savings on the budgeted pay award that did not materialise. Many of these posts have subsequently been deleted from the budgets in 2011/12.
  - ❖ Additional income of £0.50m from the Dry Waste recycling Contract
  - ❖ A saving on Training & Supplies and Services budgets across the service amounting to £0.50m
  - ❖ An increase of £0.15m in the provision for Bad Debts
  - ❖ An income shortfall of approximately £1.20m mainly due to reduced income associated with licensing, markets, car parks, and highways related income from developers
  - ❖ A deficit on Building Services Construction and Repairs of £1.20m, due to reduced workload income.
  - ❖ An overspend on Winter Maintenance of £1.50m following the period of severe weather towards the end of 2010. This was agreed by Cabinet as being outside of the cash limit.

### **Regeneration and Economic Development (RED)**

- 28) The final 2010/11 Revenue Outturn position for RED was an underspend against Cash Limit of £2.39m. The major variations are as follows:
- ❖ A £1.10m underspend in Economic Development relating in the main to a £0.23m underspend on staffing, a £0.43m underspend on economic and regeneration initiatives and a £0.17m underspend on supplies and services budgets.
  - ❖ A £0.41m underspend in Planning relating in the main to £0.12m underspend in staffing, a £0.17m underspend in grant expenditure and a £0.21m underspend on transport / running expenses budgets.

- ❖ A £0.46m underspend in Housing relating in the main to a £0.36m underspend on staffing budgets.

### Resources Service Grouping

29) The final 2010/11 Revenue Outturn position for Resources was an underspend against Cash Limit of £0.87m. The major variations are detailed overleaf:

- ❖ Underspend on direct staff costs due to vacancies - £0.72m.
- ❖ Software licence savings linked to rationalisation after LGR of £0.24m.
- ❖ Reductions in employee travelling expenses and car allowances saved £0.13m.
- ❖ Savings are offset by a £0.55m overspend in premises costs due to the non-realisation of LGR accommodation savings.

30) The following budgets are held centrally.

#### Interest Payable and Similar Charges

31) The Revenue Summary at paragraph 4) highlights a £7.56m overspend against this budget due to the decision to fund £7.3m of capital expenditure direct from revenue budgets. There is also a £2.3m accounting adjustment due to the revised accounting treatment of leases. Excluding these two items, the remaining budget is £2.1m underspent resulting from the reprofiling of the Capital programme and prudent decisions to delay borrowing.

#### Interest and Investment Income

32) Higher cash balances than forecast have resulted in over achieved investment income when compared to budget of £0.25m.

#### Capital Outturn

33) The General Fund Capital Budget for 2010/11 was set at £128.03m and was approved by Cabinet on 26 February 2010. Slippage from the 2009/10 Capital programme was approved by Cabinet on 22 September 2010 amounting to £128.47m.

34) Since the approval of the 2010/11 Capital programme, the Government also announced reductions in Capital Grants amounting to £4.41m.

35) Service Groupings reviewed and revised the profile of the Capital programme throughout the year. Requests for budget revisions were reviewed by the Capital Member Officer Working Group (MOWG) throughout the year and reported to Cabinet as part of the quarterly forecast of Outturn reports. The Revised Capital Budget for the County Council's General Fund for 2010/11 was £155.60m.

36) The table overleaf provides a Service Grouping breakdown of Capital Outturn for 2010/11.



Explanatory Foreword

Service	Original Budget 2010/11	Slippage from 2009/10 Original Budget	2010/11 inc slippage from 09/10	Revised Government Grant funding and budget adj	Reprofiling to future years	In year revisions	Total Revised Budget 2010/11	Actual outturn March 31st 2011
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
CYPS	63,719	40,609	104,328	-1,508	-41,919	3,205	64,106	52,666
AWH	436	8,536	8,972	-200	-7,739	717	1,750	1,744
NEI	23,168	26,114	49,282	-728	-19,972	1,074	29,656	23,630
RED	20,017	48,973	68,990	-978	-25,634	6,840	49,219	36,388
RES	17,580	3,543	21,123	-1,000	-9,828	-883	9,411	5,786
ACE	3,110	693	3,803	-	-2,338	-	1,465	10
Other	-	-	-	-	-2,000	2,000	-	-
<b>Total General Fund</b>	<b>128,030</b>	<b>128,468</b>	<b>256,498</b>	<b>-4,414</b>	<b>-109,430</b>	<b>12,953</b>	<b>155,607</b>	<b>120,224</b>
<b>Total HRA</b>	<b>34,103</b>	<b>596</b>	<b>34,699</b>	<b>10,943</b>	<b>-7,255</b>	<b>600</b>	<b>38,987</b>	<b>37,862</b>
<b>General Fund and HRA Total</b>	<b>162,133</b>	<b>129,064</b>	<b>291,197</b>	<b>6,529</b>	<b>-116,685</b>	<b>13,553</b>	<b>194,594</b>	<b>158,086</b>

37) The following table details the request for slippage.

	Revised 2010/11 Budget	2010/11 Outturn	Variance		Slippage Request
	£m	£m	£m	%	£m
ACE	1.46	0.01	(1.45)	(100.0)	1.18
AWH	1.75	1.74	(0.01)	-	0.64
CYPS	64.10	52.67	(11.44)	(17.8)	11.70
NS	29.66	23.63	(6.03)	(20.3)	7.25
RED	49.22	36.38	(12.83)	(26.1)	12.88
Resources	9.41	5.79	(3.62)	(38.5)	3.64
<b>TOTAL</b>	<b>155.60</b>	<b>120.22</b>	<b>(35.38)</b>	<b>(22.7)</b>	<b>37.29</b>



- 38) The Capital Programme is financed via grants, capital receipts, revenue contributions, reserves and borrowing. The financing of the 2010/11 Outturn is detailed below:

	Original Budget 2010/11	Slippage from 2009/10	Original Budget 2010/11 inc slippage from 09/10	Revised Government Grant funding and budget adj	Reprofiling to future years	In year revisions requested	Total Revised Budget 2010/11	Actual outturn March 31st 2011
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>General Fund financing:</b>								
Grants and Contributions	67,566	52,954	120,520	-3,414	-18,439	-16,004	82,663	68,610
Capital Receipts	3,000	20,247	23,247	-	-	500	23,747	26,150
Direct Revenue Financing / Reserves	5,443	8,408	13,851	-	-3,708	-560	9,583	16,579
Borrowing	52,022	46,859	98,881	-1,000	-87,284	29,016	39,613	8,885
	-	-	-	-	-	-	-	-
<b>Total General Fund</b>	<b>128,031</b>	<b>128,468</b>	<b>256,499</b>	<b>-4,414</b>	<b>-109,431</b>	<b>12,952</b>	<b>155,606</b>	<b>120,224</b>
<b>HRA financing:</b>								
Grants and Contributions	-	-	-	10,943	-7,255	-	3,688	3,652
Capital Receipts	-	596	596	-	-	600	1,196	1,375
Direct Revenue Financing	2,781	-	2,781	-	-	-	2,781	1,341
Major Repairs Allowance	12,967	-	12,967	-	-	-	12,967	13,144
ALMO Supported								
Borrowing	14,500	-	14,500	-	-	-	14,500	14,500
Supported Borrowing	2,048	-	2,048	-	-	-	2,048	2,048
Unsupported Borrowing	1,807	-	1,807	-	-	-	1,807	1,802
	-	-	-	-	-	-	-	-
<b>Total HRA</b>	<b>34,103</b>	<b>596</b>	<b>34,699</b>	<b>10,943</b>	<b>-7,255</b>	<b>600</b>	<b>38,987</b>	<b>37,862</b>
	-	-	-	-	-	-	-	-
<b>Total financing</b>	<b>162,134</b>	<b>129,064</b>	<b>291,197</b>	<b>6,529</b>	<b>-116,686</b>	<b>13,552</b>	<b>194,593</b>	<b>158,086</b>

### Service Grouping Commentary

- 39) A summary of the Capital Outturn for each Service Grouping is shown below:

#### ACE

- 40) The revised ACE Capital Budget for 2010/11 was £1.46m with outturn being £0.01m due to underspends in the Members' Neighbourhood Budget. Activity relating to the 'Assets in the Communities' scheme was limited whilst awaiting the outcome of the Community Building review which is to be reported to Cabinet in September 2011. In order to achieve the optimum outcome and maximum return from the funds available, expenditure plans will be reliant on the content of this review. As a result, the whole budget is to be slipped into 2011/12.

- 41) The Members' Neighbourhoods budget has expended £0.29m during 2010/11 with balance of the budget of £1.18m to be slipped into 2011/12 to finance activity. The actual expenditure has been incurred within Neighbourhood Services following the commissioning of projects by Members.

#### AWH

- 42) The revised AWH Capital budget for 2010/11 was £1.75m with Outturn of £1.12m.

- 43) The key variations relate to:

- ❖ Re-profiling of ICT developments into later years - £0.06m
- ❖ Delays in applications for mental health grants - £0.17m
- ❖ Slippage in spend on maintenance in residential homes - £0.09m
- ❖ Delays in the undertaking of maintenance works at Killhope largely due to adverse weather conditions - £0.21m
- ❖ Re-profiling of externally funded Community Safety works into 2012/13 - £0.07m.

**CYPS**

- 44) The revised CYPS Capital budget for 2010/11 is £64.11m with Outturn of £52.67m.
- 45) The CYPS Capital budget has a number of significant components that are available for different purposes. From the previous financial year there has been £40.6m of slippage, largely on new primary schools and Aycliffe Secure Unit building projects. (School Devolved Capital is included in this total.) Total spend in 2010/11 was £52.67m.
- 46) Most of the activity was funded via Government grant and as a consequence, budget monitoring is undertaken against specific project areas e.g.:-

- BSF (Grant & Revenue)
- Aycliffe Secure New Building (Grant & Revenue)
- Extended Schools (Grant)
- Sure Start and Youth Capital (Grant)
- Primary Capital and Modernisation (Grant)
- Harnessing Technology (Grant)
- Basic Need (Revenue)
- Schools Access Initiative (Revenue)
- Schools Devolved Capital (Grant)
- Structural School Building R&M – DSG (Grant)
- 14 to 19 Diploma Course Developments (Grant)
- Co-Location Fund – Durham Integrated Project (Grant)

- 47) The key areas of investment during 2010/11 and the budget are detailed below:

<b>Major Scheme</b>	<b>£m</b>
• Primary Capital and Modernisation	14.44
• Basic Need	1.10
• Schools Access Initiative	0.95
• Structural maintenance –DSG	3.60
• Schools Devolved Capital	9.20
• Aycliffe Secure Premises	13.60
• Building Schools for the Future (BSF)	
• Catchgate Children’s Home Replacement	0.75
• Harnessing Technology	1.12
• Sure Start and Youth Capital	3.10
• Diploma Exemplar and Rural Capital	3.40
• Co-Location Fund – Durham Integrated Project	5.16

**NEIGHBOURHOOD SERVICES**

- 48) The revised budget for Neighbourhood Services at 31 March 2011 was £29.66m. Actual expenditure incurred was £23.63m, resulting in an underspend of £6.03m.
- 49) The reasons for the underspends shown by service area are as follows;

**Sport and Leisure (underspend of £3.53m)**

- 50) In total £2.47m relating to Consett Sport Centre was slipped into 2011/12. This will be added to the £12.24m budget already in 2011/12 and will in future be the responsibility of CYPS. Other reasons for the underspend are that £0.64m for Playbuilder schemes will now be completed within the first quarter of 2011/12, and £0.30m for Assets Capitalised Maintenance of Leisure facilities had not been completed by 31 March 2011.

**Technical Services (£0.23m underspend)**

- 51) Budgets within this service spent in full as programmed with the exception of Street Lighting Invest to Save, Highway Capitalised Maintenance - Street Lighting and Members Highway Allowance budgets.

**Direct Services (underspend of £2.64m)**

- 52) The main underspends within this service were £1.24m relating to Vehicle, Plant & Maintenance budget, and £0.75m for the scheme to replace Oracle Projects job costing (commencing in 2011/12). In addition, there were underspends relating to £0.508m Waste Infrastructure (work continuing into 2011/12), £0.18m budget for the Live Track system (now commencing in 2011/12) and £0.17m for depot upgrades.

**Environmental Health & Consumer Protection (underspend of £0.99m)**

- 53) This underspend relates mainly to the ICT equipment project which was financed from the LGR Transition funding available. This equipment was not received prior to the year end however it has since been received and will be funded from LGR transition costs in 2011/12.
- 54) Although the year end underspend described above, amounts to £6.03m, additional grants, contributions and transfers from other services were highlighted after the Q3 report to Corporate Management Team (CMT), and when these were taken into account, the result was an amended slippage figure of £8.28m. £5.64m of this slippage was approved by MOWG on 8 March 2011.

**RED**

- 55) The revised RED Capital budget for 2010/11 is £49.22m with Outturn of £36.38m. Investment in this area is key to Economic Regeneration of the County. Key areas of investment during 2010/11 are shown below:

<b>Major Scheme</b>	<b>£m</b>
• Barnard Castle Vision	0.86
• North Dock, Seaham	1.81
• St John's Square	3.91
• Durham City Vision	3.40
• Durham County Cricket Club	0.50
• Durhamgate	1.41
• Housing Renewal Programme	3.94
• Travellers' Site – East Howle	1.99
• LEGI	0.92

• Disabled Facilities Grant and Financial Assistance Policy	5.88
• Industrial Estates	0.96
• NETPark	1.81
• Town Centres	0.20

## RESOURCES

56) The revised Capital budget for Resources for 2010/11 was £9.41m. Actual expenditure incurred was £5.79m. The reasons for the variances shown by Service area are as follows:

### Asset Management (underspend of £4.69m)

- 57) Due to the uncertainty of the future of many buildings due to the rationalisation of property, has meant the commitment to major expenditure has been deferred. Some orders were placed later in the year and these commitments will be realised in 2011/12. Also, the total underspend relating to Disability Discrimination Act / Fire Safety and Structural Maintenance, Capitalised Repairs and Maintenance and Periodic Electrical Inspections was £2.61m. However, after including expenditure by other Service Groupings relating to these schemes only £1.5m has been slipped into 2011/12.
- 58) The budget for the Accommodation Strategy was partially reprofiled into future years, and works were funded from other capital budgets which requires £1.79m to be slipped into 2011/12.
- 59) A further £0.23m is requested to be slipped into 2011/12 due to delays in identifying projects for Energy Efficiency (£0.1m) and minor works (£0.1m).

### Finance (overspend of £0.13m which should be brought forward from 2011/12)

60) Expenditure relating to the replacement of the Revenues and Benefits System was reprofiled into 2010/11. This is an ongoing scheme which will continue in 2011/12.

### ICT (overspend of £0.94m of which £0.1m should be brought forward from 2011/12)

61) A capital expenditure variance relating to both IT Replacement and the purchase of vehicles totalling £0.84m was financed from revenue.

## HOUSING REVENUE ACCOUNT (HRA) – 2010/11 Revenue and Capital Outturn

- 62) The County Council is responsible for managing the HRA which is concerned solely with the management and maintenance of the County Council's housing stock of around 19,000 dwellings. The HRA comprises the housing stock inherited from former Easington, Wear Valley and Durham City Councils. Two arms length management organisations (ALMOs) have been established to manage Easington and Wear Valley housing stock (East Durham Homes and Dale and Valley Homes respectively) whilst Durham City is managed in-house. The responsibility for managing the HRA lies solely with the County Council and this is not delegated or devolved to the ALMOs.
- 63) The County Council approved the HRA budget on 26 February 2010. The 2010/11 HRA set a balanced budget which included rental income of £54.16m, direct expenditure on ALMO fees, repairs, maintenance, management and supervision of £31m and a revenue contribution to the capital programme of £2.78m. Also included as a 'negative subsidy' payment of £0.77m, depreciation of £11.94m and interest payments on housing debt of £7.71m. The rent increase approved by County Council was an average of 2.1% which equated to an average rent of £55.50 per week – an increase of £1.15 per week from 2009/10.
- 64) The outturn position on the HRA showing the actual position compared with the original budget identifies a surplus outturn position on the revenue account alongside a healthy level of reserves of £7.67m. The following table summarises the position:

	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Income</b>			
Dwelling Rents	-53.32	-53.42	-0.10
Other Income	-0.84	-1.30	-0.46
Interest and Investment Income	-0.07	-0.07	-
<b>TOTAL INCOME</b>	<b>-54.23</b>	<b>-54.79</b>	<b>-0.56</b>
<b>Expenditure</b>			
ALMO Fees	18.29	18.26	-0.03
Repairs, Supervision and Management Costs	12.73	11.83	-0.90
Negative Subsidy Payment to CLG	0.77	3.19	2.41
Depreciation	11.94	11.94	-
Interest Payable	7.71	5.86	-1.85
Revenue Contributions to Capital Programme	2.78	1.34	-1.44
<b>TOTAL EXPENDITURE</b>	<b>54.23</b>	<b>52.42</b>	<b>-1.80</b>
<b>Net Position</b>	<b>-</b>	<b>-2.37</b>	<b>-2.37</b>

Note: The above table reflects the outturn position for the HRA but does not take into account the Statutory Accounting requirements. The Statutory Accounts for the HRA is included as a separate section in this Statement.

- 65) The actual position is a surplus of £0.88m after adjusting for the underspend on the revenue contribution to capital of £1.44m, plus £0.20m from East Durham Homes and £0.15m of expenditure incurred in connection with the stock options process which is to be met out of reserves.
- 66) The surplus of £0.88m generated during 2010/11 has been allocated as follows:
- ❖ £0.40m to support Durham City Homes Improvement Plan;
  - ❖ £0.48m to support the Capital Programme in future years.
- 67) In summary, the main variances are explained below:
- ❖ Income – addition income of £0.34 m includes a contribution from East Durham Homes of £0.20m received to support the capital programme deminimus capital receipts and other miscellaneous income;
  - ❖ Repairs - £0.12m overspend due to fire damage of £0.03m in Wear Valley and additional repairs in Durham City £0.10m;
  - ❖ General Management - savings in management of £0.78m arising from savings on insurance of £0.24m, Durham City Homes cancelled inspection £0.07m and delay in implementing service improvement plan £0.48m;
  - ❖ Special Management - £0.17m saving includes reduced contribution towards supported housing £0.07m, savings from closure of communal rooms/sheltered accommodation £0.08m, and efficiencies in garden maintenance service £0.02m;
  - ❖ Subsidy - additional negative subsidy payment £2.41m which includes settlement of prior claims totalling £0.38m;
  - ❖ Interest payments - reduced interest payable on housing debt resulting from lower interest charges of £1.85m;
  - ❖ Revenue support to Capital - reduced requirement to use revenue contributions to finance the capital programme £1.44m in 2010/11, although resources have been earmarked to support the slippage carried forward into 2011/12.

68) The table below details the Capital Outturn position for the HRA:

Service	Gross Budget 2010/11	Re-profiled into future years	Revised 2010/11 Budget	Actual Spend	Variance	Slippage into 2011/12
	£m	£m	£m	£m	£m	£m
HRA	46.24	- 7.26	38.98	37.86	- 1.12	0.71

69) The key areas of HRA investment are detailed below:

**HRA - Decent Homes Programmes – Actual Spend £31.83m**

70) The County Council's core housing programme is geared around modernising and refurbishing the County Council's housing stock. The 2010/11 budget is supported with £14.5m of Decent Homes Funding and £11.9m of Major Repairs Allowance. Our three housing management providers have made good progress on refurbishing our dwelling stock and some 2,000 properties will have been brought up to decent homes standard.

**HRA - Housing (Regeneration) Demolitions – Actual Spend £0.91m**

71) This work is being undertaken by the Housing Renewal Team. A number of properties/buildings are surplus to requirements and require rationalisation. In addition a number of isolated houses are being acquired and demolished. Contracts have been awarded but there have been delays because of the need to remove asbestos and an issue of bat roosts.

**HRA - New Build - New Council Housing – Actual Spend £5.11m**

Round 1 - £3.36m

72) The Round One Schemes located at Bearpark, High Pittington, Croxdale and Bowburn are now at a practical completion. The projected costs as identified through the bid to the Homes and Communities Agency (HCA) are in line with projections and the HCA grant has been drawn down. The spend is approximately £0.10m above budget. HCA funding has been secured to the value of £1.59m for the Round 1 Schemes and the balance will be funded via prudential borrowing.

Round 2 - £1.75m

73) The Round Two Schemes located at Park Avenue Close and Greenside Place in Crook are underway, and the first tranche of grant has been drawn down from the HCA. The projected completion date is March 2012 and grant of £3.45m has been secured through HCA funding for the Round 2 Schemes.

74) For both schemes the capital required to fund the schemes will be sought through prudential borrowing and will have a repayment term not exceeding 30 years as per the agreement made by Cabinet in 2009.

**2010/11 Treasury Management Report**

75) Treasury Management is the management of the County Council's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

76) Treasury management is concerned with how the County Council manages its cash resources and its scope covers borrowing, investment and hedging instruments and techniques. Risk is inherent in all treasury management activities and it is necessary to balance risk and return.

77) On average over the last year cash balances of around £200m have been invested short term in the money markets generating a return of £1.9m. The relatively low level of return results from the current historically low level of interest rates.

78) The County Council's debt position has not changed significantly throughout 2010/11 with outstanding debt at 31 March 2011 of £317.8m.

### Capital Expenditure and Financing

- 79) The County Council undertakes capital expenditure on long-term assets. These activities may either be:
- ❖ Financed immediately through the application of capital or revenue resources (capital receipts, capital grants or revenue contributions), which has no resultant impact on the County Council's borrowing need; or
  - ❖ If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.
- 80) The actual capital expenditure the Council incurs forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

	2009/10	2010/11	2010/11
	Actual	Estimate	Actual
	£m	£m	£m
Non-HRA capital expenditure	95.67	155.60	168.07
HRA capital expenditure	27.33	38.99	37.86
<b>Total capital expenditure</b>	<b>123.00</b>	<b>194.59</b>	<b>205.93</b>
Resourced by:			
Capital receipts	19.41	24.94	27.53
Capital grants	45.71	86.35	72.26
Capital reserves	12.45	12.97	13.14
Revenue	8.82	12.36	17.92
PFI Contract	-	-	45.00
Finance Leases	3.08	-	2.85
<b>Unfinanced capital expenditure</b>	<b>33.52</b>	<b>57.97</b>	<b>27.23</b>

### Overall Borrowing Need

- 81) The County Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the County Council's debt position. The CFR results from the capital activity of the County Council and what resources have been used to pay for the capital spend. It represents the 2010/11 unfinanced capital expenditure (see above table), and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.
- 82) Part of the County Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the County Council's cash position to ensure sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the Government, through the Public Works Loan Board [PWL] or the money markets), or utilising temporary cash resources within the County Council. The CFR figure includes Private Finance Initiative (PFI) and leasing schemes, which notionally increase the County Council's borrowing need, however no borrowing is actually required against these schemes as a borrowing facility is included in the contract.



- 83) The County Council's (non HRA) underlying borrowing need known as its capital finance requirement (CFR) is not allowed to rise infinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The County Council is required to make an annual revenue charge, called the Minimum Revenue Provision (MRP), to reduce the CFR. This is effectively a repayment of the non-HRA borrowing need (there is no statutory requirement to reduce the HRA CFR). This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.
- 84) The total CFR can also be reduced by:
- ❖ the application of additional capital financing resources (such as unapplied capital receipts); or
  - ❖ charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).
- 85) The County Council's 2010/11 MRP Policy, as required by the Department of Communities and Local Government (CLG) guidance was approved as part of the Treasury Management Strategy Report for 2010/11 on 26 February 2010.
- 86) The County Council's CFR for the year is shown below, and represents a key prudential indicator.

	<b>31 March 2010</b>	<b>31 March 2011</b>	<b>31 March 2011</b>
	<b>Actual</b>	<b>Estimate</b>	<b>Actual</b>
<b>CFR</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Opening balance	400.984	418.524	423.688
Add unfinanced capital expenditure (as above)	33.516	62.578	27.235
Add Finance lease / PFI	3.084		47.848
Less MRP/VRP	(13.896)	(11.840)	(13.854)
<b>Closing balance</b>	<b>423.688</b>	<b>469.262</b>	<b>484.917</b>

- 87) The borrowing activity is constrained by prudential indicators for net borrowing and the CFR, and by the authorised limit.
- 88) Net borrowing and the CFR - in order to ensure that borrowing levels are prudent over the medium term - the County Council's external borrowing, net of investments, must only be for a capital purpose. This essentially means that the County Council is not borrowing to support revenue expenditure. Net borrowing should not therefore, except in the short term, have exceeded the CFR for 2010/11 plus the expected changes to the CFR over 2011/12 and 2012/13. This indicator allows the County Council some flexibility to borrow in advance of its immediate capital needs in 2010/11. The table below highlights the County Council's net borrowing position against the CFR. The County Council has complied with this prudential indicator.

	<b>31 March 2010</b>	<b>31 March 2011</b>	<b>31 March 2011</b>
	<b>Actual</b>	<b>Estimate</b>	<b>Actual</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Net borrowing position	145.92	136.19	171.82
CFR	423.69	469.26	484.92

- 89) The authorised limit is the "affordable borrowing limit" required by Section 3 of the Local Government Act 2003. The County Council does not have the power to borrow above this level. The table below demonstrates that during 2010/11 the County Council has maintained gross borrowing within its authorised limit.



- 90) The operational boundary is the expected borrowing position of the County Council during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached.

	<b>2010/11</b>
	<b>£m</b>
Authorised limit	519.00
Operational boundary	306.19
Average gross borrowing position	316.66

#### **Treasury Position as at 31 March 2011**

- 91) The County Council's debt and investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through Member reporting detailed in the summary, and through officer activity detailed in the County Council's Treasury Management Practices. The County Council's treasury position for 2010/11 was as follows:

	<b>31 March 2010</b>	<b>31 March 2011</b>
	<b>£m</b>	<b>£m</b>
<b>Fixed Rate Funding</b>		
- PWLB	289.43	289.48
- Market	26.70	28.31
<b>Variable Rate Funding</b>		
- PWLB	-	-
- Market	-	-
<b>Total Debt</b>	<b>316.13</b>	<b>317.79</b>
<b>CFR</b>	<b>423.69</b>	<b>484.92</b>
<b>Over/ - under borrowing</b>	<b>-107.56</b>	<b>-167.13</b>
<b>Investments</b>	<b>170.21</b>	<b>145.36</b>

92) The maturity structure of the debt portfolio was as follows:

	<b>31 March 2010</b>	<b>31 March 2011</b>
	<b>Actual</b>	<b>Actual</b>
	<b>£m</b>	<b>£m</b>
Under 12 months	9.95	2.16
12 months and within 24 months	1.87	7.51
24 months and within 5 years	14.78	8.22
5 years and within 10 years	17.11	31.47
10 years and within 15 years	49.50	53.53
15 years and within 20 years	80.24	127.64
20 years and within 25 years	82.09	26.79
Over 25 years	60.59	60.47
<b>Total</b>	<b>316.13</b>	<b>317.79</b>

93) All sums invested were for a period of less than one year.

### 18. Material assets acquired, liabilities incurred and borrowing

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

	<b>Expenditure in 2010/11</b>
	<b>£000</b>
Easington Community School	7,992
Aycliffe Secure Unit	9,939
Structural maintenance of buildings - schools	3,307
Schools - schemes funded from capital budgets delegated to schools (including revenue expenditure funded from capital under statute of £641k)	9,125
Civica ICT system	928
Housing capital programme	37,760
Durham Gate	1,406
Netpark Plot 8	1,540
St John's Square, Seaham	3,905
Structural maintenance of buildings (non schools)	869
Infrastructure - Street Lighting	2,274
Infrastructure - other	21,459
Vehicles, Plant and Equipment	9,774
Revenue expenditure funded from capital under statute (excluding school's delegated)	23,376

The total borrowing at 31 March 2010 and 31 March 2011 is detailed in the following table:

<b>31 March 2010</b>		<b>31 March 2011</b>	
<b>£m</b>		<b>£m</b>	
<b>Fixed Rate Funding</b>			
289.43	- PWLB	289.48	
26.70	- Market	28.31	
-	<b>Variable Rate Funding</b>	-	
316.13		317.79	
		317.79	

## 19. Sources of funds to meet capital expenditure and other plans

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

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

At 31 March 2011, usable capital receipts of £1.206m, and unapplied capital grants and contributions of £57.860m, (included in Receipts in Advance) were held. These sums, together with other capital resources such as future supported borrowing, will be used to finance the County Council's approved capital programme, which is subject to rolling review.

General and earmarked reserves of a revenue nature, totalling £108.295m were also held as at 31 March 2011 for General Fund purposes and another £10.876m in respect of Housing. These are detailed the Notes to the Core Financial Statements.

## 20. Pensions liability

Durham County Council is a member of the Durham County Council Pension Fund. The County Council's balance sheet shows a Pension's Liability of £728.212m (£975.648 in 2009/10). This amount is calculated by the Pension Fund's Actuary using IAS 19 assumptions. It represents the defined benefit obligation and is the estimated present value (using the IAS 19 assumptions) of the benefit payments due from the Pension Fund in respect of Durham County Council after the accounting date, 31 March 2011, valued using the projected unit method. Allowance is made for expected future increases in pay and pension.

The liability value represents the amount of money that needs to be set aside now to meet the benefits that the County Council is committed to provide for service up to the accounting date on the basis of the assumptions used. Although this has a substantial impact on the net worth of the County Council as reported in the Balance Sheet, statutory arrangements mean that the deficit on the Pension Fund will be made good by, amongst other things, increased contributions over the working life of employees, as assessed by the Pension Fund Actuary. The Pension Fund has an investment strategy in place to address the funding deficit for the Pension Fund as a whole. The period over which this deficit will be addressed (the recovery period) is 19 years and the contributions payable to the Fund are calculated every three years by the Actuary to make good this deficit.

## 21. Investments in Iceland Banks

In September and October 2008 the Icelandic economy was hit by an economic catastrophe. This led to the insolvency of virtually all the larger Icelandic banks and savings banks, including Glitnir, Landsbanki Islands hf. and Kaupthing banki hf, and the UK subsidiaries of the banks, Heritable and Kaupthing, Singer and Friedlander went into administration.

The County Council had £7m deposited across the three Icelandic Banks which were outstanding at the time of their collapse in October 2008. Since 2008/09 impairment of £1.627m to the asset values have been calculated in accordance with CIPFA's LAAP 82 Bulletin Update 4. During 2010/11, there was a net reversal of £0.027m of previous impairments recognised in the Comprehensive Income and Expenditure Statement (CIES).

## 22. Significant provisions, contingencies and material write-offs

During 2010/11 the County Council created a Strategic Reserve. The aim of the Strategic Reserve is to fund voluntary early retirement and redundancy costs and to provide a contingency to assist the County Council in maintaining financial stability over the MTFP period.

A review was carried out of all Earmarked Reserves to identify the flexibility available to create a 'Strategic Reserve'. The review identified that a Strategic Reserve of £26.9m could be created by amalgamating a range of Earmarked Reserves. The County Council's Earmarked Reserves are detailed in the Notes to the Accounts.

It is important to note that Earmarked Reserves are retained for specific purposes. During 2010/11 £7.106m of the Strategic Reserve was used. Earmarked reserves were created, contributed to and used. The table below details that movement in earmarked reserves.

<b>Earmarked Reserves</b>	<b>Opening Balance</b>	<b>Use of Reserves</b>	<b>Contributions to Reserves</b>	<b>New Reserves Established</b>	<b>Closing Balance</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Schools</b>	13.838	-6.186	8.088		15.740
<b>Schools Unspent Grants</b>				0.639	0.639
	13.838	-6.186	8.088	0.639	16.379
<b>Non-Schools</b>	81.302	-48.756	5.783	16.470	54.799
<b>Strategic Reserve</b>		-7.106	26.903		19.797
	81.302	-55.862	32.686	16.470	74.596
<b>TOTAL</b>	<b>95.140</b>	<b>-62.048</b>	<b>40.774</b>	<b>17.109</b>	<b>90.975</b>

The County Council's assets have been impaired by £198.229m, this includes both loss on revaluation of the assets and the consumption of economic benefits. Of this amount, £107m is a result of the change in the adjustment factor issued by CLG and applied to the valuation of the County Council housing stock. The County Council has also suffered revaluation losses in 2010/11 due to the downturn in the economy as well as the on-going review of the County Council's asset base since Local Government Reorganisation in 2009/10. This has led to revaluation losses on some former District Council and former County Council assets. Over £20m revaluation losses on Sports and Leisure facilities have been charged to Neighbourhood Services.

The County Council has entered into a PFI contract as part of the Building Schools for the Future (BSF) programme. Further details can be found in the Notes to the Accounts. Three schools are included and have entered operational service in 2010/11. The County Council has demolished former school premises amounting to £21m for which replacements schools have been provided, primarily from BSF. This impairment has been charged in 2010/11 partly to the services in the CIES and in part will have been met from the Revaluation Reserve. The revaluation loss from a fair value of £45.411m to a valuation of £24.220m has also been charged.

A number of schools have been established as Foundation Schools in County Durham during 2009/10 and 2010/11, and one school which was included in BSF programme has become an Academy, which is independent of the County Council. The effect of these changes in status has led to the removal of these schools from the County Council's asset register as disposals. The loss on disposal of these schools amount to £56.629m and have been charged to the Comprehensive Income and Expenditure Statement (CIES) below the Net Cost of Services.

### 23. Changes in statutory functions

There have been no changes in statutory functions in 2010/11.

### 24. Subsequent events

The Statement of Accounts is signed by the Corporate Director Resources on 30 June 2011. As at this date, there have been no circumstances or events subsequent to the period end which require adjustment to the financial statements or in the notes thereto.

### 25. Future plans

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

Work has begun on the County Council's Medium Term Financial Plan (MTFP) which integrates corporate service and financial planning over a four-year budgeting period – 2011/12 to 2014/15. It translates the County Council Plan into a financial framework that enables Members and Officers to ensure policy initiatives can be delivered within available resources, and can be aligned to priority outcomes.

The MTFP provides a comprehensive resource envelope to allow the County Council to set out the policy framework and service and financial planning leading to the Budget and Council Tax setting report in February 2011.

The drivers for the County Council's financial strategy that were agreed by Cabinet include:

- ❖ To set a balanced budget over the life of the MTFP whilst maintaining modest and sustainable increases in Council Tax;
- ❖ To fund agreed priorities, ensuring that service and financial planning is fully aligned with the County Council Plan;
- ❖ To deliver a programme of planned service reviews designed to keep reductions to front line services to a minimum;
- ❖ To strengthen the County Council's financial position so that it has sufficient reserves and balances to address any future risks and unforeseen events without jeopardising key services and delivery of outcomes;
- ❖ Ensuring the County Council can demonstrate value for money in the delivery of its priorities.

The County Council is facing unprecedented levels of reduction in Government support over the Medium Term Financial Plan period of 2011/12 to 2014/15. The two-year Final Finance Settlement received on 31 January 2011 confirmed both the size of future grant reductions and the Government's heavy front loading of reductions in 2011/12 and 2012/13. In total, the County Council is forecasting the loss of £92.4m of Government Grant over the MTFP period with £60.2m in 2011/12.

After taking into account estimated budget pressures faced, the County Council is required to achieve £66.4m of savings in 2011/12 and £123.5m of savings over the whole of the MTFP. This is the equivalent of almost 30% of the County Council's 2010/11 Net Revenue Expenditure Budget.

Although the savings to be achieved are very substantial, the County Council has been working to a robust MTFP timetable which has ensured that well developed plans are in place. In addition, the County Council's initial forecasts of Government Grant reduction anticipated the heavy front loading. This has ensured that plans have been developed which have realised enough forecasted financial savings to achieve a balanced budget position for 2011/12.

Although the financial pressures are great, the County Council has been able to support a limited number of investments in the MTFP. These investments will enable the increasing price of the Landfill Tax to be

covered whilst the County Council reduces waste going to landfill sites, enabling nearly £2m to be invested in Safeguarding Children Services, protect services for older people and tourism whilst resourcing more enforcement procedures based upon consultation feedback.

Whilst facing unprecedented reductions in revenue funding the County Council recognises the need to invest in key infrastructure projects to support its key priorities. At the same time, a prudent approach to investment is essential. After taking into account the receipt of Government Capital Grants and the receipts from the sale of capital assets the County Council will be able to invest £38.6m in 2011/12 in addition to the current capital programme and invest an additional £173m over the overall MTFP. This will result in the County Council having a £364m capital programme for the MTFP period.

[Holding Pages for the Independent Auditors' Report to Durham County Council]













This statement shows the movement in the year on the different reserves held by the County Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the County Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for Council Tax setting and dwellings rent setting purposes. The Net Increase /Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves undertaken by the County Council.

	General Fund Balance £000	Earmarked General Fund Reserves £000	Housing Revenue Account £000	Earmarked HRA Reserves £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
<b>Balance at 31 March 2010 brought forward (restated)</b>	26,977	95,140	8,511	-	23,613	1,200	155,441	749,136	904,577
<b>Movement in Reserves during 2010-11</b>									
Surplus or deficit on provision of services	75,095	-	-106,130	-	-	-	-31,035	-	-31,035
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	-	-16,549	-16,549
<b>Total Comprehensive Income and Expenditure</b>	<b>75,095</b>	<b>-</b>	<b>-106,130</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-31,035</b>	<b>-16,549</b>	<b>-47,584</b>
Adjustments between accounting basis and funding basis under regulations (Note 8)	-88,917	-	108,509	-	-22,407	-1,200	-4,015	4,016	1
<b>Net Increase/Decrease before Transfers to Earmarked Reserves</b>	<b>-13,822</b>	<b>-</b>	<b>2,379</b>	<b>-</b>	<b>-22,407</b>	<b>-1,200</b>	<b>-35,050</b>	<b>-12,533</b>	<b>-47,583</b>
Transfers to/from Earmarked Reserves (Note 9)	4,165	-4,165	-3,202	3,202	-	-	-	-	-
<b>Increase/Decrease in Year</b>	<b>-9,657</b>	<b>-4,165</b>	<b>-823</b>	<b>3,202</b>	<b>-22,407</b>	<b>-1,200</b>	<b>-35,050</b>	<b>-12,533</b>	<b>-47,583</b>
<b>Balance at 31 March 2011 carried forward</b>	<b>17,320</b>	<b>90,975</b>	<b>7,688</b>	<b>3,202</b>	<b>1,206</b>	<b>-</b>	<b>120,391</b>	<b>736,603</b>	<b>856,994</b>

## Movement in Reserves Statement

	General Fund Balance £000	Earmarked General Fund Reserves £000	Housing Revenue Account £000	Earmarked HRA Reserves £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
<b>Balance at 1 April 2009 brought forward (restated)</b>	42,372	89,615	6,997	-	37,349	1,888	178,221	1,067,004	1,245,225
<b>Movement in Reserves during 2009-10</b>									
Surplus or deficit on provision of services	-99,719	-	-5,797	-	-	-	-105,516	-	-105,516
Other Comprehensive Income and Expenditure	-1,033	-	-	-	-	-	-1,033	-234,099	-235,132
<b>Total Comprehensive Income and Expenditure</b>	<b>-100,752</b>	<b>-</b>	<b>-5,797</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-106,549</b>	<b>-234,099</b>	<b>-340,648</b>
Adjustments between accounting basis and funding basis under regulations (Note 8)	90,881	-	7,311	-	-13,735	-688	83,769	-83,769	-
<b>Net Increase/Decrease before Transfers to Earmarked Reserves</b>	<b>-9,871</b>	<b>-</b>	<b>1,514</b>	<b>-</b>	<b>-13,735</b>	<b>-688</b>	<b>-22,780</b>	<b>-317,868</b>	<b>-340,648</b>
Transfers to/from Earmarked Reserves (Note 9)	-5,524	5,524	-	-	-	-	-	-	-
<b>Increase/Decrease in Year</b>	<b>-15,395</b>	<b>5,524</b>	<b>1,514</b>	<b>-</b>	<b>-13,735</b>	<b>-688</b>	<b>-22,780</b>	<b>-317,868</b>	<b>-340,648</b>
<b>Balance at 31 March 2010 carried forward</b>	<b>26,977</b>	<b>95,139</b>	<b>8,511</b>	<b>-</b>	<b>23,614</b>	<b>1,200</b>	<b>155,441</b>	<b>749,136</b>	<b>904,577</b>

## Comprehensive Income and Expenditure Statement

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

2009-10			Note	2010-11		
Gross Expenditure £000	Gross Income £000	Net Expenditure £000		Gross Expenditure £000	Gross Income £000	Net Expenditure £000
572,303	431,861	140,442		604,571	460,269	144,302
213,705	51,176	162,529		222,542	54,737	167,805
63,822	2,857	60,965		59,801	10,918	48,883
60,251	21,343	38,908		80,845	22,557	58,288
63,548	18,938	44,610		76,363	17,085	59,278
58,953	5,586	53,367		61,253	8,366	52,887
836	-	836		1,334	361	973
10,416	2,429	7,987		11,108	1,029	10,079
61,234	54,544	6,690		69,526	56,544	12,982
14,510	-	14,510		-211,079	-	-211,079
60,518	59,662	856		158,033	54,876	103,157
185,711	177,830	7,881		205,855	180,010	25,845
15,628	18,484	-2,856		30	-	30
7,452	-	7,452		655	-	655
<b>1,388,887</b>	<b>844,710</b>	<b>544,177</b>		<b>1,340,837</b>	<b>866,752</b>	<b>474,085</b>
10,187	-	10,187	10	70,705	-	70,705
87,180	16,090	71,090	11	55,026	10,036	44,990
562	520,500	-519,938	12	959	559,704	-558,745
		105,516				31,035
		-28,062				59,498
		579				249
		261,380				-42,610
		200				-588
		1,033				0
		235,130				16,549
		<b>340,646</b>				<b>47,584</b>

Note: The line 'Insurance - uncertain liabilities' (-£0.755m) originally recorded in the 2009/10 Income and Expenditure account as operating expenditure, has been allocated to services.

The cost of all external payments relating to insurance and the revision of insurance provisions are now shown within services.

\* Exceptional Item. Part of the Non Distributed costs (-£212.27m) relates to the negative past service costs arising from the change from RPI to CPI when calculating Pension Liabilities. See Note 1 Accounting Policies, item 4 Exceptional Items.

# Exceptional Item. The "Stock Valuation for Resource Accounting – Guidance for Valuers" guidance issued by CLG in January 2011 materially changed the adjustment factors to be applied to the valuation of housing stock. This has reduced the value of housing stock in 2010/11 by £107m from the value on 1st April 2010.

## Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the County Council. The net assets of the County Council (assets less liabilities) are matched by the reserves held by the County Council. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the County Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt).

The second category of reserves is those that the County Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

1 April 2009 (restated) £000	31 March 2010 (restated) £000		Notes	31 March 2011 £000
2,139,759	2,153,274	Property, Plant & Equipment	13	1,948,066
6,426	6,426	Investment Property	14	6,211
3,891	2,602	Intangible Assets	15	1,979
-	-	- Assets Held for Sale		-
4,895	8,224	Long Term Investments	16	3,310
7,676	7,616	Long Term Debtors	16	6,010
<b>2,162,647</b>	<b>2,178,142</b>	<b>Long Term Assets</b>		<b>1,965,576</b>
180,681	130,762	Short Term Investments	16	76,284
-	-	- Assets Held for Sale		-
3,918	4,243	Inventories	18	3,875
86,218	79,385	Short Term Debtors	19	83,418
30,332	129,152	Cash and Cash Equivalents	20	69,178
<b>301,149</b>	<b>343,542</b>	<b>Current Assets</b>		<b>232,755</b>
-8,387	-101,141	Cash and Cash Equivalents	20	-13,920
-9,948	-13,448	Short Term Borrowing	16	-5,344
-178,737	-147,868	Short Term Creditors	21	-144,525
-	-	- Provisions	22	-18,024
-	-	- Liabilities in Disposal Groups		-
<b>-197,072</b>	<b>-262,457</b>	<b>Current Liabilities</b>		<b>-181,813</b>
-	-	- Long Term Creditors		-
-17,712	-18,088	Provisions	22	-9,594
-316,750	-306,832	Long Term Borrowing	16	-315,631
-673,493	-978,645	Other Long Term Liabilities	40, 41, 45	-776,438
-	-	- Donated Assets Account		-
-13,544	-51,085	Capital Grants Receipts in Advance	37	-57,861
<b>-1,021,499</b>	<b>-1,354,650</b>	<b>Long Term Liabilities</b>		<b>-1,159,524</b>
<b>1,245,225</b>	<b>904,577</b>	<b>Net Assets</b>		<b>856,994</b>
178,221	155,441	Usable Reserves	23	120,391
1,067,004	749,136	Unusable Reserves	24	736,603
<b>1,245,225</b>	<b>904,577</b>	<b>Total Reserves</b>		<b>856,994</b>



The Cash Flow Statement shows the changes in cash and cash equivalents of the County Council during the reporting period. The statement shows how the County Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the County Council are funded by way of taxation and grant income or from the recipients of services provided by the County Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the County Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the County Council.

