Audit Committee

Date	**Monday 30 July 2012**
Time	**10.00 am**
Venue	**Committee Room 1A - County Hall, Durham**

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. Minutes of the meeting held on 28 June 2012 (Pages 1 - 8)
2. Declarations of interest
3. 2011/12 Final Outturn for General Fund and Housing Revenue Account - Report of Corporate Director, Resources (Pages 9 - 40)
4. Statement of Accounts for the year ended 31 March 2012 - Report of Corporate Director, Resources (Pages 41 - 218)
5. Medium Term Financial Plan (3), Council Plan and Service Plans 2013/14-2016/17 - Report of Corporate Director, Resources (Pages 219 - 240)
6. Audit Committee Update - Report of External Auditor (Pages 241 - 254)
7. Strategic Risk Management Progress Report for the Quarter period April to June 2012 - Report of Corporate Director, Resources (Pages 255 - 270)
8. Such other business as, in the opinion of the Chairman of the meeting, is of sufficient urgency to warrant consideration.
9. 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)

10. 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
20 July 2012

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

Contact: Ros Layfield **Tel: 0191 383 4205**

DURHAM COUNTY COUNCIL

At a Meeting of **Audit Committee** held in Committee Room 1A, County Hall, Durham on **Thursday 28 June 2012 at 10.00 am**

Present:

Councillor E Bell in the Chair

Members of the Committee:
Councillors C Carr, B Harrison, R Ord and D J Southwell.

Co-opted Members:
Ms K Larkin-Bramley and Mr T Hoban.

Apologies:
Apologies for absence were received from Councillor M Hodgson.

Also Present:
C Banks and C Wardell (Audit Commission).

1 Minutes

The minutes of the meeting held on 31 May 2012 were agreed as a correct record and signed by the Chairman.

2 Declarations of interest

Declarations of interest were provided by Members of the Committee. A generic declaration of interest would be recorded given that Members were school governors, members of various Committees of the Council, former District Councillor's and bodies such as the Probation Board, Fire Authority and Police Authority. Together with other declarations from Ms Larkin-Bramley, a declaration be provided that she is a lecturer at New College Durham.

3 Disposal of Council Land and Property

The Committee noted a report of the Corporate Director, Regeneration and Economic Development which provided the Committee with an insight into the current policies, practices and procedures relating to the identification, valuation and disposal of land (for copy see file of Minutes).

The Planning and Investment Manager informed the Committee that prior to local government review there had been different approaches relating to the acquisition and disposal of land across the County and it was clear at the time that a strategy was required to harmonise these arrangements which was later agreed by the council's Cabinet in 2010.

Councillor R Ord commented that it was evident that significant progress had been carried out and it was encouraging to note that the Council was utilising money to secure the best advantage and hoped this would continue. Councillor Ord did however express concern at the valuation of some smaller areas of land attached to properties which were prone to fly-tipping and the burning of rubbish. The potential monies spent to clear such incidents came at a cost to partner agencies as well as the Council. Councillor Ord also asked for clarification about the placing of covenants when selling land.

In response the Committee were informed that the Asset Management Team's main obligation was to obtain and secure the best possible price for the Council. Land could be sold undervalue providing there was sound reasoning to do so. In terms of covenants, the Planning and Investment Manager explained that there were examples whereby a covenant could stipulate that a site be developed within a certain timescale, or the Council had the option of purchasing the land back, however, the level of restriction would be based on current market conditions.

Councillor B Harrison commented that there was still further work to do with regard to disposal and acquisition of land, but it was clear that much progress had been made.

Resolved:
That the Committee place on record their appreciation to all staff concerned for their hard work and dedication.

The Chairman informed the Committee that he had agreed and revised order of business and would now consider Items 7 and 8 detailed on the agenda.

4 Agreement of Accounting Policies for Application in the 2011/12 Financial Statements

The Committee considered a report of the Corporate Director, Resources which provided details of the proposed accounting policies to be applied by the County Council in the preparation of the Statement of Accounts for 2011/12 (for copy see file of Minutes).

The Committee were informed that new accounting policies in relation to heritage assets and carbon reduction allowances were now required in accordance with the accounting code guidance and there had been amended accounting policies relating to government grants and contributions, grouped accounting and private finance initiative schemes. An accounting policy relating to area based grants had been deleted due to changes in the way that money was distributed to Council's by central government.

Resolved:
That the revised accounting policies be approved for use in the preparation of the 2011/12 financial statements.

5 Consideration of 'Going Concern Status' for the Statement of Accounts for the Year Ended 31 March 2012

The Committee considered a report of the Corporate Director, Resources which provided details of a request from the Audit Commission for the County Council to asses whether it should be considered a 'going concern' and that the Statement of Accounts for the year ended 31 March 2012 should be prepared on that basis (for copy see file of Minutes).

The Corporate Director, Resources informed the Committee that the Council a robust Medium Term Financial Plan (MTFP) in place which would to take into account the amendments of the Local Government Finance Bill. The Council had a history of stable finance and ready access to financial resources in the future and there were no significant risks that would jeopardise the Council's continuing operation.

Councillor R Ord commented that the Council appeared to be in a healthy position but considered that sometimes needed to utilise reserves to secure best advantage.

Resolved:
That the Statement of Accounts be prepared on the basis that the County Council is recognised as a 'going concern'.

6 Annual Internal Audit Report 2011/12

The Committee noted a report of the Corporate Director, Resources which presented the Annual Internal Audit Report for 2011/12 which provided a 'moderate' opinion on the adequacy and effectiveness of Council's control environment for 2011/12 (for copy see file of Minutes).

The Committee were informed that the overall opinion given for the 2011/12 was that of a moderate assurance, which had been given in the previous two years. Many improvements had been made in relation to financial management with a new system now in place following the closure of the former Borough/District Council systems and the County Council's former revenue and benefits system. The benefits of the new system would not be measurable until 2012/13, with evidence suggesting that the Council were heading in the right direction.

The Committee queried why a moderate assurance had been given, particularly when there had been marked improvements with financial systems, bank reconciliations, equal pay and fraud. There was a feeling amongst the Members that the level of assurance didn't recognise the hard work that had been undertaken to improve all such aspects.

The Head of Internal Audit and Risk informed the Committee that the terminology was that of the standard methodology used in this particular field but stressed that the direction of travel was improving and there was clear evidence that improvements had been made. It was also important to note that certain elements of the cash income management system were still to be rolled out at the time of audit and would provide benefit in the future.

The External Auditor informed the Committee that the Annual Governance Statement was much improved from the previous year and although the internal audit assurance was ‘moderate’, there had been improvement.