<b>2009-10</b> <b>£000</b>	<b>2010-11</b> <b>£000</b>
105,516 Net surplus (-) or deficit on the provision of services	31,035
-92,020 Adjustments to net surplus or deficit on the provisions of services for non-cash movements	-62,851
6,836 Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	6,319
20,332 Net Cash flows from Operating Activities (Note 25)	-25,497
-27,479 Investing Activities (Note 26)	-1,840
1,081 Financing Activities (Note 27)	90
-6,066 Net increase (-) or decrease in cash and cash equivalents	-27,247
21,945 Cash and cash equivalents at 1 April	28,011
28,011 Cash and cash equivalents at 31 March (note 28)	55,258

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## 1. Accounting policies

### 1. General Principles

The Statement of Accounts summarises the County Council's transactions for the 2010/11 financial year and its position at the year-end of 31 March 2011. The Accounts and Audit Regulations 2003 require that the County Council prepare a Statement of Accounts in accordance with proper accounting practices.

These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 and the *Best Value Accounting Code of Practice 2010/11*, supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

The Code requires that a Local Authority's Statement of Accounts is prepared on a 'going concern' basis, that is, the accounts are based on the assumption that the County Council will continue in operational existence for the foreseeable future.

### 2. Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- ❖ Revenue from the sale of goods is recognised when the County Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the County Council.
- ❖ Revenue from the provision of services is recognised when the County Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the County Council.
- ❖ Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.

Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.

Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

The County Council has a policy of not accruing for manual sundry creditor or sundry debtor provisions for less than £1,000 other than in exceptional circumstances.

### 3. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in 3 months or less from the date of acquisition, are held for the purpose of liquidity rather than investment, and are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the County Council's cash management.

### 4. Exceptional Items

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the County Council's financial performance.

See Note 50 for further details of Exceptional Items.

## **5. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors**

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the County Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

See Note 51 for further information on Prior Period Adjustments.

## **6. Charges to Revenue for Non-Current Assets**

Services, support services and trading accounts are debited with the following amounts to record the cost of holding non-current assets during the year:

- ❖ depreciation attributable to the assets used by the relevant service
- ❖ revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
- ❖ amortisation of intangible assets attributable to the service.

The County Council is not required to raise Council Tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the authority in accordance with statutory guidance.

Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the General Fund Balance (MRP), by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

## **7. Employee Benefits**

### **Benefits Payable During Employment**

Short-term employee benefits are those due to be settled within 12 months of the year-end.

They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the County Council. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

### **Termination Benefits**

Termination benefits are amounts payable as a result of a decision by the County Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement when the County Council is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy. Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the County Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits

for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

### Post Employment Benefits

Employees of the County Council are members of two separate pension schemes:

- ❖ The Local Government Pensions Scheme, administered by Durham County Council.
- ❖ The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE).

Both schemes provided defined benefits to members (retirement lump sums and pensions), earned as employees worked for the County Council.

However, the arrangements for the teachers' scheme mean that liabilities for these benefits cannot ordinarily be identified specifically to the County Council. The scheme is therefore accounted for as if it were a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The Children's and Education Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year.

### The Local Government Pension Scheme

The Local Government Scheme is accounted for as a defined benefits scheme:

- ❖ The liabilities of the Durham County Council pension fund attributable to the County Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.
- ❖ Liabilities are discounted to their value at current prices, using a discount rate of 5.50% (based on the indicative rate of return on high quality corporate bond Aon Hewitt UK Corporate AA Curve – Swaps Extrapolation).
- ❖ The assets of Durham County Council pension fund attributable to the County Council are included in the Balance Sheet at their fair value:
  1. quoted securities – current bid price
  2. unquoted securities – professional estimate
  3. unitised securities – current bid price
  4. property – market value.

The change in the net pensions liability is analysed into seven components:

1. current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
2. past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
3. interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
4. expected return on assets – the annual investment return on the fund assets attributable to the County Council, based on an average of the expected long-term return – credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
5. gains or losses on settlements and curtailments – the result of actions to relieve the County Council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs

6. actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Pensions Reserve
7. contributions paid to the Durham County Council pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the County Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

### **Discretionary Benefits**

The County Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

### **8. Events After the Balance Sheet Date**

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- ❖ those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events
- ❖ those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

### **9. Financial Instruments**

#### **Financial Liabilities**

Financial liabilities are recognised on the Balance Sheet when the County Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the County Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

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

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The



County Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid.. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

### **Financial Assets**

Financial assets are classified into two types:

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

### **Loans and Receivables**

Loans and receivables are recognised on the Balance Sheet when the County Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument.

For most of the loans that the County Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

However, the County Council has made a number of loans to voluntary organisations at less than market rates (soft loans). When soft loans are made, and amounts are material, a loss is recorded in the Comprehensive Income and Expenditure Statement (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement at a marginally higher effective rate of interest than the rate receivable from the voluntary organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

### **Available-for-Sale Assets**

Available-for-sale assets are recognised on the Balance Sheet when the County Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the County Council.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:

- ❖ instruments with quoted market prices – the market price

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

Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/loss is recognised in the Surplus or Deficit on Revaluation of Available-for-Sale Financial Assets. The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available-for-Sale Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve.

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

#### **10. Foreign Currency Translation**

Where the County Council has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts in foreign currency are outstanding at the year-end, they are reconverted at the spot exchange rate at 31 March. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

#### **11. Government Grants and Contributions**

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the County Council when there is reasonable assurance that:

- ❖ the County Council will comply with the conditions attached to the payments, and
- ❖ the grants or contributions will be received.

Amounts recognised as due to the County Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

In respect of Capital Grants and Contributions, the assumption that has been applied in the accounts is that the grant would have to be used for capital expenditure before all the conditions of the grant were fulfilled. This is because it is a standard clause that if expenditure is not used to purchase specified assets, it can be clawed back. Therefore there is always a condition, not a restriction, which is unfulfilled until expenditure is incurred.

#### **12. Area Based Grant**

Area Based Grant (ABG) is a general grant allocated by central government directly to local authorities as additional revenue funding. ABG is non-ringfenced and is credited to Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement.



### 13. Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the County Council as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the County Council.

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the County Council will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised).

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the County Council's goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the County Council can be determined by reference to an active market. In practice, no intangible asset held by the County Council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

### 14. Interests in Companies and Other Entities

The County Council has material interests in companies and other entities that have the nature of subsidiaries, associates and jointly controlled entities and require it to prepare group accounts. In the County Council's own single-entity accounts, the interests in companies and other entities are recorded as financial assets at cost, less any provision for losses.

### 15. Inventories and Long Term Contracts

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned using the *weighted average* costing formula.

Long term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

### 16. Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued annually according to market conditions at the year-end.

Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

## **17. Jointly Controlled Operations and Jointly Controlled Assets**

Jointly controlled operations are activities undertaken by the County Council in conjunction with other venturers that involve the use of the assets and resources of the venturers rather than the establishment of a separate entity. The County Council recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs and debits and credits the Comprehensive Income and Expenditure Statement with the expenditure it incurs and the share of income it earns from the activity of the operation.

Jointly controlled assets are items of property, plant or equipment that are jointly controlled by the County Council and other venturers, with the assets being used to obtain benefits for the venturers. The joint venture does not involve the establishment of a separate entity. The County Council accounts for only its share of the jointly controlled assets, the liabilities and expenses that it incurs on its own behalf or jointly with others in respect of its interest in the joint venture and income that it earns from the venture.

## **18. Leases**

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

### **The County Council as Lessee**

#### **Finance Leases**

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the County Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- ❖ a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
- ❖ a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the County Council at the end of the lease period).

The County Council is not required to raise Council Tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

#### **Operating Leases**

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

## The County Council as Lessor

### Finance Leases

Where the County Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the County Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- ❖ a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and
- ❖ finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

The written-off value of disposals is not a charge against Council Tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

### Operating Leases

Where the County Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

### Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA *Best Value Accounting Code of Practice 2010/11* (BVACOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- ❖ Corporate and Democratic Core – costs relating to the County Council's status as a multifunctional, democratic organisation.
- ❖ Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

These two cost categories are defined in BVACOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services.

## 19. Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

## Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the County Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

## Measurement

Assets are initially measured at cost, comprising:

- ❖ the purchase price
- ❖ any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management
- ❖ the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

The County Council does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the County Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the County Council.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

Assets are then carried in the Balance Sheet using the following measurement bases:

- ❖ infrastructure, community assets and assets under construction – depreciated historical cost
- ❖ dwellings – fair value, determined using the basis of existing use value for social housing (EUV-SH)
- ❖ all other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for by:

- ❖ where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- ❖ where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

## Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- ❖ where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- ❖ where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

## Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following bases:

- ❖ dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer up to a maximum of 50 years
- ❖ vehicles, plant, furniture and equipment – a percentage of the value of each class of assets in the Balance Sheet, as advised by a suitably qualified officer up to a maximum of 10 years
- ❖ infrastructure – straight-line allocation over 40 years.

Where an item of Property, Plant and Equipment has a value greater than £5million and major components greater than 20% of the value of the asset, the components are depreciated separately at rates representative of their useful life.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

## 20. Disposals and Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value



of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment [or set aside to reduce the County Council's underlying need to borrow (the capital financing requirement) (England and Wales)]. Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against Council Tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

### **21. Private Finance Initiative (PFI) and Similar Contracts**

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. In 2009/10 the County Council signed a PFI contract for the provision of three sets of new school buildings. As the County Council is deemed to control the services that are provided under its PFI schemes, and as ownership of the property, plant and equipment will pass to the County Council at the end of the contracts for no additional charge, the County Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment. Details of the value of assets, liabilities and estimates of future payments over the next 25 years can be found in Note 41.

### **22. Provisions, Contingent Liabilities and Contingent Assets**

#### **Provisions**

Provisions are made where an event has taken place that gives the County Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the County Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the County Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the County Council settles the obligation.

#### **23. Landfill Allowance Schemes**

Landfill allowances, whether allocated by DEFRA or purchased from another Waste Disposal Authority (WDA) are recognised as current assets and are initially measured at fair value. Landfill allowances allocated by DEFRA are accounted for as a government grant.

After initial recognition, allowances are measured at the lower of cost and net realisable value.

As landfill is used, a liability and an expense are recognised. The liability is discharged either by surrendering allowances or by payment of a cash penalty to DEFRA (or by a combination). The liability is measured at the best estimate of the expenditure required to meet the obligation, normally the market price of the number of allowances required to meet the liability at the reporting date. However, where some of the obligation will be met by paying a cash penalty to DEFRA, that part of its liability is measured at the cost of the penalty.

**24. Contingent Liabilities**

A contingent liability arises where an event has taken place that gives the authority a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the authority.

Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

**25. Contingent Assets**

A contingent asset arises where an event has taken place that gives the authority a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the authority.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

**26. Reserves**

The County Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against Council Tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the County Council – these reserves are explained in the relevant policies.

**27. Revenue Expenditure Funded from Capital under Statute**

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the County Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of Council Tax.

**28. Value Added Tax (VAT)**

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

## 2. International Financial Reporting Standards (IFRS) 1 Note

The Statement of Accounts for 2010/11 is the first to be prepared on an IFRS basis. Adoption of the IFRS-based Code has resulted in the restatement of various balances and transactions, with the result that some amounts presented in the financial statements are different from the equivalent figures presented in the Statement of Accounts for 2009/10.

The following tables explain the differences between the amounts presented in the 2009/10 financial statements and the equivalent amounts presented in the 2010/11 financial statements in respect of the Balance Sheet.

	IFRS Transition Adjustments						IFRS 1 April 2009 £000
	Restated UK GAAP 1 April 2009 £000	Short-term Accumulating Absences £000	Leases £000	Government Grants £000	Non-Current Assets £000	Cash and Cash Equivalents £000	
Property, Plant & Equipment	2,114,820		3,836		21,102		2,139,758
Investment Property	27,529				-21,102		6,427
Intangible Assets	3,891						3,891
Long Term Investments	4,895						4,895
Long Term Debtors	7,676						7,676
<b>Long Term Assets</b>	<b>2,158,811</b>	<b>-</b>	<b>3,836</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,162,647</b>
Short Term Investments	203,541					-22,860	180,681
Inventories	3,918						3,918
Short Term Debtors	87,358		-1,140				86,218
Cash and Cash Equivalents	7,472					22,860	30,332
<b>Current Assets</b>	<b>302,289</b>	<b>-</b>	<b>-1,140</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>301,149</b>
Cash and Cash Equivalents	-8,387						-8,387
Short Term Borrowing	-9,948						-9,948
Short Term Creditors	-173,132	-16,609		11,004			-178,737
<b>Current Liabilities</b>	<b>-191,467</b>	<b>-16,609</b>	<b>-</b>	<b>11,004</b>	<b>-</b>	<b>-</b>	<b>-197,072</b>
Provisions	-17,712						-17,712
Long Term Borrowing	-316,750						-316,750
Other Long Term Liabilities	-670,225		-3,268				-673,493
Capital Grants Receipts in Advance	-222,708			209,164			-13,544
<b>Long Term Liabilities</b>	<b>-1,227,395</b>	<b>-</b>	<b>-3,268</b>	<b>209,164</b>	<b>-</b>	<b>-</b>	<b>-1,021,499</b>
<b>Net Assets</b>	<b>1,042,238</b>	<b>-16,609</b>	<b>-572</b>	<b>220,168</b>	<b>-</b>	<b>-</b>	<b>1,245,225</b>
<b>Usable Reserves</b>							
Usable Capital Receipts Reserve	-37,349						-37,349
Major Repairs Reserve	-1,888						-1,888
Housing Revenue Account	-6,997						-6,997
General Fund Balance	-43,512		1,140				-42,372
Earmarked Reserves	-89,615						-89,615
	<b>-179,361</b>	<b>-</b>	<b>1,140</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-178,221</b>
<b>Unusable Reserves</b>							
Revaluation Reserve	-513,578				39		-513,539
Capital Adjustment Account	-1,017,143		-568	-220,168	-39		-1,237,918
Financial Instruments Adjustment Account	3,861						3,861
Deferred Capital Receipt	-3,287						-3,287
Short Term Accumulating Absences Account	-	16,609					16,609
Pension Reserve	670,970						670,970
Available for Sale Financial Collection Fund	-1,632						-1,632
	-2,068						-2,068
	<b>-862,877</b>	<b>16,609</b>	<b>-568</b>	<b>-220,168</b>	<b>-</b>	<b>-</b>	<b>-1,067,004</b>
<b>Total Reserves</b>	<b>-1,042,238</b>	<b>16,609</b>	<b>572</b>	<b>-220,168</b>	<b>-</b>	<b>-</b>	<b>-1,245,225</b>



	IFRS Transition Adjustments						IFRS 31 March 2010 £000
	Restated UK GAAP 31 March 2010 £000	Short-term Accumulating Absences £000	Leases £000	Government Grants £000	Non-Current Assets £000	Cash and Cash Equivalents £000	
Property, Plant & Equipment	2,146,893		5,283		1,097		2,153,273
Investment Property	7,524				-1,097		6,427
Intangible Assets	2,602						2,602
Long Term Investments	8,224						8,224
Long Term Debtors	7,616						7,616
<b>Long Term Assets</b>	<b>2,172,859</b>	<b>-</b>	<b>5,283</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,178,142</b>
Short Term Investments	170,518					-39,756	130,762
Inventories	4,243						4,243
Short Term Debtors	80,950		-1,565				79,385
Cash and Cash Equivalents	89,396					39,756	129,152
<b>Current Assets</b>	<b>345,107</b>	<b>-</b>	<b>-1,565</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>343,542</b>
Cash and Cash Equivalents	-101,141						-101,141
Short Term Borrowing	-13,448						-13,448
Short Term Creditors	-180,186	-18,174		50,492			-147,868
<b>Current Liabilities</b>	<b>-294,775</b>	<b>-18,174</b>	<b>-</b>	<b>50,492</b>	<b>-</b>	<b>-</b>	<b>-262,457</b>
Provisions	-18,088						-18,088
Long Term Borrowing	-306,832						-306,832
Other Long Term Liabilities	-974,413		-4,232				-978,645
Capital Grants Receipts in Advance	-238,041			186,956			-51,085
<b>Long Term Liabilities</b>	<b>-1,537,374</b>	<b>-</b>	<b>-4,232</b>	<b>186,956</b>	<b>-</b>	<b>-</b>	<b>-1,354,650</b>
<b>Net Assets</b>	<b>685,817</b>	<b>-18,174</b>	<b>-514</b>	<b>237,448</b>	<b>-</b>	<b>-</b>	<b>904,577</b>
<b>Usable Reserves</b>							
Usable Capital Receipts Reserve	-23,613						-23,613
Major Repairs Reserve	-1,200						-1,200
Housing Revenue Account	-8,511						-8,511
General Fund Balance	-28,542		1,565				-26,977
Earmarked Reserves	-95,140						-95,140
	<b>-157,006</b>	<b>-</b>	<b>1,565</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-155,441</b>
<b>Unusable Reserves</b>							
Revaluation Reserve	-522,029				954		-521,075
Capital Adjustment Account	-980,623		-1,051	-237,448	-954		-1,220,076
Financial Instruments Adjustment Account	3,557						3,557
Deferred Capital Receipt	-2,806						-2,806
Short Term Accumulating Absences Account	-	18,174					18,174
Pension Reserve	975,648						975,648
Available for Sale Financial Instruments Reserve	-1,053						-1,053
Collection Fund	-1,505						-1,505
	<b>-528,811</b>	<b>18,174</b>	<b>-1,051</b>	<b>-237,448</b>	<b>-</b>	<b>-</b>	<b>-749,136</b>
<b>Total Reserves</b>	<b>-685,817</b>	<b>18,174</b>	<b>514</b>	<b>-237,448</b>	<b>-</b>	<b>-</b>	<b>-904,577</b>

The following tables explain the differences between the amounts presented in the 2009/10 financial statements and the equivalent amounts presented in the 2010/11 financial statements in respect of the Comprehensive Income and Expenditure Account.

	Effect of Transition to IFRS						IFRS 2009-10 £000
	UK GAAP 2009-10 £000	Short-term Accumulated Absences £000	Leases £000	Government Grants £000	Non-Current Assets £000	Other Adjustments £000	
<b>Net Expenditure</b>							
Children's and Education Services	135,629	1,501		7,509	-4,391	194	140,442
Adult Social Care	162,271	24		178		56	162,529
Highways and Transportation	51,845	23	-2	10,098		-999	60,965
Planning and Development	39,447	9		16	-558	-6	38,908
Cultural and Related Services	43,703		-16	923			44,610
Environmental Services	52,248	3		1,152	-36		53,367
Courts and Probation	836						836
Central Services							
Corporate and Democratic Core	7,955	4		28			7,987
Central Services to the Public	6,690						6,690
Non Distributed Costs	14,510						14,510
Local Authority Housing (HRA)	856						856
Other Housing services (including Supporting People)	7,877		-36		40		7,881
Other Services	-2,856						-2,856
Local Government Reorganisation	7,452						7,452
<b>Cost Of Services</b>	<b>528,463</b>	<b>1,564</b>	<b>-54</b>	<b>19,904</b>	<b>-4,945</b>	<b>-755</b>	<b>544,177</b>
<b>Other Operating Expenditure</b>							
Parish council precepts	11,577						11,577
Levies payable	404						404
Payments to the Government Housing Capital Receipts Pool							
	1,157						1,157
Gain/loss on disposal of non current assets	-3,418				467		-2,951
Insurance - uncertain liabilities	-755					755	-
<b>Financing and Investment Income and Expenditure</b>							
Interest payable and similar charges	17,262						17,262
Impairment of financial instruments	45						45
Pensions interest costs and expected return on pension assets							
	56,970						56,970
Interest receivable and similar income	-5,105						-5,105
Other investment income	1,961		-1,526		1,483		1,918
<b>Taxation and Non-Specific Grant Income</b>							
Capital Grants and Contributions				-37,185			-37,185
Council tax income	-207,005						-207,005
Non domestic rates	-182,127						-182,127
Non- ringfenced government grants	-93,621						-93,621
<b>(Surplus) or Deficit on Provision of Services</b>	<b>125,808</b>	<b>1,564</b>	<b>-1,580</b>	<b>-17,281</b>	<b>-2,995</b>	<b>-</b>	<b>105,516</b>
<b>Surplus or deficit on revaluation of non current assets</b>							
Surplus or deficit on revaluation of PPE assets	-33,049				4,987		-28,062
Surplus or deficit on revaluation of available for sale financial assets	579						579
Actuarial gains / losses on pension assets / liabilities	261,580					-200	261,380
Harmonisation as a result of LGR	1,033						1,033
Difference between actuary's estimate and actual employer's pension contributions						200	200
<b>Other Comprehensive Income and Expenditure</b>	<b>230,143</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,987</b>	<b>-</b>	<b>235,130</b>
<b>Total Comprehensive Income and Expenditure</b>	<b>355,951</b>	<b>1,564</b>	<b>-1,580</b>	<b>-17,281</b>	<b>1,992</b>	<b>-</b>	<b>340,646</b>

### Short-term accumulating compensated absences

Short-term accumulating compensated absences refers to the benefits that employees receive as part of their contract of employment, entitlement to which is built up as they provide services to the County Council. The most significant benefit covered by this heading is holiday pay.

Employees build up an entitlement to paid holidays as they work. Under the Code, the cost of providing holidays and similar benefits is required to be recognised when employees render services that increase their entitlement to future compensated absences. As a result, the County Council is required to accrue for any annual leave earned but not taken by 31 March each year. Under the previous accounting arrangements, no such accrual was required.

The government has issued regulations that mean local authorities are only required to fund holiday pay and similar benefits when they are used, rather than when employees earn the benefits. Amounts are transferred to the Accumulated Absences Account until the benefits are used.

### **Leases**

Under the Code, leases of property are accounted for as separate leases of land and buildings. Previously, each property lease would have been accounted for as a single lease. The change in accounting treatment can result in the land or buildings element of the lease being accounted for as an operating lease where it was previously treated as a finance lease; or as a finance lease where it was previously treated as an operating lease.

The government has issued regulations and statutory guidance in relation to accounting for leases. Under these arrangements, the annual charge to the General Fund (where the County Council is the lessee) will be unchanged. Where the County Council is the lessor, the regulations allow the County Council to continue to treat the income from existing leases in the same way as it accounted for the income prior to the introduction of the Code.

### **Government Grants**

Under the Code, grants and contributions for capital schemes are recognised as income when they become receivable. Previously, grants were held in a grants deferred account, which was the accumulated balance of capital grants received that had funded assets held on the Balance Sheet and by applying the matching principle, recognised as income over the life of the asset which were used to fund to match the depreciation charge.

As a consequence of adopting the accounting policy required by the Code, the financial statements have been amended as follows:

- ❖ The balance on the Government Grants Deferred Account at 31 March 2009 has been transferred to the Capital Adjustment Account in the opening 1 April 2009 Balance Sheet.
- ❖ Portions of government grants deferred were previously recognised as income in 2009/10; these have been removed from the CIES in the comparative figures.

### **Non-current Assets**

IFRS introduces a number of new accounting treatments in respect of non-current assets.

Investment properties are now a distinct category of asset and separately identified on the face of the balance sheet. Movements in the valuation of investment properties should now be recorded through the surplus or deficit of provision of services rather than recognised within the Revaluation Reserve.

There is a new balance sheet category of Assets Held for Sale, which is for those properties that are marketed and anticipated to be sold within a twelve month period of the reporting date. The County Council does not have any assets that meet the strict criteria of Assets Held for Sale.

### **Cash and Cash Equivalents**

IFRS introduces a new heading in the balance sheet, Cash Equivalents. Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in 3 months or less from the date of acquisition, are held for the purpose of liquidity rather than investment, and are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the County Council's cash management.

## **3. Accounting Standards that have been issued but have not yet been adopted**

The 2011/12 Code adopts the requirements of FRS 30 - Heritage Assets and this represents a change of accounting policy. A heritage asset is an asset with historical, technical, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.

These assets have been included in the 2010/11 financial statements as community assets, which are held at historic cost. However, under the 2011/12 Code, heritage assets are carried at valuation, which may be

made by any method that is appropriate and relevant, although they may be held at historic value, where it is not practicable to establish a valuation.

A review of assets in the 2010/11 financial statements has been undertaken and heritage assets with a carrying amount at 31 March 2011 of £2,397,388 have been identified. In 2011/12 these assets have been included in the community assets category.

The carrying amount reflects historic cost and the reclassified heritage assets will be subject to valuation, which is expected to result in net revaluation gains of £8,457. It is also expected that changes will be recognised for depreciation, of £12,566, and impairment, of £668,901. The carrying amount at 31 March 2011 in the restated accounts will therefore be reduced from £2,397,388 to £1,724,378.

#### 4. Critical judgements in applying accounting policies

In applying the accounting policies set out in Note 1, the County Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- ❖ Funding of Local Government - There is a high degree of uncertainty about future levels of funding for local government. However, the County Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the County Council might be impaired as a result of a need to close facilities and reduce levels of service provision.
- ❖ Academy and Foundation Trust Schools - A number of schools transferred to academy and foundation trust status in 2010/2011. Having completed a statutory process, the governing bodies of the relevant schools have agreed to change from Local Authority maintained foundation schools. These assets have been removed from the Council's Balance Sheet and a loss on disposal has been recorded in the Comprehensive Income and Expenditure Account.
- ❖ Landfill Allowances Trading Scheme - this relates to the usage of Landfill Allowances issued by the Government under the Landfill Allowances Trading Scheme (LATS). The allowances issued by government are held as current assets and are valued at the lower of cost or net realisable value. As landfill occurs, provision is made for the estimated value. The allowances are also recognised as income during the year for which the allowances were allocated. Once the value of landfill has been confirmed by the Environment Agency, the relevant value of allowances will be deducted from current assets, and the provision released. No provision has been made at 31 March 2011, as the market value of allowances has been assessed as zero and is not considered to be material. This is mainly due to the lack of an active market above nominal values in 2010/11.
- ❖ PFI - In 2009/10, the County Council signed a Private Finance Initiative contract for the provision of three sets of new school buildings; Sedgefield Community College, Shotton Hall School and Shotton Hall Primary School. The accounting policies for PFI schemes and similar contracts have been applied to the arrangement and the assets are recognised in the balance sheet as they are deemed to fall within the scope of the International Financial Reporting Interpretations Committee (IFRIC) 12. The total net value of land and buildings for these schools is £15.439m. Further details can be found in Note 41.
- ❖ Group Accounts – Group Financial Statement have been prepared The table in Note 37 shows the level of investments held in a number of organisations and whether they have been included in the DCC Group Financial Statements. Following a review, it was concluded that a number of organisations should be excluded on the grounds of materiality or the fact that DCC is not in a position to exert significant influence over these organisations.
- ❖ Classification of leases – the adoption of the Code has required the County Council to reconsider the classification of its leases between the categories of finance and operating. The distinction between the two categories is not clearly defined in absolute terms and this means an element of judgement has been required to make the assessment in line with best practice. The impact of this assessment process has been that some leases previously treated as operating leases (refuse vehicles) have been reclassified as finance leases.
- ❖ Grant recognition – the adoption of the Code has required reconsideration of the extent to which grants are encumbered by conditions and the extent to which any such conditions have been met. In respect of Capital Grants and Contributions, the assumption that has been applied in the accounts is that the grant would have to be used for capital expenditure before all the conditions of the grant were fulfilled. This is

because it is a standard clause that if expenditure is not used to purchase specified assets, it can be clawed back. Therefore there is always a condition, not a restriction, which is unfulfilled until expenditure is incurred.

## 5. Assumptions made about the future and other major sources of estimation uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the County Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the County Council's Balance Sheet at 31 March 2011 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Property, plant and equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets	The impact of a change in valuation or useful life would be to affect the carrying value of the asset in the balance sheet and the charge for depreciation or impairment in the CIES.  These changes do not have an impact on the Council's General Fund position as the Council is not required to fund such non-cash charges from council tax receipts.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements such as the discount rate, future salary increases, mortality expectations, future inflation, and the expected rate of return on the Pension Fund's investments. The Pension Fund engages a firm of specialist actuaries to provide the County Council with expert advice about the assumptions to be applied.	The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumptions would result in a decrease in the pension liability of £154.12m for funded LGPS benefits. However, the assumptions interact in complex ways. During 2010/11, the County Council's actuaries advised that the net pensions liability for funded LGPS benefits had decreased by £17.02m as a result of estimates being corrected as a result of experience and decreased by £25.82m attributable to updating of the assumptions.
Icelandic Investments	The County Council had £7m deposited across three Icelandic Banks which collapsed in 2008. Impairments to the asset	Failure to secure preferential creditor status would have a significant impact upon the amount of the deposit that is recoverable. The total assets

Item	Uncertainties	Effect if actual results differ from assumptions
	<p>values have been calculated in accordance with CIPFA's LAAP 82 Bulletin Update 4.</p> <p>Recovery is subject to the following uncertainties and risks:</p> <ul style="list-style-type: none"> <li>❖ Whilst the Icelandic courts have initially confirmed that deposits enjoy preferential creditor status, this is currently subject to appeal.</li> <li>❖ The impact of exchange rate fluctuations on the value of assets recovered by the resolution committee and on the settlement of the County Council's claim, which may be denominated wholly or partly in currencies other than sterling.</li> <li>❖ Settlement of the terms of a 'bond' which will allow creditors of old Landsbanki to enjoy rights in New Landsbanki.</li> </ul>	<p>of the bank only equate to one third of its liabilities, assuming that the Bond remains at its current value. Based on initial estimates, if preferential creditor status is not achieved the recoverable amount may only be 33p in the £.</p> <p>This would result in an additional impairment estimated to be in the region of £4m.</p>
Equal Pay	<p>Provisions made for the likely payments in respect of Equal Pay settlement. Claims have moved in 2010/11 from long term to short term provisions. These have been included at current prices as the time value of these payments is within 12 months.</p>	<p>If payments are not made within 12 months, it is unlikely that any additional amounts due in respect of late settlement of Equal Pay claims</p>
Arrears	<p>At 31 March 2011, the Authority had a balance of debtors of £92.89m. A review of significant balances suggested that an impairment of doubtful debts of 12.99% (£12.07m) was appropriate. However, in the current economic climate it is not certain that such an allowance would be sufficient.</p>	<p>If collection rates were to deteriorate, a doubling of the amount of the impairment of doubtful debts would require an additional £12.07m to set side as an allowance.</p>

## 6. Material items of income and expense

There are no material items to be disclosed in a note which are not on the face of the Comprehensive Income and Expenditure Statement.

## 7. Events after the balance sheet date

The Statement of Accounts was authorised for issue by the Corporate Director Resources on 30 September 2011. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2011, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

## 8. Adjustments between accounting basis and funding basis under regulations

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the County Council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the County Council to meet future capital and revenue expenditure.



2010/11:

	Usable Reserves					
	General Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Capital Grants Unapplied £000	Movement in Unusable Reserves £000
<b>Adjustments primarily involving the:</b>						
<b>Capital Adjustment Account:</b>						
<b>Reversal of items debited or credited to the CI&amp;E Statement:</b>						
Charges for depreciation and impairment of non-current assets	-57,295	-12,793	-	-	-	70,088
Revaluation losses on Property Plant and Equipment	-67,776	-117,013	-	-	-	184,789
Movements in the market value of Investment Properties	-3,867	-94	-	-	-	3,961
Amortisation of intangible assets	-862	-162	-	-	-	1,024
Capital grants and contributions applied	55,702	3,652	-	-	-	-59,354
Movement in the Donated Assets Account						
Revenue expenditure funded from capital under statute	-16,891	-	-	-	-	16,891
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CI&E Statement	-59,380	-3,173	-	-	-	62,553
<b>Insertion of items not debited or credited to the CI&amp;E Statement:</b>						
Statutory provision for the financing of capital investment	13,853	-	-	-	-	-13,853
Capital expenditure charged against the General Fund and HRA Balances	16,579	1,341	-	-	-	-17,920
<b>Capital Receipts Reserve:</b>						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the CI&E Statement	3,994	2,325	-6,319	-	-	-
Use of the Capital Receipts Reserve to finance new capital expenditure	-	-	27,526	-	-	-27,526
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	-1,200	-	1,200	-	-	-
Transfer from Deferred Capital Receipts Reserve upon receipt of cash	-862	-	-	-	-	862
<b>Adjustments primarily involving the</b>						
<b>Major Repairs Reserve:</b>						
Reversal of Major Repairs Allowance Credited to the HRA	-	11,944	-	-11,944	-	-
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	-	13,144	-	-13,144
<b>Financial Instruments Adjustment Account:</b>						
Amount by which finance costs charged to the CI&E Statement are different from finance costs chargeable in the year in accordance with statutory requirements	870	-	-	-	-	-870
<b>Pensions Reserve:</b>						
Reversal of items relating to the retirement benefits debited or credited to the CI&E Statement (see note 24)	129,754	4,926	-	-	-	-134,680
Employer's pensions contributions and direct payments to pensioners payable in the year	69,018	539	-	-	-	-69,557
<b>Collection Fund Adjustment Account:</b>						
Amount by which council tax income credited to the CI&E Statement is different from council tax income calculated for the year in accordance with statutory requirements	-959	-	-	-	-	959
<b>Accumulated Absences Account:</b>						
Amount by which officer remuneration charged to the CI&E Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	8,239	-	-	-	-	-8,239
<b>Total Adjustments</b>	<b>88,917</b>	<b>-108,508</b>	<b>22,407</b>	<b>1,200</b>	<b>-</b>	<b>-4,016</b>



2009/10:

	Usable Reserves					
	General Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Capital Grants Unapplied £000	Movement in Unusable Reserves £000
<b>Adjustments primarily involving the:</b>						
<b>Capital Adjustment Account:</b>						
<b>Reversal of items debited or credited to the CI&amp;E Statement:</b>						
Charges for depreciation and impairment of non-current assets	-59,652	-15,472	-	-	-	75,124
Revaluation losses on Property Plant and Equipment	-38,767	-5,982	-	-	-	44,749
Movements in the market value of Investment Properties	-	-	-	-	-	-
Amortisation of intangible assets	-1,288	-	-	-	-	1,288
Capital grants and contributions applied	37,185	-	-	-	-	-37,185
Movement in the Donated Assets Account	-	-	-	-	-	-
Revenue expenditure funded from capital under statute	-5,700	-	-	-	-	5,700
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CI&E Statement	-2,215	-1,060	-	-	-	3,275
<b>Insertion of items not debited or credited to the CI&amp;E Statement:</b>						
Statutory provision for the financing of capital investment	13,896	-	-	-	-	-13,896
Capital expenditure charged against the General Fund and HRA Balances	7,430	1,393	-	-	-	-8,823
<b>Capital Receipts Reserve:</b>						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the CI&E Statement	4,571	2,265	-6,836	-	-	-
Use of the Capital Receipts Reserve to finance new capital expenditure	-	-	19,414	-	-	-19,414
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	-1,157	-	1,157	-	-	-
Transfer from Deferred Capital Receipts Reserve upon receipt of cash	-480	-	-	-	-	480
<b>Adjustments primarily involving the</b>						
<b>Major Repairs Reserve:</b>						
Reversal of Major Repairs Allowance Credited to the HRA	-	11,762	-	-11,762	-	-
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	-	12,450	-	-12,450
<b>Financial Instruments Adjustment Account:</b>						
Amount by which finance costs charged to the CI&E Statement are different from finance costs chargeable in the year in accordance with statutory requirements	304	-	-	-	-	-304
<b>Pensions Reserve:</b>						
Reversal of items relating to the retirement benefits debited or credited to the CI&E Statement (see note 24)	-103,247	-633	-	-	-	103,880
Employer's pensions contributions and direct payments to pensioners payable in the year	60,363	419	-	-	-	-60,782
<b>Collection Fund Adjustment Account:</b>						
Amount by which council tax income credited to the CI&E Statement is different from council tax income calculated for the year in accordance with statutory requirements	-562	-	-	-	-	562
<b>Accumulated Absences Account:</b>						
Amount by which officer remuneration charged to the CI&E Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	-1,565	-	-	-	-	1,565
<b>Total Adjustments</b>	<b>-90,884</b>	<b>-7,308</b>	<b>13,735</b>	<b>688</b>	<b>-</b>	<b>83,769</b>

## 9. Transfers to/from earmarked reserves

This note sets out the amounts set aside from the General Fund and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and HRA expenditure in 2010/11.

	Balance at 1 April 2009 £000	Transfers out 2009-10 £000	Transfers in 2009-10 £000	Balance at 31 March 2010 £000	Transfers out 2010-11 £000	Transfers in 2010-11 £000	Balance at 31 March 2011 £000
<b>General Fund:</b>							
Balances held by schools under a scheme of delegation	17,801	-7,624	3,661	13,838	-6,186	8,088	15,740
AAP Reserve	60	-	1,484	1,544	-440	824	1,928
ABG Reserve	9,582	-	5,636	15,218	-11,676	-	3,542
Asset Management Reserve	141	-	-	141	-141	-	-
Aycliffe Young Peoples Centre Reserve	1,721	-	306	2,027	-2,027	300	300
Benefits Administration Reserve	-	-	-	-	-	86	86
Building Services Defects Liability Reserve	-	-	912	912	-300	-	612
Cabinet	7,496	-1,248	-	6,248	-5,750	-	498
Cash Limit Reserve	-	-	-	-	-	12,126	12,126
Children's Fund Returned Grant	127	-	-	127	-127	-	-
Community Safety	86	-	-	86	-64	53	75
Connexions	491	-13	-	478	-491	13	-
Consumer Protection	-	-	-	-	-	40	40
Continuing Professional Development	662	-264	-	398	-120	-	278
Corporate Reserve	2,604	-65	183	2,722	-2,272	415	865
Culture & Leisure	817	-97	235	955	-409	2,360	2,906
Direct Service Organisation	933	-933	-	-	-	-	-
Early Retirement Pensions	8,154	-	-	8,154	-8,154	-	-
Education Reserve	3,423	-118	385	3,690	-1,169	1,770	4,291
Enforcement Reserve	-	-	-	-	-	45	45
Equal Pay Reserve	4,846	-2,371	499	2,974	-	499	3,473
General Housing Subsidy	26	-	-	26	-26	-	-
Health and Wellbeing Reserve	-	-	-	-	-	804	804
HMO Licensing Reserve	100	-50	-	50	-50	-	-
Housing General Fund Reserve	-	-	-	-	-	1,083	1,083
Information & Technical Support Service	687	-500	-	187	-187	-	-
Insurance	15,565	-1,113	1,068	15,520	-5,000	765	11,285
LABGI Economic Growth Fund	135	-	267	402	-402	-	-
LEP Reserve	-	-	80	80	-	-	80
LSVT Reserve	160	-	-	160	-27	-	133
Performance Reward Grant Reserve	-	-	1,559	1,559	-120	255	1,694
Planning	560	-	1,630	2,190	-389	100	1,901
Reallocated underspends	868	-	-	868	-868	-	-
Regeneration & Communities	9,264	-384	200	9,080	-4,868	1,232	5,444
Section 106 Agreements	232	-	-	232	-232	-	-
Special Projects	3,000	-60	1,860	4,800	-3,437	7	1,370
Strategic Finance Reserve	-	-	-	-	-7,106	26,903	19,797
TAMP Funding Reserve	-	-	400	400	-	115	515
Twin Bin Implementation	10	-	-	10	-10	-	-
Youth Forum	64	-	-	64	-	-	64
<b>Total</b>	<b>89,615</b>	<b>-14,840</b>	<b>20,365</b>	<b>95,140</b>	<b>-62,048</b>	<b>57,883</b>	<b>90,975</b>
<b>HRA:</b>							
Housing Repairs Account	-	-	-	-	-	-	-
Capital Reserve	-	-	-	-	-	2,400	2,400
Stock Options Reserve	-	-	-	-	-	402	402
DCH Improvements Reserve	-	-	-	-	-	400	400
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,202</b>	<b>3,202</b>

## 10. Other operating expenditure

<b>2009-10</b>		<b>2010-11</b>
<b>£000</b>		<b>£000</b>
11,577	Parish council precepts	12,042
404	Levies	367
1,157	Payments to the Government Housing Capital Receipts Pool	1,199
-2,951	Gains/losses on the disposal of non-current assets	57,097
10,187	<b>Total</b>	70,705

## 11. Financing and investment income and expenditure

<b>2009-10</b>		<b>2010-11</b>
<b>£000</b>		<b>£000</b>
17,262	Interest payable and similar charges	16,342
56,970	Pensions interest cost and expected return on pensions assets	30,210
-5,105	Interest receivable and similar income	-2,394
45	Impairment of Financial Investments	-27
1,918	Other investment income	859
71,090	<b>Total</b>	44,990

## 12. Taxation and non-specific grant income

<b>2009-10</b>		<b>2010-11</b>
<b>£000</b>		<b>£000</b>
-207,005	Council tax income *	-211,819
-182,127	Non domestic rates	-202,008
-93,621	Non-ringfenced government grants	-85,564
-37,185	Capital grants and contributions	-59,354
-519,938	<b>Total</b>	-558,745

\* Council tax income includes Council Tax, Collection Fund, Surplus and Parish Precepts

## 13. Property, plant and equipment

Movement on Balance 2010/11:

	Operational					Non-Operational		Total £000
	Council Dwellings £000	Land & Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	
<b>Cost or valuation</b>								
At 1 April 2010 (restated)	670,593	1,112,383	95,716	340,238	5,815	96,995	15,240	2,336,980
Additions	31,647	79,259	15,535	23,733	86	-	30,599	180,859
Revaluation increases/(decreases)	-188,110	-44,530	-	-	-	-15,639	-7	-248,286
Derecognition - disposals	-3,206	-79,746	-7,469	-	-	-2,339	-	-92,760
Derecognition - other	-	-5,673	-	-	-	-	-	-5,673
Other movements in cost or valuation	1,616	14,831	113	1,130	-1,284	329	-17,807	-1,072
<b>At 31 March 2011</b>	<b>512,540</b>	<b>1,076,524</b>	<b>103,895</b>	<b>365,101</b>	<b>4,617</b>	<b>79,346</b>	<b>28,025</b>	<b>2,170,048</b>
<b>Accumulated Depreciation and Impairment</b>								
At 1 April 2010 (restated)	-241	-52,922	-60,087	-58,026	-202	-12,228	-	-183,706
Depreciation charge	-11,944	-28,481	-11,151	-8,833	-4	-194	-	-60,607
Depreciation written out	-	12,592	-	-	-	50	-	12,642
Impairment losses/(reversals)	-758	-20,907	-9	-	-	971	-	-20,703
Derecognition - disposals	48	23,760	6,230	-	-	354	-	30,392
Other movements in depreciation and impairment	-107	106	-	-	1	-	-	-
<b>At 31 March 2011</b>	<b>-13,002</b>	<b>-65,852</b>	<b>-65,017</b>	<b>-66,859</b>	<b>-205</b>	<b>-11,047</b>	<b>-</b>	<b>-221,982</b>
<b>Net Book Value</b>								
At 31 March 2011	499,538	1,010,672	38,878	298,242	4,412	68,299	28,025	1,948,066
At 31 March 2010 (restated)	670,352	1,059,461	35,629	282,212	5,613	84,767	15,240	2,153,274
The Revaluations / Impairments above:								
Revaluation increases/(decreases)	-188,110	-44,530	-	-	-	-15,639	-7	-248,286
Depreciation written out	-	12,592	-	-	-	50	-	12,642
Impairment losses/(reversals)	-758	-20,907	-9	-	-	971	-	-20,703
	<b>-188,868</b>	<b>-52,845</b>	<b>-9</b>	<b>-</b>	<b>-</b>	<b>-14,618</b>	<b>-7</b>	<b>-256,347</b>
Are recognised as follows:								
In the Revaluation Reserve	-75,937	22,654	-	-	-	-8,889	-	-62,172
In the Surplus/Deficit on the Provision of Services	-112,931	-75,499	-9	-	-	-5,729	-7	-194,175

## Comparative Movements in 2009/10

	Operational					Non-Operational		Total £000
	Council Dwellings £000	Land & Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	
<b>Cost or valuation</b>								
At 1 April 2009	629,053	1,141,654	75,295	323,713	2,964	98,112	38,075	2,308,866
IFRS restatements	-	23,334	7,186	-	1	-	-	30,521
<b>At 1 April 2009 (restated)</b>	<b>629,053</b>	<b>1,164,988</b>	<b>82,481</b>	<b>323,713</b>	<b>2,965</b>	<b>98,112</b>	<b>38,075</b>	<b>2,339,387</b>
Additions	27,027	34,856	14,802	16,525	379	-	15,479	109,068
Revaluation increases/(decreases)	17,179	-115,645	-	-	2	273	-	-98,191
Derecognition - disposals	-1,061	-7,816	-2,216	-	-5	-1,703	-	-12,801
Derecognition - other	-	-483	-	-	-	-	-	-483
Other movements in cost or valuation	-1,605	36,483	649	-	2,474	313	-38,314	-
<b>At 31 March 2010</b>	<b>670,593</b>	<b>1,112,383</b>	<b>95,716</b>	<b>340,238</b>	<b>5,815</b>	<b>96,995</b>	<b>15,240</b>	<b>2,336,980</b>
<b>Accumulated Depreciation and Impairment</b>								
At 1 April 2009	-6,899	-76,057	-49,065	-49,718	-236	-12,068	-	-194,043
IFRS restatements	-	-2,234	-3,349	-	-	-	-	-5,583
<b>At 1 April 2009 (restated)</b>	<b>-6,899</b>	<b>-78,291</b>	<b>-52,414</b>	<b>-49,718</b>	<b>-236</b>	<b>-12,068</b>	<b>-</b>	<b>-199,626</b>
Depreciation charge	-11,802	-34,326	-9,533	-8,308	-1	-162	-	-64,132
Depreciation written out	18,397	58,776	-	-	-	6	-	77,179
Impairment losses/(reversals)	-827	-13,891	-	-	-	-	-	-14,718
Derecognition - disposals	783	14,942	1,860	-	-	6	-	17,591
Other movements in depreciation and impairment	107	-132	-	-	35	-10	-	-
<b>At 31 March 2010 (restated)</b>	<b>-241</b>	<b>-52,922</b>	<b>-60,087</b>	<b>-58,026</b>	<b>-202</b>	<b>-12,228</b>	<b>-</b>	<b>-183,706</b>
<b>Net Book Value</b>								
At 31 March 2010 (restated)	670,352	1,059,461	35,629	282,212	5,613	84,767	15,240	2,153,274
At 31 March 2009 (restated)	622,154	1,086,697	30,067	273,995	2,729	86,044	38,075	2,139,761

**Depreciation**

The following useful lives and depreciation rates have been used in the calculation of depreciation:

- ❖ Council Dwellings – 50 years
- ❖ Other Land and Buildings – up to 50 years
- ❖ Vehicles, Plant, Furniture & Equipment – 3 to 10 years
- ❖ Infrastructure – 40 years

**Capital Commitments**

At 31 March 2011, the County Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2011/12 and future years budgeted to cost £68.911m. Similar commitments at 31 March 2010 were £43.369m. The major commitments are:

❖ AYPC New Build	£3.244m
❖ Coxhoe Primary	£0.134m
❖ Sedgefield Primary	£0.133m
❖ Building Schools for the Future	£20.497m
❖ Co-Location (Integrated Hubs)	£4.827m
❖ Children's Centres	£0.300m
❖ Carriageway Maintenance	£5.049m
❖ Bridges	£0.267m

❖ Decent Homes Partnership	£19.050m
❖ NETPark Grow-on Space	£5.259m
❖ North Dock, Seaham	£0.425m
❖ Durhamgate	£3.675m
❖ Housing Group Repairs – Craghead	£0.635m
❖ Housing New Build Phase II – Crook	£5.416m

#### 14. Investment properties

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement:

2009-10 £000	2010-11 £000
6,426 Balance at start of the year	6,426
- Net gains/losses from fair value adjustments	-1,287
Transfers:	
- To/from Property, Plant and Equipment	1,072
6,426 <b>Balance at end of the year</b>	6,211

There are no restrictions on the County Council's ability to realise the value inherent in its investment property or on the County Council's right to the remittance of income and the proceeds of disposal. The County Council has no contractual obligations to purchase, construct or develop investment property or repairs, maintenance or enhancement.