7 Internal Audit Plan 2012-13

The Committee considered a report of the Corporate Director, Resources which outlined the Internal Audit Plan for the period July 2012 to June 2013 (for copy see file of Minutes).

Members queried the timescales for the development of assurance mapping. The Manager of Internal Audit & Risk explained that this would be carried out over a period of time and to be successful needed to be led from the Council’s Corporate Management Team. Although no definite timescale could be specified at present some areas such as financial risk may be able to be launched earlier on. Areas such as procurement, legal and performance management risks would take longer and would need buy-in from key officers across the Council.

The Committee agreed that some additional training around risk based auditing would be beneficial.

Resolved:
(i) That the proposed audit plan detailed in Appendix 2 of the report be agreed;
(ii) That additional training for Committee Members is scheduled in the latter part of 2012.

8 Review of the Effectiveness of Internal Audit

The Committee considered a report of the Corporate Director, Resources regarding the outcomes of the annual review of the effectiveness of Internal Audit.(for copy see file of Minutes).

The Corporate Director, Resources informed the Committee that it was very important that the Council had an effective Internal Audit Service in operation. The last review of the service was undertaken in June 2011 and improvements had been identified for the service to be fully compliant with the CIPFA Code of Practice and Statement with three main areas identified as to where improvements could be made.

The Committee noted that good progress had been made with the implementation of a risk based approach to auditing but it was recognised that the skills mix of the in-house team needed to be improved for specialised areas such as Information Technology and Pensions. Investment was being made in relation to this area and overall the service was ‘doing well’ with scope for improvement.

Resolved:
That the responses provided within the Appendices to the report provided assurance on the effectiveness of internal audit.

9 Draft Annual Governance Statement for the year April 2011 - March 2012

The Committee considered a report of the Corporate Director, Resources which presented the draft Annual Governance Statement and a list of significant governance improvements (for copy see file of Minutes).

Resolved:
(i) That the draft Annual Governance Statement for 2011/12 and list of significant governance improvements be agreed; and

(ii) That the Annual Governance Statement be presented to County Council for information.

10 2011/12 Annual Report of the Audit Committee to County Council

The Committee considered the Annual Report of the Audit Committee which covered the period April 2011 to March 2012 and would be presented to the County Council at its next meeting in accordance with best practice guidelines (for copy see file of Minutes).

Resolved:
That the draft report be agreed and reported to the meeting of the County Council being held on 25 July 2012.

11 Exclusion of the public

That under Section 100 A (4) of the Local Government Act 1972, the public be excluded from the meeting for the following item of business on the grounds that it involves the likely disclosure of exempt information as defined in paragraph 3 of Schedule 12A to the said Act.

12 Annual Fraud Report 2011/12

The Committee noted a report of the Manager of Internal Audit and Risk which informed action taken by Internal Audit during 2011/12 and further action planned to raise awareness of the risk of fraud and corruption (for copy see file of Minutes).

The Committee also noted cases of potential fraud and irregularity reported during 2011/12, progress and outcomes on counter-fraud reviews included within the Internal Audit Plan for 2011/12 and outcomes of the investigations which had arisen from the Audit Commission National Fraud Initiative Exercise carried out in 2010/11.

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Action Plan- Work of Audit Committee- Part A - 30 July 2012

Ref No.	Date of Meeting	Item No.	Title of Report	Action Required	By Whom	Report to Committee (date)/ implemented
1.	6.1.11 28.7.11 5.1.12	8	Bank Account Rationalisation/ Reconciliation	Six monthly update reports be provided	Corporate Director, Resources	30/7/12 - To be covered in report on financial statements
2.	29.9.11 10.11.11 5.1.12 16.2.12 22.3.12	4	Single Asset Register	Progress report on phase 2 to be brought to a future meeting	Phase 2 Single Asset register	27/9/12
3.	29.9.11 31.10.11 22.3.12	10	Icelandic banks	Update	Corporate Director, Resources	As and when necessary
4.	5.1.12	9	Annual Audit Letter	Report to be brought to Committee outlining changes and implications of changes to HRA Funding	Jeff Garfoot	30/7/12- To be covered as part of the report on the financial statements
5.	16.2.12	6	F M Standards	Once Section 151 Officer had completed the process, further details be brought back to Committee	Corporate Director, Resources	16/2/13 Delayed due to revised target date for completion of standards
6.	22.3.12	3	Budget and MTFP setting process	Timetable for next financial year be provided to members, once set.	Jeff Garfoot	30/7/12 (Cabinet Report)
7.	31.5.12		Interim Governance Reports	Updated management response to be brought to next Committee	Jeff Garfoot	TBA Any outstanding issues to be addressed when final governance report issued

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Audit Committee

30 July 2012

2011/12 Final Outturn for General Fund and Housing Revenue Account

Report of Don McLure, Corporate Director Resources

Purpose of the Report

1 To provide Audit Committee with the details of the final outturn for both the General Fund and the Housing Revenue Account (HRA) for 2011/12 including the Annual Treasury Management Review.

Background

2 The 2011/12 draft Statement of Accounts includes a summary of the 2011/12 final outturn. The attached report presented to Cabinet on 11 July 2012 provides a more detailed review of the final outturn position for both revenue and capital.

Recommendations and Reasons

3 Audit Committee are asked to note the 2011/12 final outturn position on the General Fund and HRA.

Contact: Jeff Garfoot Tel: 03000 261946

Appendix 1: Implications

Finance
There are no direct financial implications arising for the Council as a result of this report.

Staffing

None

Risk

None

Equality and Diversity

None

Accommodation

None

Crime and disorder

None

Human rights

None

Consultation

None

Procurement

None

Disability

None

Legal Implications

Cabinet

11 July 2012

2011/12 Final Outturn for General Fund and Housing Revenue Account

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Report of Corporate Management Team

Don McLure, Corporate Director Resources

Councillor Alan Napier, Cabinet Portfolio Holder for Resources

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Purpose of the Report

1 To provide Cabinet with details of the Final Outturn for both the General Fund and the Housing Revenue Account (HRA) for 2011/12 including an Annual Treasury Management Review. The report will consider both Revenue and Capital.

Background

2 The County Council faced a major challenge in setting the 2011/12 budget. After taking into account estimated budget pressures faced, the Council was required to achieve £66.4m of savings in 2011/12 and £123.4m of savings over the whole of the MTFP 2011/12 to 2014/15. This is the equivalent of almost 30% of the Council's 2010/11 Net Revenue Expenditure Budget.

3 Projected outturn figures for the County Council based upon information as at 31 December 2011 were reported to Cabinet on 29 February 2012 and at that time forecasted an increase in Cash Limit Reserves of £1.3m and an addition to General Reserve of £1.7m.

4 The final outturn for 2011/12 is being determined as part of the production of the Statement of Accounts. During the process of finalising the Statement of Accounts, the Corporate Director Resources will be required to make a number of technical decisions in the best financial interests of the Council. Such decisions will be fully disclosed in the Statement of Accounts.

General Fund Outturn

5 This section of the report 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

6 The overall outturn for the County Council is detailed in Appendix 2 and details how the Cash Limit Outturn for each Service Grouping is calculated. Two 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. Housing Benefit Subsidy cost pressures.

(ii) Use of or Contribution to Earmarked Reserves

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

7 After taking into account the above exclusions, all Service Groupings have generated a Cash Limit surplus when compared to base budgets in 2011/12. The 2011/12 Cash Limit budget surpluses for each Service Grouping is detailed below:

Service Grouping	**Opening Balance as at 1 April 2011**	**Budgeted use of cash limit reserves**	**Movement during 2011/12**	**Closing Balance as at 31 March 2012**
	£m	**£m**	**£m**	**£m**
Assistant Chief Executive	-0.894	-	-0.239	-1.133
Adults, Wellbeing and Health	-5.423	-	-0.981	-6.404
Children and Young People	-1.253	0.933	-1.368	-1.688
Neighbourhoods	-1.292	-	-0.913	-2.205
Regeneration & Economic Development	-2.391	-	-0.569	-2.960
Resources	-0.873	-	-0.623	-1.496
TOTAL	-12.126	0.933	-4.693	-15.886

Revenue Outturn

8 Appendix 2 provides a detailed Outturn position for the County Council's General Fund by Service Grouping. In addition, Appendix 3 provides a detailed Outturn position for the County Council by type of expenditure and income. The table below provides a summary of the Final Outturn position:

	£m	£m
Gross Expenditure		1,428.308
Less:		
Gross Income		-1,005.665
Net Expenditure		422.643
Financed by:		
Redistributed Non-Domestic Rates	179.861	
Revenue Support Grant	55.596	
Council Tax	198.870	
Net Surplus on Collection Fund	0.814	
New Homes Bonus	1.506	
Net Contribution to Cash Limit Reserves	-3.760	
Net Contribution to Earmarked Reserves:		
Schools and DSG	-5.114	
Non-Schools	-0.576	
Net Contribution to General Reserves	-4.554	
TOTAL FINANCING		422.643

9 The final Outturn position for General Reserve is detailed below:

	£m
Opening Balance as at 1 April 2011	-17.320
Add:	
Net Contribution to General Reserve in 2011/12	-4.554
Closing General Reserve Balance as at 31 March 2012	**-21.874**

10 The General Reserve balance detailed above is higher that the County Council's current General Reserve policy of maintaining the reserve between 3% - 4% (£13m - £17m) of Net Revenue Expenditure. The policy will be reviewed as part of the 2013/14 budget setting process due to the potential significant risks associated with the upcoming introduction of new arrangements for Business Rates and Council Tax Benefit from 1 April 2013.

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

- Additional New Homes Bonus Grant - £1.300m
- Additional Local Services Support Grant - £0.115m
- Interest and Investment income - £1.354m more than budget.
- Interest payable and similar charges - £0.317m less than budget

12 The final outturn for Earmarked Reserves is detailed below with fuller detail provided at Appendix 4. School Balances and Cash Limit Reserves are shown separately.

	Non-Schools	Schools and DSG	Cash Limits	TOTAL
	£m	£m	£m	£m
Opening Earmarked Balances as at 1 April 2011	-58.863	-19.986	-12.126	-90.975
Add				
Net contribution to Earmarked Reserves	-0.576	-5.114	-3.760	-9.450
Closing Earmarked Reserve Balance as at 31 March 2012	**-59.439**	**-25.100**	**-15.886**	**-100.425**

Service Grouping Commentary

13 A summary from each Service Grouping Outturn follows. More detailed Outturn reports will be provided to Overview and Scrutiny Committees.

Assistant Chief Executive

14 The 2011/12 outturn for Assistant Chief Executives (ACE) is a cash limit surplus when compared to base budget of £0.392m. This takes into account adjustments for sums outside the cash limit such as redundancy costs which are met from an earmarked reserve, year end capital accounting entries and use of / contributions to earmarked reserves. The service has undertaken additional activities during the year, the planned cost of which has been met from the ACE cash limit reserve (£60k). In addition, an amount of £93k relating to a grant received for Modern Ways of Working in 2010/11 has been transferred from the cash limit reserve to a ‘Modern Ways of Working’ earmarked reserve for consistency in the accounting treatment of grants received.

15 The cash limit outturn position compares to the previously forecast position of a cash limit surplus when compared to base budget of £0.280m.

16 The main reasons accounting for the outturn position are as follows:

- The employees budget under spent by £0.192m as a result of proactive management of vacancies within the services in preparation for realisation of the 2012/13 MTFP savings proposals.

- Management of staff journeys to ensure only essential travel is undertaken has led to a managed under spend across the service of £17k.

- Supplies and services under spent by £0.167m across the service as managers continue to review expenditure and restrict purchases to those essential to the service's operation.

- Managers have been able to actively identify and achieve additional income during the year to help finance additional activity particularly within Partnership and Community engagement leading to an over recovery of income of £22k.

17 Further to the quarter 3 forecast outturn report, the following items have been excluded from the cash limit:

- Additional repair and maintenance costs for Community Buildings £6k
- Additional Utility Running Costs of Community Buildings £21k
- Variance in the net cost of Central support services costs £0.462m

18 Taking the outturn position into account, the cash limit reserve to be carried forward for Assistant Chief Executives is £1.133m.

Adults Wellbeing and Health

19 The 2011/12 outturn for Adults, Wellbeing and Health (AWH) is a cash limit surplus when compared to base budget of £0.981m. This takes into account adjustments for sums outside the cash limit such as redundancy costs which are met from an earmarked reserve, year end capital accounting entries and use of / contributions to earmarked reserves.

20 The cash limit outturn position compares to the previously forecast position of a cash limit surplus when compared to base budget of £0.614m.