#### 15. Intangible assets

The County Council accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. The intangible assets include both purchased licenses and internally generally software.

All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the County Council. The useful lives assigned to the major software suites used by the County Council are:

Type of asset	Nature of asset	Date operational	Cost £000	Life (Years)	Method of amortisation
Accounting Software	Licence	November 2008	1,935	5	Straight line
Server Software	Licence	January 2009	44	5	Straight line
Vmware Software	Licence	January 2009	26	5	Straight line
Income Software	Licence	November 2010	148	5	Straight line
Government Connects	Licence	October 2010	74	5	Straight line
Accounting Software	Licence	March 2011	160	5	Straight line
BSF Schools Software	Licence	March 2011	57	5	Straight line
HRA Software	Licence	March 2011	83	5	Straight line
<b>Assets transferred due to LGR</b>					
Various software	Licence	2006	1,118	various	Straight line
Various software	Licence	2007	589	various	Straight line
Various software	Licence	2008	1,029	various	Straight line
Various software	Licence	2009	2,030	various	Straight line

The carrying amount of intangible assets is amortised on a straight-line basis

The movement on Intangible Asset balances during the year is as follows:

2009-10				2010-11			
Software £000	Total £000			Software £000	Total £000		
<b>Balance at start of year:</b>							
8,427	8,427		Gross carrying amounts	8,427	8,427		
-4,536	-4,536		Accumulated amortisation	-5,825	-5,825		
<b>3,891</b>	<b>3,891</b>		<b>Net carrying amount at start of year</b>	<b>2,602</b>	<b>2,602</b>		
<b>Additions:</b>							
-	-		- Purchases	681	681		
-	-		- Disposals	-1,505	-1,505		
-	-		- Impairment losses recognised in the Surplus/Deficit on the Provision of Services	-93	-93		
-1,289	-1,289		Amortisation for the period	-1,025	-1,025		
-	-		- Amortisation written out on disposal	1,319	1,319		
<b>2,602</b>	<b>2,602</b>		<b>Net carrying amount at end of year</b>	<b>1,979</b>	<b>1,979</b>		
<b>Comprising</b>							
8,427	8,427		Gross carrying amounts	7,510	7,510		
-5,825	-5,825		Accumulated amortisation	-5,531	-5,531		
<b>2,602</b>	<b>2,602</b>			<b>1,979</b>	<b>1,979</b>		

## 16. Financial instruments

### Categories of Financial Instruments

The following categories of financial instrument are carried in the Balance Sheet:

1 April 2009		2009-10		2010-11	
Long-term £000	Current £000	Long-term £000	Current £000	Long-term £000	Current £000
<b>Investments</b>					
2,106	180,681	6,014	130,762	1,348	76,284
2,789	-	2,210	-	1,962	-
-	-	-	-	-	-
-	-	-	-	-	-
<b>4,895</b>	<b>180,681</b>	<b>8,224</b>	<b>130,762</b>	<b>3,310</b>	<b>76,284</b>
<b>Debtors:</b>					
7,676	86,218	7,616	79,385	6,010	83,418
-	-	-	-	-	-
<b>7,676</b>	<b>86,218</b>	<b>7,616</b>	<b>79,385</b>	<b>6,010</b>	<b>83,418</b>
<b>Borrowings:</b>					
-316,751	-9,948	-306,832	-13,448	-315,631	-5,344
-	-	-	-	-	-
<b>-316,751</b>	<b>-9,948</b>	<b>-306,832</b>	<b>-13,448</b>	<b>-315,631</b>	<b>-5,344</b>
<b>Other Long term Liabilities:</b>					
2,524	2,128	-2,998	-1,936	-47,576	-2,519
<b>2,524</b>	<b>2,128</b>	<b>-2,998</b>	<b>-1,936</b>	<b>-47,576</b>	<b>-2,519</b>
<b>Creditors:</b>					
-	-159,999	-	-127,758	-	-132,721
-	-	-	-	-	-
<b>-</b>	<b>-159,999</b>	<b>-</b>	<b>-127,758</b>	<b>-</b>	<b>-132,721</b>

### Reclassifications

There have been no reclassifications for the financial year 2010/11.

## Soft Loans

The County Council will sometimes make loans at less than market rates, where a service objective justifies making a concession. The Code of Practice on Local Authority Accounting requires the discounted interest rate to be recognised as a reduction in the fair value of the asset when measured for the first time. This treatment reflects the economic substance of the transaction, i.e. the County Council is locking itself into an arrangement where it will incur an effective loss on interest receivable over the life of the instrument.

The value of soft loans issued by the County Council at 31 March 2011 was £0.564m (31 March 2010 £0.775m).

There are also occasions when the County Council is in receipt of loans that are interest free or at less than prevailing market rates. If material, the effective interest rate of these loans should be calculated so that the value of the financial assistance provided to the County Council can be separated from the financing cost of the transaction.

The value of soft loans received by the County Council at 31 March 2011 was £1.01m (31 March 2010 £Nil)

The difference between the carrying amount and the fair value of soft loans is not considered material and therefore no adjustments have been made.

## Income, expense, gains and losses

2009-10					2010-11					
Financial Liabilities measured at amortised cost £000	Financial Assets: Loans and receivables £000	Financial Assets: Available for sale £000	Assets and Liabilities at Fair Value through Profit and Loss £000	Total £000		Financial Liabilities measured at amortised cost £000	Financial Assets: Loans and receivables £000	Financial Assets: Available for sale £000	Assets and Liabilities at Fair Value through Profit and Loss £000	Total £000
17,262				17,262	Interest expense	16,342				16,342
		579		-	Losses on de-recognition					-
	45			579	Reductions in fair value			249		249
				45	Impairment losses					-
				-	Fee expense					-
17,262	45	579	-	17,886	<b>Total expense in Surplus or Deficit on the Provision of Services</b>	16,342	-	249	-	16,591
	4,756			4,756	Interest income		2,029			2,029
	349			349	Interest income accrued on impaired financial assets		365			365
				-	Increase in fair value		27			27
				-	Gains on de-recognition					-
				-	Fee income					-
-	5,105	-	-	5,105	<b>Total income in Surplus or Deficit on the Provision of Services</b>	-	2,421	-	-	2,421
					- Gains on revaluation					-
					- Losses on revaluation					-
					- Amounts recycled to the Surplus or Deficit on the Provision of Services after impairment					-
					- Surplus/deficit arising on revaluation of financial assets in Other Comprehensive Income and Expenditure					-
17,262	-5,060	579	-	12,781	<b>Net gain/(loss) for the year</b>	16,342	-2,421	249	-	14,170



## 17. Fair Values of Assets and Liabilities

Financial liabilities, financial assets represented by loans and receivables and long-term debtors and creditors are carried in the Balance Sheet at amortised cost. Valuations use the Net Present Value approach, which provides an estimate of the value of payments in the future in today's terms. This is a widely accepted valuation technique commonly used by the private sector.

The Code's Guidance Notes for Practitioners confirms that it is acceptable for either the new borrowing rate or the premature repayment rate as the discount factor for PWLB borrowing. We are using the premature repayment rate, which is consistent with previous years.

The purpose of the fair value disclosure is primarily to provide a comparison with the carrying value in the Balance Sheet. Since this will include accrued interest as at the Balance Sheet date, we have also included accrued interest in the fair value calculation. This figure will be calculated up to and including the valuation date.

The rates quoted in this valuation were obtained by Sector from the market on 31 March, using bid prices where applicable.

It is noted that the following assumptions do not have a material effect on the fair value of the instrument:

- ❖ Interest is calculated using the most common market convention, ACT/365
- ❖ Interest is not paid/received on the start date of an instrument, but is paid/received on the maturity date
- ❖ We have not adjusted the interest value and date where a relevant date occurs on a non working day

The fair values calculated are as follows:

31 March 2009		31 March 2010			31 March 2011	
Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000		Carrying Amount £000	Fair Value £000
-486,697	-495,953	-443,893	-474,061	Financial liabilities	-456,059	-491,572
-	-	-	-	Long-term creditors	-	-

The fair value of the liabilities is higher than the carrying amount because the County Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the prevailing rates at the Balance Sheet date. This shows a notional future loss (based on economic conditions at 31 March 2011) arising from a commitment to pay interest to lenders above current market rates.

31 March 2009		31 March 2010			31 March 2011	
Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000		Carrying Amount £000	Fair Value £000
291,865	291,865	255,915	255,915	Loans and receivables	163,380	163,380
7,675	7,675	7,616	7,616	Long-term debtors	6,010	6,010

Available for sale assets and assets and liabilities at fair value through profit or loss are carried in the Balance Sheet at their fair value.

Short term debtors and creditors are carried at cost as this is a fair approximation of their value.

## 18. Inventories

	Balance outstanding at start of year £000	Purchases £000	Recognised as an expense in the year £000	Adjustment for internal inventories £000	Reversals of write-offs in previous years £000	Balance outstanding at year-end £000
<b>Year to 31 March 2011</b>						
Consumable Stores	1,539	14,507	-13,647	-2		2,397
Maintenance Materials	398	193	-92			499
Client Services Work in Progress	814	1,002	-3,006	1,315		125
Rechargeable Works	1,492	3,095	-3,733			854
<b>Total</b>	<b>4,243</b>	<b>18,797</b>	<b>-20,478</b>	<b>1,313</b>	<b>-</b>	<b>3,875</b>
<b>Year to 31 March 2010</b>						
Consumable Stores	-285	18,135	-16,010	-301		1,539
Maintenance Materials	456	-	-58			398
Client Services Work in Progress	2,002	3,668	-3,011	-1,845		814
Rechargeable Works	1,745	1,348	-1,601			1,492
<b>Total</b>	<b>3,918</b>	<b>23,151</b>	<b>-20,680</b>	<b>-2,146</b>	<b>-</b>	<b>4,243</b>

## 19. Debtors

2008-09 £000	2009-10 £000		2010-11 £000
21,015	31,811	Central government bodies	25,113
8,102	4,235	Other local authorities	2,335
13,494	4,304	NHS bodies	4,813
10	0	Public corporations and trading funds	328
49,987	46,063	Other entities and individuals	60,296
-10,006	-10,901	Less: Bad debt provision	-12,067
<b>82,602</b>	<b>75,512</b>		<b>80,818</b>
3,616	3,873	Payments in advance	2,600
<b>86,218</b>	<b>79,385</b>	<b>Total</b>	<b>83,418</b>

## 20. Cash and cash equivalents

1 April 2009 £000	2009-10 £000		2010-11 £000
7,472	89,396	Cash at bank	104
-8,387	-101,141	Overdraft	-13,920
4,910	15,021	Cash held on demand (call accounts)	55,000
17,950	24,735	Deposits held for liquidity purposes	14,074
<b>21,945</b>	<b>28,011</b>	<b>Cash and Cash Equivalents balance</b>	<b>55,258</b>

## 21. Creditors

2008-09 £000	2009-10 £000		2010-11 £000
-36,796	-30,223	Central government bodies	-29,331
-830	-398	Other local authorities	-342
-	-1,891	NHS bodies	-3,986
-	-	Public corporations and trading funds	-
-118,091	-98,050	Other entities and individuals	-98,638
<b>-155,717</b>	<b>-130,562</b>		<b>-132,297</b>
-23,020	-17,306	Receipts in Advance	-12,228
<b>-178,737</b>	<b>-147,868</b>	<b>Total creditors</b>	<b>-144,525</b>

## 22. Provisions

The provisions at 31 March 2011 were as follows:

### S117 Refunds Provision

To meet the cost of refunding contributions made under S117 of the Mental Health Act 1983. Payments began in 2004/05; more are expected in future years.

### Insurance Provision

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

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

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

### Equal Pay and Job Evaluation

A provision has been created to recognise in the accounts those costs relating to Equal Pay and Job Evaluation that have been calculated but will be settled in future periods.

### Other

This includes a general purpose provision of £0.261m for commuted sums and provision of £0.412m in the Housing Revenue Account to meet the contractual obligations for repairs to the housing stock of the County Council.

	S117 Refunds £000	Insurance £000	Equal Pay £000	Other Provisions £000	Total £000
<b>Balance at 1 April 2010</b>	101	9,025	8,701	261	18,088
Additional provisions made in 2010-11	-	4,100	12,639	412	17,151
Amounts used in 2010-11	-	-2,413	-3,316	-	-5,729
Unused amounts reversed in 2010-11	-	-1,892	-	-	-1,892
Unwinding of discounting in 2010-11	-	-	-	-	-
<b>Balance at 31 March 2011</b>	<b>101</b>	<b>8,820</b>	<b>18,024</b>	<b>673</b>	<b>27,618</b>

## 23. Usable reserves

Movements in the County Council's usable reserves are detailed in the Movement in Reserves Statement and Notes 23 and 24.

1 April 2009 £000	31 March 2010 £000		31 March 2011 £000
37,349	23,613	Usable Capital Receipts Reserve	1,206
1,888	1,200	Major Repairs Reserve	-
6,997	8,511	Housing Revenue Account	7,688
42,372	26,977	General Fund Balance	17,320
89,615	95,140	Earmarked reserves	90,975
-	-	Earmarked reserves - HRA	3,202
<b>178,221</b>	<b>155,441</b>	<b>Total</b>	<b>120,391</b>

## 24. Unusable reserves

1 April 2009 (restated) £000	31 March 2010 (restated) £000		31 March 2011 £000
513,538	521,075	Revaluation Reserve	427,480
1,237,919	1,220,076	Capital Adjustment Account	1,046,663
-3,861	-3,557	Financial Instruments Adjustment Account	-2,687
3,287	2,806	Deferred Capital Receipt	1,944
-16,609	-18,174	Short Term Accumulating Absences Account	-9,934
-670,970	-975,648	Pensions Reserve	-728,212
1,632	1,053	Available for Sale financial Reserve	804
2,068	1,505	Collection Fund	546
<u>1,067,004</u>	<u>749,136</u>	<b>Total</b>	<u>736,604</u>

**Revaluation reserve**

The Revaluation Reserve contains the gains made by the County Council arising from increases in the value of its Property, Plant and Equipment [and Intangible Assets]. The balance is reduced when assets with accumulated gains are:

- ❖ revalued downwards or impaired and the gains are lost
- ❖ used in the provision of services and the gains are consumed through depreciation, or
- ❖ disposed of and the gains are realised.

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

2009-10 £000		2010-11 £000
513,538	<b>Balance at 1 April (restated)</b>	521,075
84,875	Upward revaluation of assets	46,409
-56,813	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	-105,907
<u>28,062</u>	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	<u>-59,498</u>
-15,473	Difference between fair value depreciation and historical cost depreciation	-12,214
-5,052	Accumulated gains on assets sold or scrapped	-21,883
<u>-20,525</u>	Amount written off to the Capital Adjustment Account	<u>-34,097</u>
<u>521,075</u>	<b>Balance at 31 March (restated)</b>	<u>427,480</u>

**Available for sale financial instruments reserve**

The Available for Sale Financial Instruments Reserve contains the gains made by the County Council arising from increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. The balance is reduced when investments with accumulated gains are:

- ❖ revalued downwards or impaired and the gains are lost
- ❖ disposed of and the gains are realised.

2009-10 £000		2010-11 £000
1,632	<b>Balance at 1 April</b>	1,053
-	Upward revaluation of investments	-
-579	Downward revaluation of investments not charged to the Surplus/Deficit on the Provision of Services	-249
<u>1,053</u>		<u>804</u>
-	Accumulated gains on assets sold and maturing assets written out to the Comprehensive Income and Expenditure Statement as part of Other Investment Income	-
<u>1,053</u>	<b>Balance at 31 March</b>	<u>804</u>

### Capital adjustment account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the County Council as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

Note 8 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

2009-10 £000	2010-11 £000
1,237,919 <b>Balance at 1 April (restated)</b>	1,220,076
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
-75,124 - Charges for depreciation and impairment of non-current assets	-69,906
-44,748 - Revaluation losses on Property, Plant and Equipment	-184,789
-1,288 - Amortisation of intangible assets	-1,025
-5,701 - Revenue expenditure funded from capital under statute	-16,891
-3,275 - Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	-62,735
-130,136	-335,346
20,525 Adjusting amounts written out of the Revaluation Reserve	34,097
-109,611 Net written out amount of the cost of non-current assets consumed in the year	-301,249
Capital financing applied in the year:	
19,414 - Use of Capital Receipts Reserve to finance new capital expenditure	27,525
12,450 - Use of the Major Repairs Reserve to finance new capital expenditure	13,144
37,186 - Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	59,354
13,896 - Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	13,854
8,822 - Capital expenditure charged against the General Fund and HRA balances	17,920
91,768	131,797
0 Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	-3,961
1,220,076 <b>Balance at 31 March (restated)</b>	1,046,663

### Financial instruments adjustment account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions.

The County Council uses the Account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund Balance to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on Council Tax. In the County Council's case, this period is the unexpired term that was outstanding on the loans when they were redeemed. As a result, the balance on the Account at 31 March 2011 will be charged to the General Fund over the next 10 years.

Over the previous two financial years, the account was also used to defer the impact of impairment of Icelandic loans to the general fund. Regulations allowing this came to an end on the 31 March 2011 and all values have now been transferred to the general fund.

## Notes to the Accounts

2009-10 £000		2010-11 £000
-3,861	<b>Balance at 1 April</b>	-3,557
349	Interest on Icelandic loans credited to I&E in year	-
-	- Premiums amortised to General Fund in year	432
-	- Discounts amortised to General Fund in year	-51
-45	Impairment of Icelandic loans	-
-	- Reversal of all previous Icelandic loan entries	489
304	Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	870
-3,557	<b>Balance at 31 March</b>	-2,687

### Pensions reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The County Council accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the County Council makes employer's contributions to pension funds, or eventually pay any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the County Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid. Deferred Capital Receipts Reserve (England and Wales) The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of noncurrent assets but for which cash settlement has yet to take place. Under statutory arrangements, the County Council does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

2009-10 £000		2010-11 £000
-670,970	<b>Balance at 1 April</b>	-975,648
-261,380	Actuarial gains(-) or losses on pensions assets and liabilities	42,610
-200	Difference between Actuary's estimate and Actual Employers' Pension Contributions	588
-103,880	Reversals of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	134,680
60,782	Employer's pensions contributions and direct payments to pensioners payable in the year	69,558
-975,648	<b>Balance at 31 March</b>	-728,212

### Deferred capital receipts reserve

The deferred capital receipts reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements, the County Council does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the capital receipts reserve.

2009-10 £000		2010-11 £000
3,287	<b>Balance at 1 April</b>	2,807
-	- Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	-
-480	Transfer to the Capital Receipts Reserve upon receipt of cash	-862
2,807	<b>Balance at 31 March</b>	1,945

### Collection fund adjustment account

The Collection Fund Adjustment Account manages the differences arising from the recognition of Council Tax income in the Comprehensive Income and Expenditure Statement as it falls due from Council Tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

2009-10 £000		2010-11 £000
2,068	<b>Balance at 1 April</b>	1,505
-563	Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	-959
1,505	<b>Balance at 31 March</b>	546

### Accumulated absences account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

2009-10 £000		2010-11 £000
-16,609	<b>Balance at 1 April</b>	-18,174
16,609	Settlement or cancellation of accrual made at the end of the preceding year	18,174
-18,174	Amounts accrued at the end of the current year	-9,935
-1,565	Amount by which office remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	8,239
-18,174	<b>Balance at 31 March</b>	-9,935

## 25. Cash flow statement – operating activities

The cash flows for operating activities include the following items:

2009-10 £000		2010-11 £000
624,622	Employee costs	642,025
209,269	Rent allowances and council tax benefit	218,013
-207,005	Council Tax income	-211,819
-279,925	Dedicated Schools Grant	-287,682
-196,366	Benefit Grants	-210,091
-182,127	Redistributed NNDR	-202,008
-248,820	Other Government Grants	-242,123
17,004	Interest paid	16,565
-5,595	Interest received	-2,410
-	- Dividends received	-

## 26. Cash flow statement – investing activities

2009-10 £000		2010-11 £000
119,142	Purchase of property, plant and equipment, investment property and intangible assets	154,604
1,355,159	Purchase of short-term and long-term investments	789,881
-	- Other payments for investing activities	-
-6,836	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	-6,319
-1,399,927	Proceeds from short-term and long-term investments	-849,024
-95,017	Other receipts from investing activities	-90,982
-27,479	<b>Net cash flows from investing activities</b>	-1,840

## 27. Cash flow statement – financing activities

2009-10 £000		2010-11 £000
	- Cash receipts of short-term and long-term borrowing	-11,156
-8,142	Other receipts from financing activities	-1,279
625	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	2,417
	8,598 Repayments of short-term and long-term borrowing	10,108
	- Other payments for financing activities	-
<u>1,081</u>	<b>Net cash flows from financing activities</b>	<u>90</u>

## 28. Cash flow statement – cash and cash equivalents

2009-10 £000		2010-11 £000
89,396	Cash at bank	104
-101,141	Overdraft	-13,920
15,021	Cash held on demand (call accounts)	55,000
24,735	Deposits held for liquidity purposes	14,074
<u>28,011</u>	<b>Cash and Cash Equivalents balance</b>	<u>55,258</u>



## 29. Amounts reported for resource allocation decisions

The tables below are a reconciliation of the 2010/11 internal management reports (monitoring and outturn) used by the Council's Cabinet to make decisions and the 2010/11 Comprehensive Income and Expenditure Statement (CIES).

The income and expenditure of the Council's principal Services recorded in the internal management reports for the year is as follows:

Subjective Analysis	Children and Young People Services £000	Adults, Wellbeing and Health £000	Neighbourhood Services £000	Regeneration and Economic Development £000	Corporate Resources £000	Assistant Chief Executive £000	Total £000
Fees, charges and other service income	-124,308	-65,666	-129,353	-29,755	-101,095	-5,365	-455,542
Government grants	-413,261	-5,406	-2,071	-13,273	-219,579	-261	-653,851
<b>Total Income</b>	<b>-537,569</b>	<b>-71,072</b>	<b>-131,424</b>	<b>-43,028</b>	<b>-320,674</b>	<b>-5,626</b>	<b>-1,109,393</b>
Employee Expenses	374,335	74,420	93,255	31,632	49,644	7,840	631,126
Other operating expenses	244,916	184,118	145,590	61,915	269,208	8,832	914,579
Support recharges	33,096	9,858	28,447	13,365	30,501	2,820	118,087
<b>Total Operating Expenses</b>	<b>652,347</b>	<b>268,396</b>	<b>267,292</b>	<b>106,912</b>	<b>349,353</b>	<b>19,492</b>	<b>1,663,792</b>
<b>Net Cost of Services</b>	<b>114,778</b>	<b>197,324</b>	<b>135,868</b>	<b>63,884</b>	<b>28,679</b>	<b>13,866</b>	<b>554,399</b>

Reconciliation to cost of services in the CIES	£000
Net cost of services in service analysis	554,399
Add services not included in the main analysis	-232,848
Add amounts not reported to management	103,403
Remove amounts not included in the CIES	49,131
<b>Cost of Services in CIES</b>	<b>474,085</b>

Reconciliation to Subjective Analysis	Service Analysis £000	Services not in Analysis £000	Not reported to Mngmt £000	Not Included in CIE £000	Cost of Services £000	Corporate Amounts £000	Total £000
Fees, charges and other service income	-455,542				-455,542		-455,542
Interest and investment income				-6	-6	-2,394	-2,400
Interest received on finance leases (lessor)					-		-
Income from Council Tax						-211,819	-211,819
Government Grants and Contributions IAS19	-653,851			59,354	-594,497	-346,926	-941,423
<b>Total Income</b>	<b>-1,109,393</b>	<b>-</b>	<b>-</b>	<b>59,348</b>	<b>-1,050,045</b>	<b>-561,139</b>	<b>-1,611,184</b>
Employee Expenses	631,126				631,126		631,126
Other service expenses	914,579				914,579		914,579
Support Service recharges	118,087				118,087		118,087
Contribution to Housing Capital Receipts Pool						1,199	1,199
Interest Payable						16,342	16,342
Impairment of Financial Investments						-27	-27
Net Trading				-1,310	-1,310	859	-451
Precepts and Levies			246	-367	-121	12,409	12,288
HRA			103,157		103,157		103,157
Gain or Loss on the disposal of non-current assets						57,097	57,097
Direct Revenue Funding				-10,540	-10,540		-10,540
Other Adjustments IAS19		-232,848		2,169	-230,679	30,210	-200,469
<b>Total Operating Expenses</b>	<b>1,663,792</b>	<b>-232,848</b>	<b>103,403</b>	<b>-10,217</b>	<b>1,524,130</b>	<b>118,089</b>	<b>1,642,219</b>
<b>Surplus or deficit on provision of services</b>	<b>554,399</b>	<b>-232,848</b>	<b>103,403</b>	<b>49,131</b>	<b>474,085</b>	<b>-443,050</b>	<b>31,035</b>

## Notes to the Accounts

The tables below are a reconciliation of the 2009/10 internal management reports (monitoring and outturn) used by the Council's Cabinet to make decisions and the 2009/10 Comprehensive Income and Expenditure Statement (CIES).

Subjective Analysis	Children and Young People Services £000	Adults, Wellbeing and Health £000	Neighbourhood Services £000	Regeneration and Economic Development £000	Corporate Resources £000	Assistant Chief Executive £000	Total £000
Fees, charges and other service income	-137,778	-62,959	-128,317	-14,903	-91,129	-4,248	-439,334
Government grants	-387,281	-19,603	-1,708	-18,889	-207,212	-1,525	-636,218
<b>Total Income</b>	<b>-525,059</b>	<b>-82,562</b>	<b>-130,025</b>	<b>-33,792</b>	<b>-298,341</b>	<b>-5,773</b>	<b>-1,075,552</b>
Employee Expenses	373,161	70,565	89,013	27,628	51,748	6,555	618,670
Other operating expenses	272,758	180,533	134,715	61,271	262,536	6,724	918,537
Support recharges	30,442	11,417	32,708	11,492	8,306	760	95,125
<b>Total Operating Expenses</b>	<b>676,361</b>	<b>262,515</b>	<b>256,436</b>	<b>100,391</b>	<b>322,590</b>	<b>14,039</b>	<b>1,632,332</b>
<b>Net Cost of Services</b>	<b>151,302</b>	<b>179,953</b>	<b>126,411</b>	<b>66,599</b>	<b>24,249</b>	<b>8,266</b>	<b>556,780</b>

### Reconciliation to cost of services in the CIES

£000

Net cost of services in service analysis	556,780
Add services not included in the main analysis	-14,627
Add amounts not reported to management	18,342
Remove amounts not included in the CIES	-16,318

### Cost of Services in CIES

**544,177**

Reconciliation to Subjective Analysis	Service Analysis £000	Services not in Analysis £000	Not reported to Mngmt £000	Not Included in CIE £000	Cost of Services £000	Corporate Amounts £000	Total £000
Fees, charges and other service income	-439,334				-439,334		-439,334
Interest and investment income					-	-5,105	-5,105
Interest received on finance leases (lessor)					-	-	-
Income from Council Tax					-	-207,005	-207,005
Government Grants and Contributions IAS19	-636,218				-636,218	-312,933	-949,151
<b>Total Income</b>	<b>-1,075,552</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-1,075,552</b>	<b>-525,043</b>	<b>-1,600,595</b>
Employee Expenses	618,670				618,670		618,670
Other service expenses	918,537				918,537		918,537
Support Service recharges	95,125				95,125		95,125
Contribution to Housing Capital Receipts Pool					-	1,157	1,157
Interest Payable					-	17,262	17,262
Impairment of Financial Investments					-	45	45
Net Trading				-3,322	-3,322	1,918	-1,404
Precepts and Levies			241	-404	-163	11,981	11,818
HRA			856		856		856
Gain or Loss on the disposal of non-current assets					-	-2,951	-2,951
Direct Revenue Funding				-8,629	-8,629		-8,629
Pension Increases Act Payments			2,222		2,222		2,222
IFRS Restatements			16,469		16,469		16,469
Insurance -Uncertain Liabilities			-755		-755		-755
Adjustment Children's Services - Schools				-3,963	-3,963		-3,963
Other Adjustments			-691		-691		-691
IAS19		-14,627			-14,627	56,970	42,343
<b>Total Operating Expenses</b>	<b>1,632,332</b>	<b>-14,627</b>	<b>18,342</b>	<b>-16,318</b>	<b>1,619,729</b>	<b>86,382</b>	<b>1,706,111</b>
<b>Surplus or deficit on provision of services</b>	<b>556,780</b>	<b>-14,627</b>	<b>18,342</b>	<b>-16,318</b>	<b>544,177</b>	<b>-438,661</b>	<b>105,516</b>

### 30. Trading operations

The deficit for the year on trading operations relating to Direct Services and Technical Design Services is charged as Financing Income and Expenditure - Other investment income (see note 11). The summary revenue account for these services is shown below. The impact of IAS 19 in the Comprehensive Income and Expenditure Account is to reduce gross expenditure for Direct Services and Technical Design Services by £0.450m and therefore reduce the deficit on trading operations by the same amount.

2009/10 £000		2010/11 £000
	<b>EXPENDITURE -</b>	
21,156	Direct Labour	27,430
11,691	Materials	12,482
8,762	Transport and Plant	14,505
7,223	Sub-contractors	9,272
8,450	Overheads	19,653
	Exceptional Items -	
188	Debt written off	307
26	Redundancy Costs	335
1	Augmentation Costs	
499	Equal Pay	369
-	Accumulated Absences	-45
-	Compensation Payments	22
912	Remedial Defects	-
	Changes during the year in -	
-369	Work in progress	259
<b>58,539</b>	<b>Total Expenditure</b>	<b>84,589</b>
	<b>INCOME -</b>	
-56,764	Charge to Services and other bodies	-83,312
<b>-56,764</b>	<b>Total Income</b>	<b>-83,312</b>
<b>-1,775</b>	<b>DEFICIT FOR THE YEAR</b>	<b>-1,277</b>

### 31. Agency Services

The County Council provides a range of services to other bodies such as Durham Police Authority, County Durham and Darlington Fire and Rescue Authority, Surestart, Colleges, Arms Length Management Organisations, Registered Social Landlords, Primary Care Trusts and Ofsted. Charges for these services are made through a number of Service Level Agreements.

In 2010/11 £4.547m (£4.477m in 2009/10) was received for the following services, Finance, Information and Communications Technology, Human Resources, Legal Advice and Support, Inspections and Subject Reviews, and Crematorium Services.

The cost of providing the services is met by the income received.

### 32. Road charging schemes under the Transport Act 2000

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

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

2009-10 £000		2010-11 £000
47	Expenditure (including capital charges)	50
-65	Income	-34
<b>-18</b>		<b>16</b>

### 33. Members' allowances

The County Council paid the following amounts to members of the County Council during the year.

2009-10 £000		2010-11 £000
1,657	Salaries	1,674
290	Allowances	292
131	Expenses	125
2,078	<b>Total</b>	2,091

### 34. Officers' remuneration

The remuneration paid to the County Council's senior employees is as follows:

Name	Period	Salary, Fees and Allowances £	Bonuses £	Expenses Allowances £	Compensation for Loss of Office £	Pensions Contribution £	Total £
Chief Executive - George Garlick	2010-11	200,000		828		42,900	243,728
	2009-10	200,000		685		41,800	242,485
Corporate Director - Resources Note 1	2010-11	68,871		56		14,807	83,734
	2009-10	140,000		29,260		-	169,260
Corporate Director - Adults, Wellbeing and Health	2010-11	126,000		54		27,027	153,081
	2009-10	123,238		134		25,757	149,129
Corporate Director - Children and Young People's Service	2010-11	140,000		676		30,030	170,706
	2009-10	140,000		903		29,260	170,163
Corporate Director - Neighbourhood Services	2010-11	140,000		159		30,030	170,189
	2009-10	140,000				29,260	169,260
Corporate Director - Regeneration and Economic Development	2010-11	140,000				30,030	170,030
	2009-10	140,000		364		29,260	169,624
Assistant Chief Executive	2010-11	120,000		151		25,740	145,891
	2009-10	120,000		171		25,080	145,251
Monitoring Officer Note 2	2010-11	110,000				23,595	133,595
	2009-10	94,762				19,805	114,567

Note 1 : The Corporate Director retired on 30 June 2010 and received a salary to the value of £37,634 and pension contributions of £8,021 in 2010/2011. The new Corporate Director was appointed on 1 October 2010 and received a salary to the value of £68,871, expenses of £56 and pension contributions of £14,807.

Note 2 : The Monitoring Officer was appointed during 2009/10 and received salary to the value of £94,762 and pension contributions of £19,805, following the retirement of the previous Monitoring Officer.

The County Council's employees, including Senior Officers, receiving more than £50,000 remuneration for the year (excluding employer's pension contributions) were paid the following amounts:

Remuneration band	2010-11		2009-10	
		Number of Employees		Number of Employees
£50,000	-	£54,999	209	238
£55,000	-	£59,999	134	126
£60,000	-	£64,999	52	43
£65,000	-	£69,999	29	32
£70,000	-	£74,999	11	15
£75,000	-	£79,999	19	30
£80,000	-	£84,999	13	5
£85,000	-	£89,999	5	6
£90,000	-	£94,999	5	6
£95,000	-	£99,999	13	14
£100,000	-	£104,999	2	5
£105,000	-	£109,999	1	-
£110,000	-	£114,999	7	6
£115,000	-	£119,999	-	-
£120,000	-	£124,999	2	4
£125,000	-	£129,999	1	1
£130,000	-	£134,999	1	-
£135,000	-	£139,999	-	-
£140,000	-	£144,999	3	4
£145,000	-	£149,999	-	1
£150,000	-	£154,999	-	-
£155,000	-	£159,999	1	-
£160,000	-	£164,999	-	-
£165,000	-	£169,999	-	1
£170,000	-	£174,999	-	-
£175,000	-	£179,999	-	-
£180,000	-	£184,999	-	-
£185,000	-	£189,999	-	-
£190,000	-	£194,999	-	-
£195,000	-	£199,999	-	-
£200,000	-	£204,999	1	1
			509	538

### 35. External audit costs

The County Council has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections and to non-audit services provided by the County Council's external auditors:

2009-10		2010-11
£000		£000
689	Fees payable to the Audit Commission with regard to external audit services carried out by the appointed auditor for the year	617
47	Fees payable to the Audit Commission in respect of statutory inspections	37
68	Fees payable in the year to the Audit Commission for the certification of grant claims and returns	167
6	Fees payable in respect of other services provided by the Audit commission during the year	15
810	<b>Net cash flows from investing activities</b>	836

The total fees paid to the Audit Commission of £617,000 reflects the audit work undertaken in 2010/11.

The increase in fees payable for the certification of grant claims is mainly due to the certification of the 2009/10 Housing Benefit and Council Tax Benefit subsidies.

Other services in 2010/11 provided by the auditor relate to the Improvement Planning Review of Durham City Housing.

### 36. Dedicated schools grant

The County Council's expenditure on schools is funded primarily by grant monies provided by the Department of Children, Schools and Families; the Dedicated Schools Grant (DSG). DSG is ringfenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2008. The Schools Budget includes elements for a range of educational

services provided on an authority-wide basis and for the Individual Schools Budget (ISB), which is divided into a budget share for each maintained school.

	Central Expenditure £000	ISB £000	Total £000
A			287,682
B			
			2,476
C			
			2,481
D	23,920	263,757	287,677
E			
	21,439		
F			
		265,111	
G			
H	2,481	-1,354	3,608 *

\* Total carry-forward (H) on central expenditure less carry forward on ISB (H) plus carry forward 2010/11 already agreed (C)

A: DSG figure as issued by the Department on 1 July 2010 adjusted for an Academies reduction of £811,000 as a result of Shotton Hall School converting to an academy from 1 February 2011. DfE redirects funding to the YPLA that equates to 2 months of the Schools Budget Share and hence this is no longer received by the County Council.

B: Figure brought forward from 2009/10 as agreed with the Department.

C: Any amount which the authority decided after consultation with the schools forum to carry forward to 2011/12 rather than distribute in 2010/11 – this will be the difference between estimated and final DSG for 2010/11, or a figure (positive or negative) brought forward from 2009/10 which the authority is carrying forward again.

D: Budgeted distribution of DSG, adjusted for carry-forward, as agreed with the schools forum.

E: Actual amount of central expenditure items in 2010/11

F: Amount of ISB actually distributed to schools (ISB is regarded for DSG purposes as spent by the authority once it is deployed to schools' budget shares).

G: Any contribution from the local authority in 2010/11 which will have the effect of substituting for DSG in funding the School Budget.

H: Carry forward to 2011/12: -

For central expenditure, difference between budgeted distribution of DSG (D) and actual expenditure (E), plus any local authority contribution (G).

For ISB, the over deployment on the ISB relates to transfers from central expenditure during the year on contingencies and recoupment income for pupils with Special Education Needs registered in mainstream schools.

Total carry-forward (H) on central expenditure less carry forward on ISB (H) plus carry forward 2010/11 already agreed (C)

£3.660m of the DSG has been used to fund capital expenditure in schools. This expenditure is not included in the net cost of Children's and Education Services as it is not a proper charge to the Income and Expenditure Account, The expenditure forms part of the statement of Movement on the General Fund Balance.