21 The main reasons accounting for the outturn position are as follows:

- The re-tendering of the Domiciliary Care contract arrangement secured a reduction in the price paid for this service, which created a saving of £1.8m in the current year;

- Early achievement of a number of future year MTFP management and support service proposals, together with the proactive management and control of vacancies and general budgets across the service has created a net surplus when compared to base budget for the year of approximately £4.4m;

- Net spend on care packages is £1.1m below budget. This area of spend is closely monitored to assess the impact of demographic changes. The introduction of the reablement service in April 2011 has had a positive impact on the on-going care levels of service users, enabling them to be more independent than would otherwise have been the case and reducing on-going care needs. Savings have also arisen from consistent and effective application of the existing eligibility criteria, reducing the level of care packages subsequently commissioned;

- To assist in the management of the demographic pressures facing the service over the MTFP period, the service targeted a planned overachied position when compared to base budget for 2011/12, repeating the planned approach applied in 2010/11. This has enabled the creation of a £6.3m earmarked reserve for demographic pressures and increased cash limit reserves to assist the MTFP position going forward.

22 Further to the quarter 3 forecast outturn report, the following items have been excluded from the cash limit:

- £0.123m of MTFP related Redundancy and Early Retirement costs, which are met from a centrally held earmarked reserve;

- A total of £1.450m of contributions to earmarked reserves, including £0.232m in respect of additional Winter Pressures monies received from the PCT, and specific monies received in respect of reablement (£0.276m), memory services (£0.114m) and carers (£0.262m);

- Other sums outside the cash limit include costs in respect of capital accounting entries, repairs and maintenance costs, and central administration recharges.

23 Taking the outturn position into account, the cash limit reserve to be carried forward for Adults, Wellbeing and Health is £6.404m.

Children and Young People

24 The 2011/12 outturn for Children and Young People Services (CYPS) is a cash limit surplus when compared to base budget of £1.368m. This takes into account adjustments for sums outside the cash limit such as redundancy costs which are met from an earmarked reserve, year end capital accounting entries and use of / contributions to earmarked reserves. CYPS planned to use £0.933m from the cash limit reserve during 2011/12, this was included in their original budget and this amount has been used.

25 The cash limit outturn position compares to the previously forecast position of a cash limit surplus when compared to base budget of £1.5m.

26 The main reasons accounting for the outturn position are as follows:

- The Connexions service has overspent by £0.96m which is mainly due to the late confirmation of the loss of Government grant. One off grants and balances of £0.96m have been used to offset this.

- Safeguarding and Specialist Services has overspent by £0.82m due to transport costs (£0.8m) to fund contact visits ordered by the courts, excess school travel costs and car allowances. This service also experienced an over spend on independent foster agency and fostering related allowances (c£2m), which reflects the higher than budgeted number of referrals and caseloads. Managed under spends on employees (£0.5m), supplies and services (c£0.7m) and additional one off income (c£0.78m) have helped to mitigate the position in year, with a base budget adjustment of £1.5m built into the 2012/13 base.

- To offset the above overspends there was an under spend on Home to School and college transport of £0.2m.

- A number of savings across Achievement and Early Intervention and Partnership Services (c£0.5m) mainly relating to in year service restructures, and additional one off non-recurring grants and balances (c£1.37m) have benefitted the outturn to the value of £1.9m.

27 Further to the quarter 3 forecast outturn report, the following items have been excluded from the cash limit at year end:

- £0.3m use of the Aycliffe Secure Capital Reserve to fund spend on the capital project.

- £95k transfer to the Continuous Professional Development reserve, relating to the trading account surplus at the year end.

- £28k transfer to the Education Reserve has been made, relating to an under spend on Education Business Learning Organisation trading activity.

- the planned £0.237m use of the Education Reserve, in respect of Education Business Learning Organisation, has not been required in 2011/12.

- the planned use of an additional £0.319m of the cash limit reserve, to offset the outturn position, has not been required in 2011/12

28 Taking the outturn position into account, the cash limit reserve to be carried forward for Children and Young People's Services is £1.688m.

Dedicated Schools Grant

29 The Dedicated Schools Grant (DSG) allocation for 2011/12 was £342.551m, however due to schools converting to academies the revised allocation was reduced by £29.058m to £313.493m in year.

30 The pressure areas for the DSG in 2011/12 have been Independent Specific School Fees and Recoupment (£0.24m), school redundancy costs (£0.46m) and advance spend on school repairs and maintenance (£0.55m). This has been offset by unused school based contingencies (£1.12m), staff savings and restructures (£0.4m), reduced non staff spend (£0.13m) and additional income from Impact and KS4 (£0.2m). The outturn position shows a balance of £0.597m to be carried forward to support funding proposals in 2012/13.

31 School budgets show balances of £20.890m at the end of 2011/12, a rise from £15.740m the previous year. There has been some reluctance to commit funds due to Government spending policy for 2011/12 which has a

freeze on inflation within school budgets and the reduction in school devolved capital which some schools may now need to fund as a revenue contribution.

Neighbourhood Services

32 The 2011/12 outturn for Neighbourhood Services is a cash limit surplus when compared to base budget of £0.913m. This takes into account adjustments for sums outside the cash limit such as redundancy costs which are met from an earmarked reserve, year end capital accounting entries and use of / contributions to earmarked reserves.

33 The cash limit outturn position compares to the previously forecast position of a cash limit surplus when compared to base budget of £0.230m.

34 The main reasons accounting for the outturn position are as follows:

- Additional income, and savings associated with waste recycling of approximately £0.400m
- Savings within Street Scene of approximately £0.300m associated with reduced employee costs, and additional grounds maintenance income
- Under spends within Operational Depots of £0.200m associated with savings on utility costs, equipment and repairs and maintenance.
- Savings of £0.200m linked to restructuring within Business Support, and vacant posts that will be used to achieve future year MTFP efficiencies.
- Savings of approximately £0.230m in Training and Development costs
- An over spend of approximately £0.450m associated with Leisure Centres/Indoor Facilities, due to income shortfalls as a result of the economic downturn, and also higher than anticipated costs at leisure centres where closure was delayed.

35 Further to the quarter 3 forecast outturn report, the following items have been excluded from the cash limit:

- An under spend of £0.26m in respect of savings on Street Lighting Energy
- Other sums outside the cash limit include costs in respect of capital accounting entries, central administration recharges, and changes to the Insurance Reserve.

36 In addition, the Service is making the following contributions to Earmarked Reserves:

- £0.649m relating to externally funded Sport and Leisure schemes and the Leisure and Cultural Trust, £0.454m relating to Waste Disposal and collection, and Buildings and Facilities Management, £0.504m in respect of AAP funded schemes that will be completed in 2012/13, and £0.461m relating to Customer Services and Environment Health.

37 Taking the outturn position into account, the cash limit reserve to be carried forward for Neighbourhood Services is £2.205m.