### 37. Grant income

The County Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2010/11:

2009-10 £000		2010-11 £000
	<b>Credited to Taxation and Non Specific Grant Income:</b>	
-207,005	Council Tax Income	-211,819
-182,127	Non Domestic Rates	-202,008
	Non-Ring Fenced Government Grants	
-48,009	- Area Based Grants	-55,540
-42,037	- Revenue Support Grants	-29,333
-267	- LABGI (Local Authority Business Growth Incentive Grant)	-436
-3,308	- LPSA (Local Public Service Agreement) Performance Reward Grant	-255
-37,185	Capital Grants and Contributions	-59,354
-519,938		-558,745

### Grant and Contribution Income Credited to Services

2009-10 £000		2010-11 £000
	<b>Credited to Services:</b>	
-116	Arts Projects	-344
-170	Asylum seekers grant	-75
-186	Campus closure grant	-306
-85	CDENT grant	-138
-247	Contact Point Implementation grant	-134
-362	Darlington Borough Council	-378
-1,546	DCSF grant	-2,052
-279,925	Dedicated schools grant (DSG)	-287,682
-181	DEFRA Grant	-110
-1,558	Department for Business Innovation & Skills grant	-50
-660	Department for Transport grant	-1,499
-1,505	DFTC Concessionary Fares grant	-1,546
-477	Education Authorities-other	-485
-337	Educational visits	-366
-53	English heritage grants	-151
-1,090	ERDF grant	-2,275
-308	Health commercial placements	-402
-618	Heritage lottery fund grant	-985
-139	Home Office-positive futures grant	-129
-5,808	Housing Benefit - Admin Grant	-5,473
-51,565	Housing Benefit Grant - Council tax	-54,064
-113,300	Housing Benefit Grant - Rent Allowance	-123,914
-36,285	Housing Benefit Grant - Rent Rebate	-37,168
-24,592	Learning and skills Council grant	-38,525
-191	Learning Skills Council	-27
-617	Natural England	-569
-350	NHS Trusts	-308
-618	NNDR Cost of Collection Allowance	-615
-7,305	ODPM grant	-17
-1,304	ONE-single capital pot	-950
-720	Other local authorities	-4,769
-11,502	PCT's	-14,612
-7,310	PCT's-other	-8,217
-	- PFI Grants	-1,635
-156	Police Authority	-165
-	- Preventative technology grant	-303
-100	Probation Service	-60
-16,266	School standards grant	-16,511
-561	Social care reform grant	-
-650	Sports Council Grant	-449
-41,331	Standards Fund grant	-43,210
-492	Supporting People 18 to 21	-416
-15,580	Supporting people programme grant	-1,300
-18,077	Sure start grant	-19,608
-1,234	Teacher Development Agency grant	-1,252
-415	Train to Gain	-71
-108	TSI	-95
-328	YJB - ISSP grant	-325
-411	Youth justice grant	-322
-523	Youth offending teams grant	-611
-589	Youth opportunities fund grant	-193
-29,921	Other grants and contributions	-25,827
-677,772		-700,688

## Capital Grants and Contributions Receipt in Advance

The County Council has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the giver. The balances at the year-end are as follows:

2009-10 £000		2010-11 £000
<b>Capital Grants and Contributions Receipts in Advance</b>		
-230	Local Enterprise Growth Initiative (LEGI)	-412
-	Growth Point	-1,495
-430	Single Housing Investment Programme (SHIP)	-430
-4,614	Transit 15	-4,015
-	Durham City Vision	-45
-	Bowburn Development	-263
-204	Netpark Phase 2 Infrastructure	-
-	Home and Community Agency	-110
-626	Single Programme	-83
-1,511	Home and Community Agency	-1,511
-	Durham City Vision	-417
-	English Heritage	-15
-	PCT	-16
-82	DCSF	-
-194	DEFRA	-314
-6,278	DFT	-5,934
-10	Dti	-10
-101	Heritage Lottery Fund	-480
-20,317	Standards Fund	-35,519
-2,765	Sure Start	-21
-1,704	Aycliffe Young People's Centre	-31
-42	ICS Capital Grant	-
-20	ISPP Capital Grant	-
-21	Sport England	-
-114	PCT	-789
-623	IT Improvements	-730
-78	LD Shared Living	-48
-29	Improving Care Home Environment	-29
-2,113	Improvement to Traveller's Site	-
-187	SSCF	-
-199	SCP Mental Health	-246
-34	Community Safety Grant	-34
-	English Heritage	-21
-	Social Care Reform Grant	-353
-840	PCT	-
-150	REIP Community Safety Grant	-68
-7,570	Other	-4,423
-51,086	<b>Total Capital Grants and Contributions Receipts in Advance</b>	-57,862

## 38. Related parties

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

### Central Government

Central government has effective control over the general operations of the County Council – it is responsible for providing the statutory framework, within which the County Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the County Council has with other parties (e.g. council tax bills, housing benefits).

### Members

Members of the County Council have direct control over the County Council's financial and operating policies. The total of members' allowances paid in 2010/11 is shown in Note 33. During 2010/11, works and services to the value of £ 27,343 were commissioned from companies in which six members had an interest. Contracts were entered into in full compliance with the County Council's standing orders. The County



Council provided financial support to the value of £527,021 to the Citizen Advice Bureau to deliver advice services across the county, one member is an officer at Derwentside CAB. In addition, the County Council provided financial support and grants totalling £322,290 to voluntary and youth organisations in which seven members had positions on the governing body. In all instances, the grants were made with proper consideration of declarations of interest. The relevant members did not take part in any discussion or decision relating to the grants.

It is the nature of local government that the majority of members and sometimes a close family member are involved in the local community through various organisations such as voluntary bodies, youth groups and hold positions such as school governors and are also members of local Parish or Town Councils. Details of all these organisations are recorded in the Register of Members' Interest, open to public inspection at County Hall during office hours. Following a review of the declarations made by members, it was established that there were no material transactions.

A summary of the declarations is shown below:

<b>Member</b>	<b>Board Member/Member of the following Town/Parish Councils, School Governing Body, Action Groups etc</b>
Bob Alderson	Derwentside Homes
Joseph Armstrong	DRCC, Derwentside Homes
Bob Arthur	Brandon Community Centre
Brian Avery	Four Together AAP
John Bailey	Howden-le Wear Community Partnership & Community Centre
Allan Bainbridge	Cestria Housing Association, Chester Le Street Youth Centre
Beaty Bainbridge	North End Residents Group, Chester Le Street Youth Centre, St Cuthbert's RC School
Alan Barker	Easington Colliery Parish Council, Primary School, Branch Labour Party & Easington Community & Science College
Alan Bell	Great Lumley Parish Council, Cestria Housing, Great Lumley Community Centre
Edward Bell	Seaham Town Council, Trustee NED RC (Sunderland)
Jennifer Ann Bell	Seaham Town Council
Richard Bell	Durham Diocesan Board of Finance
Jan Blakey	Cassop-cum-Quarrington Parish Council, AAP, Bowburn Parkhill Partnership, Durham Crematorium
Geraldine Bleasdale	Seaham Town Council, Board Director of East Durham Homes
Dorothy Bowman	Great Aycliffe Town Council
Peter Brooks	Regional Groundwork Trust, Trimdon Parish Council, East Durham Rural AAP, Governor Trimdon Junior & Infant School
David Brown	Sedgefield Town Council
Jane Brown	Durham & Darlington Fire Authority
David Boyes	Easington Colliery Parish Council, Director East Durham Homes
Becky Brunskill	Greater Willington Town Council, DISC
Dorothy Burn	Dene Valley Parish Council

<b>Member</b>	<b>Board Member/Member of the following Town/Parish Councils, School Governing Body, Action Groups etc</b>
Colin Carr	Association of Labour Councillors, Labour Party, Chartered Institute of Waste Management, Beamish, Durham & Darlington Fire Authority, Ouston Junior & Infant Schools, West Pelton Primary, Roseberry Sports Community College, Institute of Licensing
Pauline Charlton	Cockfield Parish Council, Teesdale CAB, Teesdale Village Halls, Groundwork, 2D Blind & Partially Sighted
Robert Crute	Wife is Vice-Chair of Monk Heselden Parish Council, Blackhall Community Association
Jean Chaplow	Save Deerness Leisure Centre
James Sands Corden	Roseberry Comm. Sports College, Regional Flood & Coastal Defence Committee, Armed Cadet Forces NE
Redvers Frederick Crooks	DERIC Bus Committee, Witton Gilbert Parish Council, Framwellgate Moor Parish Council, Bearpark Parish Council, Bearpark Primary, Framwellgate Moor Primary, AAP (CoD), CVS, Housing
Janice Docherty	Craghead Village Hall, Craghead Area Partnership, Craghead Development Trust, Craghead Millennium Green, Quaking Houses Action Group, South Moor Partnership, Oxhill Residents, South Stanley Partnership
Neil Crowther Foster	LA7 Newcastle Airport, East Durham Business Services, Tudhoe and Spennymoor Federation, Labour Party, CDDC, VISIT County Durham, Durham Crematorium, North Park and King Street School
David Freeman	St Nicholas Community Forum, City of Durham Trust, Durham and Darlington Fire Authority
Paul Gittins	Great Aycliffe Town Council, AGNEW Community Centre, Bishop Community Radio
Barbara Graham	Chair of Tudhoe Community Association, Spennymoor Youth & Community Centre, Durham & Darlington Fire Authority, North Park Primary, Tudhoe Branch Labour Party
Joan Gray	Aycliffe Town Council, Labour Party, GAMP (Great Aycliffe & Middridge Partnership), Chairperson Woodham Village Community Association
David M. Hancock	Sildon Parish Council, AAP for Bishop Auckland, Sunnysdale School
Barbara Harrison	Witham Trust, Montalbo School Governor, Trustee at Teesdale Development Company
Neil A. Harrison	Bishop Auckland Community Partnership, Bishop Auckland Town Centre Forum
Simon Henig	Pelton Fell Community Partnership, CDDC, Newcastle International Airport
Michele Hodgson	Stanley Town Council, Labour Party, Durham & Darlington Fire Authority, Annfield Plain & District Community Association, Groundwork NE, Mountsett Crematorium, Catchgate Childcare, Catchgate & Annfield Plain School.
Kenneth Holroyd	Belmont Parish Council, Belmont Community Association, Belmont Infant School
Amanda J Hopgood	Newton Hall Community Association

<b>Member</b>	<b>Board Member/Member of the following Town/Parish Councils, School Governing Body, Action Groups etc</b>
Lucy Hovvells	Trimdon Parish Council, Durham & Darlington Police Authority, East Durham Play & Community Network,
Stehen Hugill	Evenwood & Barony Parish Council
John C Hunter	The Den, Tanfield Lea, Mountsett Crematorium
Eunice Huntington	Shotton Parish Council
James G Huntington	Sildon Town Council
Sarah J Iveson	Great Aycliffe Town Council, Aycliffe Village Hall Association, Labour Party
Ossie Johnson	Lanchester Parish Council
Patricia A Jopling	Howden-le Wear Community Partnership, AAP , Dale & Valley Homes
Audrey Laing	Peterlee Town Council
June E Lee	Bishop Auckland Town Council
John Lethbridge	Bishop Auckland Town Council, Bishop Auckland & Sildon AAP, Citizens Advice Bureau, King James 1st School, Aclet Nursery, Woodhouse Community Primary
Carl Marshall	Derwentside Trust for Sports & the Arts, employed by DRCC
David Marshall	Stanley Town Council, Quaking Houses Action Group, Oxhill Residents, South Moor Partnership, Craghead Village Hall, President of Pelton Fell Bowling Club, Graphic Print
Linda Marshall	CLS AAP, DRCC, Pelton Fell Partnership, North Durham Magistrate, Graphic Print
Nigel Martin	Charter Trust of Durham, Sherburn Hospital, Board Director - CDDC
Peter H May	Beamish, Conservative Party, North Lodge Residents Association, North Lodge Property Owners Association, Maydrive Executive Chauffeur Services
John Moran	Sedgefield Borough Homes
Dennis Morgan	Cassop-cum-Quarrington Parish Council, Durham Johnston, City of Durham Charter Trust, Bowburn Community Centre, East Durham AAP, Durham Villages Regeneration Company, DTVA board member, Friend of Beamish, Weardale Railway Trust, Labour Party
Edward Murphy	Crook Town Council Steering Group, 3 Towns AAP
Brian Myers	Greater Willington Town Council, Wear Valley CAB
Alan Napier	Murton Youth Association, Industrial Communities Alliance, Glebe Centre Management Committee, CDDC, Newco Ltd
Joan Nicholson	Stanley Town Council
Morris Nicholls	Wheatley Hill Parish Council, Thornley Regeneration, Deaf Hill Parish Council, Thornley Parish Council, Deaf Hill & Wheatley Primary
Leonard O'Donnell	Labour Party
Benjamin M Ord	Spennymoor Town Council
Enid Paylor	Great Aycliffe Town Council

<b>Member</b>	<b>Board Member/Member of the following Town/Parish Councils, School Governing Body, Action Groups etc</b>
Maria Plews	Coxhoe Partnership, East Durham Rural Partnership
Maureen Potts	Ouston Parish Council, Handen Hold Miners' Banner Group
George Richardson	South Bedburn Parish Council, Teesdale CAB, Affordable Housing Group, Barnard Castle School
Jon Robinson	Sedgefield Town Council, DRCC, Tees Esk Wear Valley NHS Trust, Justice of the Peace, Sedgefield Arts Recreation Community Association, Sedgefield Labour Party
Clive Robson	YMCA Board member, St Patricks Primary School
James Rowlandson	Stainton & Streatlam Parish Council, Teesdale AAP
Anita Savory	Chair- Weardale AAP, Hartwell Trust, Weardale Community Hospital Stanhope, Weardale MS Society , Dale & Valley Homes, Wolsingham Youth Club
John Shiell	Labour Party, Cestria Housing
John Shuttleworth	Stanhope Parish Council, Village Halls in Weardale
Dennis J Southwell	Belmont Parish Council, Director Durham Villages Regeneration Company
Watts Stelling	CDDC, Derwentside Homes, AAP DVP
David Stoker	Durham AAP
Paul Stradling	Durham Aged Miners Association, Horden Youth & Community Association, Horden Regeneration Partnership
Paul Taylor	Brandon & Byshottles Parish Council
Owen Temple	Treasurer of Consett Methodist Church, Consett Youth Project
Kevin Thompson	Spennymoor Town Council, Board Member Sedgefield Borough Homes
Alexander L Thomson	Belmont Parish Council, Trustee of St. Cuthbert's Hospice & Gilesgate Youth & Community Association, Durham & Darlington Fire Authority, Charter Trust City of Durham, Beamish
Robin J Todd	South Hetton Parish Council & South Hetton Community Association, Beamish
Edward W Tomlinson	Crook Community Partnership, CDDC, Dale & Valley Homes, Bowes Trust, Weardale Railway
John Turnbull	Brandon & Byshottles Parish Council, Mid Durham AAP
Alan Turner	Sacriston Parish Council, Sacriston Junior School, Cestria Housing, Sacriston Community and Sports
Andy Turner	West Auckland Parish Council, St Helens School, Dale & Valley Homes
Mark Wilkes	Framwellgate Moor Parish Council, Groundwork NE, Abbey Leisure Centre User Group
John Wilkinson	Brandon & Byshottles Parish Council
Joe Wilson	Tanfield Lea Partnership, St. Margaret's
Audrey Willis	Great Lumley Parish Council, Chester-le Street AAP, Great Lumley Resident's Association

<b>Member</b>	<b>Board Member/Member of the following Town/Parish Councils, School Governing Body, Action Groups etc</b>
Maureen Wood	Sherburn Parish Council, Attlee Square Luncheon Club & Communal Hall
Carol Woods	Pittington Parish Council, Sherburn Village Parish Council, Sherburn SOS
Linda A Wright	Sacriston Parish Council, Durham & Darlington Fire Authority, Sacriston Community & Sports Trust, Sacriston Community Association, Fyndoune Community Association, Plawsworth & Kimblesworth Community Association, Nettlesworth Primary School, Beamish Committee
Rob Yorke	Member of Bishop Auckland Regeneration Partnership and Chair of South Durham Enterprise Agency
Sam Zair	Bishop Auckland Town Council

### **Officers**

Chief Officers of the County Council are also required to complete a Related Party Declaration. It should be noted that The Corporate Director - Neighbourhoods and The Corporate Director – Regeneration and Economic Development are Non-Executive Members on the Board of the Durham County Waste Management Company. No further declarations were identified.

### **Entities Controlled or Significantly Influenced by the County Council**

The Code 2010 requires all local authorities to examine the relationship between themselves and other organisations used to deliver local services in order to establish whether to prepare Group Accounts. The aim of Group Accounts is to provide information about the risks and benefits associated with organisations over which the County Council could exercise control or significant influence.

A thorough review was carried out of the information held on all the organisations with which services are delivered. The review was based on information held by the authority as well as discussions with officers from departments and other local authorities in the area. It was concluded that the following organisations should be consolidated within the Group Accounts:

- ❖ Durham County Waste Management Company Limited
- ❖ County Durham Development Company Limited
- ❖ Dale and Valley Homes Limited
- ❖ East Durham Homes Limited
- ❖ Durham Crematorium

The County Council has financial relationships with a number of related companies, some of which have been excluded on the grounds of materiality or the fact that DCC is not in a position to exert significant influence over these organisations.

The level of investments held in each of these companies is detailed in the table of interests in companies below.

	Financial Year	Net Assets / Liabilities	Profit / Loss Before Tax	Profit / Loss After Tax	Dividends Declared	% Share Capital held / ownership	Group Accounts
		£000	£000	£000	£000	£000	
<b>Company Name</b>							
County Durham Development Company Limited	2009/10	1,482	268	268	-	100	Included
	2010/11	1,494	12	12	-	100	Included
Durham County Waste Management Company Limited	2009/10	5,590	339	220	n/a	84	Included
	2010/11	2,519	-6,446	-5,079	n/a	84	Included
East Durham Homes Limited	2009/10	-17,549	-206	-210	-	100	Included
	2010/11	-11,479	2,885	2,880	-	100	Included
Dale and Valley Homes Limited	2009/10	-1,308	-78	-80	-	100	Included
	2010/11	-1,867	663	661	-	100	Included
Service Direct Newco	2009/10	3	0	0	-	100	Not included - immaterial
	2010/11	2	-1	-1	-	100	Not included - immaterial
Newcastle Airport Local Authority Holding Company Limited	2009	-46,506	-4,097	-3,087	0	11.84	Not included - no dominant influence
	2010	-43,757	-4,823	-1,786	0	11.84	Not included - no dominant influence
Durham Tees Valley Airport	2008/09	16,476	-3,094	-2,653	n/a	3.3	Not included - no dominant influence
	2009/10	8,941	-8,003	-6,456	n/a	3.3	Not included - no dominant influence
Durham Villages Regeneration Limited	2008/09	75	106	75	-	50	Not included - no dominant influence
	2009/10	291	255	290	-	50	Not included - no dominant influence

It should be noted:

- ❖ the information above for Newcastle Airport Local Authority Holding Company Limited is for the year 1 January to 31 December
- ❖ Information relating to 2010/11, included in the above table, is subject to audit.

### **Durham County Waste Management Company Limited**

The Company is a 'Local Authority Waste Disposal Company' created under the Environmental Protection Act 1990. The waste disposal assets and liabilities of Durham County Council were formally vested in the Company in 1993. The Council holds 84% of the share capital.

### **County Durham Development Company Limited**

The Company is wholly owned by the County Council and limited by guarantee. The County Council will continue to support the Company in order that its liabilities are met as they fall due. It was established in 1986 to promote, encourage and secure the economic development of the County.

### **Durham Villages Regeneration Limited**

The company operates as a public -private partnership formed to regenerate communities within Durham County Council. The accounts are publicly available and may be obtained from Companies House, Crown Way, Cardiff CF14 3UZ.

### **Dale & Valley Homes Limited**

Dale & Valley Homes Limited was established as an Arms Length Management Organisation by Wear Valley District Council on 1 April 2006 to carry out the management and maintenance of council houses. The Board of Dale & Valley Homes has a total of 15 members of which 5 are members from the Council. The net liability of the company at 31 March 2011 is £1.867m (31 March 2010 £1.308m) and surplus for the year to 31 March 2011 was £0.661m (31 March 2010: deficit £0.080m).

It should be noted that the Company's accounts have yet to be finalised and therefore the figures used for the preparation of the Group Financial Statements are still subject to audit. Copies of the Company's accounts can be obtained from the Registered Office at County Hall, Durham, DH1 5UT.

### **East Durham Homes Limited**

East Durham Homes Limited was created as an Arms Length Management Organisation in April 2004 to carry out the housing management and maintenance functions on behalf of the authority. The Board of East Durham Homes Limited has a total of 15 members of which 5 are also members of the Durham County Council. The net liability of the company at 31 March 2011 is £11.479m (31 March 2010: £17.549m) and the surplus for the year to 31 March 2011 was £2.880m (31 March 2010: deficit £0.210m).



It should be noted that the Company's accounts have yet to be finalised and therefore the figures used for the preparation of the Group Financial Statements are still subject to audit. Copies of the Company's accounts can be obtained from the Registered Office at County Hall, Durham, DH1 5UT.

### Service Direct NewCo Limited

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

Durham County Council owns 100% of NewCo, which began trading in 2007/08.

### NIAL Holdings Limited

Under the Airport Act 1986, Newcastle International Airport Limited (NIAL) was formed and seven Local Authorities were allocated shares in consideration for all the property, rights and liabilities that were transferred into the new company. In consideration of this transfer Durham County Council received £4.702m worth of shares.

On 4 May 2001, the seven Local Authority (the 'LA7') shareholders of NIAL entered into a strategic partnership with Copenhagen Airports Limited for the latter to purchase a 49% share of Newcastle International Airport. This involved the creation of a new company, NIAL Holdings Limited, which is 51% owned by LA7. The 51% holding is held in the Newcastle Airport Local Authority Holding Company Limited, a company wholly owned by the seven authorities.

The Newcastle Airport Local Authority Holding Company Limited has a called up share capital of 10,000 shares with a nominal value of £1 each. Durham County Council has a shareholding of 1,183 shares representing a 11.84% interest in the company.

The shares are not held for trading outside of the LA7.

At the time of the acquisition of the new shares, the net worth of NIAL Holdings Limited was £134m and the Council's share of this valuation (11.84% of 51%) was £8.091m. The valuation of NIAL Holdings Limited is reviewed annually. A full independent valuation was carried out in May 2010 which valued the shareholding at £0.510m based upon the discounted cash flow method. There has been no significant change in external factors since the valuation that would materially affect the value of the shareholding.

The Local Authority shareholders received £95m in cash for the 49% shareholding in NIAL Holdings Limited and an additional £100m issued by the Company in the form of short and long-term loan notes. The latter payments are in recognition of the value built up in Newcastle International Airport Limited over previous years. £25m long-term loan notes are being paid in ten annual instalments, starting in 2005/06, of which the County Council will receive £3.108m over the 10 years.

Durham County Council's 11.84% shareholding in Newcastle Airport Local Authority Holding Company Limited is an effective shareholding of 6.0% in Newcastle International Airport Limited (and the group companies of NIAL Group Limited, NIAL Holdings Limited).

The principal activity of Newcastle International Airport Limited (Registered Number 04184967) is the provision of landing services for both commercial and freight operators. There have been no trading transactions between the Council and NIAL during the year.

No dividends were payable for the years ended 31 December 2010 or 31 December 2009.

The most recent figures available are detailed below:

2009-10		2010-11
£000		£000
-46,506	Net Assets	-43,757
-4,097	Profit/Loss(-) before Tax	-4,823
-3,087	profit/Loss(-) after Tax	-1,786

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

**Durham Tees Valley Airport Limited**

The former Teesside Airport Limited became a limited company under the Airports Act 1986. In consideration of the transfer of the property, rights, liabilities and functions, the former constituent authorities received share allocations. The County Council received £7.600m (40%) of the issued share capital. With effect from 1 April 2003, 75% of the total shareholding in the now renamed Durham Tees Valley Airport Limited was acquired by Peel Airports Limited. The County Council now holds 3.3% of the total shareholding in Peel Airports Limited at a value of £0.544m. The Company accounts for 2010/11 are not yet available. The most recent information is detailed below. No dividend was declared for the year.

2009-10 £000		2010-11 £000
16,479	Net Assets	8,941
-3,904	Profit/Loss(-) before Tax	-8,003
-2,653	profit/Loss(-) after Tax	-6,456

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

**Central Durham Crematorium**

The Central Durham Crematorium was built in 1960 and is overseen by the Central Durham Crematorium Joint Committee, comprising Durham County Council and Spennymoor Town Council. The net assets of the crematorium at 31 March 2011 are £1.957m (31 March 2010: £13673m). Durham County Council are the administrative body and employing authority for the crematorium.

It should be noted that the Central Durham Crematorium accounts are still subject to external audit, but the figures used for the preparation of the Group Financial Statements are based on the approved Statements, as considered by the Crematorium Joint Committee on 29 June 2011. Copies of the Durham Crematorium accounts can be obtained from the Registered Office at County Hall, Durham, DH1 5UT, or alternatively accessed via the DCC website.

**Mountsett Crematorium**

The Mountsett Crematorium was built in 1964 and is overseen by the Mountsett Crematorium Joint Committee, comprising Durham County Council and Gateshead Council. The net assets of the crematorium at 31 March 2011 are £0.293m (31 March 2010: £0.256m). Durham County Council are the administrative body and employing authority for the crematorium.

It should be noted that the Mountsett Crematorium accounts are still subject to external audit, but the figures used for the preparation of the Group Financial Statements are based on the approved Statements, as considered by the Mountsett Crematorium Joint Committee on 17 June 2011. Copies of the Mountsett Crematorium accounts can be obtained from the Registered Office at County Hall, Durham, DH1 5UT, or alternatively accessed via the DCC website.

**The Pension Fund**

Durham County Council administers the Durham County Council Pension Fund on behalf of 68 bodies, including borough, parish and town councils, colleges, statutory bodies and admitted bodies. During 2010/11, the Pension Fund had an average balance of £18.005m (£66.793m in 2009/10) of surplus cash deposited with the County Council. In 2010/11 the County Council paid the fund a total of £0.105m (£0.536m in 2009/10) in interest on these deposits.

**39. Capital expenditure and capital financing**

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases and PFI/PP contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the County Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the County Council that has yet to be financed. The CFR is analysed in the second part of this note.



2009-10 £000		2010-11 £000
400,984	<b>Opening Capital Financing Requirement</b>	423,688
	Capital investment:	
105,985	Property, Plant and Equipment	133,010
3,084	Property, Plant and Equipment - Finance Leases	2,845
-	Property, Plant and Equipment - PFI	45,003
171	Repayment of Deferred Liability	270
13	Investment Properties	-
-	Intangible Assets	681
13,747	Revenue Expenditure Funded from Capital under Statute	24,126
	Sources of finance:	
-19,414	Capital receipts	-27,526
-45,714	Government grants and other contributions	-72,262
-12,449	Major Repairs Allowance	-13,144
	Sums set aside from revenue:	
-8,823	- Direct revenue contributions	-17,921
-13,896	- Minimum Revenue Provision	-13,854
<u>423,688</u>	<b>Closing Capital Financing Requirement</b>	<u>484,916</u>
	<b>Explanation of movements in year</b>	
22,512	Increase/(decrease) in underlying need to borrow (supported by government financial assistance)	14,096
-2,892	Increase/(decrease) in underlying need to borrow (unsupported by government financial assistance)	-716
3,084	Assets acquired under finance leases	2,845
-	Assets acquired under PFI contracts	45,003
<u>22,704</u>	<b>Increase/(decrease) in Capital Financing Requirement</b>	<u>61,228</u>

## 40. Leases

### County Council as lessee

#### Finance leases

The County Council has acquired a number of operational vehicles and equipment under finance leases.

The assets acquired under these leases are carried as Property, Plant and Equipment in the Balance Sheet at the following net amounts:

31 March 2010 £000		31 March 2011 £000
	- Other Land and Buildings	-
6,773	Vehicles, Plant, Furniture and Equipment	7,281
<u>6,773</u>		<u>7,281</u>

The County Council is committed to making minimum payments under these leases comprising settlement of the long-term liability for the interest in the assets acquired by the County Council and finance costs that will be payable by the County Council in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

31 March 2010 £000		31 March 2011 £000
	Finance lease liabilities (net present value of minimum lease payments):	
1,936	Current	1,870
2,998	Non-Current	3,535
587	Finance costs payable in future years	329
<u>5,521</u>	<b>Minimum lease payments</b>	<u>5,734</u>

The minimum lease payments will be payable over the following periods:

## Notes to the Accounts

31 March 2010			31 March 2011		
Minimum Lease Payments £000	Finance Lease Liabilities £000		Minimum Lease Payments £000	Finance Lease Liabilities £000	
2,225	1,936	Not later than one year	2,139	1,870	
3,256	2,960	Later than one year and not later than five years	3,595	3,535	
40	38	Later than five years	-	-	
<u>5,521</u>	<u>4,934</u>		<u>5,734</u>	<u>5,405</u>	

There are no contingent rents payable in respect of the leases.

The County Council has not sub-let any of the vehicles and equipment under these finance leases.

### Operating Leases

The County Council has acquired a number of operational vehicles and administration buildings by entering into operating leases, with typical lives of five years. The future minimum lease payments due under non-cancellable leases in future years are:

31 March 2010 £000		31 March 2011 £000
1,819	Not later than one year	1,584
4,670	Later than one year and not later than five years	3,675
1,870	Later than five years	1,281
<u>8,359</u>		<u>6,540</u>

Where assets acquired under operating leases are sub-let, disclosure is required of the future minimum sublease payments expected to be received by the County Council, per paragraph 4.2.4.2(7) of the Code.

The expenditure charged to the Childrens and Education Services and Other Housing Services lines in the Comprehensive Income and Expenditure Statement during the year in relation to these leases was:

31 March 2010 £000		31 March 2011 £000
259	Minimum lease payments	259
-	- Contingent rents	-
-264	[Sublease payments receivable]	-264
<u>-5</u>		<u>-5</u>

## County Council as lessor

### Finance leases

There are no finance leases in respect of property, plant and equipment where the County Council is the lessor.

### Operating leases

The County Council leases out property and equipment under operating leases for the following purposes:

- ❖ for the provision of community services, such as child care and community centres
- ❖ for economic development purposes to provide suitable affordable accommodation for local businesses.

The future minimum lease payments receivable under non-cancellable leases in future years are:

31 March 2010 £000		31 March 2011 £000
2,423	Not later than one year	2,247
7,212	Later than one year and not later than five years	6,123
8,792	Later than five years	7,630
<u>18,427</u>		<u>16,000</u>

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews.

This note is not compliant with the Code of Practice as the amount receivable by the County Council in respect of contingent rents cannot be quantified.

#### 41. Private finance initiatives and similar contracts

##### Schools

In 2009/10, the County Council signed a Private Finance Initiative contract for the provision of three sets of new school buildings. The schools are:

- ❖ Sedgefield Community College (Design Capacity = 850 pupils)
- ❖ Shotton Hall School (Design Capacity = 1,000 pupils)
- ❖ Shotton Hall Primary School (Design Capacity = 350 pupils)

Sedgefield and Shotton Hall are part of the Building Schools for the Future programme. Shotton Hall Primary is located on the same site as Shotton Hall School and received funding through the Primary Capital Programme.

The contract is for the design, construction and finance of the new school buildings and their maintenance for 25 years after commencement of operations. The contract runs over two phases - construction and operational.

The operational phase starts when the buildings are released for use by the schools. For Shotton Hall Primary the operational phase started on 6 September 2010 and for Sedgefield Community College and Shotton Hall School the operational phases started on 4 January 2011. The operational phase for all schools will end on 3 January 2036, which marks the end of the contract, at which point the contractor is required to handover the buildings to the County Council in a good state of repair and at nil cost.

Shotton Hall School became an Academy on 1 February 2011. The County Council has granted the Academy lease of the land & buildings at a peppercorn rent for 125 years. The PFI contract remains with the County Council and the Academy has signed an agreement with the County Council to cover the operation of the contract as it affects the Academy and the Academy contributions to meeting the costs of the contract.

During the operational phase the contractor is responsible for the following services:

- ❖ Buildings and Grounds Maintenance
- ❖ Caretaking
- ❖ Cleaning
- ❖ Energy and Utilities

The contractor is not responsible for the provision of education services or governance and management of the schools, which remain the responsibility of their governing bodies and staff.

In return for providing school buildings the contractor receives monthly payments from the County Council during the operational phase. These payments can be reduced where the buildings are not provided to the standard defined in the contract.

The County Council's balance sheet includes both assets and liabilities arising from the contract and it expects to make payments in respect of the contract over the next 25 years.

**Value of assets at 31 March 2011**

	<b>Total £000</b>
Initial value of assets financed by contractor	45,003
Plus	
Variations agreed during construction	339
Capitalised development costs	69
<b>Total initial fair value</b>	<b>45,411</b>
Less	
Impairment of development costs	2,965
Impairment of revaluation	18,127
<b>Gross book value after impairment and revaluation</b>	<b>24,319</b>
Less	
2010-11 depreciation	99
<b>Net book value after deducting annual depreciation</b>	<b>24,220</b>
Less	
Loss on disposal of Academy assets	11,276
<b>Net book value carried forward</b>	<b>12,944</b>

In addition to the net book value of £12.944m in respect of the PFI assets, the balance sheet also includes the value of the land on which the schools are built. The value of the land is £2.494m and the total net value of land & buildings for these schools carried forward is £15.439m.

**Value of liabilities at 31 March 2011**

The assets included in the balance sheet are offset by a liability equal to the initial value of the assets financed by contractor. This liability is written-down over the life of the contract by charging part of the annual payments to the contractor against the liability.

Movements in the values in 2010/11 are summarised below:

31 March 2010 £000	31 March 2011 £000
- Balance outstanding at start of year	-
- Payments during the year	-42
- Capital expenditure incurred in the year	44,733
- [other movements]	-
<b>- Balance outstanding at year-end</b>	<b>44,691</b>

Note that the liability does not reduce because Shotton Hall School is now an academy: the liability reflects the obligation on the County Council which has not changed.

**Estimates of future payments due**

	Payments for Services £000	Reimbursement of Capital Expenditure £000	Interest £000	Total £000
Payable in 2011-12	1,827	649	4,534	7,010
Payable within two to five years	8,194	2,983	17,434	28,611
Payable within six to ten years	12,348	4,947	19,856	37,151
Payable within eleven to fifteen years	14,257	7,724	16,900	38,881
Payable within sixteen to twenty years	17,173	11,452	12,214	40,839
Payable within twenty-one to twenty-five years	18,623	16,935	5,379	40,937
<b>Total</b>	<b>72,422</b>	<b>44,690</b>	<b>76,317</b>	<b>193,429</b>

Contract payments are partially linked to inflation as measured by the RPIx index (all items excluding Mortgage Interest Payments). These estimates assume that after 2011-12 RPIx increases at 2.5% a year for the remainder of the contract.

Other reasons why costs might vary significantly in future years are:

- ❖ The provision of facilities management (FM) services is subject to benchmarking and / or market testing every five years. Payments to the contractor will be adjusted to reflect the outcome of these exercises, which could reduce or increase costs.
- ❖ Once PFI contracts are operational it is sometimes possible to 're-finance' the contract which reduces the cost of borrowing incurred by the contractor. The contractor provides for the County Council to receive some of the savings arising from re-financing. Re-financing is only possible if market conditions allow and the County Council does not anticipate the contract being subject to re-financing in the next twelve months.

#### 42. Impairment losses

The County Council has demolished former school premises amounting to £21m for which replacement schools have been provided, primarily from BSF. This impairment has been charged in 2010/11 partly to the services in the CIES and in part will have been met from the Revaluation Reserve.

#### 43. Termination benefits

The authority terminated the contracts of a number of employees in 2010/11. The value of the redundancy payments charged to services in 2010/11 was £7,097,048 and in 2009/10 was £3,593,792. The table below analyses the payments made in the relevant financial years and shows that in 2009/10 the majority of the payments made were as a result of Local Government Reorganisation, whereas the payments in 2010/11 are due to the rationalisation of services within the Authority.

2009-10 £000	2010-11 £000
846 Children's and Education Services	1,938
- Adult Social Care	3,035
- Highways and Transportation	551
- Planning and Development	429
- Cultural and Related Services	198
- Environmental Services	156
- Central Services	7
- Local Authority Housing - HRA	18
- Housing General	283
2,747 Local Government Reorganisation	-
- Trading	445
- corporate democratic core	37
<b>3,593 Total</b>	<b>7,097</b>

#### 44. Pension schemes accounted for as defined contribution schemes

Teachers employed by the County Council are members of the Teachers' Pension Scheme, administered by Capita Business Services Limited. The Scheme provides teachers with specified benefits upon their retirement, and the County Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The Scheme is technically a defined benefit scheme. However, the Scheme is unfunded and the Department for Education uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. The County Council is not able to identify its share of underlying financial position and performance of the Scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2010/11, the County Council paid £22.630m to Teachers' Pensions in respect of teachers' retirement benefits, representing 14.1% of pensionable pay. The figures for 2009/10 were £22.286m and 14.2%. There were no contributions remaining payable at the year-end.

## 45. Defined benefit pension schemes

### Participation in Pension Schemes

As part of the terms and conditions of employment of its officers, the County Council makes contributions towards the cost of post employment benefits. Although these benefits will not actually be payable until employees retire, the County Council has a commitment to make the payments that needs to be disclosed at the time that employees earn their future entitlement.

The County Council participates in two post employment schemes:

The Local Government Pension Scheme, administered locally by Durham County Council – this is a funded defined benefit final salary scheme, meaning that the County Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

Arrangements for the award of discretionary post retirement benefits upon early retirement – this is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pensions liabilities, and cash has to be generated to meet actual pensions payments as they eventually fall due.

### Transactions Relating to Post-employment Benefits

We recognise the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against Council Tax is based on the cash payable in the year, so the real cost of post employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement.

The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

2009-10		2010-11	
Local Government Pension Scheme £000	Discretionary Benefits Arrangements £000	Local Government Pension Scheme £000	Discretionary Benefits Arrangements £000
<b>Comprehensive Income and Expenditure Statement</b>			
Cost of services:			
30,058	-	43,829	-
14,510	-	-205,720	-6,550
-	-	-	-
Net operating expenditure			
2,342	-	3,551	-
Financing and Investment Income and Expenditure:			
98,870	4,940	103,500	4,200
-46,840	-	-77,490	-
<u>98,940</u>	<u>4,940</u>	<u>-132,330</u>	<u>-2,350</u>
Total Post Employment Benefit Charged to the Surplus and Deficit on the Provision of Services			
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement:			
-252,750	-8,630	42,370	240
<u>-153,810</u>	<u>-3,690</u>	<u>-89,960</u>	<u>-2,110</u>
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement			
<b>Movement in Reserves Statement</b>			
-98,940	-4,940	132,330	2,350
Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the code			
Actual amount charged against the General Fund Balance for pensions in the year:			
54,698		63,688	
	6,084		5,870
	<u>6,084</u>		<u>5,870</u>

**Assets and Liabilities in Relation to Post-employment Benefits**

Reconciliation of present value of the scheme liabilities (defined benefit obligation):

2009-10			2010-11	
Funded Liabilities: Local Government Pension Scheme £,000	Unfunded Liabilities: Discretionary Benefits Arrangements £,000		Funded Liabilities: Local Government Pension Scheme £,000	Unfunded Liabilities: Discretionary Benefits Arrangements £,000
1,479,950	76,600	<b>Opening balance at 1 April</b>	2,061,690	84,270
32,400		Current service cost	47,380	-
98,870	4,940	Interest cost	103,500	4,200
15,110		Contributions by scheme participants	16,010	-
495,990	8,630	Actuarial (gains) and losses	-42,840	-240
-75,140	-5,900	Benefits paid	-75,750	-5,820
14,510	-	Past service costs	-205,720	-6,550
<b>2,061,690</b>	<b>84,270</b>	<b>Closing balance at 31 March</b>	<b>1,904,270</b>	<b>75,860</b>

Reconciliation of fair value of the scheme (plan) assets:

2009-10			2010-11	
Funded Liabilities: Local Government Pension Scheme £,000			Funded Liabilities: Local Government Pension Scheme £,000	
885,380		<b>Opening balance at 1 April</b>	1,170,900	
46,840		Expected rate of return	77,490	
243,240		Actuarial gains and losses	-470	
55,470		Employer contributions	64,410	
15,110		Contributions by scheme participants	16,010	
-75,140		Benefits paid	-75,750	
<b>1,170,900</b>		<b>Closing balance at 31 March</b>	<b>1,252,590</b>	

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date.

Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

The actual return on scheme assets in the year was £77.02m (2009/10: £290.08m).

**Scheme History**

	31 March 2007 # £000	31 March 2008 # £000	1 April 2009 £000	31 March 2010 £000	31 March 2011 £000
<b>Present value of liabilities:</b>					
Local Government Pension Scheme	-956,910	-894,240	-1,479,950	-2,061,690	-1,904,270
Discretionary Benefits	-41,810	-39,730	-76,600	-84,270	-75,860
<b>Fair value of assets in the Local Government Pension Scheme</b>	678,160	678,810	885,380	1,170,900	1,252,590
<b>Surplus/(deficit) in the scheme:</b>					
Local Government Pension Scheme	-278,750	-215,430	-594,570	-890,790	-651,680
Discretionary Benefits	-41,810	-39,730	-76,600	-84,270	-75,860
<b>Total</b>	<b>-320,560</b>	<b>-255,160</b>	<b>-671,170</b>	<b>-975,060</b>	<b>-727,540</b>
<b>Adjusted Total *</b>	<b>-320,335</b>	<b>-255,138</b>	<b>-670,970</b>	<b>-975,648</b>	<b>-728,212</b>

# Scheme history for years ended 31 March 2007 and 31 March 2008 relate to Durham County Council prior to Local Government Reorganisation.

\* To produce a more accurate assessment of the authority's IAS 19 liability the adjusted total line shows the surplus/(deficit) per the actuaries figures adjusted for actual contributions made to the scheme.

The liabilities show the underlying commitments that the County Council has in the long run to pay post employment (retirement) benefits. The total liability of £728.21m has a substantial impact on the net worth of the County Council as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the County Council remains healthy:

- ❖ the deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme actuary
- ❖ finance is only required to be raised to cover discretionary benefits when the pensions are actually paid.

The total contributions expected to be made to the Local Government Pension Scheme by the County Council in the year to 31 March 2012 is £56.39m. Expected contributions for the Discretionary Benefits scheme in the year to 31 March 2012 are £5.99m.

### Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Both the Local Government Pension Scheme and Discretionary Benefits liabilities have been assessed by Aon Hewitt Limited (formerly Hewitt Associates Limited), an independent firm of actuaries, estimates for the County Council Fund being based on the latest full valuation of the scheme as at 31 March 2010.

The principal assumptions used by the actuary have been:

2009-10			2010-11		
Local Government Pension Scheme	Discretionary Benefits Arrangements		Local Government Pension Scheme	Discretionary Benefits Arrangements	
		<b>Mortality assumptions:</b>			
PNMA00 with allowance for MC improvement factors to 2007	PNMA00 with allowance for MC improvement factors to 2007	Year of Birth base table	Standard SAPS Normal Health All Amounts	Standard SAPS Normal Health All Amounts	
125%	125%	Scaling to above base table rates	105%	105%	
21.2	21.2	Longevity at 65 for current pensioners:			
23.3	23.3	- Men	21.9	21.9	
		- Women	24.0	24.0	
23.5	23.5	Longevity at 65 for future pensioners:			
25.4	25.4	- Men	23.7	23.7	
		- Women	26.0	26.0	
		<b>Principle financial assumptions (% per annum)</b>			
3.9	3.8	- Rate of inflation (RPI)	3.7	3.6	
n/a	n/a	- Rate of inflation (CPI)	2.8	2.7	
5.4	n/a	- Rate of increase in salaries	5.2	n/a	
3.9	3.8	- Rate of increase in pensions	2.8	2.7	
5.5	5.5	- Rate for discounting scheme liabilities	5.4	5.5	
		<b>Commutation:</b>			
n/a	n/a	- Percentage each member is assumed to exchange for additional lump sum of the maximum amount permitted of their past service pension rights on retirement. (2010-11)	60.0	n/a	
n/a	n/a	- Percentage each member is assumed to exchange for additional lump sum of the maximum amount permitted of their future service pension rights on retirement. (2010-11)	80.0	n/a	
50.0	n/a	- Percentage each member is assumed to exchange of the maximum amount permitted of their pre 1 April 2008 pension entitlements. (2009-10)	n/a	n/a	
75.0	n/a	- Percentage each member is assumed to exchange of the maximum amount permitted of their post 31 March 2008 pension entitlements. (2009-10)	n/a	n/a	

The Discretionary Benefits arrangements have no assets to cover its liabilities. The Local Government Pension Scheme's assets consist of the following categories, shown with long-term expected rate of return and proportion of the total assets held:



31 March 2010		31 March 2011	
Long-term expected rate of return % pa	Asset split %	Long-term expected rate of return % pa	Asset split %
8.0	57.1	8.4	55.9
8.5	4.9	7.9	5.6
4.5	25.4	4.4	25.4
5.5	9.6	5.1	10.2
0.7	3.0	1.5	2.9
8.0	0.0	8.4	0.0
6.7	100.0	6.4	100.0

### History of Experience Gains and Losses

The actuarial gains identified as movements on the Pensions Reserve in 2010/11 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2011:

	2006-07		2007-08		2008-09		2009-10		2010-11	
	£000	%	£000	%	£000	%	£000	%	£000	%
<b>Difference between the expected and actual return on assets</b>										
- Funded	5,320	0.8%	-61,450	-9.1%	-154,050	-26.5%	243,240	20.8%	-470	0.0%
<b>Experience gains and losses on liabilities</b>										
- Funded and Unfunded #	1,161	0.2%								
- Funded #			4,591	0.5%	3,685	0.4%	20,620	1.0%	16,248	0.9%
- Unfunded #			534	-1.3%	467	-1.2%	2,550	-3.0%	744	-1.0%

# This item consists of gains/(losses) in respect of liability experience only and excludes any change in liabilities in respect of changes to the actuarial assumptions used. The figures have been adjusted for actual contributions.

Durham County Council employs a building block approach in determining the rate of return on Fund assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed rate of return on each asset class is set out within this note. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation for the Fund at 31 March 2011.

## 46. Contingent liabilities

### a) Equal Pay and Job Evaluation

A contingent liability has been recognised in the second phase of job evaluation, the costs and scope of which have yet to be fully determined, but are likely to be significant with the potential to be backdated to previous years.

### b) Pension Contributions on Equal Pay Payments

Equal pay settlements were not originally deemed to be pensionable however, this has now changed and an element of choice has been introduced. Individuals can choose to have their settlements considered to be pensionable, which would lead to a liability for the County Council to make employer contributions to the Pension Fund. This provision has now been added to agreements that individuals with pending Equal Pay Settlements sign. There is no certainty that an individual will decide to pay pension contributors on their Equal Pay settlement. The agreements signed by individuals are 'open-ended' in that an individual's ability to determine their settlement as 'pensionable' is not time limited, so the timing of any liability to pay contributions are not certain.

### c) Housing Benefit and Council Tax Benefit

A contingent liability has been recognised in respect of a possible recovery of amounts reclaimed in error from the Department for Work and Pensions (DWP). Overpayments of Housing Benefit and Council Tax were identified in one area of the County Council prior to LGR and provision has been made for repayments of amounts due for 2008/09. As a result of LGR, the errors persisted in 2009/10 and there is a possibility that a repayment may be due. Representations have been made by the County Council to

the Secretary of State to use his discretion not to recover the amount of overpaid Housing Benefit and Council Tax; there is uncertainty as to whether a claim will be made by DWP. There is also uncertainty over the amount that may be reclaimed.

#### 47. Contingent assets

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed by only the occurrence of one or more uncertain future events, not wholly within the County Council's control.

There are no contingent assets to be disclosed.

#### 48. Trust Funds (Not included in the balance sheet)

The County Council is responsible for administering 48 individual Trust Funds. The Funds have been established from donations or bequests by benefactors who specified the uses which may be made of them, usually for the provision of educational prizes and scholarships.

2009-10 £000	2010-11 £000
385 Balance at 1st April	408
11 New Funds opened in year	22
15 Interest on balances, dividends etc, received	19
-3 Expenditure on prizes etc	-10
408 <b>Balance at 31st March</b>	<b>439</b>

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

#### 49. Nature and extent of risks arising from financial instruments

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

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

#### Overall procedures for managing risk

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

These are required to be reported and approved at or before the County Council's annual Council Tax setting budget or before the start of the year to which they relate. These items are reported with the annual treasury management strategy which outlines the detailed approach to managing risk in relation to the County Council's financial instrument exposure.

The annual treasury management strategy which incorporates the prudential indicators was approved by County Council on 26 February 2010 and is available on the County Council website. The key issues within the strategy were:

- ❖ The Authorised Limit for 2010/11 was set at £583.858m. This is the maximum limit of external borrowings or other long term liabilities.
- ❖ The Operational Boundary was expected to be £468.012m. This is the expected level of debt and other long term liabilities during the year.
- ❖ The maximum amounts of fixed and variable interest rate exposure were set at 100% and 50% based on the County Council's net debt.

These policies are implemented by a central treasury team. The County Council maintains written principles for overall risk management, as well as written policies (Treasury Management Practices – TMPs) covering

specific areas, such as interest rate risk, credit risk, and the investment of surplus cash. These TMPs are a requirement of the Code of Practice and are reviewed periodically.

### **Credit Risk**

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the County Council's customers.

This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, in accordance with the Fitch, Moody's and Standard & Poors Credit Ratings Services. The Annual Investment Strategy also considers maximum amounts and time limits in respect of each financial institution. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined above. Additional selection criteria are also applied after these initial criteria are applied. Details of the Investment Strategy can be found on the County Council's website.

The County Council's maximum exposure to credit risk in relation to its investments in banks and building societies of £145.358m cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the County Council's deposits, but there was no evidence at the 31 March 2011 that this was likely to crystallise.

No credit limits were exceeded during the reporting period and the County Council does not expect any losses from non-performance by any of its counterparties in relation to deposits.

The County Council does not generally allow credit for customers, such that £29.071m of the £60.296m balance is past its due date for payment.

### **Credit Risk – Icelandic Investments Disclosure**

Early in October 2008, the Icelandic banks Landsbanki, Kaupthing and Glitnir collapsed and the UK subsidiaries of the banks, Heritable and Kaupthing Singer and Friedlander went into administration. The County Council had £7m deposited across three of these institutions, with varying maturity dates and interest rates as follows:

Investments included in current assets figure in the Balance Sheet include the following investments that have been impaired because of the financial difficulties experienced by Icelandic Banks.

Bank	Date Invested	Maturity Date	Amount Invested (£)	Int. Rate (%)	Carrying Amount (£)	Impairment (£)
KSF	30/10/07	28/10/08	1,000,000	6.120	286,422	276,504
Landsbanki (1)	12/04/07	13/10/08	1,000,000	6.010	840,396	390,555
Landsbanki (2)	12/04/07	14/04/09	1,000,000	6.040	822,957	374,070
Glitnir Bank (1)	25/10/06	24/10/08	3,000,000	5.620	3,279,939	415,085
Glitnir Bank (2)	18/12/07	16/12/08	1,000,000	6.290	1,034,927	170,454
Total			7,000,000		6,264,641	1,626,668

All monies within these institutions are currently subject to the respective administration and receivership processes. The amounts and timing of payments to depositors such as the County Council will be determined by the administrators / receivers.

The current situation with regards to recovery of the sums deposited varies between each institution. Based on the latest information available the County Council considers that it is appropriate to consider an impairment adjustment for the deposits, and has taken the action outlined below. As the available information is not definitive as to the amounts and timings of future payments to be made by the administrators / receivers, it is likely that further adjustments will be made to the accounts in future years.

#### **Kaupthing Singer and Friedlander Ltd**

For Kaupthing Singer & Friedlander Ltd a total repayment of £0.530m was received (53%) to the end of 2010/11 and the revised impairment is based on the assumption that a further 29% will be received by the end of 2012/13, taking total dividends expected to be paid to 82%.

Therefore in calculating the impairment the County Council has made the following assumptions re timing of recoveries:

Date	Repayment
Received to date	53.00%
May 2011	5.00%
January 2012	8.00%
July 2012	8.00%
January 2013	8.00%

Recoveries are expressed as a percentage of the County Council's claim in the administration, which includes interest accrued up to 7 October 2008.

#### **Landsbanki**

Landsbanki Islands hf is an Icelandic entity. Following steps taken by the Icelandic Government in early October 2008 its domestic assets and liabilities were transferred to a new bank (new Landsbanki) with the management of the affairs of Old Landsbanki being placed in the hands of a resolution committee. The current position on estimated future payouts is as shown in the table below and this County Council has used these estimates to calculate the impairment based on recovering 94.85p in the £.

Date	Repayment
Received to date	0.00%
December 2011	22.17%
December 2012	8.87%
December 2013	8.87%
December 2014	8.87%
December 2015	8.87%
December 2016	8.87%
December 2017	8.87%
December 2018	19.46%

Recovery is subject to the following uncertainties and risks:

- ❖ Whilst the Icelandic courts have initially confirmed that deposits enjoy preferential creditor status, this is currently subject to appeal.
- ❖ The impact of exchange rate fluctuations on the value of assets recovered by the resolution committee and on the settlement of the County Council's claim, which may be denominated wholly or partly in currencies other than sterling.
- ❖ Settlement of the terms of a 'bond' which will allow creditors of old Landsbanki to enjoy rights in New Landsbanki.

Failure to secure preferential creditor status would have a significant impact upon the amount of the deposit that is recoverable. The total assets of the bank only equate to one third of its liabilities, assuming that the Bond remains at its current value. Based on initial estimates, if preferential creditor status is not achieved the recoverable amount may only be 33p in the £.

Recoveries are expressed as a percentage of the County Council's claim in the administration, which it is expected may validly include interest accrued up to 22 April 2009.

#### **Glitnir Bank hf**

Glitnir Bank hf is an Icelandic entity. Following steps taken by the Icelandic Government in early October 2008 its domestic assets and liabilities were transferred to a new bank (new Glitnir) with the management of the affairs of Old Glitnir being placed in the hands of a resolution committee. Old Glitnir's affairs are being administered under Icelandic law. This indicates that full recovery of the principal and interest to 22 April 2009 is likely to be achieved. Recovery is subject to the following uncertainties and risks:

- ❖ Whilst the Icelandic courts have initially confirmed that deposits enjoy preferential creditor status, this is currently subject to appeal.
- ❖ The impact of exchange rate fluctuations on the value of assets recovered by the resolution committee and on the settlement of the County Council's claim, which may be denominated wholly or partly in currencies other than sterling.
- ❖ Settlement of the terms of a 'bond' which will allow creditors of old Glitnir to enjoy rights in New Glitnir.

The County Council has therefore decided to recognise an impairment based on it recovering the full amount of principal and interest up to 22 April 2009 in the future. The impairment therefore reflects the loss of interest to the County Council until the funds are repaid.

Failure to secure preferential creditor status would have a significant impact upon the amount of the deposit that is recoverable. The total assets of the bank only equate to 40% of its liabilities, assuming that the Bond remains at its current estimated value. Based on initial estimates, if preferential creditor status is not achieved the recoverable amount may only be 40p in the £.

No information has been provided by the resolution committee about the timing of any payments to depositors. Since the value of deposits is small compared to the total asset value of the bank, in calculating the impairment the County Council has therefore followed the CIPFA Guidance that the repayment of priority deposits will be made by December 2011.

Recoveries are expressed as a percentage of the County Council's claim in the administration, which it is expected may validly include interest accrued up to 22 April 2009.

### Accounting for Impairment

The impairment (principal plus interest not received) recognised was adjusted through the Comprehensive Income and Expenditure Statement in 2010/11 by £27,352, calculated by discounting the assumed cash flows at the effective interest rate of the original deposits in order to recognise the anticipated loss of interest to the County Council until monies are recovered.

Adjustments to the assumptions will be made in future accounts as more information becomes available.

In previous years the County Council was able to transfer any impairment to the Financial Instruments Adjustment Account in order to defer the impact on General Fund. However, under regulations the County Council must transfer the balance on the Financial Instruments Adjustment Account (FIAA) to the General Fund no later than 31 March 2011. The following table shows sums charged to General Fund in 2010/11 to comply with these regulations.

Bank	Balance on FIAA at 31 March 2010 (£)	Interest credited during 2010/11 (£)	Change in Impairment 2010/11 (£)	Charged to General Fund 2010/11 (£)	Balance on FIAA at 31 March 11 (£)
KSF	336,542	-18,504	-170,267	147,771	Nil
Landsbanki	417,954	-97,992	16,685	336,647	Nil
Glitnir Bank	-265,678	-248,864	126,230	-338,312	Nil
<b>Total</b>	<b>488,818</b>	<b>-365,360</b>	<b>-27,352</b>	<b>146,106</b>	<b>Nil</b>

### Liquidity Risk

The County Council has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. If unexpected movements happen, the County Council has ready access to borrowings from the money markets and the Public Works Loans Board. There is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the County Council will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. The County Council sets limits on the proportion of its fixed rate borrowing during specified periods. The maturity analysis of financial liabilities is as follows:

31 March 2009 £000	31 March 2010 £000		31 March 2011 £000
8,589	9,955	Less than one year	2,159
9,955	1,870	Between one and two years	7,507
12,345	14,777	Between two and five years	8,216
17,325	17,106	Between five and ten years	31,468
18,854	49,504	Between ten and fifteen years	53,529
111,433	80,241	Between fifteen and twenty years	127,641
88,240	82,092	Between twenty and twenty five years	26,793
63,233	60,590	More than twenty five years	60,470
<u>329,974</u>	<u>316,135</u>	<b>Total</b>	<u>317,783</u>

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

### Refinancing and Maturity Risk

The County Council maintains a significant debt and investment portfolio. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer-term risk to the County Council relates to managing the exposure to replacing financial instruments as they mature. This risk relates to both the maturing of longer term financial liabilities and longer term financial assets.

The approved treasury indicator limits for the maturity structure of debt and the limits placed on investments placed for greater than one year in duration are the key parameters used to address this risk. The County Council approved treasury and investment strategies address the main risks and the central treasury team address the operational risks within the approved parameters. This includes:

- ❖ monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt; and
- ❖ monitoring the maturity profile of investments to ensure sufficient liquidity is available for the County Council's day to day cash flow needs, and the spread of longer term investments provide stability of maturities and returns in relation to the longer term cash flow needs.

The maturity analysis of financial liabilities is shown above.

### Market Risk

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

- ❖ borrowings at variable rates – the interest expense charged to the Surplus or Deficit on the Provision of Services will rise
- ❖ borrowings at fixed rates – the fair value of the liabilities borrowings will fall
- ❖ investments at variable rates – the interest income credited to the Surplus or Deficit on the Provision of Services will rise
- ❖ investments at fixed rates – the fair value of the assets will fall.

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund Balance. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in Other Comprehensive Income and Expenditure.

The County Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together County Council's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. From this Strategy a treasury indicator is set which provides maximum limits for fixed and variable interest rate exposure. The central treasury team monitor market and forecast interest rates within the year to adjust exposures appropriately. For instance during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns, similarly the drawing of longer term fixed rates borrowing would be postponed.

According to this assessment strategy, at 31 March 2011, if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

	£000
Increase in interest payable on variable rate borrowings	80
Increase in interest receivable on variable rate investments	1,526
Decrease in fair value of fixed rate borrowing	39,273

The decrease in fair value of fixed rate borrowings of £39.273m would not impact on the Surplus or Deficit on the Provision of Services or other Comprehensive Income and Expenditure

The impact of a 1% fall interest is estimated to be less than the figures above due to the low level of interest rates earned on the County Council's short term investments, since the average interest rate on investments was below 1% in 2010/11.

### Price Risk

The County Council does not generally invest in equity shares or marketable bonds.

### Foreign Exchange Risk

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



## 50. Exceptional Items

The change from Retail Price Index Inflation (RPI) to Consumer Price Index Inflation (CPI) was announced by the Chancellor of the Exchequer in his budget of the 22 June 2010:

*"The Government will use the CPI for the price indexation of benefits and tax credits from April 2011. The CPI provides a more appropriate measure of benefit and pension recipients' inflation experiences than RPI, because it excludes the majority of housing costs faced by homeowners (low income households are subsidised separately through Housing Benefit, and the majority of pensioners own their home outright) and differences in calculation mean it may be considered a better representation of the way consumers change their consumption patterns in response to price changes. This will also ensure consistency with the measure of inflation used by the Bank of England. This change will also apply to public service pensions through the statutory link to the indexation of the Second State Pension. The Government is also reviewing how the CPI can be used for the indexation of taxes and duties while protecting revenues."*

The change from RPI to CPI as the basis for future revaluation and pension increases has a significant impact on the actuarial present value of the promised retirement benefits. It has had a significant impact on the value of past service costs calculated under IAS19 resulting in a negative past service cost of £212.27m compared to a positive £14.510m in 2009/10.

The "Stock Valuation for Resource Accounting – Guidance for Valuers" guidance issued by CLG in January 2011 materially changed the adjustment factors to be applied to the valuation of housing stock. This has reduced the value of housing stock in 2010/11 by £107m from the value on 1st April 2010.

## 51. Prior Period Adjustments (PPAs)

Following Local Government Reorganisation on 1 April 2009, a number of unrecognised assets from the former District Councils were not included in the new County Council's Balance Sheet. During 2010-11 these "previously unrecognised" assets have now been included in the Statement of Accounts of Durham County Council. As the County Council has owned these assets since 1 April 2009, a prior period adjustment has been made to the accounts. The value of these assets is £44.771m.

As a result of recognising these assets, the balance sheet and Notes 13 and 24 to the accounts have been amended.



## Durham County Council Group Financial Statements

The financial statements and notes to those financial statements on pages 35 to 109 inclusive consider the County Council only as a single entity, accounting for its interests in other organisations as investments on its Balance Sheet and any dividends received from those investments reported within its Income and Expenditure Account.

Durham County Council chooses to conduct some of its activities through a variety of undertakings, either under the ultimate control of the Council or in partnership with other organisations. As a consequence, a full understanding of the Council's economic activities, financial position, service position, accountability for resources and exposure to risk is not presented in the Council's single entity financial statements. For this reason Group Financial Statements are used to provide an understanding of the Council's activities as a group.

The following pages include:

- ❖ Group Movement in Reserves Statement
- ❖ Group Comprehensive Income and Expenditure Statement
- ❖ Group Balance Sheet
- ❖ Group Cash Flow Statement
- ❖ Notes to the Group Financial Statements
- ❖ Group Financial Statements Accounting Policies

The general principles adopted in preparing the Group Financial Statements follow the "Code of Practice on Local Authority Accounting in the United Kingdom 2010/11" (the Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

### Durham County Council Group

The inclusion of a related entity within the Durham County Council Group Financial Statements is dependent upon the interest and level of control that that Council has with each individual entity along with the materiality and effect inclusion has on the users of the financial statements. The Council has carried out a review of all such entities and has made the following classifications:

**Subsidiary** – where the Council exercises control, or has the ability to exercise control, and as a result of that control can benefit from gains of the entity and be exposed to the risks of the entity.

The income, expenditure, assets and liabilities of these entities are included within the Group Financial Statements with any intra Group transactions and balances being eliminated when preparing the Group Financial Statements.

**Simple Investment** – where the Council holds neither a controlling nor influencing interest in the organisation.

These entities are, therefore, only included in the Group Financial Statements as a long term investment in the Group Balance Sheet with any income arising from that entity being reported within the Group Income and Expenditure Account.

**No Group Relationship** – where the interest is not a legal entity or the Council has an insufficient interest in the entity to justify inclusion in the Group Financial Statements.

These entities are where appropriate only included in the Group Financial Statements as an investment in the Group Balance Sheet with any income arising from that entity being reported within the Group Income and Expenditure Account.

As part of carrying out its review of its current or future interests in entities the Council identified two other classifications that, although not being currently relevant, may become relevant in subsequent years.

**Associates** – where the Council exercises, or could exercise, significant influence and has a participating interest in the gains and risks of the entity.

**Jointly Controlled Entities** – where the Council exercises joint control with one or more organisations.

Associates and Jointly Controlled Entities Ventures would be included in the Group Financial Statements by including the Council's share of the entities' net operating results in the Group Income and Expenditure Account and the value of the investments in these entities being adjusted on the Group Balance Sheet for the Council's share of the entities' net operating results to date.

The following gives details of the entities included in the Group Financial Statements analysed between the above classifications:

**Subsidiaries:**

**Durham County Waste Management Company Limited**

The County Council's waste disposal assets and liabilities were formally vested in Durham County Waste Management Company Limited in 1993. The Company is a 'Local Authority Waste Disposal Company' and was created under the Environmental Protection Act 1990. The principal activity of the Company is that of waste disposal. The County Council owns 84% of the issued share capital with Darlington Borough Council owning the remaining 16%. The Company's net assets at 31 March 2011 were £2.52m (31 March 2010: £5.59m) and the loss for the year amounted to £5.079m (31 March 2010: profit £0.220m).

It should be noted that the Company's accounts have yet to be finalised and therefore the figures used for the preparation of the Group Financial Statements are still subject to audit. Copies of the Company's accounts can be obtained from the Registered Office at County Hall, Durham, DH1 5UT.

**County Durham Development Company Limited**

The Company was established in 1986 to promote, encourage and secure the economic development of the County. It is wholly owned by the County Council and limited by guarantee. The County Council will continue to support the Company in order that its liabilities are met as they fall due. The Company's net assets at 31 March 2011 were £1.494m (31 March 2010: £1.482m) and the profit for the year amounted to £0.012m (31 March 2010: £0.268m).

It should be noted that the Company's accounts have yet to be finalised and therefore the figures used for the preparation of the Group Financial Statements are still subject to audit. Copies of the Company's accounts can be obtained from the Registered Office at County Hall, Durham, DH1 5UT.

**East Durham Homes Limited**

East Durham Homes Limited was created as an Arms Length Management Organisation in April 2004 to carry out the housing management and maintenance functions on behalf of the authority. The Board of East Durham Homes Limited has a total of 15 members of which 5 are also members of the Durham County Council. The net liability of the company at 31 March 2011 is £11.479m (31 March 2010: £17.549m) and surplus for the year to 31 March 2011 was £2.880m (31 March 2010: £0.210m).

It should be noted that the Company's accounts have yet to be finalised and therefore the figures used for the preparation of the Group Financial Statements are still subject to audit. Copies of the Company's accounts can be obtained from the Registered Office at County Hall, Durham, DH1 5UT.

**Dale & Valley Homes Limited**

Dale & Valley Homes Limited was established as an Arms Length Management Organisation by Wear Valley District Council on 1st April 2006 to carry out the management and maintenance of council houses. The Board of Dale & Valley Homes Limited has a total of 15 members of which 5 are members from the Council. The net liability of the company at 31 March 2011 is £1.867m (31 March 2010: £1.308m) and surplus for the year to 31 March 2011 was £0.661m (31 March 2010: deficit £0.080m).

It should be noted that the Company's accounts have yet to be finalised and therefore the figures used for the preparation of the Group Financial Statements are still subject to audit. Copies of the Company's accounts can be obtained from the Registered Office at County Hall, Durham, DH1 5UT.

**Central Durham Crematorium**

Central Durham Crematorium was built in 1960 and is run by the Central Durham Crematorium Joint Committee. The Central Durham Crematorium Joint Committee 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. It also has a responsibility 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.

This Committee was jointly established by the City of Durham Council and Spennymoor Town Council.

Following Local Government Reorganisation, as successor to the City of Durham Council, Durham County Council acts as the lead authority. In discharging this overall responsibility, the Central Durham Crematorium Joint Committee is also responsible for putting in place proper arrangements for the governance of its affairs and for ensuring that there is a sound system of internal control which facilitates the effective exercise of its functions and which includes arrangements for the management of risk. The net assets of the Crematorium at 31 March 2011 are £1.957m (31 March 2010: £1.673m).

**Movement in Reserves Statement**

This statement shows the movement in the year on the different reserves held by the County Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the County Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for Council Tax setting and dwellings rent setting purposes. The Net Increase /Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves undertaken by the County Council.

2010/11:

	General Fund Balance £000	Earmarked General Fund Reserves £000	Housing Revenue Account £000	Earmarked HRA Reserves £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Unusable Reserves £000	Total Authority Reserves £000	Authority's Share of Reserves of Subsidiaries £000	Total Reserves attributable to Council £000
<b>Balance at 1 April 2010 brought forward (restated)</b>	26,977	95,140	8,511	-	23,613	1,200	749,136	<b>904,577</b>	-12,498	<b>892,079</b>
<b>Movement in Reserves during 2010-11</b>										
Surplus or deficit on provision of services	103,358	-	-106,130	-	-	-	-	<b>-2,772</b>	-28,749	<b>-31,521</b>
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	-16,549	<b>-16,549</b>	3,657	<b>-12,892</b>
<b>Total Comprehensive Income and Expenditure</b>	<b>103,358</b>	<b>-</b>	<b>-106,130</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-16,549</b>	<b>-19,321</b>	<b>-25,092</b>	<b>-44,413</b>
Adjustments between Group Accounts and authority accounts	-28,263	-	-	-	-	-	-	<b>-28,263</b>	28,263	-
<b>Net Increase/Decrease before Transfers</b>	<b>75,095</b>	<b>-</b>	<b>-106,130</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-16,549</b>	<b>-47,584</b>	<b>3,171</b>	<b>-44,413</b>
Adjustments between accounting basis and funding basis under regulations	-88,917	-	108,509	-	-22,407	-1,200	4,016	<b>1</b>	-	<b>1</b>
<b>Net Increase/Decrease before Transfers to Earmarked Reserves</b>	<b>-13,822</b>	<b>-</b>	<b>2,379</b>	<b>-</b>	<b>-22,407</b>	<b>-1,200</b>	<b>-12,533</b>	<b>-47,583</b>	<b>3,171</b>	<b>-44,412</b>
Transfers to/from Earmarked Reserves	4,165	-4,165	-3,202	3,202	-	-	-	-	-	-
<b>Increase/Decrease in Year</b>	<b>-9,657</b>	<b>-4,165</b>	<b>-823</b>	<b>3,202</b>	<b>-22,407</b>	<b>-1,200</b>	<b>-12,533</b>	<b>-47,583</b>	<b>3,171</b>	<b>-44,412</b>
<b>Balance at 31 March 2011 carried forward</b>	<b>17,320</b>	<b>90,975</b>	<b>7,688</b>	<b>3,202</b>	<b>1,206</b>	<b>-</b>	<b>736,603</b>	<b>856,994</b>	<b>-9,327</b>	<b>847,667</b>

2009/10:

	General Fund Balance £000	Earmarked General Fund Reserves £000	Housing Revenue Account £000	Earmarked HRA Reserves £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Unusable Reserves £000	Total Authority Reserves £000	Authority's Share of Reserves of Subsidiaries £000	Total Reserves attributable to Council £000
<b>Balance at 1 April 2009 brought forward (restated)</b>	42,372	89,615	6,997	-	37,349	1,888	1,067,004	<b>1,245,225</b>	-7,209	<b>1,238,016</b>
<b>Movement in Reserves during 2009-10</b>										
Surplus or deficit on provision of services	-65,675	-	-5,797	-	-	-	-	<b>-71,472</b>	-33,700	<b>-105,172</b>
Other Comprehensive Income and Expenditure	-1,033	-	-	-	-	-	-234,099	<b>-235,132</b>	-5,634	<b>-240,766</b>
<b>Total Comprehensive Income and Expenditure</b>	<b>-66,708</b>	<b>-</b>	<b>-5,797</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-234,099</b>	<b>-306,604</b>	<b>-39,334</b>	<b>-345,938</b>
Adjustments between Group Accounts and authority accounts	-34,044	-	-	-	-	-	-	<b>-34,044</b>	34,044	-
<b>Net Increase/Decrease before Transfers</b>	<b>-100,752</b>	<b>-</b>	<b>-5,797</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-234,099</b>	<b>-340,648</b>	<b>-5,290</b>	<b>-345,938</b>
Adjustments between accounting basis and funding basis under regulations	90,881	-	7,311	-	-13,735	-688	-83,769	-	-	-
<b>Net Increase/Decrease before Transfers to Earmarked Reserves</b>	<b>-9,871</b>	<b>-</b>	<b>1,514</b>	<b>-</b>	<b>-13,735</b>	<b>-688</b>	<b>-317,868</b>	<b>-340,648</b>	<b>-5,290</b>	<b>-345,938</b>
Transfers to/from Earmarked Reserves	-5,524	5,524	-	-	-	-	-	-	-	-
<b>Increase/Decrease in Year</b>	<b>-15,395</b>	<b>5,524</b>	<b>1,514</b>	<b>-</b>	<b>-13,735</b>	<b>-688</b>	<b>-317,868</b>	<b>-340,648</b>	<b>-5,290</b>	<b>-345,938</b>
<b>Balance at 31 March 2010 carried forward</b>	<b>26,977</b>	<b>95,139</b>	<b>8,511</b>	<b>-</b>	<b>23,614</b>	<b>1,200</b>	<b>749,136</b>	<b>904,577</b>	<b>-12,499</b>	<b>892,078</b>

**Reconciliation of Movement in Reserves Statement to Balance Sheet**

31 March 2009 £000	31 March 2010 £000		31 March 2011 £000
1,233,533	887,595	Total Reserves in the Movement in Reserves Statement	847,667
1,363	1,229	Minority interests' share of reserves of subsidiaries	794
<b>1,234,896</b>	<b>888,824</b>	<b>Total Reserves in the Balance Sheet</b>	<b>848,461</b>

**Group Comprehensive Income and Expenditure Statement**

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

2009-10				2010-11		
Gross Expenditure £000	Gross Income £000	Net Expenditure £000		Gross Expenditure £000	Gross Income £000	Net Expenditure £000
572,238	431,861	140,377	Children's and Education Services	604,499	460,269	144,230
213,705	51,176	162,529	Adult Social Care	222,542	54,737	167,805
63,822	2,857	60,965	Highways and Transportation	59,801	10,918	48,883
59,971	21,323	38,648	Planning and Development	80,320	22,040	58,280
63,548	18,938	44,610	Cultural and Related Services	76,363	17,085	59,278
82,047	29,347	52,700	Environmental Services	92,912	34,051	58,861
836	-	836	Courts and Probation	1,334	361	973
			Central Services			-
10,168	2,429	7,739	Corporate and Democratic Core	10,897	1,029	9,868
61,234	54,544	6,690	Central Services to the Public	69,526	56,544	12,982
14,510	-	14,510	Non Distributed Costs	-211,079	-	-211,079
81,586	81,589	-3	Local Authority Housing (HRA)	176,283	77,479	98,804
			Other Housing Services (including Supporting People)	181,692	155,847	25,845
161,222	153,341	7,881	Other Services	30	-	30
15,628	18,484	-2,856	Local Government Reorganisation	655	-	655
7,452	-	7,452				
<b>1,407,967</b>	<b>865,889</b>	<b>542,078</b>	<b>Cost of Services</b>	<b>1,365,775</b>	<b>890,360</b>	<b>475,415</b>
10,187	18	10,169	Other Operating Expenditure	71,089	-	71,089
89,129	16,472	72,657	Financing and Investment Income and Expenditure	56,145	10,267	45,878
562	520,500	-519,938	Taxation and Non Specific Grant Income	959	559,704	-558,745
		104,966	<b>Surplus or Deficit on Provision of Services</b>			33,637
		126	Tax Expenses of Subsidiaries			-1,360
		105,092	<b>Group (Surplus)/Deficit</b>			32,277
		-28,254	Surplus or deficit on revaluation of PPE assets			59,498
		579	Surplus or deficit on revaluation of available for sale financial assets			249
		267,420	Actuarial gains/losses on pension assets/liabilities			-46,588
		200	Difference between actuary's estimate and actual employer's pension contributions			-588
		1,033	Movement in General Fund Balance due to harmonisation as a result of LGR			-
		240,978	<b>Other Comprehensive Income and Expenditure</b>			12,571
		<b>346,070</b>	<b>Total Comprehensive Income and Expenditure</b>			<b>44,848</b>

**Analysis of Minority Interest Shares in the Group Comprehensive Income and Expenditure Statement**

2009-10				2010-11		
Authority £000	Minority Interest £000	Total £000		Authority £000	Minority Interest £000	Total £000
105,172	-80	105,092	Surplus or Deficit on the Provision of Services	31,521	756	32,277
240,764	214	240,978	Other Comprehensive Income and Expenditure	12,892	-321	12,571
<b>345,936</b>	<b>134</b>	<b>346,070</b>	<b>Total Comprehensive Income and Expenditure</b>	<b>44,413</b>	<b>435</b>	<b>44,848</b>

**Group Balance Sheet**

The Group Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the County Council. The net assets of the County Council (assets less liabilities) are matched by the reserves held by the County Council. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the County Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt).

The second category of reserves is those that the County Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

1 April 2009 (restated) £000	31 March 2010 (restated) £000		Notes	31 March 2011 £000
2,155,664	2,169,986	Property, Plant & Equipment	6	1,962,315
6,426	6,426	Investment Property	6	6,211
4,878	3,682	Intangible Assets	5	2,972
-	-	- Assets Held for Sale		-
3,737	7,066	Long Term Investments		2,152
6,597	6,676	Long Term Debtors		5,210
<b>2,177,302</b>	<b>2,193,836</b>	<b>Long Term Assets</b>		<b>1,978,860</b>
182,259	133,471	Short Term Investments		79,009
-	-	- Assets Held for Sale		-
4,368	4,413	Inventories		3,900
72,440	58,289	Short Term Debtors	7	88,023
37,794	136,018	Cash and Cash Equivalents		74,304
<b>296,861</b>	<b>332,191</b>	<b>Current Assets</b>		<b>245,236</b>
-8,387	-101,225	Cash and Cash Equivalents		-14,006
-9,948	-13,448	Short Term Borrowing		-5,344
-164,946	-128,120	Short Term Creditors	8	-151,488
-	-	- Provisions		-18,024
-	-	- Liabilities in Disposal Groups		-
<b>-183,281</b>	<b>-242,793</b>	<b>Current Liabilities</b>		<b>-188,862</b>
-29	-	- Long Term Creditors		-148
-28,149	-26,776	Provisions		-17,885
-316,750	-306,832	Long Term Borrowing		-315,631
-693,031	-1,005,233	Other Long Term Liabilities		-795,250
-	-	- Donated Assets Account		-
-13,544	-51,085	Capital Grants Receipts in Advance		-57,861
<b>-1,051,503</b>	<b>-1,389,926</b>	<b>Long Term Liabilities</b>		<b>-1,186,775</b>
<b>1,239,379</b>	<b>893,308</b>	<b>Net Assets</b>		<b>848,459</b>
186,047	163,945	Usable Reserves		126,758
1,053,332	729,363	Unusable Reserves		721,701
<b>1,239,379</b>	<b>893,308</b>	<b>Total Reserves</b>		<b>848,459</b>

**Group Cash Flow Statement**

The Group Cash Flow Statement shows the changes in cash and cash equivalents of the County Council during the reporting period. The statement shows how the County Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the County Council are funded by way of taxation and grant income or from the recipients of services provided by the County Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the County Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the County Council.

<b>2009-10</b>		<b>2010-11</b>
<b>£000</b>		<b>£000</b>
105,092	Net (surplus) or deficit on the provision of services	32,277
-95,768	Adjustments to net surplus or deficit on the provisions of services for non-cash movements	-64,567
6,836	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	6,372
16,160	Net Cash flows from Operating Activities (Note 10)	-25,918
-22,983	Investing Activities (Note 11)	-269
1,406	Financing Activities (Note 12)	260
31	Taxation	422
-5,386	Net increase or decrease in cash and cash equivalents	-25,505
29,407	Cash and cash equivalents at the beginning of the reporting period	34,793
34,793	Cash and cash equivalents at the end of the reporting period	60,298



## Notes to the Group Financial Statements

### 1. Accounting policies

#### General Principles

The Group Financial Statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 and the Best Value Accounting Code of Practice 2010/11, supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

Where group entities have not yet adopted IFRS, an exercise has been performed to assess whether the adoption of IFRS would have resulted in a material change to the financial statements. In all cases, no material changes were found and therefore no changes have been made to the Group Financial Statements as a result of IFRS.

Disclosure notes have not been included in the group accounts where they are not materially different from those included within the single entity accounts.

#### Basis of consolidation

The Group Financial Statements include the accounts of the authority and its subsidiary undertakings. All intercompany transactions are eliminated, as are any intercompany profits or losses.

The accounting policies applied by each of the entities within their respective Financial Statements are consistent with those applied by the Council in preparing its entity Statement of Accounts. Consequently the accounting policies adopted by the Council apply to the Group Financial Statements.

The following sets out policies applied by entities within the Group which are not covered by the accounting policies detailed in the Council's entity Statement of Accounts:

#### 1. Intangible assets

Goodwill has been capitalised and is amortised so as to write off the cost to the profit and loss account in equal annual instalments over a period of 20 years.

#### 2. Property, Plant and Equipment

Durham County Council land and buildings are valued on the basis recommended by CIPFA and in accordance with the Statements of Asset Valuation Principles and Guidance Notes issued by the Royal Institute of Chartered Surveyors. The land and buildings of the subsidiary, Durham County Waste Management Company Limited are stated at historic cost less accumulated depreciation.

The subsidiary, Durham County Waste Management Company Limited, has site development costs which are written off over the expected useful life of the site or, in the case of landfill sites, in proportion to the void space used.

#### 3. Site restoration and aftercare

Provision has been made for site restoration and aftercare costs likely to be incurred in the foreseeable future on sites filled or partially filled at the year end. Full provision is made for the costs, discounted at an appropriate cost of capital. The unwinding of the discount is charged on an annual basis to interest payable in the Income and Expenditure Account. The asset arising, representing part of the cost of the sites, has been included in non-current assets and is being amortised as the site volumes are depleted.

#### 4. Pension costs

The subsidiary, County Durham Development Company Limited, pension contributions are payable at a defined contribution rate into a scheme of the employee's choice. The company charges pension contributions to the profit and loss account in the period in respect of which they become payable.

#### 5. Deferred taxation

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the Balance Sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred taxation is measured on a non-discounted basis at the tax rates that are expected to apply in the period in which timing differences reverse, based on taxation rates and laws enacted at the balance sheet date.

## 2. Minority Interest

The minority interest relates to the 16% shareholding in Durham County Waste Management Company Limited held by Darlington Borough Council and the 20% holding in Central Durham Crematorium held by Spennymoor Town Council.

## 3. Adjustment between Group Accounts and Authority Accounts in the Group Movement in Reserves Statement

2010-11:

	General Fund Balance £000	Earmarked General Fund Reserves £000	Housing Revenue Account £000	Earmarked HRA Reserves £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Unusable Reserves £000	Total Authority Reserves £000	Authority's Share of Reserves of Subsidiaries £000	Total Reserves £000
Purchase of goods and services from subsidiaries	-32,639	-	-	-	-	-	-	-32,639	32,639	-
Sale of goods and services from subsidiaries	4,376	-	-	-	-	-	-	4,376	-4,376	-
<b>Total adjustments between Group Accounts and authority accounts</b>	<b>-28,263</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-28,263</b>	<b>28,263</b>	<b>-</b>

2009/10:

	General Fund Balance £000	Earmarked General Fund Reserves £000	Housing Revenue Account £000	Earmarked HRA Reserves £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Unusable Reserves £000	Total Authority Reserves £000	Authority's Share of Reserves of Subsidiaries £000	Total Reserves £000
Purchase of goods and services from subsidiaries	-39,196	-	-	-	-	-	-	-39,196	39,196	-
Sale of goods and services from subsidiaries	5,152	-	-	-	-	-	-	5,152	-5,152	-
<b>Total adjustments between Group Accounts and authority accounts</b>	<b>-34,044</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-34,044</b>	<b>34,044</b>	<b>-</b>

## 4. Financing and investment income

2009-10 £000	2010-11 £000
18,004 Interest payable and similar charges	16,439
58,140 Pensions interest cost and expected return on pensions assets	31,050
-5,450 Interest receivable and similar income	-2,443
45 Income and expenditure in relation to investment properties and changes in their fair value	-27
1,918 Other investment income	859
<b>72,657 Total</b>	<b>45,878</b>

## 5. Intangible Assets

2009-10 £000	2010-11 £000
<b>Balance at start of year:</b>	
10,596 Gross carrying amounts	10,864
-5,718 Accumulated amortisation	-7,183
<b>4,878 Net carrying amount at start of year</b>	<b>3,681</b>
Additions:	
269 Purchases	800
- Disposals	-1,505
- Impairment losses recognised in the Surplus/Deficit on the Provision of Services	-93
-1,465 Amortisation for the period	-1,230
- Amortisation written out on disposal	1,319
<b>3,682 Net carrying amount at end of year</b>	<b>2,972</b>
<b>Comprising</b>	
10,865 Gross carrying amounts	10,066
-7,183 Accumulated amortisation	-7,094
<b>3,682</b>	<b>2,972</b>

## 6. Property Plant and Equipment

### Comparative Movement in 2009-10

	Operational								Non Operational		Total Operational & Non Operational Assets
	Council Dwellings	Land & Buildings at valuation	Land & Buildings at Historic Cost	Site Development	Vehicles, Plant, Furniture and Equipment	Infrastructure Assets	Community Assets	Restoration & aftercare costs	Surplus assets held for disposal	Assets under construction	
Cost or Valuation	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
At 1 April 2009 (restated)	629,053	1,165,612	5,702	9,314	91,046	323,713	2,965	13,237	98,112	38,075	2,376,829
Additions	27,027	35,173	1,424	1,633	15,347	16,525	379	0	0	15,479	112,987
Revaluation increases/(decreases)	17,179	-115,744	0	0	0	0	2	0	273	0	-98,290
Derecognition - disposals	-1,061	-7,816	0	0	-3,297	0	-5	0	-1,703	0	-13,882
Derecognition - other	0	-483	0	0	0	0	0	0	0	0	-483
Other movements in cost or valuation	-1,605	36,483	0	0	649	0	2,474	-1,306	313	-38,314	-1,306
<b>At 31 March 2010</b>	<b>670,593</b>	<b>1,113,225</b>	<b>7,126</b>	<b>10,947</b>	<b>103,745</b>	<b>340,238</b>	<b>5,815</b>	<b>11,931</b>	<b>96,995</b>	<b>15,240</b>	<b>2,375,855</b>
<b>Accumulated Depreciation and Impairment</b>											
At 1 April 2009 (restated)	-6,899	-78,581	-2,484	-4,978	-57,452	-49,718	-236	-8,746	-12,068	0	-221,162
Depreciation charge	-11,802	-34,408	-98	-1,657	-10,331	-8,308	-1	-368	-162	0	-67,135
Depreciation written out	18,397	59,066	0	0	0	0	0	1,013	6	0	78,482
Impairment written out	-827	-13,891	0	0	0	0	0	0	0	0	-14,718
Derecognition - disposals	783	14,942	0	0	2,933	0	0	0	6	0	18,664
Other movements in depreciation and impairment	107	-132	0	0	0	0	35	0	-10	0	0
<b>At 31 March 2010</b>	<b>-241</b>	<b>-53,004</b>	<b>-2,582</b>	<b>-6,635</b>	<b>-64,850</b>	<b>-58,026</b>	<b>-202</b>	<b>-8,101</b>	<b>-12,228</b>	<b>0</b>	<b>-205,869</b>
<b>Net Book Value</b>											
At 31 March 2010 (restated)	670,352	1,060,221	4,544	4,312	38,895	282,212	5,613	3,830	84,767	15,240	2,169,986
At 31 March 2009 (restated)	622,154	1,087,031	3,218	4,336	33,594	273,995	2,729	4,491	86,044	38,075	2,155,667

## 7. Debtors

2009-10 £000		2010-11 £000
31,811	Central government bodies	25,113
4,235	Other local authorities	2,335
4,304	NHS bodies	4,813
-	- Public corporations and trading funds	328
46,063	Other entities and individuals	60,296
-21,096	Other Group Companies	4,605
-10,901	Less: Bad debt provision	-12,067
54,416		85,423
3,873	Payments in advance	2,600
58,289	<b>Total</b>	88,023

The above figures are shown after the removal of inter-company debts. These totalled £57.911m in 2009/10 and £4.954m in 2010/11.

## 8. Creditors

2009-10 £000		2010-11 £000
-30,223	Central government bodies	-29,331
-398	Other local authorities	-342
-1,891	NHS bodies	-3,986
-	- Public corporations and trading funds	-
-96,114	Other entities and individuals	-96,768
17,812	Other Group Companies	-8,833
-110,814		-139,260
-17,306	Receipts in Advance	-12,228
-128,120	<b>Total creditors</b>	-151,488

The above figures are shown after the removal of inter-company creditors. These totalled £57.772m in 2009/10 and £4.710m in 2010/11.

## 9. Contingent Liabilities

Note 46 to the Durham County Council entity Statement of Accounts gives details of contingent liabilities relating to the single entity.

## 10. Cash Flow – Operating Activities

2009-10 £000		2010-11 £000
624,835	Employee Costs	642,025
209,269	Rent allowances and council tax benefit	218,013
-207,005	Council Tax income	-211,819
-279,925	Dedicated Schools Grant	-287,682
-196,366	Benefits Grants	-210,091
-182,127	Redistributed NNDR	-202,008
-248,820	Other Government Grants	-242,123
18,784	Interest paid	16,394
5,182	Interest receivable	-8,610
-	- Dividends received	-

11. Cash Flow – Investing Activities

2009-10 £000		2010-11 £000
123,223	Purchase of property, plant and equipment, investment property and intangible assets	156,237
1,355,659	Purchase of short-term and long-term investments	789,881
-	- Other payments for investing activities	-
-6,861	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	-6,381
-1,399,927	Proceeds from short-term and long-term investments	-849,024
-95,077	Other receipts from investing activities	-90,982
-22,983	<b>Net cash flows from investing activities</b>	-269

12. Cash Flow – Financing Activities

2009-10 £000		2010-11 £000
-	- Cash receipts of short-term and long-term borrowing	-11,156
-8,003	Other receipts from financing activities	-1,244
751	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	2,552
8,598	Repayments of short-term and long-term borrowing	10,108
60	Other payments for financing activities	-
1,406	<b>Net cash flows from financing activities</b>	260

## The Housing Revenue Account

The Housing Revenue Account is a record of revenue income and expenditure relating to the County Council's housing stock. Its primary purpose is to ensure that expenditure on managing tenancies and maintaining dwellings is funded by rents charged to tenants. Consequently the HRA is a statutory account, ring-fenced from the rest of the General Fund, so that rents cannot be subsidised from Council Tax. The statement has two parts:

1. HRA Income and Expenditure Statement, and
2. Movement on the HRA Statement.

Notes to the HRA follow these two statements.