Regeneration and Economic Development

38 The 2011/12 outturn for Regeneration and Economic Development (RED) is a cash limit surplus when compared to base budget of £0.569m. This takes into account adjustments for sums outside the cash limit such as redundancy costs which are met from an earmarked reserve, year end capital accounting entries and use of / contributions to earmarked reserves.

39 The cash limit outturn position compares to the previously forecast position of a cash limit surplus when compared to base budget of £0.599m.

40 The main reasons accounting for the outturn position shown below, which include staffing savings of £0.9m as a result of making 2012/13 MTFP savings in advance:

- Policy Planning Performance - £22k saving in running expenses and this includes £6k for staffing

- Economic Development - £0.230m saving. The service is experiencing an income pressure of £0.310m on rents from industrial estates. This is mitigated by savings secured on staffing of £0.268m and supplies and services of £0.272m.

- Housing - £0.310m under spend which is largely attributable to savings in the Housing Solutions service of £0.249m arising from savings in temporary accommodation costs whilst a procurement exercise is being undertaken to provide a more holistic service. Staffing savings accounted for £0.138m.

- Planning - £0.485m under spend of which £0.312m relates to staffing costs and the balance relates to supplies and services. Included in this figure is a £0.296m shortfall in building control income.

- Transport - £0.552m saving of which £0.162m relates to staffing. There was additional income of £0.200m in network management from utilities works licences and £0.361m from fees and charges in passenger transport. However, there were additional costs and lower than expected income on traffic and parking management of £0.281m.

- Other costs – £1.030m overspend relating to previously approved contributions to reserves of £0.720m, plus a further £0.300m and contingencies spend of £10k. The contribution to reserves is broadly in line with the one-off staffing saving secured as a result of making 2012/13 MTFP savings early.

41 Taking the outturn position into account, the cash limit reserve to be carried forward for Regeneration and Economic Development is £2.960m.

Resources

42 The 2011/12 outturn for Resources is a cash limit surplus when compared to base budget of £0.623m. This takes into account adjustments for sums outside the cash limit such as redundancy costs which are met from an earmarked reserve, year end capital accounting entries and use of / contributions to earmarked reserves.

43 The cash limit outturn position compares to the previously forecast position of a cash limit surplus when compared to base budget of £8k.

44 The main reasons accounting for the outturn position are as follows:

- The Asset Management service was overspent by £0.703m, primarily due to under recovery of income associated with industrial sites / units managed by Assets in 2011/12, offset by under spends on premises and supplies and services budgets. These budgets were rebased and realigned prior to disaggregation of the service in 2012/13.

- Finance, including the Revenues and Benefits service, was under spent by £0.108m as a result of managed when compared to base budget under spends on supplies and services (earlier than anticipated realisation of software savings) offset by reduced court cost fee income and the one-off use of agency staff to support the Revenues and Benefits services while a new single administration system was developed and embedded.

- HR under spent by £0.253m as a result of management of vacancies prior to a restructure and tight control of supplies and services budgets, plus additional income as a result of one-off accessing of a RIEP grant in early 2012 not anticipated when the budget was established.

- Legal and Democratic under spent by £0.896m due to a combination of early achievement of 2012/13 MTFP savings initiatives, combined with Transport savings realised following management and members action to limit travel to essential journeys only. Savings were also achieved in supplies and services budgets and income overachieved by c£65k through additional activity undertaken in Registrars, and Legal and Democratic services for outside bodies.

- ICT was £0.161m under spent for the year, primarily due to supplies and services savings in relation to software licenses and telecommunications costs, plus the early achievement of 2012/13 MTFP savings.

45 Further to the quarter 3 forecast outturn report, the following items have been excluded from the cash limit:

- £0.055m of MTFP related Redundancy and Early Retirement costs, which are met from centrally held reserves.

- The following variations in the use of and contribution to earmarked reserves - £1.200m reduction in the use of the Housing Benefit Subsidy Reserve, a reduction in the use of £1.047m from the Performance Reward Grant Reserve, a contribution to the Procurement Reserve of £0.500m, contributions to DWP grant reserves £0.159m, a contribution of £0.200m to the Civica Development Reserve and a contribution of £0.500m to the Oracle Release 12 Reserve.

- Other sums outside the cash limit include costs in respect of capital accounting entries, repairs and maintenance costs, and central administration recharges.

46 Taking the outturn position into account, the cash limit reserve to be carried forward for Resources is £1.496m**.**

Interest Payable and Similar Charges

47 The Revenue Summary at Appendix 2 highlights a £0.317m over achievement in 2011/12 when compared to base budget. This saving has been achieved due to lower than forecast interest rates on loans, and borrowing taking place later than estimated due to higher levels of cash balances than forecast.

Interest and Investment Income

48 There has been an overachievement of investment income of £1.354m which is due to the higher than anticipated levels of cash balances held during 2011/12. This is due in the main to slower than expected use of reserves and capital expenditure.

2011/12 Capital Outturn

49 The original General Fund (GF) Capital Budget for 2011/12 was set at £194.155m and was approved by Cabinet on 23 February 2011.

50 The revised GF Capital Budget for 2011/12 was set at £167.929m and was approved by Cabinet on 8 February 2012.

51 Since the revised budget was approved, an additional £0.311m of Disabled Facilities Grant has been confirmed and is reflected in the total GF Capital Programme detailed in the tables below. The table also details the request for budget to be carried forward which was approved at the Capital Member Officers Working Group held on 14 May 2012.

	Revised 2011/12 Budget	2011/12 Outturn	Variance		Budget carried forward
	£m	£m	£m	%	£m
ACE	2.520	1.094	-1.426	-56.6	0.641
AWH	0.569	0.424	-0.145	-25.5	0.301
CYPS	77.721	70.534	-7.187	-9.2	12.443
NS	26.772	27.037	0.265	1.0	1.321
RED	49.267	37.264	-12.003	-24.4	16.743
Resources	9.572	7.641	-1.931	-20.2	0.611
Other	1.819	-0.227*	-2.046	-112.5	0.153
TOTAL	**168.240**	**143.767**	**-24.473**	**-14.5**	**32.213**

* the negative outturn is due to an amount provided for in 2011/12 which was not required and will not be required in the future

52 In addition to the under spends that are being requested to carry forward into 2012/13, the variances in the table above also includes overspends that are due to accelerated spending, where 2012/13 budgets will be adjusted accordingly, and also overspends that are being financed from additional funding that was received after the capital budget was approved by the County Council in February 2011.

53 The Capital Programme is financed via various funding sources including grants; capital receipts; revenue contributions; contributions from reserves and borrowing. The financing of the 2011/12 Outturn is detailed in the table below.

Financed by:	**2011/12 Outturn**
	£m
Grants	92.512
Reserves	2.150
Direct Revenue Financing:	
DSG	4.330
Other	3.769
Capital Receipts	8.241
Supported Borrowing (Supported Capital Expenditure - Revenue)	8.755
Unsupported Borrowing	24.010
TOTAL	**143.767**

Service Grouping Commentary

54 A summary of the Capital Outturn for each Service Grouping is shown below:

Assistant Chief Executive

55 The 2011/12 outturn capital expenditure for Assistant Chief Executive (ACE) was £1.094m, against a quarter 3 revised budgets of £2.520m, a £1.426m under spend for the year.

56 The Capital Member/Officer Working Group has met to review the outturn against the agreed programme on a scheme by scheme basis. Reasons for any budget carry forward and necessary reprofiling have been thoroughly challenged.

57 Included in the ACE capital outturn position is structural maintenance activity on community buildings associated with ACE (£22k). The expenditure is recorded against ACE but the budget and management responsibility for this element of the capital programme is administered and managed by Resources.

58 Planned and budgeted capital expenditure of £0.641m will be reprofiled into 2012/13 and budgets adjusted in year accordingly.

59 The revised capital budget includes £0.806m for which expenditure has been incurred by other services.

Adults Wellbeing and Health

60 The 2011/12 outturn capital expenditure for Adults, Wellbeing and Health (AWH) was £0.424m, against a quarter 3 revised budget of £0.569m, a £0.145m under spend for the year. Capitalised maintenance costs of £0.135m have been included in the AWH outturn position, although the budget was held centrally.

61 The Capital Member/Officer Working Group has met to review the outturn against the agreed programme on a scheme by scheme basis. Reasons for any budget carry forward and necessary reprofiling have been thoroughly challenged.

62 Included in the capital outturn position is accelerated spend on 2012/13 schemes that have been brought forward and commenced in quarter 4 of £21k.

63 Planned and budgeted capital expenditure of £0.301m will be reprofiled into 2012/13 and budgets adjusted in year accordingly.

Children and Young People

64 The 2011/12 outturn capital expenditure for Children and Young People Services (CYPS) was £70.534m, against a quarter 3 revised budget of £77.721m, a £7.187m underspend for the year.

65 The Capital Member/Officer Working Group has met to review the outturn against the agreed programme on a scheme by scheme basis. Reasons for any budget carry forward and necessary reprofiling have been thoroughly challenged.

66 Included in the capital outturn position is overspending on schemes financed by additional capital grants and contributions that were not included in the budget of £2.990m and accelerated spend on 2012/13 schemes that have been brought forward and commenced in quarter 4 of £2.326m.

67 Planned and budgeted capital expenditure of £12.443m will be reprofiled into 2012/13 and budgets adjusted in year accordingly.

Neighbourhood Services

68 The 2011/12 outturn capital expenditure for Neighbourhood Services was £27.037m, against a quarter 3 revised budget of £26.772m, a £0.265m overspend for the year.

69 The Capital Member/Officer Working Group has met to review the outturn against the agreed programme on a scheme by scheme basis. Reasons for any budget carry forward and necessary re-profiling have been thoroughly challenged.

70 Included in the capital outturn position is overspending on schemes financed by additional capital grants and contributions that were not included in the

budget of £1.061m and accelerated spend on 2012/13 schemes that have been brought forward and commenced in quarter 4 of £0.524m.

71 Planned and budgeted capital expenditure of £1.321m will be re-profiled into 2012/13 and budgets adjusted in year accordingly.

Regeneration and Economic Development

72 The 2011/12 outturn capital expenditure for Regeneration and Economic Development (RED) was £37.264m, against a quarter 3 revised budget of £49.267m, a £12.003m under spend for the year.

73 The Capital Member/Officer Working Group has met to review the outturn against the agreed programme on a scheme by scheme basis. Reasons for any budget carry forward and necessary reprofiling have been thoroughly challenged.

74 Included in the capital outturn position is overspending on schemes financed by additional capital grants and contributions that were not included in the budget of £3.865m and accelerated spend on 2012/13 schemes that have been brought forward and commenced in quarter 4 of £0.924m.

75 Planned and budgeted capital expenditure of £16.743m will be reprofiled into 2012/13 and budgets adjusted in year accordingly.

Resources

76 The 2011/12 outturn capital expenditure for Resources was £7.641m, against a quarter 3 revised budget of £9.572m, a £1.931m under spend for the year.

77 The Capital Member/Officer Working Group has met to review the outturn against the agreed programme on a scheme by scheme basis. Reasons for any budget carry forward and necessary reprofiling have been thoroughly challenged.

78 Included in the capital outturn position is accelerated spend on 2012/13 schemes that have been brought forward and commenced in quarter 4 of £0.120m.

79 Planned and budgeted capital expenditure of £0.611m will be reprofiled into 2012/13 and budgets adjusted in year accordingly.

80 The revised capital budget included £1.419m for which expenditure has been incurred by other services. In addition, unspent Resources capital budgets of £20k related to Completed Capital projects were released back to Capital contingencies.

Housing Revenue Account (HRA) – 2011/12 Revenue and Capital Outturn

Revenue Outturn

81 Appendix 5 details the outturn position on the HRA showing the actual position compared with the original budget. In summary it identifies a surplus outturn position on the revenue account of £0.133m. This results in a healthy level of reserves of £7.821m. The following table summarises the position:

Housing Revenue Account	2011/12 Budget	2011/12 Outturn	Variance
	£m	**£m**	**£m**
Income			
Dwelling Rents	-56.610	-56.840	-0.230
Other Income	-0.931	-1.082	-0.151
Interest and Investment Income	-0.089	-0.113	-0.024
Total Income	**-57.630**	**-58.035**	**-0.405**
Expenditure			
ALMO Fees	18.266	18.266	0
Repairs, Supervision and Management Costs	11.871	12.843	0.972
Negative Subsidy Payment to CLG	4.514	3.790	-0.724
Depreciation	11.696	11.696	0
Interest Payable	6.624	6.327	-0.297
Revenue Contribution to Capital Programme	4.659	4.980	0.321
Total Expenditure	**57.630**	**57.902**	**0.272**
2011/12 Surplus to balances	**0**	**-0.133**	**-0.133**

82 In summary, the main variances are explained below:

- Dwelling Rents – additional income is due to the void rates being lower than anticipated in the original estimates.

- Other Income – this results from receipt of administration charges from furniture packs (not previously budgeted for) at Durham City Homes

- Repairs – £0.418m overspend due to additional repairs works carried out by Durham City Homes, financed from efficiency savings in the Supervision and Management budgets. In addition, extra works were carried out to Void properties in an attempt to reduce the re-let times.