### HRA Income and Expenditure Statement

2009-10 £000		Notes	2010-11 £000
	Income		
-52,476	Dwelling Rents (Net of voids)	6	-53,425
-818	Non Dwelling Rents (Net of voids)		-851
-1,240	Charges for Services and Facilities		-101
-43	Contributions towards Expenditure		-344
-54,577	Total Income		-54,721
	Expenditure		
15,664	Repairs and Maintenance	8	12,819
12,730	Supervision and Management	8	9,846
12	Rent, Rates, Taxes and Other Charges	9	65
2,765	Negative HRA Subsidy Payable	5	3,184
163	Debt Management Costs		113
21,457	Depreciation and Impairment of Non-Current Assets	10 & 11	130,061
911	Movement in the Allowance for Bad Debts	7	303
53,702	Total Expenditure		156,391
-875	Net Cost of HRA Services per Authority Income and Expenditure Statement		101,670
1,590	HRA Services Share of Corporate and Democratic Core		1,085
713	HRA Share of Other Amounts Included in the Whole Authority Net Cost of Services but Not Allocated to Specific Services		402
1,428	Net Cost of HRA Services		103,157
-1,205	Gain (-) or Loss on Sale of HRA Non-Current Assets		849
5,653	Interest Payable and Similar Charges		5,845
-79	Interest and Investment Income		-69
-	Capital Grants & Contributions Receivable		-3,652
5,797	Deficit for the Year on HRA Services		106,130

### Movement on the HRA Statement

This statement takes the outturn on the HRA Income and Expenditure Statement and reconciles it to the surplus or deficit on the HRA Balance, calculated in accordance with the Local Government and Housing Act 1989.

2009-10 £000		2010-11 £000	£000
6,997	Balance on the HRA at the end of the previous year		8,511
-5,797	Deficit for the year on the HRA Income and Expenditure Statement	-106,130	
7,311	Adjustments between accounting basis and funding basis under statute	108,509	
1,514	Net Increase before transfer to or from reserves	2,379	
-	Transfers to (-) or from reserves	-3,202	
1,514	Increase or decrease (-) in the year on the HRA	-823	
8,511	<b>Balance on the HRA at the end of the current year</b>	7,688	

**Note to the Movement on the HRA Statement****1. Analysis of Movement of the HRA Statement**

This note further analyses the Movement on the HRA Statement and shows the adjustments between accounting basis and funding basis under regulations.

2009-10 £000	2010-11 £000
-9,695 Difference between any other item of income and expenditure determined in accordance with the Code and determined in accordance with statutory HRA requirements (if any)	-114,465
1,205 Gain or (loss) on sale of HRA Non-Current Assets	-849
-633 Net charges made for retirement benefits in accordance with IAS 19	4,925
419 Employer's contributions payable to the Pension Fund and retirement benefits payable direct to pensioners	539
1,393 Capital expenditure funded by the HRA	1,341
<b>-7,311 Adjustments between accounting basis and funding basis under statute</b>	<b>-108,509</b>

**Notes to HRA Income and Expenditure Account****1. Housing Stock**

The County Council was responsible for managing an average of 18,891 dwellings during 2010/11. The following table shows the movements in stock numbers at the beginning and end of the year:-

Movements in the Year	Houses	Flats	Bungalows	Total
Stock at 1 <sup>st</sup> April, 2010	11,490	1,968	5,471	18,929
Add:				
Additions	28	1	1	30
Less:				
Sales	32	2	2	36
Demolitions	33	25	-	58
Other Disposals	10	-	1	11
Stock at 31 March, 2011	11,443	1,942	5,469	18,854

The housing stock is managed on a day to day basis by three separate providers consisting of two Arms Length Management Organisations (ALMO's) – Dale and Valley Homes (4,245 dwellings) and East Durham Homes (8,503 dwellings), and one in-house provider – Durham City Homes (6,106 dwellings). This reflects the management arrangements that were in place in the former district authorities of Wear Valley, Easington and Durham City prior to local government reorganisation which the new Unitary Authority has now inherited.

## 2. Housing Assets Valuation

The total Balance Sheet value of the land, houses and other property within the Housing Revenue Account was as follows:

Valuation at 1 April 2010 £000	Asset Type	Valuation at 31 March 2011 £000
665,420	Operational Assets Dwellings	494,655
4,933	Garages	4,882
670,353	Total Dwellings including Garages	499,537
25,803	<b>Other Land and Buildings</b>	34,111
5,878	<b>Non-Operational Assets</b>	6,472
702,034	<b>Balance Sheet Valuation</b>	540,120

The Vacant Possession value of the dwellings held in the Housing Revenue Account as at 1 April 2010 was £1,326.23m. The valuation of the dwellings in the Balance Sheet (as shown in the table above) is on the basis of Existing Use as Social Housing with secure tenancies. The difference between the Balance Sheet valuation and the higher valuation on the basis of Vacant Possession shows the economic cost of providing council housing at less than open market rents.

## 3. Capital Expenditure and Financing

The County Council spent £37.862m during 2010/11 on its HRA Assets as shown below: -

2009-10 £000	Expenditure	2010-11 £000
27,328	Improvements to Council Housing	37,862
27,328	<b>Total Expenditure</b>	37,862

This expenditure was financed as follows:

2009-10 £000	Financing	2010-11 £000
11,762	Majors Repairs Allowance	11,944
-	Capital Receipts	1,375
13,471	Supported Borrowing	16,548
-	Prudential Borrowing HCA New Build	1,802
15	Capital Grants	3,652
1,393	Revenue Contributions	1,341
687	Reserves and Balances	1,200
27,328	<b>Total Financing</b>	37,862

## 4. Capital Receipts

During 2010/11 the County Council generated £2.663m gross capital receipts from the sale of its Housing assets as shown in the following table:

2009-10 £000	Source of Receipt	2010-11 £000
1,537	Council House Sales (RTB Legislation)	1,610
497	Qualifying Council House Disposals	706
35	Council House Mortgage Repayments	40
129	Housing Land & Other Sales	307
2,198	<b>Total Capital Receipts</b>	2,663

Under the Capital Receipts Pooling Arrangements the County Council had to pay over to the Government £1.2m of the above sale proceeds in 2010/11. This is shown in the following table:



Source of Receipt	Capital Receipt £000	Usable Element £000	Poolable Element £000
Council House Sales (RTB Legislation)	1,610	441	1,169
Qualifying Council House Disposals	706	706	-
Council House Mortgage Repayments	40	10	30
Housing Land & Other Sales	307	307	-
<b>Total</b>	<b>2,663</b>	<b>1,464</b>	<b>1,199</b>

## 5. HRA Subsidy

The Housing Revenue Account subsidy is based on a notional account representing the Government's assessment of what the County Council should be collecting and spending. Below is a breakdown of that assessment:

2009-10 £000		2010-11 £000
29,353	Management and Maintenance	29,589
11,762	Major Repairs Allowance	11,944
6,660	Charges for Capital	6,709
467	Rent Constraint Allowance	-
<b>48,242</b>	<b>Subsidy Allowances</b>	<b>48,242</b>
	Less:	
-6	Mortgage Interest	-6
-51,001	Assumed Rent Income	-51,046
<b>-51,007</b>	<b>Subsidy Reductions</b>	<b>-51,052</b>
-	Prior Years Adjustments	-374
<b>-2,765</b>	<b>Total Subsidy Payable(-) / Due</b>	<b>-3,184</b>

The table shows that the County Council was in negative HRA Subsidy which meant that sums were payable to Government for redistribution to other authorities.

## 6. Dwelling Rents

This sum represents the gross rental income due for the year after allowance is made for empty properties. During the year 1.4% of properties available for rent were vacant, which is less than the Government's target of 2% for empty properties. The average rent in 2010/11 was £55.41 a week on a 52 week basis.

## 7. Rent Arrears and Provision for Bad and Doubtful Debts

The amount of rent arrears at 31 March 2011 was £3.362m (£3.251m at 1 April 2010).

The County Council, in accordance with the Code, annually reassesses the potential losses that could arise from defaulting debtors. The charge to the HRA reflects the change in the provision required after taking into account sums recovered from former tenants.

The aggregate balance sheet provision in respect of uncollectable debts at 31 March 2011 is £2.527m (£2.428m at 1 April 2010).

The actual charge to the HRA in respect of bad debts provision and debts written off in 2010/11 was £0.303m. This charge relates to write-offs of uncollectable rent of £0.204m and an increase in provision of £0.099m to ensure the provision reflects the estimated doubtful debt based on an age profile of value of rent arrears.

## 8. Supervision and Management (General and Special)

Supervision and management expenditure on functions relating to all HRA properties are charged under this item. General Services includes expenditure on HRA policy and management, tenancy management, and rent collection and accounting. Special Services are the running costs of those services that benefit specific groups of tenants, these include communal heating and lighting, lifts, caretaking and cleaning, grounds maintenance and non-essential care welfare services. Sheltered Housing provision comes under the heading of Special Services.

The HRA includes management fee payments to the two ALMO's – Dale and Valley Homes and East Durham Homes of £5.911m and £12.355m respectively. This is broken down as follows:

	East Durham Homes £000	Dale & Valley Homes £000	Total £000
Repairs and Maintenance	6,348	2,448	8,796
Supervision and Management	6,007	3,463	9,470
<b>Total Management Fee</b>	12,355	5,911	18,266

### 9. Rent, Rates, Taxes and Other

This includes all items which the County Council is liable to pay in respect of HRA property. It includes Council Tax on empty properties, lease rental on properties, rates and water charges payable on non-dwellings and landlord insurance costs.

### 10. Depreciation of Property, Plant and Equipment

Authorities are required to charge depreciation on all HRA properties calculated in accordance with proper practices, including non-dwelling properties. For HRA dwellings these proper practices need to be considered in the context of the Major Repairs Allowance (MRA), which is a component part of HRA subsidy. It is intended to represent the estimated average annual cost of maintaining the condition of the housing stock over a 60-year period, based on the authority's mix of dwelling archetypes, and it is accepted that the MRA is likely to constitute a reasonable estimate of depreciation for HRA dwellings.

During 2010/11 the total charge made for depreciation of HRA assets was £12.773m as shown below: -

2009-10 £000	Asset type	2010-11 £000
11,762	Operational Assets: Dwellings	11,944
2,821	Operational Assets: Other Buildings e.g. Garages	829
185	Operational Assets: Vehicles, Plant & Equipment	-
61	Non-operational Assets: Shops etc	-
-181	Government Grants Written Down	-
14,648	<b>Total Depreciation Charge</b>	12,773

### 11. Impairment of Property, Plant and Equipment

There were revaluations in 2010/11 in respect of impairment on HRA assets. The net result in the current year of impairment charges £117.288m.

### 12. Movement on Major Repairs Reserve (MRR)

The County Council is required to maintain a Major Repairs Reserve (MRR). The items to be credited to the reserve are an amount equal to HRA dwelling depreciation for the year, and transfers from the HRA required by statutory provision. Movements in the Major Repairs Reserve during the year were as follows:

2009-10 £000	Movement on Reserve	2010-11 £000
-1,888	<b>Balance as at 1st April</b>	-1,201
-11,762	Depreciation on HRA Assets	-11,944
12,449	HRA Capital Expenditure funded from MRR	13,145
-1,201	<b>Balance as at 31st March</b>	-

This account reflects a statutory requirement to maintain a separate Collection Fund. It shows the transactions relating to Council Tax and Non-Domestic Rates (Business Rates) and illustrates the way these have been distributed to Durham Police Authority, County Durham and Darlington Fire and Rescue Authority and to Durham County Council General Fund. Notes to the statements follow.

2009-10 £000		Notes	2010-11 £000
	<b>Income</b>		
-193,041	Council Tax due from Taxpayers	2	-197,184
-51,181	Council Tax Benefit		-53,520
-98,773	Non Domestic Rates due from Ratepayers	3	-92,458
-342,995	Total Income		-343,162
	<b>Expenditure</b>		
	<b>Precepts and Demands</b>	4	
205,167	Durham County Council (including 123 Parishes of £12.04m)		210,854
22,683	Durham Police Authority		23,775
13,134	County Durham & Darlington Fire & Rescue Authority		13,613
	<b>Business Rates</b>		
98,155	Payment to National Pool		91,843
618	Costs of Collection		615
	<b>Bad &amp; Doubtful Debts</b>		
867	Write Offs - Council Tax		883
161	Change in Provision for Bad & Doubtful Debts	5	433
2,816	Distribution of Previous Years Estimated Surplus	6	2,313
343,601	Total Expenditure		344,329
606	Movement on Fund Balance		1,167
-2,422	Surplus on Fund Brought Forward		-1,816
-1,816	<b>Fund Balance Carried Forward</b>	7	-649

## Notes to the Collection Fund Accounts

### 1. The Collection Fund Income and Expenditure Account

This statement represents the transactions of the Collection Fund, a statutory fund separate from the General Fund of the County Council. The Collection Fund accounts independently for income relating to Council Tax and Non Domestic Rates on behalf of those bodies (including the County Council's own General Fund) for which the income has been raised. The costs of administering the Collection Fund are accounted for in the General Fund.

### 2. Council Tax

Council Tax was introduced by the Government to replace the Community Charge with effect from 1st April 1993. It is a tax based on property values, which are grouped into eight bands ranging from A to H.

Durham County Council is the billing authority for its administrative area and collects Council Tax to cover its own requirements and those of Durham Police Authority, County Durham and Darlington Fire and Rescue Authority and, where applicable, Town and Parish Councils.

Based on information on the Valuation Lists (held on a District basis for 2010/11) the properties in each area are categorised into Bands A to H, as in the table overleaf. An agreed proportion is applied to properties in each band to convert them into Band D equivalents. Further adjustments to the number of properties are made in respect of those occupied by a single Council taxpayer (25% discount), second homes (10% discount), other eligible discounts and an allowance for non-collection to arrive at the Council Tax Base.

## Collection Fund

The Council Tax Base is then divided into the County Council Demand and the Precepts requested by Durham Police Authority, County Durham and Darlington Fire and Rescue Authority and, where applicable, Town and Parish Councils to calculate the standard Band D Council Tax. The other bands' liabilities are calculated by reference to the same proportion used to convert to band D:

Property Value	Council Band	Properties in Each Band	Proportion of Band 'D'	Band 'D' Equivalent Properties
Up to £ 40,000	Band A	142,874	6/9ths	95,249
Over £ 40,000 up to £ 52,000	Band B	28,288	7/9ths	22,002
Over £ 52,000 up to £ 68,000	Band C	27,797	8/9ths	24,708
Over £ 68,000 up to £ 88,000	Band D	18,663	1	18,663
Over £ 88,000 up to £120,000	Band E	9,244	11/9ths	11,298
Over £120,000 up to £160,000	Band F	3,509	13/9ths	5,069
Over £160,000 up to £320,000	Band G	1,964	15/9ths	3,273
Over £320,000	Band H	248	2	496
		232,587		180,758
<b>Chargeable Properties (after single person discounts etc) (Taxbase) 2010-11:</b>				<b>154,976.2</b>

The Council Tax base for 2009/10 was 153,774.7

The average Band D Council Tax for the year was made up as follows:

Authority	2009-10 £000	2010-11 £000
Durham County Council	1,258.92	1,282.86
Durham Police authority	147.51	153.41
County Durham & Darlington Fire & Rescue Authority	85.41	87.84
<b>Band D Tax</b> (Plus Town/ Parish precept as applicable)	1,491.84	1,524.11

Council Tax due from Taxpayers of £197.184m made up of the following Charges and Reliefs:

	2010-11 £000
Property charges	290,868
less:	
Disabled relief	-305
Property exemptions	-11,562
Discounts	-27,593
Personal disregard	-707
Transitional relief	3
Benefits	-53,520
	<u>197,184</u>

The property charge of £290.868m, after deducted Parish precepts of £12.041m and dividing by the Band D Council Tax of £1,524.11 shows that over the year 2010/11 182,944 Band D equivalents were billed, compared with 180,758 at Budget setting.

Adding back the Council tax benefits and adjusting for Bad Debts written off and the provision for Bad and Doubtful Debts enables a comparison to be made with the Chargeable properties (Taxbase).

	2010-11 £000
Council tax due from Taxpayers	197,184
Add back Benefits receivable	53,520
less:	
Parishes	-12,041
Write-offs	-883
Increase in provision for Bad and Doubtful Debts	-433
	<u>237,347</u>

Dividing by the Band D Council Tax £1,524.11 give an average Taxbase of 155,728.3 compared with 154,976.2 at Budget Setting.

The increase of 752.1 in the Taxbase is equivalent to £1.146m, broadly comparable with the movement on the fund balance of £1.167m.

### 3. Business Rates (National Non Domestic Rates)

Business Rates are determined on a national basis by Central Government, which sets an annual non-domestic rating multiplier each year.

A new valuation list was applied from 1st April 2010 that re-valued all non-domestic properties and rebased the annual multiplier. The Small Business Relief was continued for properties with lower rateable values. For 2010/11 the general multiplier amounted to £0.414 (£0.485 in 2009/10) and the Small Business Relief was set at £0.407 (£0.481 in 2009/10).

Subject to the effects of transitional arrangements, local businesses pay rates calculated by multiplying their rateable value by this multiplier. The Council is responsible for collecting rates due from the ratepayers in its area but pays the proceeds, after various exemptions and reliefs (e.g. empty premises, charitable organisations, etc) into a national non-domestic rate pool, administered by the Government. The total non-domestic rateable value for Durham County Council at 31 March 2011 was £294.289m (£247.562m at 31 March 2010).

Non-Domestic rates due from Ratepayers of £92.458m is made up of the following charges and reliefs

	<b>2010-11</b>
	<b>£000</b>
Property charges	105,882
Less:	
Charitable relief, net of Council contribution	-5,969
Small business relief	-4,092
Property exemptions	-6,542
Voids	4,514
Interest payable	-147
Bad Debts written off	-809
Increase in Bad Debts Provision	-673
Rates deferral Scheme	294
	92,458

Applying the general multiplier of £0.414 to the average (simple mean) rateable value of £27.952m for 2010/11 would give gross rates chargeable for 2010/11 of £112.163m.

After adjusting for amended bills for previous years (a reduction of £6.736m) and weighting the simple mean brings us back to the property charges of £105.882m.

### 4. Precepts and Demands

The following authorities made a Precept or demand on the Fund in 2010/11:

<b>Authority</b>	<b>2009-10</b>	<b>2010-11</b>
	<b>£000</b>	<b>£000</b>
Durham County Council	205,167	210,854
Durham Police Authority	22,683	23,775
County Durham & Darlington Fire & Rescue Authority	13,134	13,613
<b>Total</b>	240,984	248,242

In 2009/10, the District Demands include Town and Parish precepts totalling £11.576m. In 2010/11, the County Demand includes Town and Parish precepts of £12.041m

A total of 123 Town and Parish Councils levied a Precept in 2010/11. In addition, the newly formed Charter Trust for the City of Durham raised a charge of £5 for each residential dwelling in the former City of Durham.

The Band D Town or Parish precept ranged from £nil to £245.65. There are also areas for which there is no Town or Parish Council.

Regulations require that those Town or Parish Councils levying a precept of £0.140m or more are separately identified in Council Tax literature. Details of those Councils are detailed in the table below:

## Collection Fund

Authority	2009-10 £	2010-11 £
Barnard Castle	122,520	151,143
Brandon & Byshottles	140,635	141,365
Chilton	191,758	198,694
Easington Colliery	345,000	345,000
Ferryhill	594,030	614,120
Great Aycliffe	1,625,500	1,623,000
Horden	448,489	470,299
Monk Hesleden	246,788	254,191
Murton	304,500	305,000
Peterlee	1,325,498	1,407,621
Seaham	1,068,935	1,109,555
Sedgefield	229,000	232,435
Shildon	628,210	651,370
Spennymoor	1,170,181	1,208,240
Stanley	800,000	800,000
Trimdon	125,000	145,000
<b>Sub Total</b>	9,366,044	9,657,033
<b>Other Town and Parish Precepts</b>	2,210,753	2,384,456
<b>Total</b>	11,576,797	12,041,489

### 5. Provision for Bad Debts

Each year the provision made for uncollectable amounts on both Council Tax and NNDR is revised by examining the aged debt analysis and applying the basis agreed in the County Council's detailed accounting policies.

In 2010/11 the bases applied are as follows:

**Council Tax:** Flat rate provision of 30% of arrears. This is a temporary arrangement to allow time for the development of an appropriate policy without needing to substantially alter the reserves.

**NNDR:** The provision is based upon the aged debtors listing, in line with percentages adopted for Sundry Debtors. The agreed percentages were amended in line with the analysis available for the differing Business Rates systems:

Age of Debt	Provision Applied
Up to 1 Year	20%
1 to 2 Years	40%
Over 2 Years	100%

### 6. Previous Year's Surplus

Any surplus or deficit on the Collection Fund at the end of the year must be taken into account in setting future years Council Taxes by those authorities precepting upon the fund.

The Council Tax surplus distributed during 2010/11 was shared between principal authorities as follows: -

Authority	Total Surplus distributed in 2009-10 £000	Total Surplus distributed in 2010-11 £000
Durham County Council	2,400	1,924
Durham Police Authority	265	246
County Durham & Darlington Fire & Rescue Authority	151	143
<b>Total Distributed</b>	2,816	2,313

### 7. Collection Fund Balance

The Collection Fund balance at the end of the 2010/11 financial year amounted to a surplus of £0.649m which is due to be shared between principal authorities as shown below:

<b>Authority</b>	<b>2009-10 £000</b>	<b>2010-11 £000</b>
Durham County Council	1,505	547
Durham Police Authority	196	65
County Durham & Darlington Fire & Rescue Authority	115	37
<b>Total Distributed</b>	<b>1,816</b>	<b>649</b>

Durham County Council and the major preceptors, Durham Police Authority and County Durham and Darlington Fire and Rescue, each account for a share of the Collection Fund balance in proportion to their Precept or Demand on the fund.

This also applies to the balances for arrears and prepayments on the Council Taxpayers account and the Provision for Doubtful Debts for Council Tax.

This does not apply to any balances relating to Business Rates as all such balances relate to Central Government.

The following table shows how the Collection Fund balances have been allocated between Durham County Council and the major precepting authorities:

<b>Authority</b>	<b>Collection Fund Surplus £000</b>	<b>Provision for Bad debts- Council Tax Arrears £000</b>	<b>Council Tax Arrears £000</b>	<b>Council Tax Overpayments and Prepayments £000</b>
Durham County Council	547	3,827	-11,854	2,989
Durham Police Authority	65	458	-1,418	357
County Durham & Darlington Fire & Rescue Authority	37	262	-811	205
<b>Total Distributed</b>	<b>649</b>	<b>4,547</b>	<b>-14,083</b>	<b>3,551</b>

**Fund Account**

2009-10 £000	£000		2010-11 £000	£000
		<b>DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED IN THE SCHEME</b>		
118,041		Contributions receivable (see note 13)	101,633	
11,186		Transfers in from other pension funds	9,057	
-		Other income	4	
	129,227			110,694
-85,473		Benefits (see note 14)	-86,533	
-13,121		Payments to and on account of leavers (see note 15)	-11,164	
-1,132		Administrative expenses	-1,247	
-		Other payments	-1,545	
-99,726				-100,489
	<b>29,501</b>	<b>Net additions from dealings with members</b>		<b>10,205</b>
		<b>RETURN ON INVESTMENTS</b>		
31,378		Investment income (see note 16)	38,221	
375,300		Change in market value of investments (see note 6)	69,702	
-3,959		Taxation (see note 8)	-6,510	
		Investment management fees (see note 12)		
	<b>402,719</b>	<b>Net returns on investments</b>		<b>101,413</b>
		<b>NET INCREASE IN THE NET ASSETS AVAILABLE FOR 432,220 BENEFITS</b>		<b>111,618</b>
	<u>1,249,749</u>	<b>NET ASSETS OF THE FUND AT 1ST APRIL</b>		<u>1,681,969</u>
	<u>1,681,969</u>	<b>NET ASSETS OF THE FUND AT 31ST MARCH</b>		<u>1,793,587</u>



**Net Assets Statement**

2009-10			2010-11	
£000	£000		£000	£000
		<b>Investment assets</b>		
43,820		Fixed interest securities (see note 5 & 6)	35,717	
879,152		Equities (see note 5 & 6)	898,953	
313,638		Index linked securities (see note 5 & 6)	356,100	
395,887		Pooled investment vehicles (see note 5 & 6)	444,319	
466		Loans (see note 5 & 6)	441	
20,490		Other cash deposits (see note 5 & 6)	39,649	
229		Derivative contracts (see note 9)	608	
		<b>Other investment balances (see note 17)</b>		
6,619		Dividend accruals	7,089	
593		Tax recovery	566	
1,265		Other investment balances	2,637	
	1,662,159			1,786,079
		<b>Investment liabilities (see note 18)</b>		
-1,246		Derivative contracts (see note 9)	-1,920	
-3,730		Other investment balances	-6,112	
	-4,976			-8,032
		<b>Current assets (see note 17)</b>		
27,313		Contributions due from employers	18,718	
2,598		Other current assets	2,438	
	29,911			21,156
		<b>Current liabilities (see note 18)</b>		
-465		Unpaid benefits	-694	
-4,660		Other current liabilities	-4,922	
	-5,125			-5,616
	<b>1,681,969</b>	<b>NET ASSETS OF THE SCHEME AVAILABLE TO FUND BENEFITS</b>	<b>1,793,587</b>	

The accounts summarise the transactions of the scheme and deal with the net assets at the disposal of the trustees. They do not take account of obligations to pay pensions and benefits which fall due after the end of the period.

The actuarial position of the scheme, which does take account of such obligations, is disclosed in Note 3 along with the actuarial statement. These accounts should be read in conjunction with them.

## 1. Fund Operation and Membership

Durham County Council is the Administering Authority for the Durham County Council Pension Fund. The Local Government Pension Scheme is a statutory scheme governed by the Local Government Pension Scheme Regulations 1997 and subsequent amendment regulations. The County Council administers the Scheme on behalf of 68 contributing employers including Borough, Parish and Town Councils, Statutory Bodies and Colleges. Contributing bodies include:

### **Local Authorities -**

Durham County Council  
Darlington Borough Council

### **Statutory Bodies -**

Durham Police Authority  
Valuation Tribunal Service  
Central Durham Joint Crematorium Committee  
County Durham and Darlington Fire and Rescue Authority  
St Aidan's Academy  
North East Fire Control  
Sedgefield Borough Homes

### **Parish Councils -**

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

### **Colleges -**

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

### **Admitted Bodies -**

Cestria Community Housing Association  
Dale and Valley Homes  
Derwentside Homes  
East Durham Homes  
North Star Housing  
Three Rivers Housing  
Barnard Castle School  
Bowes Museum  
Leisureworks  
Murton Welfare Association  
Hobson Golf Club  
Peterlee Fire Company

Wingate	Compass Group UK
	The Forge
<b>Town Councils -</b>	Mitie Cleaning
Ferryhill	Mitie PFI Ltd
Great Aycliffe	Mears Limited
Peterlee	Kier East Durham
Seaham	Creative Management Services
Sedgefield	Morrisons Facility Services Ltd
Shildon	Taylor Shaw (Longfield)
Spennymoor	Taylor Shaw (Primaries)
Stanley	KGB Cleaning and Support Services
Barnard Castle	Shotton Hall Academy

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

The Fund provides benefits for employees of the bodies listed above. On retirement, contributors receive payments of lump sums and annual pensions. Entitlement to these benefits arises mainly on the grounds of reaching retirement age and retirement through ill health, through early retirement schemes or being made redundant. Contributors who leave and who are not 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 2010/11, the number of pensionable employees in the Fund was 18,449 (19,405 in 2009/10), and the number of pensioners was 15,334 (14,922 in 2009/10).

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:

2009-10			2010-11	
Benefits	Contributions		Benefits	Contributions
£000	£000		£000	£000
79,103	92,970	Administering Authority	77,989	83,933
5,590	19,894	Scheduled Bodies	7,365	12,006
780	5,177	Admitted Bodies	1,179	5,694
<b>85,473</b>	<b>118,041</b>		<b>86,533</b>	<b>101,633</b>

The Corporate Director Resources is responsible for the administration of the Pension Fund and is assisted by the Pensions Division and Strategic Finance in his statutory duty to ensure the Pension Fund remains solvent and is administered effectively. The Pension Fund Committee meet quarterly to assess investment performance and annually to consider wider matters. The Committee is comprised of Durham County Council and Darlington Borough Council members. Durham County Council officers, staff observers and other stakeholders are also present.

Further information about the Fund can be obtained from its separately published Annual Report, available from the Corporate Director Resources, 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 AND MEASUREMENT**

The Pension Fund accounts have been prepared in accordance with:

- ❖ International Financial Reporting Standards (IFRS)
- ❖ CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2010/11
- ❖ Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996
- ❖ Financial Reports of Pension Schemes Section 2: A Statement of Recommended Practice 2007

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

The accounts were authorised for issue by the Corporate Director Resources on 30 September 2011.

The financial statements summarise the transactions and the net assets of the Pension Fund available to the trustees. 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 2010/11, the results of which will determine the contribution rates from 1 April 2011 to 31 March 2014. The previous valuation was undertaken as at 31 March 2007, and set contribution rates from 1 April 2008 to 31 March 2011. Details of the latest valuation are included in Note 3.

Significant Accounting Policies adopted are included later in this note. The following policies are significant to the statements:

- The Pension Fund has its own bank account which held the Fund's cash balance at 31 March 2011. This is in compliance with the requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.
- Contributions, benefits and investment income due at 31 March are included on an accruals basis.
- Investments are included in the accounts at fair value, usually bid price or mid-market value.
- Debtors and creditors are raised for all amounts outstanding at 31 March.
- Transfer values received and paid out, and lump sum payments, have been accounted for on a cash basis.
- The financial statements do not take account of liabilities to pay pensions and other benefits after the reported accounting period.
- Investment management expenses are shown separately from scheme administration in the Fund Account and include the fees paid and due to the fund managers and custodian, actuarial fees, performance measurement and investment consultant fees.
- Acquisition costs of investments include all direct transaction costs. Property acquisition costs are capitalised and become part of the book cost.
- Derivative contracts outstanding at the year end are stated at fair value as both investment assets and liabilities.

### **CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES**

The preparation of the statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

In applying the policies, the Pension Fund has had to make certain judgements about complex transactions, or those involving uncertainty. Those with most significant effect are:

- ❖ the Fund will continue in operational existence for the foreseeable future as a going concern;
- ❖ no investments are impaired.

The Pension Fund Accounts contain estimated figures which take into account historical experience, current trends and other relevant factors. As balances cannot be determined with certainty, actual results may be materially different from the assumptions and estimates.

Item	Uncertainties	Effect if actual differs from assumptions
Market value of investments	Valuations depend on market forces which impact on the current prices of stocks, shares and other investment instruments. The Pension Fund is susceptible to equity markets falling or bond yields falling.	Every 1% increase in market value will lead to an increase in the value of the fund of approximately £17m. A 1% decrease in market value would have the opposite effect.
Pension Liabilities	<p>Under IFRS the Pension Fund is required to disclose the actuarial present value of promised retirement benefits. This is disclosed as a note to the accounts (Note 4). Significant judgement and estimates are used in formulating this information.</p> <p>Assumptions such as mortality expectations, future inflation, returns on investments and the rate of pay increases are estimated for this note and the Actuarial Valuation. Note 3 summarises the results of this valuation.</p>	<p>The Actuarial Valuation of the Pension Fund at 31 March 2010 calculated the funding level to be 80%. Assumptions were used to enable this calculation. The effects on the funding level of changes in individual assumptions can be measured.</p> <p>A 3 year increase in life expectancy would reduce the funding target by 4%.</p> <p>A 1% fall in the yield from bonds would reduce the funding target by 13%.</p> <p>If pension increases were 1% higher than expected, the funding target would reduce by 9%.</p> <p>A 25% fall in the market value of equities and property investments would lead to a 12% fall in the funding target.</p> <p>If pensionable pay increases are 1% higher than assumed, the funding target will decrease by 5%.</p>
Change in indexation of pensions	<p>The switch to CPI as the basis for future revaluation and pension increases has a significant impact on the actuarial present value of the promised retirement benefits as disclosed in Note 3.</p> <p>This is because all pensions, once they come into payment, and the deferred pensions of former employees, will now be increased in line with an index that is expected, over the long term, to be lower than the RPI index it replaces. This, in turn, will reduce the value of the benefits and hence the value placed on those benefits.</p>	The Fund's actuary has estimated that, had the switch to CPI been implemented on 31 March 2010, the actuarial present value of the promised retirement benefits would have reduced by £292m. i.e. the actuarial present value of promised retirement benefits would have been £2,541m.

Item	Uncertainties	Effect if actual differs from assumptions
Fair Value of investments	The Accounts are as at 31 March 2011 and all the investments held by the fund are valued as at that date using the best estimate possible of 'fair value', as detailed below in 'Significant Accounting Policies - Valuation of Investments'	The use of estimates for investment values is greatest for those assets without active and open markets, unquoted or pooled investments, property, and alternatives. The Pension Fund Committee, at their quarterly meetings, consider the Fund Managers' Investment Reports, and discuss with Fund Managers the nature of the investments and associated risks, valuations of underlying holdings, and investment performance. Officers also maintain an on-going review of valuations on a monthly basis. Further detail on the procedures for managing investment risk is given in Note 11

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

### **SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies set out below have been applied consistently to all periods presented in these accounts and have been applied.

#### **Plan Assets**

##### **Valuation of Investments**

Investments are included in the accounts at their fair value, in the case of marketable securities fair value is equal to market value. Market value is the bid price quoted in an active market for securities and unitised investments. Fair value is the price that a buyer and seller may reasonably exchange an asset in an arm's length transaction. The accounting policies used for specific material types of investment follow:

Quoted equity securities that are traded on an exchange are accounted for on a mid-market basis as a basis of fair value, where fund managers provide valuations in this manner. Where fund managers provide both bid and offer prices, the bid price is used for market value.

Unquoted equity investments are included based on an estimated price of the investments held. Valuation techniques are used to establish a price at the year end date based on an arm's length exchange given normal business considerations.

Unitised securities are valued at the closing bid price if bid and offer prices are reported by the relevant exchange and in the fund manager's valuation report; otherwise the mid-market, or average price as reported is used. For single priced unitised securities these are valued at the reported price.

Fixed interest securities that are traded on an exchange are accounted for on a mid-market basis as a basis of fair value where fund managers provide valuations in this manner. Where fund managers provide both bid and offer prices, the bid price is used for market value.

The Public-Private Investment Plan (PPIP), an unquoted pooled investment vehicle, is valued at 'fair Market Value' as determined by the Valuation Agent, the Bank of New York Mellon. The process for the determination of the value of portfolio investments forms part of the investment agreement for the PPIP.

Index linked securities are valued at mid-market value.

All prices in foreign currency are translated into sterling at the prevailing rate on the 31 March.

Derivatives are included in the Net Assets Statement at fair value and gains and losses arising are recognised in the Fund Account as at 31 March. Fair value on forward foreign currency contracts are determined by the gain or loss that would arise at the 31 March from entering into an equal and opposite contract at that date.

### **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 31 March where amounts were still outstanding at the year-end.

### **Investment transactions**

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

### **Investment Management Expenses**

The fees relating to the managers are described in Note 12.

### **Acquisitions costs of investments**

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

### **Interest on property development**

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

### **Administrative expenses**

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

Independent advisers' fees are based on a retainer for attendance at Pension Fund Committee and Annual Meetings and the provision of advice to the Pension Fund Committee. Fees for any additional work are based on a daily or hourly rate, as provided for by agreement or by separate arrangement.

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

### **Contribution income**

Contribution income is categorised and recognised accordingly:

Member contributions are recognised in the period they are deducted from salary.

Employers' normal contributions are also recognised in the period the employee's normal contributions are deducted from salary.

Employers' augmentation contributions are accounted for in the year in which they become due.

Employer's other contributions are accounted for on the terms of the arrangement.



### **Transfer Values**

Transfer values are accounted for on a cash basis as the amount payable or receivable is not determined until payment is made and accepted by the recipient.

### **Additional Voluntary Contributions (AVCs)**

Deductions from employees salary Additional Voluntary Contributions (AVCs) and their subsequent investment in insurance policies are not recognised as income or assets in the Pension Fund Accounts. The investments held outside the scheme can be found in Note 20.

However when these AVCs are used to purchase extra years' service from the Pension Fund, this is recognised as contribution income in the Accounts on an accruals basis. Amounts received in this way can be found in Note 13 as additional contributions from members.

### **Pension benefits**

Pension benefits are recognised and recorded in the accounting records and reported in the financial statements as an expense in the period to which the benefit relates. [PF SORP 2.187]

## **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 Scheme Regulations require that a full actuarial valuation is carried out every third year. The purpose of this is to establish that the Durham County Council Pension Fund (the Fund) is able to meet its liabilities to past and present contributors and to review employer contribution rates.

The last full actuarial investigation into the financial position of the Fund was completed as at 31 March 2010 by Aon Hewitt Limited, in accordance with Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008.

### **Actuarial Position**

- ❖ Rates of contributions paid by the participating Employers during 2010/11 were based on the actuarial valuation carried out as at 31 March 2007.
- ❖ The valuation as at 31 March 2010 showed that the funding ratio of the Fund had increased since the previous valuation with the market value of the Fund's assets at that date (of £1,682m) covering 80% of the liabilities allowing, in the case of current contributors to the Fund, for future increases in pensionable remuneration.
- ❖ The valuation also showed that the required level of contributions to be paid to the Fund by participating Employers (in aggregate) with effect from 1 April 2011 was as set out below:
  - 13.1% of pensionable pay to meet the liabilities arising in respect of service after the valuation date.

#### **Plus**

- Monetary amounts to restore the assets to 100% of the liabilities in respect of service prior to the valuation date over a recovery period of up to 19 years from 1 April 2011. The estimated monetary amounts to be paid as set out in the valuation report are £29.1m in 2011/12 and £28.4m in 2012/13, increasing broadly by 5.3% p.a. thereafter.
- ❖ The majority of Employers participating in the Fund pay different rates of contributions depending on their past experience, their current staff profile, and the recovery period agreed with the Administering Authority.
- ❖ The rates of contributions payable by each participating Employer over the period 1 April 2011 to 31 March 2014 are set out in a certificate dated 30 March 2011.
- ❖ The contribution rates were calculated taking account of the Fund's funding strategy as described in the Funding Strategy Statement, and for the majority of Employers using the projected unit actuarial method.



- ❖ The main actuarial assumptions were as follows:

Discount rate	
Scheduled Bodies	6.80% a year
Admission Bodies	
In service:	6.25% a year
Left service:	4.75% a year
Rate of general pay increases	5.30% a year
Rate of increases to pensions in payment (in excess of GMP)	3.30% a year
Valuation of assets	market value

Assumptions for some Admission Bodies were based on the assumptions used for Scheduled Bodies if sufficient guarantees were provided by another body in the Fund. Further details of the assumptions adopted for the valuation were set out in the actuarial valuation report.

- ❖ Contribution rates for all employers will be reviewed at the next actuarial valuation of the Fund as at 31 March 2013.
- ❖ This statement has been prepared by the Actuary to the Fund, Aon Hewitt Limited, for inclusion in the accounts of Durham County Council. It provides a summary of the results of the actuarial valuation which was carried out as at 31 March 2010. The valuation provides a snapshot of the funding position at the valuation date and is used to assess the future level of contributions required.  
  
This statement must not be considered without reference to the formal actuarial valuation report which details fully the context and limitations of the actuarial valuation.  
  
Aon Hewitt Limited does not accept any responsibility or liability to any party other than our client, Durham County Council, in respect of this statement.

#### 4. Actuarial Present Value of Promised Retirement Benefits

The Code of Practice indicates that the Fund accounts for the year ending 31 March should disclose the "actuarial present value of the promised retirement benefits" as set out in IAS 26 and that the actuarial present value should be calculated on assumptions set in accordance with IAS 19 rather than on the funding assumptions.

CIPFA put forward three options for disclosing the actuarial present value of promised retirement benefits:

- ❖ Option A – disclosure in the Net Assets Statement
- ❖ Option B – disclosure in the Notes to the Pension Fund Accounts
- ❖ Option C – disclosure in an accompanying Actuarial Report

The Administering Authority has chosen "Option B". Option B requires the actuarial valuation of the liabilities on an IAS 19 basis to be prepared at formal triennial valuations only, the most recent being as at 31 March 2010. CIPFA have indicated that comparator figures are also required from the previous valuation date, 31 March 2007.

During the accounting period, there has been a change from the use of RPI to CPI for the price indexation of benefits. In his budget on 22 June 2010, the Chancellor announced the following:

*"The Government will use the CPI for the price indexation of benefits and tax credits from April 2011. The CPI provides a more appropriate measure of benefit and pension recipients' inflation experiences than RPI, because it excludes the majority of housing costs faced by homeowners (low income households are subsidised separately through Housing Benefit, and the majority of pensioners own their home outright) and differences in calculation mean it may be considered a better representation of the way consumers change their consumption patterns in response to price changes. This will also ensure consistency with the measure of inflation used by the Bank of England. This change will also apply to public service pensions through the statutory link to the indexation of the Second State Pension. The Government is also reviewing how the CPI can be used for the indexation of taxes and duties while protecting revenues."*

The switch to CPI as the basis for future revaluation and pension increases has a significant impact on the actuarial present value of the promised retirement benefits as disclosed in Note 3.

This is because all pensions, once they come into payment, and the deferred pensions of former employees, will now be increased in line with an index that is expected, over the long term, to be lower than the RPI index it replaces. This, in turn, will give rise to a reduction in the actuarial present value of the promised retirement benefits.

For the purpose of the calculations under IAS 26, the switch to CPI indexation is assumed to have occurred on 31 March 2010.

IAS 26 requires the "actuarial present value of the promised retirement benefits" to be disclosed, which is the IAS 26 terminology for what IAS 19 refers to as the "defined benefit obligation".

The information set out below relates to actuarial present value of the promised retirement benefits in the Fund which is part of the Local Government Pension Scheme. The Fund provides defined benefits, based on members' Final Pensionable Pay.

Paragraph 6.5.2.8 of CIPFA's Code of Practice on local authority accounting for 2010/11 sets out that the actuarial present value of promised retirement benefits based on projected salaries should be disclosed. CIPFA has also indicated that comparator values at the 2007 valuation should also be provided.

The results at both dates are shown in the table below. The corresponding fair value of Fund assets is also shown in order to show the level of surplus or deficit within the Fund when the liabilities are valued using IAS 19 assumptions.

	<b>Value as at 31 March 2010 £m</b>	<b>Value as at 31 March 2007 £m</b>
Fair value of net assets	1,682	1,459
Actuarial present value of the promised retirement benefits	2,833	2,172
Surplus / (deficit) in the Fund as measured for IAS26 purposes	-1,151	-713

#### Assumptions

The latest full triennial actuarial valuation of the Fund's liabilities in accordance with the requirements of IAS 26 took place at 31 March 2010. The principal assumptions used by the Fund's independent qualified actuaries were:

	<b>31 March 2010 (% p.a.)</b>	<b>31 March 2007 (% p.a.)</b>
Discount rate	5.5	5.3
RPI Inflation	3.9	3.2
CPI Inflation	3.0	N/A
Rate of increase to pensions in payment*	3.9	3.2
Rate of increase to deferred pensions*	3.9	3.2
Rate of general increase in salaries **	5.4	4.7

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

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

**Principal demographic assumptions**

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

**Females**

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

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

\*\* The scaling factors shown apply to normal health retirements

	<b>31 March 2010</b>	<b>31 March 2007</b>
Commutation	Each member is assumed to exchange 60% of the maximum amount permitted, of their past service pension rights on retirement, for additional lump sum.	Each member is assumed to exchange 50% of the maximum amount permitted, of their past service pension rights on retirement, for additional lump sum.

## 5. Valuation of Investments

The Pension Fund has 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 its assets.

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

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

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

2009-10			2010-11	
£000	%		£000	%
492,935	30.20	Edinburgh Partners	496,286	28.60
346,118	21.20	Blackrock	362,841	20.91
265,212	16.25	Alliance Bernstein	287,166	16.55
325,628	19.95	RLAM	352,594	20.32
75,019	4.60	CBRE	94,551	5.45
127,388	7.80	Baring Asset Management	141,499	8.16
197	-	Other	152	0.01
<b>1,632,497</b>	<b>100.00</b>		<b>1,735,089</b>	<b>100.00</b>

## 6. Analysis of Investments

Investment category	Value at	Purchases at		Change in market value	Value at
	31 March 2010	cost	Sales proceeds		31 March 2011
	£000	£000	£000	£000	£000
Fixed interest securities	43,820	134,462	-144,057	1,492	35,717
Equities	879,152	257,295	-246,652	9,158	898,953
Index linked securities	313,638	1,136,594	-1,112,928	18,796	356,100
Pooled investment vehicles	395,887	106,657	-99,947	41,722	444,319
Cash and short term investments	20,956	20,305		-1,171	40,090
Derivative contracts	-1,017			-295	-1,312
	<b>1,652,436</b>	<b>1,655,313</b>	<b>-1,603,584</b>	<b>69,702</b>	<b>1,773,867</b>

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.

2009-10 £000	2010-11 £000
<b>Fixed interest securities</b>	
11,751 UK - Public sector	32
10,540 UK - other	11,044
21,529 Overseas - Public sector	24,641
- Overseas - other	-
<b>43,820</b>	<b>35,717</b>
<b>Equities</b>	
438,211 UK quoted	485,517
197 UK unquoted	151
440,744 Overseas quoted	413,285
<b>879,152</b>	<b>898,953</b>
<b>Index linked securities</b>	
309,975 UK quoted - Public sector	345,140
3,663 Overseas quoted -Public sector	10,960
<b>313,638</b>	<b>356,100</b>
<b>Managed and unitised funds</b>	
250,124 Managed funds - non property - UK - quoted	261,827
52,174 Managed funds - non property - Overseas - quoted	55,322
15,089 Managed funds - non property - UK - unquoted	25,339
30,462 Unit Trusts - property - UK	33,645
48,038 Unit Trusts - property - Overseas	68,186
<b>395,887</b>	<b>444,319</b>
<b>Loans</b>	
466 Loans - long term - local authorities	441
<b>466</b>	<b>441</b>
<b>Cash and Short Term Investments</b>	
5,441 Loans - short term - money market	25,220
15,049 Managers' cash	14,429
- Cash in Hand	-
<b>20,490</b>	<b>39,649</b>
<b>Derivative Contracts</b>	
229 Forward foreign exchange contracts - assets	608
-1,246 Forward foreign exchange contracts - liabilities	-1,920
<b>-1,017</b>	<b>-1,312</b>

## 7. Currency Hedging

All investment managers have agreement to enter into foreign exchange contracts in order to hedge against adverse movements in foreign exchange rates. Several forward foreign currency contracts were open at the period end as shown in Note 9. This agreement was subject to prior consultation with the Corporate Director Resources.

## 8. Taxation

The Pensions 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.

## 9. Derivatives

2009-10 £000	2010-11 £000
229 Forward foreign exchange contracts - assets	608
-1,246 Forward foreign exchange contracts - liabilities	-1,920
<b>-1,017 Market value of derivative contracts</b>	<b>-1,312</b>

Currency is bought and sold by fund managers for future settlement at a pre determined exchange rate. Fund managers use these contracts to hedge against the risk of adverse currency movement on the Fund's investments. Contracts are by their nature over the counter and are primarily in US dollars, Euros and Sterling.

## 10. Investments Exceeding 5% of the Market Value of The Fund

The Pension Fund invests in a pooled fund of Broad Bonds through AllianceBernstein, the Diversified Yield Plus fund. The value of this investment at 31 March 2011 is £261.827m (£250.124m at 31 March 2010) and exceeds 5% of the Fund's total investments.

## 11. Disclosure of Nature and Extent of Risk Arising From Financial Instruments

### Key risks

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

- ❖ **Credit risk** the possibility that other parties might fail to pay amounts due to the Pension Fund;
- ❖ **Liquidity risk** the possibility that the Pension Fund might not have funds available to meet its commitments to make payments;
- ❖ **Market risk** the possibility that financial loss might arise for the Pension Fund as a result of changes in such measures as interest rates movements.

### Overall procedures for managing risk

The investment policy of the Pension Fund has been set with the objective of controlling the risk that the assets will not be sufficient to meet the liabilities of the Pension Fund while achieving a good return on investment.

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

The setting of specific control ranges and other investment guidelines within which the investment managers must operate also controls risk.

The Local Government Pension Fund Regulations (Management and Investment of Funds) 2009 require the Pension Fund to describe how it measures and manages risk.

Having considered advice from the Independent Advisers, and also having due regard for the objectives, the liabilities of the Pension Fund and the risks facing the Pension Fund, the Pension Fund Committee have decided upon the following strategic target asset allocation:

<b>Asset Class</b>	<b>Permitted Assets</b>	<b>Benchmark &amp; Performance Target</b>	<b>Proportion of Total Fund *</b>
Conventional Bonds	Investment grade sterling bonds	FTSE Over 5 Year Index-Linked Gilt Index +0.5%	20%
Broad Bonds	Global bonds	UK 3-month LIBOR +3.0%	16%
UK Equity	UK equities	FTSE All Share Index +3.0%	20%
Global Equities	Global Equities	MSCI AC World Index +3.0%	28%
Dynamic Asset Allocation	All major asset classes with derivative overlay	UK 3-month LIBOR +4.0%	8%
Global Property	Global property	UK Retail Price Inflation +5.0%	8%

\* Excluding in-house managed funds

Risk is measured, in part, by the administering authority's risk management section as part of its assessment of the County Council's risks, and is reviewed as part of the independent Governance review undertaken by the Pension Fund.

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

The Broad Bond mandate's assets are excluded from the Fund's Global Custodian's custody. A separate custodian is responsible for this part of the Pension Fund and the Public Private Investment Plan (PPIP).

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

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

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

- ❖ by formally adopting the requirements of the CIPFA Treasury Management Code of Practice;
- ❖ by the adoption of a Treasury Policy Statement and treasury management clauses within its financial regulations/standing orders/constitution;
- ❖ by approving annually in advance prudential and treasury indicators for the following three years limiting:
  - The County Council's overall borrowing;

- Its maximum and minimum exposures to fixed and variable rates;
  - Its maximum and minimum exposures to the maturity structure of its debt;
  - Its maximum annual exposures to investments maturing beyond a year.
- ❖ by approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investment counterparties in compliance with Government guidance;

These are required to be reported and approved at or before the County Council's annual Council Tax setting budget or before the start of the year to which they relate. These items are reported with the annual treasury management strategy which outlines the detailed approach to managing risk in relation to the County Council's financial instrument exposure.

These policies are implemented by the Strategic Finance Treasury Management team. The County Council maintains written principles for overall risk management, as well as written policies (Treasury Management Practices – TMPs) covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash. These TMPs are a requirement of the Code of Practice and are reviewed periodically.

**i) Credit risk**

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Pension Fund's customers.

**a) Conventional Bonds**

The Fund will be exposed to credit risk on parties with whom it trades and will also bear the risk of settlement default. The Investment Manager minimises concentration of credit risk by undertaking transactions with a large number of counterparties.

The credit risk of the Fund's investments is summarised as follows:

<b>Portfolio by rating category</b>	<b>2011</b>
<b>Rating</b>	<b>%</b>
Investment grade	99.3
Below investment grade	0.7
Not rated	0.0
Total	100.0

Credit risk arising on transactions with brokers relates to transactions awaiting settlement. Risk relating to unsettled transactions is considered low due to the short settlement period involved and the high credit quality of the brokers used. The Manager monitors the credit rating and financial positions of the brokers used to further mitigate this risk.



**b) Broad Bonds**

The Pension Fund invests in a pooled fund which has the following proportions of investments:

<b>Portfolio by rating category</b>	<b>2011</b>
<b>Rating</b>	<b>%</b>
AAA	46.8
AA	7.0
A	13.3
BBB	27.1
BB	3.6
B	1.8
CCC	0.5
CC	0.2
C	0.0
>C	0.4
Non Credit	-0.7
<b>Total</b>	<b>100.0</b>

Bonds are ranked on the basis of the degree of risk associated with timely payment of their interest and principle. Bond rating agencies (such as Standard & Poor's) use a grading system as follows

AAA: highest quality (called 'gilt edged').

AA: high quality.

A: upper medium grade.

BBB: medium grade.

BB: has speculative elements.

B: speculative.

CCC: speculative with possibility of default.

CC: most speculative.

C: lowest gradable quality.

DDD: in default with possibility of recovery.

DD: in default and arrears.

D: in default, with little or no value.

Bonds rated 'BBB' or higher are considered investment grade suitable for financial institutions with fiduciary responsibilities. Bonds rated below 'B' are considered speculative grade and are called high yield or junk bonds which, due to greater likelihood of their default, must pay higher interest rates to attract investors.

Government bonds, or Treasuries, are not subject to credit quality ratings. These securities are considered to be of the very highest credit quality. In the case of municipal and corporate bond funds, fund company literature, such as the fund prospectus and independent investment research reports will report an "average credit quality" for the fund's portfolio as a whole.

**c) UK Equity**

Equities are affected by many risk factors, but the credit risk associated with this portfolio is not generally quantifiable.

As at 31 March 2011, the total absolute risk of the portfolio was measured as 19.2%. This is a standard deviation measure of risk, and suggests broadly that in two years out of three, the portfolio return could be expected to be in a range from -19.2% to +19.2%. For comparison, the absolute risk of the benchmark, the FTSE All-Share Index, on that day was 19.0%.

The Fund is actively managed, and the estimated tracking error of the portfolio at 31 March was 5.3%. This suggests that in two years out of three, the portfolio return could be expected to be within a range of -5.3% to +5.3% around the index return. This therefore quantifies the risk of this active management process.

#### **d) Global Equities**

In the period under review and as at 31 March 2011 this part of the fund was solely invested by one manager in equity instruments listed in regulated exchanges or markets. As a result, the fund is not exposed to any direct credit risk other than the custodian of the assets of the fund and to those in relation to transactions with counterparties that the manager enters into on behalf of the fund.

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

Investment transactions currently take place "on-exchange" rather than over the counter (OTC) and are also on a delivery-versus-payment (DVP) basis; both these factors contribute to limiting the counterparty exposure.

The actual amount of exposure to counterparties is generally limited to unsettled investment transactions and varies in line with the pattern of investment transactions within the fund. No stock lending programmes are operated by the Manager. As at 31 March 2011, there were no unsettled investment transactions.

The Pension Fund has sole responsibility for the initial and ongoing appointment of custodians. Un-invested cash held with the custodian is a direct exposure to the balance sheet of the custodian. Arrangements for investments held by the custodian vary from market to market but the assets of the Pension Fund are held in a strictly segregated client account. As at 31 March 2011 the level of exposure to the custodian is 1.2% of the total value of the portfolio.

The recent IFRS 7 update published in November 2010 has clarified that credit risk disclosures are only required in relation to instruments where the maximum credit exposure is not the carrying value, and so only apply to certain derivatives. If this update is adopted, the Manager believes that there are no positions in the portfolio for the Pension Fund that would require such disclosures.

#### **e) Dynamic Asset Allocation**

The part of this portfolio invested in UK Corporate Bonds at 31 March 2011 was £9.5m. All the exposure was to investment grade rated corporate bonds (AAA to BBB- ratings). The largest holding was rated AAA, at 4.2%. The top 10 holdings accounted for 31% of the UK credit portion of the Pension Fund.

In the region of 39% of the holdings were issued by financial institutions (excluding supranational banks) as opposed to corporate issuers. The modified duration of the UK credit portion of the portfolio was 7.4. About 24% of the holdings had a maturity of less than 5 years and about 16% greater than 20 years.

#### **f) Global Property**

This portfolio consists of unlisted property funds and 28.4% is invested in listed securities. The Manager is compliant with all restrictions applied to this portfolio by the Pension Fund.

The closing Net Asset Value of these unlisted property funds are the best evidence of fair value. The funds have been categorised as Level 2 within the Fair Value Hierarchy, given that pricing sources are supported by observable inputs.

The credit risk associated with this portfolio is the cash accounts amounting to £1.519m and the unrealised hedging position of -£0.619m, both of which are held by the Pension Fund's custodian. The risk is that a counterparty or issuer is unable to pay the amounts in full when they are due.

**g) Cash**

Cash is invested by Durham County Council and the credit risk associated with this is minimised by the County Council's Treasury Management procedures, including the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, in accordance with the Fitch, Moody's and Standard & Poors Credit Ratings Services. The Annual Investment Strategy also considers maximum amounts and time limits in respect of each financial institution. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined above. Additional selection criteria are also applied after this initial criterion is applied. Details of the Investment Strategy can be found on the County Council's website:

[www.durham.gov.uk](http://www.durham.gov.uk)

The Pension Fund's maximum exposure to credit risk in relation to its investments in banks and building societies cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Pension Fund's deposits, but there was no evidence at 31 March 2011 that this was likely to crystallise.

No credit limits were exceeded during the reporting period and the Pension Fund does not expect any losses from non-performance by any of its counterparties in relation to deposits.

**ii) Liquidity risk**

Liquidity risk arises from the possibility that the Pension Fund will be unable to raise funds to meet its commitments associated with financial instruments.

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

**a) Conventional Bonds**

The liquidity risk is minimised through holding cash and readily realisable securities which can meet the usual requirements of the Pension Fund.

**b) Broad Bonds**

The Manager monitors liquidity in the fixed income portfolios regularly in a variety of ways and for different purposes:

i) **Trading** – the Manager's Fixed Income Trading Desks regularly monitor market liquidity using their extensive market networks, and provide feedback to the Portfolio Management teams. This is particularly important in the fixed income markets where trading markets in certain specialized or structured instruments trade with significantly less frequency than in the equity markets.

ii) **Portfolio Management** - the Manager's Portfolio Management teams monitor liquidity within portfolios, taking into account factors such as the type of instrument, maturity of the instrument, trading volume, the total amount outstanding and the portion of the outstanding amount that is held. Liquidity is also discussed within the fixed income investment policy group and related internal management process. Liquidity is evaluated based upon a variety of relevant factors, including investable market capitalization; the breadth, depth and number of investable issuers; trading volumes; transaction costs; settlement costs, and bid/ask spreads. There are internal concentration limits at the issue and issuer level that are adhered to. If it is difficult and expensive to invest due to constrained liquidity, the Portfolio Management teams will require extra expected return to compensate for additional costs arising from limited liquidity. Product capacity is

regularly assessed and access to products will be closed or restricted as deemed appropriate to ensure that the Manager has confidence it can achieve the relevant investment objectives and liquidity expectations of the Pension Fund.

iii) **Risk Management** - the Manager's Risk Management team monitors liquidity on a macro level, looking at liquidity of all holdings in the aggregate. Where particular positions start to approach internal limits, the risk management team discuss these with the affected portfolio managers. Liquidity is a prominent theme which is discussed and reviewed at the Manager's senior risk governance committee.

**c) UK Equity**

Equities are affected by many risk factors, but the liquidity risk associated with this portfolio is not generally quantifiable.

**d) Global Equities**

i) **Maturity analysis of financial liabilities** - there are no financial liabilities within the portfolio other than those that arise from the trading of investments. Such liabilities follow the standard settlement cycle of the local market which varies between 2 and 3 days.

ii) **Maturity analysis of derivatives liabilities** – there are no such instruments held within the portfolio.

Overall liquidity is managed in line with parameters set out in the Investment Management Agreement (cash to remain between 0 and 5% of fund).

Within the portfolio, prior to any purchase, each stock is analysed on a free float basis and discussed in detail at the Manager's research meeting. Assuming approval, the purchase order would normally be placed in the market with a limit on the maximum daily volume permitted. The liquidity of each stock, in terms of the number of days taken to trade to both the benchmark and cash, is subsequently measured monthly at a stock and aggregate portfolio level.

Portfolio liquidity provisions are monitored and controlled as part of the Manager's normal portfolio review process, which includes a monthly meeting that is attended by the entire investment team. The Manager's Style Research system is used to generate monthly reports that include details of liquidity, as well as portfolio volatility and other risk characteristics.

**e) Dynamic Asset Allocation**

Liquidity analysis of the current holdings in the portfolio is shown in the following table:

<b>Timescale</b>	<b>% of Fund Liquidated</b>
1 day	78.99
2 days	79.78
3 days	81.29
4 days	81.59
5 days	85.33
5 to 10 days	92.94
10 to 30 days	97.82
30 to 53 days	100

The table shows that in the region of 85% of the holdings can be liquidated in 5 days and that in the region of 93% can be liquidated within 10 days. There are some funds held in the portfolio which only deal on a

weekly or monthly basis, taking these into account about 98% of the portfolio can be liquidated in 30 days. The remaining 2% of the portfolio represents a holding where available volume data shows that 53 days are required to liquidate the position. However, it should be noted that the Manager is confident that, if necessary, the holding could be placed with other existing investors in a much shorter timeframe.

In terms of derivatives positions in the portfolio, the futures and foreign exchange positions can be liquidated in one day.

Liquidity risk is monitored at an overall Manager level where all holdings in the same stock are consolidated. The % of the company held is monitored together with analysis on the days required to liquidate the position.

#### **f) Global Property**

There are no financial liabilities within this portfolio at 31 March 2011. The derivatives liabilities relate to unrealised hedging of -£0.619m and have a maturity profile of less than one year.

Certain securities held by the Manager may be difficult to sell at the time and at the price that the manager would like. The Manager may have to lower the price to affect a secondary market sale, sell other securities instead or forego an investment opportunity. The manager monitors the underlying funds' liquidity risk on a daily basis and also any material events. There have been no changes to the policies and processes for managing liquidity risk and the methods used to measure risk during 2010/11.

#### **g) Cash**

Durham County Council, as administering authority, invests the cash balances of the Pension Fund in line with its Treasury Management Policy and as agreed by the Pension Fund Committee.

The County Council manages its liquidity position through the risk management procedures as set out in the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports, as well as through a comprehensive cash flow management system, as required by the CIPFA Code of Practice. This seeks to ensure that cash is available when needed.

Regulation 5 of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 gives Durham County Council as administering authority a limited power to borrow on behalf of the Pension Fund for up to 90 days. The power is for cash flow management in specified circumstances, which in practice should be exceptional. Occasionally, unexpected pressures can occur and, in these circumstances, the power would enable administering authorities to avoid becoming forced sellers of fund assets at the wrong time in the market cycle because of a need for cash flow.

The County Council has ready access to borrowings from the money markets to cover any day to day cash flow need.

#### **iii) Market risk**

This is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk embodies potential for both loss and gains and includes market price risk, currency risk and interest rate risk.

#### **a) Conventional Bonds**

i) **Market price risk** - market price risk is the risk that value of the instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market.

The Investment Manager considers the asset allocation of the portfolio in order to manage the risk associated with particular countries or industry sectors, whilst continuing to follow the investment objective and criteria. As the portfolio is composed entirely of bonds and cash, market price risk for the fund is represented by interest rate and currency risk, both of which are dealt with below.

The Investment Manager does not use derivative instruments to hedge the investment portfolio against market price risk as in their opinion the cost of such a process would result in an unacceptable reduction in the potential for capital growth.

ii) **Currency risk** - a substantial portion of the assets of the Durham County Council Pension Fund are denominated in Sterling (which is the functional currency), and therefore has relatively low level exposure to currency risk. The currency exposure that would exist through the Pension Fund's holdings of non-UK denominated securities is all hedged back into Sterling through currency forwards. The Fund therefore has no unhedged currency risk at the year end.

(iii) **Interest rate risk** - the financial assets of the Pension Fund are all interest-bearing. The Fund is subject to significant exposure to fair value interest rate risk due to fluctuations in the prevailing levels of market interest rates.

**Interest rate sensitivity:** At 31 March 2011, the average duration of the fund was 16.8 years. If a 25 basis point parallel shift in interest rates had occurred, with all other variables remaining constant, this would have had a monetary impact of £14.878m on the net assets of the fund, based on a valuation of £354.238m.

**b) Broad Bonds**

The table below details the maturity analysis of this portfolio.

Type of Investment	Years to Maturity	% of Portfolio
Non-derivatives	3	45.80
	3 to 5	9.80
	5 to 7	17.37
	7 to 10	10.66
	10	16.22
Derivatives	3	0.24
	7 to 10	-0.09
<b>Total</b>		<b>100.00</b>

**c) UK Equity**

The portfolio is invested 100% in UK equities, with a small proportion of frictional cash from time to time. Equities are affected by many risk factors, but the principal ones would typically be economic risk, inflation risk, interest rate risk, and credit risk, although these risks are not generally quantifiable for practical purposes.

**d) Global Equities**

This portfolio is exposed to the following types of market risk; equity risk, interest rate risk and currency risk. The portfolio is not hedged and so the impact of any movement in relevant market prices and currency rates directly correlates to changes in the value of the portfolio. In relation to currency movements, the table below reflects the sensitivity of the fund value to changes in the exchange rate of the primary currencies to which it is exposed.

1% Change in Currency	% of Portfolio	% change in Market Value
		£
USD	28.76	0.29
JPY	23.17	0.23
EUR	20.24	0.20
GBP	18.31	0.18

In the period under review and as at 31 March 2011 this portion of the Pension Fund was solely invested in equity instruments. Therefore, the Pension Fund's only direct exposure to interest rate risk is on the uninvested cash. As at 31 March 2011 uninvested cash stood at £3.479m. If interest rates had moved by 0.25% from those prevailing as at 31 March 2011, it would have the effect, with all other variables held constant, of either increasing deposit interest (in the case of an increase in rates) or decreasing deposit interest (in the case of a decrease in rates) on an annualised basis by £0.009m.

**e) Dynamic Asset Allocation**

The monitoring of market risk is undertaken using volatility. The volatility of the fund is monitored to ensure that it does not exceed 70% of the volatility on the MSCI World index. For the Manager's internal purposes Value at Risk (VaR) is also monitored.

**f) Global Property**

The market allocation (risk exposures) of the portfolio is calculated on a quarterly basis using the latest available reporting provided by both the listed securities and private property funds. These are combined on an overall portfolio basis using the most recent valuations. Market exposures are calculated on a 'look-through' gross basis i.e. the impact of financial leverage to estimate the gross asset values are included and thus exposures of the underlying direct property portfolios.

The market exposures are managed in a number of ways; firstly, the portfolio is well diversified by geography, sector and holdings. The investment restrictions imposed ensure that the portfolio is not over concentrated, limiting exposure to a single geographic region and property type i.e. office, retail etc. The Manager's Investment Committee, which comprises members external to the investment team, meet on a quarterly basis and review the portfolio's performance and adherence to investment restrictions.

The Model Portfolio of the portfolio is reviewed every quarter and this reflects the Manager's preferred market exposures. It incorporates the latest views on countries and sectors and takes into account any changes in market conditions. The quarterly reviews of this may result in changes in allocations to both countries and sectors.

The key tool utilized by the investment team for measuring risk and managing portfolios is the Target Portfolio spreadsheet. This incorporates the Manager's latest House Views of expected returns, the risk and inter-correlations of underlying markets, and the impact upon overall portfolio risk of the individual holdings' property strategies and leverage levels. The Target Portfolio shows the planned final shape of the portfolio, in terms of allocations to individual holdings, and the consequential structure of the portfolio on a look-through basis, showing allocations to market segments. This is constructed using current valuations and available capital to commit.

The Target Portfolio is modelled in a Target Portfolio Spreadsheet, which shows the current and planned portfolio by fund, and tracks the projected geographic and sector allocations, average leverage and position versus the Model Portfolio and investment restrictions. This is used as a basis for portfolio investment plan detailing any new acquisitions and/or dispositions and the consequential impact upon the portfolio's future market exposures. This plan is reviewed by both the Chief Investment Officer and Regional Heads of the Manager, together with the designated portfolio manager.

Acquisitions of property related assets by way of trade can be difficult to realise and, as there may not be an available market for them, it may not be possible to establish their current value at any particular time. The portfolio's investments in property related assets are subject to the general risks incidental to the ownership of real or heritable property, including changes in general economic or local conditions, changes in supply of, or demand for, competing properties in an area, changes in interest rates and the availability of mortgage funds, changes in property tax rates and zoning or planning laws and credit risks of tenants and borrowers and environmental factors.



**g) Cash**

**Interest rate risk** - The Pension Fund is exposed to interest rate movements on its investments and any borrowings it may undertake.

The County Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together County Council's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. From this Strategy a treasury indicator is set which provides maximum limits for fixed and variable interest rate exposure. The Strategic Finance Treasury Management team will monitor market and forecast interest rates within the year to adjust exposures appropriately. For instance during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns.

**Public-Private Investment Plan**

The Pension Fund has a £25.6m investment in a Public-Private Investment Plan (PPIP) Fund through its Broad Bonds Investment Manager. This was a plan designed to value and remove troubled assets from the balance sheet of troubled financial institutions in the United States. Essentially, the PPIP's goal was to create partnerships with private investors to buy toxic assets. The programme is designed to increase liquidity in the market and to serve as a price-discovery tool for valuing troubled assets. The Investment Manager competed with more than 90 other managers to work with the US Treasury in the PPIP.

Commercial Mortgage-Backed Securities and Non-Agency Residential Mortgage-Backed Securities in which the PPIP Fund may invest entail a number of risks, including but not limited to credit risk of both the underlying assets and the issuers, market risks from the cash flow characteristics of the security, interest rate risk from the relationship between the pricing terms on the underlying collateral and the terms of the rate paid to the holders of the securities, liquidity risks, including the lack of liquidity in the market due to real or perceived credit risk or credit quality of the underlying assets, and operational risks associated with the potential for misrepresentation of the underlying asset quality or terms of the issuance or inadequate servicing of the securities.

**12. Investment Management Fees**

The six 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.

Included as 'Other advisory fees', are Independent Advisers' fees. These 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.

<b>2009-10</b>	<b>2010-11</b>
<b>£000</b>	<b>£000</b>
-3,923 Administration, management and custody	-6,370
-36 Other advisory fees	-140
<hr/> <b>-3,959</b>	<hr/> <b>-6,510</b>



## 13. Contributions Receivable

2009-10 £000		2010-11 £000
	Employer's contributions	
75,191	Normal	75,304
11,532	Augmentation	2,379
7,060	Deficit funding	-
	Members contributions	
24,053	Normal	23,773
205	Additional contributions	177
<b>118,041</b>		<b>101,633</b>
92,970	Local Authorities	83,933
19,894	Scheduled Bodies	12,006
5,177	Admitted Bodies	5,694
<b>118,041</b>		<b>101,633</b>

## 14. Benefits Payable

2009-10 £000		2010-11 £000
-68,734	Pensions	-70,793
-19,772	Commutations and lump sum retirement benefits	-19,393
-1,938	Lump sum death benefits	-1,340
4,971	Recharged benefits	4,993
-	Purchased annuities	-
<b>-85,473</b>		<b>-86,533</b>
-79,103	Local Authorities	-77,989
-5,590	Scheduled Bodies	-7,365
-780	Admitted Bodies	-1,179
<b>-85,473</b>		<b>-86,533</b>

## 15. Payments To And On Account Of Leavers

2009-10 £000		2010-11 £000
12	Refunds to members leaving service	6
-	Payments for members joining state scheme	1
-	Purchase of annuities	-
13,109	Individual transfers to other schemes	11,157
-	Group transfers to other schemes	-
<b>13,121</b>		<b>11,164</b>

## 16. Investment Income

2009-10 £000		2010-11 £000
1,804	Interest from fixed interest securities	1,838
4,801	Income from index-linked securities	5,957
21,250	Dividends from equities	24,655
555	Interest on cash deposits	123
2,968	Income from pooled investment vehicles	5,648
<b>31,378</b>		<b>38,221</b>

## 17. Debtors

2009-10 £000	2010-11 £000
14 Central government bodies	3
29,543 Other local authorities	21,136
- NHS bodies	-
- Public corporations and trading funds	-
9,060 Other entities and individuals	10,917
<b>38,617 Total</b>	<b>32,056</b>

## 18. Creditors

2009-10 £000	2010-11 £000
-606 Central government bodies	-623
-2,454 Other local authorities	-1,412
- NHS bodies	-
- Public corporations and trading funds	-
-7,041 Other entities and individuals	-11,613
<b>-10,101 Total creditors</b>	<b>-13,648</b>

## 19. Related Party Transactions

Related party disclosures are required under IAS 24 to 'ensure that accounts contain the disclosures necessary to draw attention to the possibility that the reported financial position and results may have been affected by the existence of related parties and by material transactions with them'.

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

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

Pension Fund related parties fall into three categories:

- a) Employer related
- b) Member related or
- c) Officers and managers.

### a) Employer Related

There is a close relationship between an employer and the Pension Fund set up for its employees. Each participating employer is therefore considered a related party. The table below details the nature of related party relationships.

Transaction	Description of the Financial Effect
Contributions receivable (Note 13) - £101.633m	Amounts received from employers in respect of contributions to the Pension Fund.
Debtors - £18.718m	Amounts due in respect of employers and employee contributions
Creditors - £1.024m	Amounts due to the Administering Authority in respect of administration expenses.
Administration Expenses	The administration of the Pension Fund is undertaken by officers of the County Council. The cost of their time is charged to the Pension Fund as permitted by the Local Government Pension Scheme (Administration) Regulations 2008. The Council charged the fund £1.238m in 2010/11 (£1.132m in 2009/10) for expenses

	incurred in administering the Fund.															
Long term loans	<p>The Long-Term Loans referred to in note 6 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 9.875% 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 balance outstanding on these loans as at 31 March 2011 is £0.441m (£0.466m 2009/10).</p> <table border="1"> <thead> <tr> <th>Amount outstanding 31 March 2010</th> <th>Employer</th> <th>Amount outstanding 31 March 2011</th> </tr> <tr> <th>£000</th> <th></th> <th>£000</th> </tr> </thead> <tbody> <tr> <td>310</td> <td>Durham County Council</td> <td>292</td> </tr> <tr> <td>156</td> <td>Sunderland City Council</td> <td>149</td> </tr> <tr> <td><u>466</u></td> <td></td> <td><u>441</u></td> </tr> </tbody> </table>	Amount outstanding 31 March 2010	Employer	Amount outstanding 31 March 2011	£000		£000	310	Durham County Council	292	156	Sunderland City Council	149	<u>466</u>		<u>441</u>
Amount outstanding 31 March 2010	Employer	Amount outstanding 31 March 2011														
£000		£000														
310	Durham County Council	292														
156	Sunderland City Council	149														
<u>466</u>		<u>441</u>														
Durham County Council – Administering Authority	<p>Durham County Council administers the Durham County Council Pension Fund on behalf of 68 bodies, including borough, parish and town councils, colleges, statutory bodies and admitted bodies. During 2010/11, the Pension Fund had an average balance of £18.005m (£66.793m in 2009/10) of surplus cash deposited with the County Council. In 2010/11 the County Council paid the fund a total of £0.105m (£0.536m in 2009/10) in interest on these deposits.</p>															

#### b) Member Related

Member related parties include:

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

Due to being the administering authority Durham County Council has a number of members who are on the Pension Fund Committee. These members are subjected to a declaration of interest circulation as with all Durham County Council members. A table of their declarations along with non-Durham County Council Pension fund Committee members are detailed in the following table:

Member	Board Member/Member of the following Town/Parish Councils, School Governing Body, Action Groups etc
John Bailey	Howden-le Wear Community Partnership and Community Centre
Colin Carr	Association of Labour Councillors, Chartered Institute of Waste Management, Beamish, County Durham and Darlington Fire and Rescue Authority, Ouston, Pelton, Roseberry Sports Community College, Institute of Licensing
Jean Chaplow	Save Deerness Sports Centre
Amanda J Hopgood	Newton Hall Community Association
John Lethbridge	Bishop Auckland Town Council, Bishop Auckland and Shildon AAP, Citizens Advice Bureau, King James I School, Aclet Nursery, Woodhouse Community School

Member	Board Member/Member of the following Town/Parish Councils, School Governing Body, Action Groups etc
Nigel Martin	City of Durham Charter Trust, Sherburn Hospital, County Durham Development Company
Peter H May	Beamish, Conservative Party, North Lodge Residents Association, North Lodge Property Owners Association.
Dennis Morgan	Cassop-cum-Quarrington Parish Council, Durham Johnston, City of Durham Charter Trust, Bowburn Community Centre, East Durham AAP, Durham Villages Regeneration Company, DTVA, Friends of Beamish, Weardale Railway Trust
Reginald Ord	Nil Return
Robin J Todd	South Hetton Parish Council and South Hetton Community Association, Beamish
Andy Turner	West Auckland Parish Council, St Helens School
Keith Tallentire	Nil return
Dave Sanders	Nil return
Chris McEwan	Nil return

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

**c) Officers and Managers**

Related parties in this category include:

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

Senior Officer	Related Party Disclosure
Chief Executive	Nil
Corporate Director Resources (retired in 2010/11)	Nil
Corporate Director Resources (appointed in 2010/11)	Nil

There were no transactions between officers and managers of the Pension Fund and the Pension Fund.

**20. Contingent Asset**

**a) Claims for Foreign Income Dividends And Withholding Tax**

The Pension Fund is involved in claims for tax reclaims due to EC legislation. There is a likelihood that the Pension Fund will receive income in the region of £5m should these claims be successful. However, as the outcome of Court cases will determine the reclaim of taxes, neither the amount of income, nor the timing of the income is certain.

**b) Pension contributions on Equal Pay Payments**

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

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

of contributions likely to be received by the Pension Fund are unlikely to have a material effect on the Pension Fund's accounts.

### **Foreign Income Dividends (FIDs)**

Up until 1 July 1997 UK Pension Funds were entitled under UK tax law to reclaim tax credits attaching to dividends received from UK resident companies. Pension Funds which received dividends designated by UK companies as FIDs or dividends received from overseas companies however were not entitled to a refundable tax credit.

Since UK sourced dividends came with a 20 percent tax credit, the net investment income return from UK companies paying such dividends was significantly higher than UK companies paying FIDs or from overseas companies for which no credit was available. As a result there was a disincentive for Pension Funds to invest in such companies.

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

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

### **Withholding Tax (WHT) Claims**

Pension funds, investment funds and other tax exempt bodies across Europe have in recent years been pursuing claims against a number of EU Member States, for the recovery of withholding taxes suffered on EU sourced dividend income. These claims were made in the light of the Fokus Bank (Case E-1/04) ruling in December 2004 on the grounds that the WHT rules of those Member States are in breach of the free movement of capital principle of the EC Treaty.

The legal arguments used to support Fokus claims are strong and rely on existing case law. The EU Commission announced that it is taking action against a number of member states which operate discriminatory rules regarding the taxation of outbound dividends.

A test case in the Netherlands on behalf of a number of UK pension funds was successful and in January 2009 notification from the Dutch Tax Authorities was received that the claims brought by the test claimant for the recovery of withholding taxes going back to 2003 had been accepted and would be repaid in the near future.

Following the ruling in the Netherlands which essentially states that the Dutch tax authorities should not have levied a "withholding tax" (WHT) on dividend payments to tax exempt bodies (such as UK pension funds) located within the European Union but outside the Netherlands, a similar process for reclaiming WHT in other EU Member States is now on-going.

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

## **21. 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. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 specifies additional content for the Statement and requires first publication of this revised document by 1 July 2010. Such a Statement has been adopted by the Pension Fund Committee and is published in the Annual Report.

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

## 22. 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. Such a Statement has been adopted by the Pension Fund Committee and is published in the Annual Report. The Funding Strategy Statement is available on the County Council's website: [www.durham.gov.uk](http://www.durham.gov.uk)

## 23. Additional Voluntary Contributions (AVC)

The Pension Fund offers two types of AVC arrangement:

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

The table below refers only to the money purchase AVCs:

	Value at 31 March 2010 £000	Purchases £000	Sales £000	Change in Market Value £000	Value at 31 March 2011 £000
HECM	2,410	58	205	111	2,374
Prudential	2,770	790	844	-33	2,683
Standard Life	1,401	65	192	99	1,373
<b>Total</b>	<b>6,581</b>	<b>913</b>	<b>1,241</b>	<b>177</b>	<b>6,430</b>

The financial statement above, relating to money purchase AVCs, are not audited by the Audit Commission as they do not form part of the Pension Fund's Net Asset Statement or Fund Account in accordance with regulation 5(2) c of the Local Government Pension Scheme (Management and Investment of Funds) Regulation 1998.

## 24. Transition to International Financial Reporting Standards (IFRS)

As of the 1 April 2010 the Pension Fund has accounted under International Financial Reporting Standards (IFRS), as opposed to UK Generally Excepted Accounting Practices (UK GAAP). This was mandatory for all local authority entities and brings local authority accounting in line with that of other government bodies such as government departments and the NHS.

On assessment of transition there were no material changes to the way transactions and balances were accounted for. This assessment was initially conducted on the financial year ended 31 March 2010 as it was necessary to have IFRS compliant comparatives.

The following table shows the initial IFRS compliant Net Asset Statement for 1 April 2009 and shows the opening position for the 2009 to 2010 financial year that forms the comparatives for these annual accounts. It is identical to the closing Net Asset Statement for the year ended 31 March 2009.

Durham County Council Pension Fund Accounts

	As at 1 April 2009	
	£000	£000
<b>Investments</b>		
Fixed interest securities	25,431	
Equities	529,019	
Index linked securities	284,293	
Managed and unitised funds	289,903	
Cash and short term investments	115,510	
Divident Accruals	5,329	
Tax Recovery	668	
Other Investment Balances	9,881	
		1,260,034
<b>Investment Liabilities</b>		
Other Investment Balances		-14,154
<b>Current Assets</b>		
Contributions due		12,771
<b>Current Liabilities</b>		
Unpaid benefits	-163	
Other	-8,739	
		-8,902
<b>NET ASSETS OF THE FUND AT 1 APRIL</b>		<b>1,249,749</b>

The IFRS compliant Net Asset Statement for the years ended 31 March 2011 with comparatives for the year ended 31 March 2010 are shown as one of the primary financial statements at the beginning of these annual accounts.

## The Council's Responsibilities

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

## The Corporate Director Resources' Responsibilities

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

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

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

The Corporate Director Resources has also: -

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

## **Certificate of the Corporate Director Resources**

I certify that the Statement of Accounts presents a true and fair view of the financial position of the County Council as at 31 March 2011 and its expenditure and income for the year ended 31 March 2011.

Don McLure  
Corporate Director, Resources  
31 October 2011



## Annual Governance Statement 2010/ 11

### 1. SCOPE OF RESPONSIBILITY

Durham County Council (the County 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 County 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 County 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 County 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 County Council has complied with the code and also meets the requirements of Regulation 4 (3) of the Accounts and Audit (England) Regulations 2011 in relation to the publication of an Annual Governance Statement.

### THE PURPOSE OF THE GOVERNANCE FRAMEWORK

The governance framework comprises of the systems and processes, and culture and values, by which the County Council is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the County 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 for the people of County Durham.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the County Council's policies, aims and objectives, to evaluate the likelihood of 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 County Council for the year ended 31 March 2011 and up to the date of approval of the statement of accounts.

### THE GOVERNANCE FRAMEWORK

This sets out the key documents and processes that determine the way the County Council is directed and controlled to meet the six core principles of the CIPFA/ SOLACE Framework. The key elements of the systems and processes that comprise the County Council's governance arrangements include:

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

The County Durham Partnership (CDP) is the strategic partnership for the County. The Sustainable Community Strategy 2010-2030 (SCS) produced by the County Council in conjunction with its partners on the CDP demonstrates its shared long-term vision for the future of County Durham. This vision for County Durham, namely 'Altogether Better Durham' outlines two areas of focus – **Altogether Better Place** and **Altogether Better for People** and five priority themes, which represent the major issues identified by residents in the Place Survey:

- ❖ Altogether wealthier;
- ❖ Altogether better for children and young people;
- ❖ Altogether healthier;
- ❖ Altogether greener;
- ❖ Altogether safer.

A comprehensive timetable of consultation was in place to develop the SCS and the accompanying three year action plan, and progress is monitored quarterly by the Cabinet and the CDP to ensure that the vision becomes a reality. It is based on consideration of a broad range of information and evidence and consultation with a wide range of stakeholders. Since the abolition of the National Indicator set of performance measures due to changes in national policy, work has progressed on developing a locally led performance framework for the CDP to monitor progress. This will be the key framework for measuring performance following the abolition of the Local Area Agreement.

The County Council Plan contains the County Council's corporate priorities and the key actions to take in support of delivering the longer term goals in the SCS and the County Council's own improvement agenda. The County Council Plan is supported by a series of Service Plans at a Service Grouping level which details the planned actions to deliver the County Council's vision. Priorities within the County Council Plan are based on:

- ❖ The SCS;
- ❖ Current performance;
- ❖ External inspection findings including Annual Audit and Inspection Letter, Care Quality Commission annual performance assessment of social care for adults, and a number of countywide inspections carried out by the Audit Commission.

Other governance processes and procedures, such as the Asset Management Plan and Partnership Governance Framework, also make clear links to the County Council priorities, to ensure that the impact on achieving them is considered when decisions are made.

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

The CDP annually review the SCS to ensure that it remains informative and valuable, and renew it every three years to ensure that our plans remain realistic, achievable within our current resources and soundly based, taking account of national and international developments and other changes. Over 6,500 residents participated in the Countywide resident survey undertaken during the year and provided the County Council with excellent feedback on their views on County Council services.

The County Council considers the governance implications of its actions, and annually reviews its Code of Corporate Governance to ensure that it remains consistent with the principles of the CIPFA/SOLACE Framework – "Delivering Good Governance in Local Government".

The County Council has also implemented a system of Extended Management Team meetings consisting of Chief Executive, Directors and Heads of Service which included a programme of activity linked to the strategic management of the County Council.

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

The County Council Plan, the SCS, Area Action Partnerships, and the Medium Term Financial Plan (MTFP) contribute into the corporate performance management arrangements, and the County Council has a framework of quarterly reporting to Cabinet and Overview and Scrutiny on corporate performance. A Performance Management Report is produced quarterly by all Service Groupings and has been improved significantly during the year. It includes a summary of achievements and identifies areas with significant performance challenges where a more in depth analysis of performance and improvement work should be carried out.

Reports on the budgetary control statement are also considered quarterly by Cabinet. Supporting this, improvements to service delivery are identified and monitored through service improvement plans. The Improvement and Planning Group (IPG) meets fortnightly to discuss County Council performance management issues. The County Council continually reviews its performance management frameworks, both corporately and across service groupings, and reviews the corporate basket of indicators following the adoption of the County Council Plan and Service Plans. It has adopted a new corporate basket of indicators which will present a balanced scorecard of performance across five types of indicator. Similarly, the Delivery & Improvement Group, which reports to the CDP has been transformed into two groups, namely a

performance group that will meet quarterly to consider performance, and a strategic group made up of high level officers from the County Council, Police, Fire and Health which meets monthly. This latter group considers how key public sector plans for change align, and where efficiencies and greater value for money can be achieved through strategic integration, shared services and joint commissioning.

Significant work has taken place in 2010/11 to update the County Council's Medium Term Financial Plan 2011-15 (MTFP) to take account of the large reductions in government grant funding. Savings targets have been developed for each service grouping after taking account of grant reductions and other significant cost pressures. Savings of £66m need to be delivered in 2011/12 and a comprehensive schedule of reviews has been programmed which are designed to achieve the necessary savings to enable us to deliver a balanced budget and MTFP. Detailed and frequent monitoring of this programme is being undertaken by the Change Co-ordination Group, CMT and Cabinet.

All complaints are logged and recorded on the customer relationship management system. The Standards Committee review a quarterly report indicating the number and type of complaints (not relating to the members code of conduct), response times and outcomes. It also states how services have changed practices, procedures or policies as a result of complaints received. These reports can be found on the County Council's intranet and website.