- General Management - £0.588m overspend due to £0.342m on Stock Options which is financed from an earmarked reserve. In addition there is a provision of £0.600m included for a court case regarding an outstanding issue with the former Wear Valley District Council and an amount attributable to the cost of rent rebates to tenants above a threshold set by the Government – these costs are partly offset by other efficiency savings.

- Special Management – £0.251m savings on cleaning charges and running expenses in relation to Communal Halls. Special Management are services provided that benefit specific groups of tenants, this includes communal heating, lifts, lighting, caretaking, cleaning and grounds maintenance.

- Subsidy – savings due to additional subsidy being received to cover interest payments on Decent Homes funding of £18.6m allocated in 2011/12.

- Bad Debt Provision – increased provision required as a result of an increased rent arrears position at the year end.

- Interest Payments – reduced interest payable on housing debt arising from a lower rate being charged and the housing debt being lower than originally anticipated in the budget.

- Revenue Support to Capital - £0.321m of the net savings identified above together with an additional £0.400m from the Capital Reserve have been used to support the capital programme and reduce the level of borrowing required.

83 The final position on HRA general and earmarked reserves as at 31 March 2012 is as follows:

- HRA Capital Reserve - £2.000m after expending £0.400m in 2011/12
- Stock Options Reserve - £60k after expending £0.342m in 2011/12
- Durham City Homes Improvement Plan - £0.400m
- HRA Reserve - £7.821m following a contribution to the reserve of £0.133m in 2011/12.

Capital Outturn

84 The Housing Revenue Account Capital Budget for 2011/12 was set at £25.245m and was approved by Cabinet on 23 February 2011.

85 The revised Housing Revenue Account (HRA) Capital Budget for 2011/12 was set at £42.792m and was approved by Cabinet on 16 November 2011 and subsequently has been increased by £0.362m to £43.154m at Cabinet on 29 February 2012.

	Revised 2011/12 Budget	**2011/12 Outturn**	**Variance**		**Budget carried forward**
	£m	**£m**	**£m**	**%**	**£m**
Housing	43.154	41.735	-1.419	-3.3	1.465
TOTAL	**43.154**	**41.735**	**-1.419**	**-3.3**	**1.465**

86 The Capital Programme is financed via grants, capital receipts, revenue contributions, reserves and borrowing. The financing of the 2011/12 Outturn is detailed in the table overleaf.

Financed by:	**2011/12 Outturn**
	£m
Grants	2.905
Reserves	0.400
Direct Revenue Financing:	4.980
Capital Receipts	1.217
Major Repairs Allowance	11.696
Supported Borrowing (Supported Capital Expenditure - Revenue)	18.600
Unsupported Borrowing	1.937
TOTAL	**41.735**

87 The 2011/12 outturn capital spend for the HRA was £41.735m, against a quarter 3 revised budget of £43.154m, a £1.419m under spend for the year.

88 The Capital Member/Officer Working Group has met to review the outturn against the agreed programme on a scheme by scheme basis. Reasons for any budget carry forward and necessary reprofiling have been thoroughly challenged.

89 Included in the capital outturn position is accelerated spend on 2012/13 schemes that have been brought forward and commenced in quarter 4 of £66k.

90 Planned and budgeted capital expenditure of £1.465m will be reprofiled into 2012/13 and budgets adjusted in year accordingly.

Annual Treasury Management Review

Executive Summary

91 Treasury Management is the management of the 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. It is concerned with how the 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 against return on investment.

92 The financial year 2011/12 continued the challenging investment environment of previous years; namely low investment returns and continuing heightened levels of counterparty risk. The original expectation for 2011/12 was that Bank Rate would start gently rising from Quarter 4 of 2011 however GDP growth in the UK was disappointing during the year probably due to the UK austerity programme, a lack of rebalancing of the UK economy to exporting and weak growth in our biggest export market - the European Union (EU).

93 The EU sovereign debt crisis grew in intensity during the year until February 2012 when a second bailout package was eventually agreed for Greece. Weak UK growth resulted in the Monetary Policy Committee increasing quantitative easing by £75bn in October 2011 and another £50bn in February 2012. Bank Rate therefore ended the year unchanged at 0.5% while CPI inflation peaked in September at 5.2% but then fell to 3.4% in February, with further falls expected to below 2% over the next two years.

94 Risk premiums were also a constant factor in raising money market deposit rates for periods longer than one month. Widespread and multiple downgrades of the ratings of many banks and sovereigns, continued Eurozone concerns, and the significant funding issues still faced by many financial institutions, meant that investors remained cautious of longer-term commitment.

Treasury Position

95 The Treasury position at the beginning and end of 2011/12 is shown in the table below:

	31-Mar-11	Rate/ Return	Average Life	31-Mar-12	Rate/ Return	Average Life
	£m	%	yrs	£m	%	yrs
Total Debt	318	5.3		418	4.1	
Capital Financing Requirement (CFR)	485			579		
Over/ (Under) Borrowing*	(167)			(161)		
Total Investments	172	0.7	0.1	144	1.1	0.3
Net Debt	146			274		

**Note: includes PFI liabilities of £48m for which borrowing is not required*

96 Investments decreased by £28m across the period, reflecting an outflow of cash from the Council, however by identifying core cash levels that could be invested in longer dated deposits it was possible to improve the average rate earned on those balances by 0.4%. This is policy is also reflected in the increase in the average life of the portfolio.

97 The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR).

98 The implementation of housing finance reform at the end of the year abolished the housing subsidy system financed by central government and, consequently, all housing debt has been reallocated nationally between housing authorities. The result of this reallocation is that this Council made a capital payment to the Department of Communities and Local Government of £53m. This resulted in an increase in the CFR and total borrowing of £53m at the end of the year which was all financed by new external borrowing.

99 The CFR and debt figures shown in the table above therefore include these figures.

100 In addition to the HRA borrowing, another £50m of loans was taken from the Public Works Loans Board (PWLB) during the year. This enabled the Council to take advantage of historically low interest rates and to maintain its under-borrowed position at a manageable level.

Capital Expenditure and Financing

101 The 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 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.

102 Actual capital expenditure forms one of the required prudential indicators. The table below shows actual capital expenditure and how this was financed.