The County Council's employee performance appraisal arrangements, which are designed around a series of competencies, are a key method of assessing the individual performance of officers, and addressing areas where performance can be improved. There is a commitment to introduce 360° appraisals for senior management (Heads of Service and above).

To enable greater local participation in determining the priorities for service delivery, the County Council has fourteen Area Action Partnerships (AAPs) covering the whole County. Working via a series of Task and Finish Groups, multi-agency AAPs are fully engaged with identifying and resolving local priorities, and utilise locality budgets allocated to each AAP to drive improvements to service quality. Progress on achieving these improvements is monitored by the AAP Boards.

A Single Equality Scheme has been implemented during the year, and actions from this plan are included in Service Plans.

The performance and quality of service delivery of the Community and Voluntary sectors is measured against a standard Service Level Agreement that they all work to.

### **3.4 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 key document which clearly describes roles and responsibilities is the County Council Constitution. This includes the individual roles and responsibilities of the:

- ❖ Leader of the Council;
- ❖ Deputy Leader of the Council;
- ❖ Executive Member;
- ❖ Executive Support Member;
- ❖ Chairman of the Council;
- ❖ Vice Chairman of the Council;
- ❖ Chairman of a Committee;
- ❖ Vice Chairman of a Committee;
- ❖ Opposition Group Leader;
- ❖ Frontline Councillor (Community Leadership and Corporate Roles);
- ❖ Corporate Parenting Panel Member;
- ❖ Non-Elected Members (for Audit Committee, Overview & Scrutiny Committee, Pensions Committee and the Standards Committee);
- ❖ Officers of the Council, including the Chief Executive and other statutory senior management appointments.

Together with the responsibilities for functions such as the:

- ❖ Responsibility for Council Functions (which sets out those matters specifically reserved for collective decision of the Council);
- ❖ Responsibilities for Executive Functions;
- ❖ Officer Scheme of Delegation;
- ❖ Joint Committee Arrangements;
- ❖ Overview and Scrutiny arrangements;
- ❖ The Standards Committee;
- ❖ Budget Framework procedures.

To provide clarity for new councillors regarding their role, responsibilities and how to perform their duties, a Councillor Compact is in place. Specifically it covers:

- ❖ The role of the Elected Member;
- ❖ Frontline Councillor Roles;
- ❖ Executive Roles;
- ❖ Non-Executive Roles;
- ❖ Membership of Regulatory Committees;
- ❖ Partnership Working.

The Corporate Management Framework sets out the collective role and management arrangements for the Corporate Management Team and Extended Management Team.

Members and Officers work together on the workload of the Cabinet which is managed through a system of Cabinet pre-agenda meetings. To support this, Corporate Directors hold regular briefing sessions with Cabinet Portfolio Members and their support Members, and there are clear principles of how media relations work with elected Members.

When working in partnership, the County Council ensures that Members are clear about their roles and responsibilities both individually and collectively in relation to the partnership and to the authority. It also ensures that there is clarity about the legal status of the partnership and ensures that representatives of the organisations both understand and make clear to all other parties the extent of their authority to bind their organisation to partner decisions. Formal guidance is provided for Members when representing the County Council on outside bodies and partnerships.

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

The key elements of the County Council's approach are detailed in the Constitution and include:

- ❖ The Code of Conduct for Elected Members, Voting Co-opted Members and Independent Members of the Standards Committee;
- ❖ The Code of Conduct for Employees;
- ❖ The Code of Practice for Members and Officers dealing with planning matters;
- ❖ The Statutory Declaration of Acceptance of Office, which all Members are required to sign. This includes an undertaking to observe the requirements of the Code of Conduct in operation at the time. Similar arrangements exist for independent members of the Standards Committee and Voting Co-opted members of the Scrutiny Committee.

The County Council's partnership governance framework also makes clear reference to Codes of Conduct applying to any partnership working.

Any breach of the employee code is investigated in accordance with the County Council's disciplinary procedures and any breach of the Member code is dealt with under Standards Committee Procedures. All complaints under the Members code of conduct are maintained and monitored by the Monitoring Officer and her staff. Quarterly statistics containing information about the effectiveness of local standards arrangements are submitted to the Standards Committee by the Monitoring Officer, returns to Standards for England no longer being required.

The Register of Gifts, Interests and Hospitality for Members is available online. The Code of Conduct for Members requires Members (including Co-opted Members with voting rights):

- ❖ to register in the Authority's Register of Interests details of their personal interests;
- ❖ who become aware of any changes to his/her interests to provide details of that change to the Monitoring Officer within 28 days;
- ❖ to review their declarations of standing interests on an annual basis.

Gifts and hospitality and conflicts of interest are registered as and when required throughout the year. In terms of disclosure of gifts, hospitality and interests, Member declarations/ registrations are maintained and monitored by the Monitoring Officer and her staff.

The Monitoring Officer issues advice and guidance (usually on an annual basis) reminding Corporate Directors of their responsibilities under the Code in relation to gifts and hospitality. Staff declarations are maintained and monitored by their Head of Service.

The County Council's Standards Committee has an independent Chair and has been given a deliberately broad remit, including all complaints handling and oversight of other relevant codes and protocols, so as to reinforce the County Council's commitment to these issues. In accordance with the Standards Committee (England) Regulations 2008, the role of the Committee has been extended to include the local assessment of Member Conduct complaints.

### **3.6 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 County Council's Constitution sets out how the County Council operates, how decisions are made and the procedures which are followed to ensure that these are effective, transparent and accountable to local people. The Constitution is reviewed and amended on an annual basis as required. A Committee Management System has been implemented to streamline the process of managing formal reporting.

The Officer Scheme of Delegation is also reviewed annually in line with the review of the County Council's Constitution.

The County Council operates a risk management approach that aids the achievement of its strategic objectives, supports its decision making processes, protects the County Council's reputation and other assets and is compliant with statutory and regulatory obligations. The County Council annually reviews its risk management strategy and policy, which outlines the formal approach to identifying and managing risk. Policy Framework Rules are in place which ensure that policies are developed in line with the values of the County Council.

### **3.7 Ensure the Authority's financial management arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010)**

The County Council has appointed the Corporate Director Resources as Chief Financial Officer (CFO) and Section 151 Officer. The CFO, who is a member of the Corporate Management Team and reports directly to the Chief Executive, is professionally qualified, and has the skills, knowledge, experience and resources to perform effectively in both a financial and non-financial role. The CFO is also the designated lead officer for the Audit Committee, the Corporate Risk Management Group and External Audit. To support these roles, the finance function is adequately resourced to fulfil its duties, and a structure is in place which provides a line of professional accountability for finance staff throughout the County Council.

Key CIPFA codes, such as the Code on a Prudential Framework for Local Authority Capital Finance, and the Treasury Management Code, are complied with. Reports on the budgetary control statement, and quarterly outturn reports, are regularly presented to Cabinet and Corporate Management Team.

The CFO is involved in all Corporate Management Team discussions, and reviews all reports to Cabinet which have financial implications. The CFO also provides an opinion under section 25 of the Local Government Act 2003 on the reserves for the County Council, which Members consider when setting the budget.



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

The County Council has 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, Risk Management, Corporate Governance and making recommendations concerning relevant governance aspects of the Constitution.

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

The Constitution takes into account all relevant legislation including the Local Government Act 1972, the Local Government Act 2000, the Local Authorities (Functions and Responsibilities) (England) Regulations 2000 and the Local Government and Public Involvement in Health Act 2007. The Constitution is reviewed annually by the Constitution Working Group (CWG). This group consists of the lead Members from each political party and is chaired by the Leader of the Council. It is supported by the Chief Executive and the Head of Legal and Democratic Services as the Council's monitoring officer, and other officers as required, and makes recommendations to full Council on changes required to the Constitution. Externally audited accounts are published in the Annual Statement of Accounts.

All reports written by officers include the financial and legal implications in the decisions they are asking Cabinet or Committees to make, and the Constitution states that the Chief Financial Officer can bring influence to bear on all material decisions.

The Constitution states that the Head of Legal and Democratic Services is the senior officer responsible to the authority for ensuring that agreed procedures are followed and that all applicable statutes and regulations are complied with. This is supported by the independent assurance work of Internal Audit. Information is provided for senior officers to understand what they can or cannot do under the Scheme of Delegation.

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

The Confidential Reporting Code (Whistle blowing policy) is part of the County Council's Constitution. Together with the County Council's complaints procedures, they provide mechanisms for the public to raise concerns about potential breaches of conduct. They are accessible on the County Council's website, are communicated to all staff and Members, and have been brought to the attention of School Governing Bodies. These procedures also form part of the County Council's approach to counter-fraud and are linked to the County Councils' Counter Fraud and Corruption Strategy. An awareness campaign, "combating fraud through awareness" has been developed and encourages the public, staff, Members, contractors and the County Council's partners to speak up and report any suspected irregularity.

The Standards Committee regularly monitors complaints handling by Services, including dip-sampling of completed investigations. It reports annually to the Full Council on its business which includes details of Member conduct complaints and Local Government Ombudsman investigations.

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

The County Council has established systems and processes for identifying the development needs of Members and senior officers. It does this generally by:

- ❖ Operating robust recruitment and selection processes;
- ❖ Implementing a Member Development Strategy;
- ❖ Maintaining the Investor in People Standard;
- ❖ Consistent application of the People and Organisational Strategy;;
- ❖ Cascading regular information to Members and Staff;
- ❖ Investing in Member and Officer Leadership Training;

- ❖ Providing resources that support Member and Officer Development;
- ❖ Promoting schemes and supporting ongoing professional development;
- ❖ Personal Development Plans;
- ❖ Providing training to help Members understand their role on committees;
- ❖ Assessing personal development needs as part of the induction process for both Members and officers;
- ❖ Introducing an Employee Support Programme to support employees through the restructuring process associated with the MTFP outcomes

A Member Training and Development Strategy and Member Learning and Development Programme is in place. To support this, the Member Development Group has been established to oversee and co-ordinate Members training needs. This meets six times a year to discuss training and development initiatives for elected Members.

A training programme, based on needs analysis, has been developed, "Building Resilient Organisations Programme", for Corporate Management Team (CMT) and extended management team members, and other senior managers have the opportunity to undertake the North East Excellent Managers programme. Individual personal development of senior officers is addressed as part of the County Council's employee performance appraisal arrangements developed with staff and is designed around a series of competencies. There is also a commitment to introduce 360° appraisals for senior management (Heads of Service and above).

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

A full programme of communication is in place involving presentations, press releases, articles in local magazines and partners publications. The County Council itself publishes Durham County News, a community magazine which is provided to all households across the County four times per year. This is used to raise public awareness and promote consultation and engagement with the Community. To make information more accessible for people who have difficulty reading, the County Council website is speech enabled via 'Browsealoud'.

As part of its commitment to greater transparency, the County Council publishes details of specific expenditure on the Internet.

A climate of openness has been encouraged by holding regular Cabinet meetings at various locations throughout County Durham including former district council offices. The County Council responds to the views of stakeholders and the community in a number of ways including:

- ❖ Publishing a forward plan of key decisions;
- ❖ During the MTFP process, more than 8,000 people either participated or responded to the consultation.
- ❖ Encouraging and supporting the public in submitting requests for aspects of the County Council services to be scrutinised;
- ❖ Providing to the public the opportunity to ask questions or make representations at full Council and regulatory committees;
- ❖ Implementing a protocol for managing e-petitions.
- ❖ Undertaking a Countywide resident survey in which over 6,500 residents participated;
- ❖ Designing AAPs in consultation with the public to ensure that they are recognised as representing our natural communities. Each AAP has its own Plan, Board, budget and officer support structure, and are used to identify priorities for each area. They are consulted on the development of our MTFP to identify local priorities for action, test strategic priorities at a local level and seek innovative ideas from local people on how to realise efficiencies by working more closely with our partners. Community development officers attached to AAPs work closely with communities;

- ❖ Consulting effectively with children and young people, service users and carers and key client groups to help plan and be involved in the design, delivery and evaluation of local services;
- ❖ Consulting with staff and Trade Unions;
- ❖ Reviewing and improving 'Open Doors', a responsive staff engagement mechanism which captures and quickly responds to questions, compliments, suggestions and complaints raised by staff.
- ❖ The Engagement and Third Sector team, who support the County Council's approach to community engagement and support Members in their community leadership role.

The CDP has developed a County Durham Partnership Community Engagement and Empowerment framework to shape and support a common vision and approach for community engagement by partners in County Durham, so that people feel able to influence decision making.

### **3.13 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 County Council's overall governance arrangements**

As the strategic partnership for the County, the CDP is the lead umbrella partnership for most other partnerships in County Durham, and the Leader of the Council is the chair of the CDP.

The County Council has a strong commitment to working with partners to meet the needs of its communities, and involves partners when developing the County Council's own three year MTFP, working with key agencies to develop complementary proposals and consulting on a joint basis with the Police and County Durham & Darlington NHS Foundation Trust. The County Council has developed a partnership governance framework (PGF) to enable partnerships to be identified, recorded and reported upon corporately and to provide a mechanism for their effectiveness to be assessed. The County Council is establishing joint assurance functions with our partners to improve accountability and data quality. A report is presented bi-monthly to Cabinet on the work of the CDP, including input from each of the AAP's.

To strengthen community governance, the AAP boards comprise seven Members of the public selected through open recruitment; seven Members chosen from partner agencies working in the area and seven selected from local elected Members - including town and parish councillors - on a politically balanced basis for that area. They have a rotating chair, so that they are not indefinitely controlled by the Unitary administration.

The County Durham Compact provides a framework for partnership and engagement with the voluntary and community sector.

The County Council's Codes of Conduct also apply to its partnership working.

## **REVIEW OF EFFECTIVENESS**

The County 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 County Council who have responsibility for the development and maintenance of the governance environment, the annual report of the Manager of Internal Audit and Risk, and also by comments made by the external auditors and other review agencies and inspectorates.

The process for maintaining and reviewing the effectiveness of the corporate governance framework is outlined below:

### **The Executive**

The County Council is responsible for appointing the Leader of the Council for the remainder of the term of the Council, and the Cabinet, who are appointed annually, 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.



### Chief Financial Officer

The principles outlined in the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010) are complied with by the County Council.

### Overview and Scrutiny Committee

The County Council maintains an Overview and Scrutiny Management Board 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.

### Standards Committee

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

The Audit Committee contributes to this review by seeking assurance that the County Council's governance arrangements are effective. It does this by:

- ❖ Reviewing the Annual Governance Statement and how it has been prepared;
- ❖ Reviewing the County Council's Statements of Accounts and how they have been prepared;
- ❖ Monitoring progress made on improvements identified from the previous year's Annual Governance Statement;
- ❖ Reviewing the effectiveness of the system of internal audit;
- ❖ Reviewing regular risk management and internal audit progress reports;
- ❖ Reviewing the Annual Internal Audit Report and Risk Management Report;
- ❖ Reviewing reports from the external auditor;
- ❖ Maintaining an awareness of the key processes and policies in place, and how they are reviewed, that underpin the corporate governance framework.

### Change Co-ordination Group

The Change Co-ordination Group (CCG) which is chaired by the Corporate Director Resources, co-ordinates and oversees the County Council's corporate assurance arrangements. It does this by:

- ❖ Preparing and maintaining the County Council's Code of Corporate Governance as a formal framework for the County Council's governance arrangements;
- ❖ Reviewing the systems, processes and documentation to determine whether they meet the requirements of this Code, reporting any breaches and recommending improvements;
- ❖ Preparing an Annual Governance Statement to demonstrate how far the County Council complies with the principles of good governance and recommending improvements, to be published in the County Council's Annual Statement of Accounts.

### Internal and External Audit

Internal and External Audit provide independent assurance on the effectiveness of the corporate governance framework.

The review was also informed by a statement provided by each Corporate Director and the Assistant Chief Executive commenting on the effectiveness of the County Council's governance arrangements generally and how they impacted on their service areas. These included consideration of the effectiveness of internal controls.

Significant issues arising from the review of the effectiveness, where improvements are needed, are outlined in section 5 below. These will be included in an action plan and will be regularly reviewed and monitored.

## SIGNIFICANT GOVERNANCE ISSUES

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit Committee. The County 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 Annual Governance Statement (AGS) for 2009/10, an action plan, containing the following recommendations was produced. Progress made in implementing each recommendation, as outlined below, was confirmed by CCG and formed the starting point of the work to produce the 2010/11 AGS.

- **Continue the positive direction of travel by implementing the planned control improvements to financial systems.** In addition to improvements tracked through the Service Improvement Planning process, an Action Plan was developed which looked to address a range of issues identified during the annual external audit in relation to internal control, and this Action Plan is monitored via the Audit Committee. In identifying these issues, the extent of change following local government re-organisation across the County Council in the last year should not be underestimated. It has been particularly challenging for the County Council to maintain effective controls over financial systems in the period of migrating to a single financial system (Oracle) for the new County Council. One disappointing outcome of this has been delays in consolidating financial information together to provide a single set of final accounts, which has resulted in the final Statement of Accounts being agreed later than the statutory deadline. A further programme of work and actions is ongoing in order to ensure continuous improvements are made in this area.
- **Improve the County Council's approach to tackling fraud.** The Counter Fraud and Corruption Strategy and Policy, and the Fraud Response Plan, were reviewed and approved by the Audit Committee in November 2010. Fraud awareness among Officers, Members and the wider community has been raised through a number of channels. Reporting arrangements have been improved, and will be further improved after the new Revenues and Benefits system is implemented in 2011.
- **Improve awareness of, and accessibility to, key policies and documents.** Policy information has been communicated throughout the year. However, as priority has focused on the development of the County Council website, the target implementation dates for the remaining actions were revised and have been carried forward into the action plan for 2011/12.
- **Improve awareness of senior officers of the parts of the constitution relevant to their role, including the scheme of delegated powers, and the legal implications of their decisions.** Improvements to deal with gaps in the scheme of delegated powers that had come to light have been incorporated into the County Council Constitution. Delegated decisions are now recorded on the new modern.gov system.
- **Implement policies for Records Management and Information Management and Governance.** During the year, a Records Management policy and a Data Protection policy have been implemented. As planned, further policies will be implemented in this area during 2011, following which the County Council will develop a draft Information Management and Governance strategy by June 2012. This action has been carried forward into the action plan for 2011/12.
- **Implement a Single Equalities Scheme.** The Single Equalities Scheme was approved by Cabinet in July 2010, and actions from the Scheme have been built into relevant Service Plans and are monitored through corporate quarterly reporting.
- **Improve the management by the Services of their contract and supplier relationships.** The Contract Procedure Rules have undergone an internal review, and guidance has been issued from Corporate Procurement to service managers drawing attention to the County's procurement procedures. A draft Corporate Supplier Engagement Strategy, to be implemented in both service areas and the corporate centre, has been drafted, but will not be finalised until the impact of the Localism Bill and central government policy on social enterprises have been taken into account.
- **Implement revised Financial Management Standards.** Work has continued during the year to develop the standards. However, these remain in draft, and will not be finalised until the Unitisation

structure of the County Council's finance function is completed during 2011. This action has been carried forward into the action plan for 2011/12.

- **Further embed Officer and Member Codes of Conduct.** Awareness of the Officer Code of Conduct was raised through a number of channels, such as articles in the staff magazine. Member seminars were held in October 2010 to explain the Member Code of Conduct. However, further work is on hold until central government confirms what it intends to do with the Code in the future, and this will be addressed when the County Council reviews the ethical framework in 2011/12.

Based on internal audit work undertaken during 2010/11, the Manager of Internal Audit and Risk has issued a moderate overall assurance opinion on the adequacy and effectiveness of internal control operating across the County Council in 2010/11. This moderate opinion ranking provides assurance that there is basically a sound system of control in place, but there are weaknesses and evidence of non-compliance. Control objectives are often achieved.

CCG also sought assurance on the effectiveness of the County Council's governance arrangements from each of the County Council's Corporate Directors and the Assistant Chief Executive. As a result of this exercise, and the work of both Internal and External audit, a number of issues have been identified where improvement in the County Council's governance arrangements are required. The most significant issues, agreed by the Corporate Management Team (CMT) at its meeting on 22 June 2011, and as reported to the Audit Committee on 30 June 2011, together with a summary of action taken or being taken to address each issue, are detailed below.

#### **Continue the positive direction of travel by implementing the planned control improvements to financial systems.**

A number of key actions to address the financial systems weaknesses have been incorporated into the Resources Service Improvement Plan or the Corporate Improvement Plan, and progress on these improvement plans will be monitored by Corporate Management Team throughout the year. This action has been carried forward from the 2010/11 Annual Governance Statement.

#### **2. Pay Harmonisation and Single Status.**

A project is in place to develop and implement a pay structure for the County Council and resolve outstanding pay harmonisation and single status issues, which have been complex given the implications of TUPE following Local Government Reorganisation.

#### **3. Implement an Information Management and Governance Strategy**

The County Council will develop a draft Information Management and Governance strategy by June 2012. This action has been carried forward from the 2010/11 Annual Governance Statement.

#### **4. Implement revised Financial Management Standards.**

The County Council is developing Financial Management Standards to supplement the very high level roles and responsibilities defined in the financial procedures rules contained in the Constitution. Financial management standards set out in more detail how the procedure rules will be implemented to help embed sound financial management across the County Council. This action has been carried forward from the 2010/11 Annual Governance Statement.

#### **5. Business Continuity.**

The County Council will develop a robust ICT architecture without single points of failure, and with data stored securely by implementing a new backup strategy across two physically segregated server environments.

**6. Changing Government Policy on the Ethical Framework.**

Following the abolition of the current Standards regime, the County Council will review the ethical framework and implement a new compliant, fit for purpose and workable ethical structure for the County Council. Supporting this, advice and guidance will be provided to Members and Officers on the new ethical structure.

**7. Improve accessibility to key policies.**

The County Council will develop a framework for ensuring that the latest versions of all key policies are accessible and are up-to-date. This action has been carried forward from the 2010/11 Annual Governance Statement.

**8. Performance Management of Integrated Teams.**

The Children's Trust intends to transform services for children and young people by developing services in local communities, for local communities. These services will be easy to access, effective and integrated where appropriate and will deliver improved outcomes for children and families in County Durham. To support this, a Performance Management Framework for Integrated teams will be implemented.

**9. Succession Planning.**

Following year one MTFP workforce changes, policies will need to be implemented to ensure effective succession planning in the future. This is a long-term goal, but after the completion of the Unitisation of Human Resources function, plans will be developed by April 2012 to take this forward.

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

George Garlick  
Chief Executive

Don McLure  
Corporate Director Resources

**Academy School**

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

**Accounting Period**

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

**Accounting Policies**

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

**Accounting standards**

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

**Accruals**

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

**ACE**

Assistant Chief Executives Service

**Actuary**

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

**Actuarial Basis**

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

**Actuarial Gains**

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

**Actuarial Losses**

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

**Added Years**

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

**Admitted Bodies**

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

**Annual Governance Statement**

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

**Amortisation**

Amortisation is the equivalent of depreciation for intangible assets.

**Apportionment**

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

**Appropriation**

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

**Assets**

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

**Area Based Grant**

A general grant, allocated by Central Government. There is no restriction on how the grant is spent.

**Assets Held for Sale**

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

**Assets Under Construction**

Capital expenditure on assets, where the work is incomplete.

**Associate**

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

**Audit of Accounts**

An independent examination of the County Council's financial affairs.

**Available for Sale Financial Instruments Reserve**

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

**AWH**

Adult, Wellbeing and Health Service

**Balance Sheet**

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

**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.

**Bid Price**

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

**Billing Authority**

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

**Bonds**

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

**Borrowing**

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

**Budget**

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

**Building Schools for the Future (BSF)**

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

**CLG**

Department for Communities and Local Government

**Capital Adjustment Account (CAA)**

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

**Capital Charge**

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

**Capital Expenditure**

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

**Capital Financing Costs**

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

**Capital Financing Requirement (CFR)**

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

**Capital Grants Unapplied Account**

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

**Capital Receipts**

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

**Cash Flow Statement**

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

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

The principal accountancy body dealing with local government finance.

**Code**

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

**Collection Fund**

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

**Community Assets**

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

**Componentisation**

The process by which assets are analysed into various components that have significantly different estimated lives. The County Council's accounting policy is detailed in paragraph 19 of the Accounting Policies.



**Comprehensive Income and Expenditure Account (CIES)**

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

**Constitution**

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

**Contingent Asset**

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

**Contingent Liabilities**

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

**Corporate Democratic Core**

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

**Corporate Governance**

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

**Council Tax**

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

**Creditors**

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

**CSR**

Comprehensive Spending Review.

**CYPS**

Children and Young Peoples' Service

**Debtors**

Persons or bodies who owe sums to the County Council.

**Dedicated Schools Grant (DSG)**

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

**Deficit**

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

**Defined Benefit Scheme**

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

**Delegated Budgets**

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

**DfE**

Department for Education

**Depreciation**

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



**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 Instruments Adjustment Account (FIAA)**

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

**Fitch**

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

**Fixed Interest Securities**

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

**Formula Grant**

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

**Foundation Schools**

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

**Futures**

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

**GAAP**

Generally Accepted Accounting Practice.

### **Going Concern**

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

### **Government Grants**

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

### **Group Accounts**

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

### **Historical Cost**

The original purchase cost of an asset.

### **Housing Benefit**

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

### **Housing Revenue Account (HRA)**

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

### **IAS**

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

### **ICT**

Information and Communications Technology

### **IFRIC**

Interpretations originated from the International Financial Reporting Interpretations Committee.

### **IFRS**

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

### **Impairment**

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

### **Index Linked Securities**

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

### **Infrastructure Assets**

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

### **Intangible Assets**

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

**Inventory**

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

**Investment**

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

**Investment Properties**

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

**IPSAS**

International Public Sector Accounting Standards Board.

**Joint Venture**

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

**LAAP Bulletin**

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

**Leasing**

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

**Levy**

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

**Liabilities**

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

**LGR**

Local Government Re-organisation.

**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.

**Major Repairs Allowance (MRA)**

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

**Managed Funds**

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

**Materiality**

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

**Market Value**

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

**Mid-market price**

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

**Minimum Revenue Provision (MRP)**

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

**Minority Interest**

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

**Moody's**

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

**Movement in Reserves Statement**

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

**MTFP**

Medium Term Financial Plan.

**Myners' Principles**

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

**National Non-Domestic Rates (NNDR)**

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

**Net Book Value**

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

**Net Cost of Service**

The actual cost of a service to the 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 non-current 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 Current Assets**

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

**Non Distributed Costs**

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

**Non-Operational Assets**

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

**NS**

Neighbourhood Services

**Operating Lease**

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

**Operational Assets**

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

**Outturn**

Actual expenditure within a particular year.

**PCT**

Primary Care Trust.

**Past Service Cost**

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

**Portfolio**

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

**Precept**

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

**Precept Income**

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

**Prior Period Adjustment**

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

**Private Finance Initiative (PFI)**

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

### **Property, Plant and Equipment (PPE)**

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

### **Provisions**

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

### **Prudential Code**

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

### **Public Works Loans Board (PWLB)**

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

### **RED**

Regeneration and Economic Development Service.

### **Related Party**

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

### **Remuneration**

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

### **RES**

Resources Service

### **Reserves**

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

### **Revaluation Reserve**

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

### **Revenue Contributions**

See 'Direct Revenue Financing'

### **Revenue Expenditure and Income**

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

### **Revenue Expenditure Funded from Capital Under Statute**

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

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

**Revenue Support Grant (RSG)**

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

**RICS**

Royal Institution of Chartered Surveyors

**Section 151 Officer**

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

**SIP**

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

**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.

**Subsidiary**

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

**Supported Capital Expenditure (SCE)**

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

**Surplus**

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

**Surplus Properties**

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

**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 non-current assets that are yet to be spent on other capital projects.

**Unusable Reserves**

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

**Usable Reserves**

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

**Useful Life**

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

**Variance**

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

**Work-in-Progress**

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



**Audit Committee**

**31 October 2011**

**Annual Governance Reports 2010/11**



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**Report of Don McLure, Corporate Director Resources**

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**Purpose of the Report**

- 1 The purpose of this report is to advise Members that the external auditor will present the Durham County Council 2010/11 Annual Governance Report to this meeting. The report will be circulated to Members at the earliest opportunity.
- 2 The Annual Governance Report in relation to the Durham County Council Pension Fund, tabled at the meeting of the Committee on the 29 September, will also be presented for Members consideration. A copy is attached for Members assistance.

**Recommendation**

- 3 The Audit Committee note this report.

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**Contact: Avril Wallage Tel: 0191 383 3537**

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## **Appendix 1: Implications**

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**Finance –**

None

**Staffing -**

None

**Risk -**

None

**Equality and Diversity -**

None

**Accommodation -**

None

**Crime and Disorder -**

None

**Human Rights -**

None

**Consultation -**

None

**Procurement -**

None

**Disability Discrimination Act -**

None

**Legal Implications -**

None

# Annual governance report

Durham County Council Pension Fund

Audit 2010/11



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## Traffic light explanation

Red ■ Amber ◆ Green ●



# Key messages

**This report summarises the findings from the 2010/11 audit which is substantially complete. It includes the messages arising from my audit of your financial statements.**

## My findings

Unqualified audit opinion



Weaknesses in internal control



## Audit opinion and financial statements

- Subject to the completion of my final review and audit closure procedures and completion of our review procedures on the Pension Fund Annual Report my audit is substantially complete.
- We will provide a verbal update to members of the Audit Committee with regard to these matters at the meeting on 29 September.
- Subject to the satisfactory resolution of these matters, and any matters raised by the Committee, I propose to give an unqualified audit opinion on the financial statements. I cannot issue my opinion

until the audit of the Council's main financial statements has been completed. This is because the pension fund statements form part of the Council's financial statements.

- The draft financial statements were submitted for audit by the due date, were substantially complete and were supported by good working papers in line with my expectations. They were free from material error except for the need for a £40m adjustment in Note 6 to both the purchase and sales of investments as noted in the table of adjustments in Appendix 2. There is no impact on either the Net Asset Statement or Fund Account.
- In addition, during the course of my audit I identified some missing or incomplete disclosures which officers have adjusted.
- Overall I have not identified any significant weaknesses in the pension fund's internal controls.

# Before I complete my audit

## I confirm to you

My report includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.

### **Independence**

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence. I can also confirm there were no relationships resulting in a threat to independence, objectivity and integrity.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Fund during 2010/11.

## I ask you to confirm to me

### **I ask the Audit Committee to:**

- take note of the matters which are set out in this report; and
- approve the letter of representation, provided alongside this report, on behalf of the Council and Fund before I issue my opinion.

## Audit fees

I have completed my work on the pension fund audit within the planned fee of £42,500 reported in my opinion audit plan.

# Financial statements

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**Subject to completion of my final review and audit closure procedures, I propose to give an unqualified opinion on the pension fund financial statements. The financial statements submitted for audit were free from material error. During the course of my audit I identified the need for one material amendment to Note 6 and also some disclosure matters that have now been adjusted.**

## **Opinion on the financial statements**

Subject to completion of my final review and audit closure procedures, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft report.

## **Errors in the financial statements**

During the course of my audit I identified various amendments to the disclosures within the financial statements (further details are set out in the table on page 7). The Council has amended the pension fund financial statements for these errors.

# Financial statements

**The Pension Fund's financial statements are important means by which the Fund accounts for its stewardship of public funds. The Council has final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.**

In planning my audit I identified risks and areas of judgement that I have considered as part of my audit.

## Key audit risk and our findings

### Key audit risk

#### 1. Transition to International Financial Reporting Standards

The Council is required to prepare the 2010/11 pension fund financial statements according to International Financial Reporting Standards (IFRS), including a re-statement of 2009/10 balances where applicable.

This poses a risk of material misstatement to the pension fund financial statements.

### Finding

I have:

- reviewed the Council's approach to the implementation of IFRS; and
- tested the accounting entries and disclosures relating to IFRS.

The draft financial statements did include an opening net asset statement as at 1/4/2009 as required under IFRS, but some adjustments were needed and the Council has amended the pension fund financial statements for these.

There were no other material differences to the pension fund's financial statements on transition to IFRS. I am satisfied that the pension fund financial statements have been properly compiled according to IFRS.

#### 2. Disclosures in the financial statement

In the previous year's draft pension fund financial statements, some of the disclosures required by the Statement of Recommended Practice (SoRP) were missing or incomplete.

This poses a risk of incomplete disclosures in the 2010/11

I have reviewed the disclosures in the pension fund financial statements.

The draft financial statements were submitted for audit were substantially complete, however disclosures were missing or incomplete in the following areas:

- accounting policies for Transfers In and Out, the valuation basis for Index Linked securities and unquoted pooled investment vehicles;



## Key audit risk

pension fund financial statements.

## Finding

- the notes to the accounts are unclear as to which investments are valued at bid, as required by IFRS, and which are valued at mid-market; and
- the note on estimates under accounting policies (note 2) was a little vague and made no reference to any specific estimates and judgments e.g. Fair Value of financial instruments, particularly private equity/unquoted investments if material and retirement benefits.

The Council has amended the pension fund financial statements for these items. I am now satisfied that the disclosures within the pension fund financial statements comply with requirements.

### 3. Working papers

In the previous year some working papers were not easy to follow and delays occurred in obtaining responses to some audit queries raised.

There is a risk that this could impact on the timely delivery and quality of the financial statements and a timely audit opinion.

I have reviewed the quality of the draft financial statements and associated working papers.

The draft financial statements were submitted for audit by the due date, were substantially complete and were supported by good working papers in line with my expectations and which were much improved from last year.

### 4. Actuarial revaluation

The pension fund is required to obtain an actuarial valuation of the whole of the fund as at 31 March 2010.

There is a risk that the details of the actuarial valuation are not fully disclosed in the pension fund financial statements.

I have reviewed the actuarial revaluation disclosures in the financial statements.

I am satisfied that the disclosures within the pension fund financial statements are consistent with the information set out in the actuarial revaluation reports.

# Financial statements

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## **Significant weaknesses in internal control**

Overall I have not identified any significant weaknesses in internal control.

I am not expressing an opinion on the overall effectiveness of internal control. I have not provided a comprehensive statement of all weaknesses which may exist in internal control, or of all improvements which may be made. I have reported only those matters which have come to my attention because of the audit procedures I have performed.

## **Quality of your financial statements**

I consider aspects of your accounting practices, accounting policies, accounting estimates and financial statements disclosures. Except for the matters regarding disclosures in the financial statements, as set out on page 7, there are no other issues I want to raise with you.

## **Letter of representation**

Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. Appendix 4 contains the draft letter of representation.

# Appendix 1 – Draft audit report

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## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DURHAM COUNTY COUNCIL [DRAFT]

### Opinion on the Authority and Group accounting statements

I have audited the Authority and Group accounting statements of Durham County Council for the year ended 31 March 2011 under the Audit Commission Act 1998. The Authority and Group accounting statements comprise the Authority and Group Movement in Reserves Statement, the Authority and Group Comprehensive Income and Expenditure Statement, the Authority and Group Balance Sheet, the Authority and Group Cash Flow, the Housing Revenue Account, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Durham County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

### Respective responsibilities of the Corporate Director Resources and auditor

As explained more fully in the Statement of the Corporate Director Resources' Responsibilities, the Corporate Director Resources is responsible for the preparation of the Authority and Group's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practice's Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authority and Group; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword and the annual report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

## **Opinion on accounting statements**

In my opinion the accounting statements:

- give a true and fair view of the state of Durham County Council's affairs as at 31 March 2011 and of its income and expenditure for the year then ended;
- give a true and fair view of the state of the Group's affairs as at 31 March 2011 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

## **Opinion on other matters**

In my opinion, the information given in the explanatory foreword and the content of the Annual Report for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

## **Matters on which I report by exception**

I have nothing to report in respect of the governance statement on which I report to you if, in my opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

## **Opinion on the pension fund accounting statements**

I have audited the pension fund accounting statements for the year ended 31 March 2011 under the Audit Commission Act 1998. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Durham County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

## **Respective responsibilities of the Corporate Director Resources and auditor**

As explained more fully in the Statement of the Corporate Director Resources' Responsibilities, the Corporate Director Resources is responsible for the preparation of the pension fund's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practice's Board's Ethical Standards for Auditors.

## **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the fund; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword and the annual report to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

## **Opinion on accounting statements**

In my opinion the pension fund's accounting statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2011 and the amount and disposition of the fund's assets and liabilities as at 31 March 2011, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

## **Opinion on other matters**

In my opinion, the information given in the explanatory foreword and the content of the Annual Report for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

## **Conclusion on Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources**

### **Authority's responsibilities**

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

### **Auditor's responsibilities**

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.



## **Basis of conclusion**

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

## **Conclusion**

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, I am satisfied that, in all significant respects, Durham County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

## **Certificate**

I certify that I have completed the audit of the Authority and Group accounts of Durham County Council and Durham County Council Pension Fund in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Cameron Waddell  
District Auditor  
Audit Commission

[Date]

# Appendix 2 - Amendments to the draft financial statements

I identified the following misstatements during my audit and management have adjusted the financial statements. I bring them to your attention to aid you in fulfilling your governance responsibilities.

Adjusted misstatement	Nature of adjustment	Fund account		Net assets statement	
		Dr £000s	Cr £000s	Dr £000s	Cr £000s
Dr Dividend accruals	Dividend accruals for Barings and Royal London incorrectly included in investment assets.			2,240	
Cr Fixed Interest (overseas public sector)					211
Cr Equities (UK)					351
Cr Equities (overseas)					156
Cr Index Linked (overseas)					133
CR Index linked (UK)					1,389
Dr Index Linked (UK)	Misallocated Royal London stock			3,585	
Cr Fixed Interest (UK other)					3,585
Dr Change in market value	Overstatement of cash with fund managers		2,573		
Cr other cash deposits					2,573

	Fund account	Net assets statement
Dr Pooled inv vehicles (managed funds - non property - unquoted)	Misallocated forward currency and hedging AllianceBernstein	270
Cr Derivative contracts - assets		270
Dr Derivative contracts (assets)	Royal London derivatives based on incorrect valuation method	6,177
Cr Derivative contracts (liabilities)		
Dr Change in market value	CBRE cash overstated as accruals included in cash and accruals	82
Cr Fund Manager Cash		82
Dr Note 6 - cash and short term inv - loans long term Las	Long term investment incorrectly included as short term	441
Cr Note 6 Long term investments		441
Dr Note 6 – Managed Funds (non property -UK –quoted)	Unquoted investment incorrectly included as quoted	25,339
Cr Note 6 – Managed Funds (non property -UK –unquoted)		25,339
Dr Note 6 – Purchases & Sales table - Purchases (Managed & Unitised Funds)	2009-10 purchases and sales included in 2010-11	40,183
Purchases & Sales table - Sales (Managed & Unitised Funds)		40,183



# Appendix 3 - Unadjusted misstatements to the financial statements

I identified the following misstatements during my audit, but management has not adjusted the financial statements. I bring them to your attention to help you in fulfilling your governance responsibilities and ask you to correct these misstatements.

If you decide not to amend, please tell me why in the representation letter. If you believe the effect of the uncorrected errors, individually and collectively, is immaterial, please reflect this in the representation letter. Please attach a schedule of the uncorrected errors to the representation letter.

Unadjusted misstatement	Nature of required adjustment	Fund account		Net assets	
		Dr £000s	Cr £000s	Dr £000s	Cr £000s
Dr Equities (UK unquoted)	Omission of part of investment with net				30
Cr Change in market value					30
Dr Other current liabilities	Transfer values incorrectly accrued (not in accordance with accounting policies)		282		282
Cr Benefits payable					
Dr Note 14 - Commutations and lump sums	Incorrect posting of commutations and lump sums		547		
Cr note 14 – pensions payable					547

	Fund account	Net assets
Dr Contribution income	361	
Cr Change in market value		361
Cr Note 6 –Purchases (Index linked)		381
Dr Note 6 –Purchases (Index linked)	381	
Dr Tax accrual		118
Cr Dividend accrual		22
Cr Change in market value		96
Dr Fund manager cash		131
Cr Change in market value		
Dr Change in market value	257	
Cr Investment income		257
Dr Note 6 – Change in market value (index linked)	381	
Cr Note 6 –Purchases (index linked)		381
Dr Note 6 – Purchases (Equities)	683	
Cr Note 6 –Sales (Equities)	123	
Cr Note 6 – Change in market value (Equities)		786
Dr Note 6 –Sales (Managed and unitised funds)	718	
Cr Note 6 –Change in market value (Managed & unitised fds)		718

# Appendix 4 – Draft letter of representation

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To: Cameron Waddell  
District Auditor  
Audit Commission  
Nickalls House  
Gateshead NE8 1HH

## **Durham County Council Pension Fund – Audit for the year ended 31 March 2011**

We confirm to the best of our knowledge and belief, having made appropriate enquiries of other officers of Durham County Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2011 and the associated financial statements of its pension fund.

We acknowledge our responsibility under the relevant statutory authorities for preparing the financial statements which give a true and fair view of the financial position and financial performance of the Durham County Council pension fund and for making accurate representations to you.

The Council has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

### **Supporting records**

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and relevant information, including minutes of all Members meetings, have been made available to you.

### **Related party transactions**

We confirm the completeness of the information provided regarding the identification of related parties. The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements.

### **Contingent assets and contingent liabilities**

There are no other contingent assets or contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements; and
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties.

### **Law, regulations, contractual arrangements and codes of practice**

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Durham County Council pension fund.

The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

### **Irregularities**

We acknowledge our responsibility for the design and implementation of internal control systems to prevent and detect fraud or error.

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; or
- communications from regulatory agencies concerning non-compliance with, or
- deficiencies in, financial reporting practices which could have a material effect on the financial statements.

We also confirm that we have disclosed:

- our knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements; and
- our knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

**Post balance sheet events**

Since the date of approval of the financial statements by Members of the Council, no additional significant post balance sheet events have occurred which would require additional adjustment or disclosure in the financial statements.

**Compensating arrangements**

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts.

We confirm that this letter has been discussed and agreed by the Audit Committee on [ ] September 2011

Signed ..... Signed .....

Name: Don McLure Name: Eddie Bell

Position: Director of Finance and Position: Chair of the Audit Committee  
Corporate Resources

Date .....

# Appendix 5 – Glossary

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## **Annual governance statement**

A statement of internal control prepared by an audited body and published with the financial statements.

## **Audit closure certificate**

A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the financial statements.

## **Audit opinion**

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

## **Opinion**

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

## **Materiality and significance**

The Auditing Practices Board (APB) defines this concept as ‘an expression of the relative significance or importance of a particular matter for the financial statements as a whole. A matter is material if its omission would reasonably influence users of the financial statements, such as the addressees of the auditor’s report; also a misstatement is material if it would have a similar influence. Materiality may also be considered for any individual primary statement within the financial statements or of individual items included in them. We cannot define materiality mathematically, as it has both numerical and non-numerical aspects’.

The term ‘materiality’ applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

‘Significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements. Significance has both qualitative and quantitative aspects.

## Weaknesses in internal control

A weakness in internal control exists when:

- a control is designed, set up or used in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements quickly; or
- a control necessary to prevent, or detect and correct, misstatements in the financial statements quickly is missing.

An important weakness in internal control is a weakness, or a combination of weaknesses that, in my professional judgement, are important enough that I should report them to you.

## Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources based on criteria specified by the Audit Commission.

The Code of Audit Practice defines proper arrangements as corporate performance management and financial management arrangements that form a key part of the system of internal control. These comprise the arrangements for:

- planning finances effectively to deliver strategic priorities and secure sound financial health;
- having a sound understanding of costs and performance and achieving efficiencies in activities;
- reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people;
- commissioning and buying quality services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money;
- producing relevant and reliable data and information to support decision making and manage performance;
- promoting and displaying the principles and values of good governance;
- managing risks and maintaining a sound system of internal control;
- making effective use of natural resources;
- managing assets effectively to help deliver strategic priorities and service needs; and
- planning, organising and developing the workforce effectively to support the achievement of strategic priorities.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

If you require a copy of this document in an alternative format or in a language other than English, please call:  
**0844 798 7070**

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- any director/member or officer in their individual capacity; or
- any third party.