	2010/11 Actual	2011/12 Estimate	2011/12 Actual
	£m	£m	£m
Non-HRA Capital Expenditure	120.22	194.16	143.77
Non-HRA PFI and Finance Lease	47.58	-	2.75
HRA Capital Expenditure	37.86	17.99	41.73
HRA Self-Financing	-	-	52.89
Total capital expenditure	205.66	212.15	241.14
Resourced by:			
Capital receipts	27.53	16.27	9.46
Capital grants	72.26	92.52	95.42
Capital reserves	13.14	11.97	11.70
Revenue	17.92	6.67	15.63
Unfinanced capital expenditure	74.81	84.72	108.93

Overall Borrowing Need

103 The CFR results from the capital activity of the 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.

104 Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the Corporate Director Resources' treasury management group organises the Council's cash position to ensure sufficient cash is available to meet the capital plans and cash flow requirements.

105 This may be sourced through borrowing from external bodies (such as the Government, through the PWLB or the money markets), or utilising temporary cash resources within the Council.

106 The Council's (non HRA) underlying borrowing need known as its capital finance requirement (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The 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).

107 The Council's 2011/12 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 2011/12 on 23 February 2011.

108 The Council's CFR for the year is shown below, and represents a key prudential indicator.

CFR	**31-Mar-11 Actual**	**31-Mar-12 Estimate**	**31-Mar-12 Actual**
	£m	**£m**	**£m**
Opening balance	423.688	469.260	484.646
Add unfinanced capital expenditure (as above)	74.812	84.720	108.943
Less MRP/VRP	-13.854	-12.950	-14.454
Closing balance	484.646	541.030	579.135

109 The borrowing activity is constrained by prudential indicators for net borrowing and the CFR, and by the authorised limit. In order to ensure that borrowing levels are prudent over the medium term the Council's external borrowing, net of investments, must only be for a capital purpose. This essentially means that the Council is not borrowing to support revenue expenditure.

110 The authorised limit is the "affordable borrowing limit" required by section 3 of the Local Government Act 2003. The Council does not have the power to borrow above this level.

111 The table below demonstrates that during 2011/12 the Council has maintained gross borrowing within its authorised limit.

112 The operational boundary is the expected borrowing position of the 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.

	2011/12
	£m
Authorised limit	619.500
Operational boundary	569.500
Average gross borrowing position	338.428

Investment Strategy

113 The prime objective of the Council's investment strategy is to ensure prudent investment of surplus funds. The Council's investment priorities are therefore the security of capital, liquidity of investments and, within those objectives, to secure optimum performance. The Council has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code").

114 Therefore the primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration.

Selection Criteria

115 The criteria for providing a pool of high quality investment counterparties are:

1. Banks 1 – the Council's strategy requires the use of UK banks only which have, as a minimum, the following Fitch, Moody's and Standard and Poors credit ratings (where rated):

	Fitch	**Moody's**	**Standard & Poors**
Short Term	F1	P1	A-1
Long Term	A	A2	A
Viability/Financial Strength	bb-	C1	-
Support	3	-	-

2. Banks 2 - Part nationalised UK banks – Lloyds Bank and Royal Bank of Scotland. These banks are included so long as they continue to be part nationalised or they meet the ratings in Banks 1 above.

3. Banks 3 – Co-operative Bank - The Council's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time.

4. Bank subsidiary and treasury operation. The Council will use these where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined above.

5. Building societies. The Council only use building societies which meet the ratings for banks outlined above.

6. Money Market Funds.

7. UK Government (including gilts, Treasury Bills and the Debt Management Account Deposit Facility).

8. Local authorities and parish councils.

Time and Monetary Limits applying to Investments

116 The time and monetary limits for institutions on the Council's Counterparty List are as follows:

	Long Term Rating	Money Limit	Time Limit
Banks 1 category high quality	AA	£50m	1 year
Banks 1 category medium quality	A	£25m	3 months
Banks 2 category – part-nationalised	n/a	£50m	1 year
Banks 3 category – Council's banker	A-	£25m	3 months
DMADF/Treasury Bills	AAA	unlimited	6 months
Local Authorities	n/a	£10m each	1 year
Money Market Funds	AAA	£10m each (overall £50m)	liquid

Amendments to Limits

117 In June 2012 the Corporate Director Resources, in consultation with the Cabinet Portfolio Holder for Resources, has increased the monetary limit for the 'Banks 2' category from £50m to £60m.

118 With widespread and multiple downgrades of the ratings of many banks and sovereigns, continued Eurozone concerns, and the significant funding issues still faced by many financial institutions access to high quality counterparties is becoming restricted and this change will enable the Council to place additional funds with part-nationalised UK banks.

119 In order to provide more flexibility to act in such circumstances it is recommended that the power to amend counterparty monetary and time limits is delegated to the Corporate Director Resources. Any changes to the Annual Strategy during the financial year would then be reported to County Council in either the Mid-Year Review or the Final Outturn Report.

Icelandic Deposits

120 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 authority had £7m deposited across three of these institutions, with varying maturity dates and interest rates as follows:

Bank	Date Invested	Maturity Date	Amount Invested	Interest Rate
			£	%
KSF	30/10/07	28/10/08	1,000,000	6.120
Landsbanki (1)	12/04/07	13/10/08	1,000,000	6.010
Landsbanki (2)	12/04/07	14/04/09	1,000,000	6.040
Glitnir Bank (1)	25/10/06	24/10/08	3,000,000	5.620
Glitnir Bank (2)	18/12/07	16/12/08	1,000,000	6.290
Total			**7,000,000**	

121 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 authority will be determined by the administrators / receivers.

122 The current situation with regards to recovery of the sums deposited varies between each institution.

Kaupthing Singer and Friedlander Ltd

123 The current position on actual payments received and estimated future payouts is as shown in the table The authority has decided to recognise an impairment based on it recovering 83.5p in the £.

Date	Repayment
	%
Received to 31 March 2012	63.0
Received in May 2012	10.0
January 2013	5.0
January 2014	5.5

124 Recoveries are expressed as a percentage of the authority’s claim in the administration, which includes interest accrued up to 7 October 2008.

Landsbanki

125 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.

126 Following the Icelandic Supreme Court decision to grant UK local authorities priority status, the winding up board made a distribution to creditors in a basket of currencies in February 2012.

127 An element of the distribution is in Icelandic Kroner which has been placed in an escrow account in Iceland and is earning interest of 3.35%. This element of the distribution has been retained in Iceland due to currency controls currently operating in Iceland and as a result is subject to exchange rate risk, over which the Council has no control.

128 The current position on estimated future payouts is as shown in the table below and this council has used these estimates to calculate the impairment based on recovering 100p in the £.

Date	Repayment
	%
Received to 31 March 2012	30.0
December 2012	8.0
December 2013	8.0
December 2014	8.0
December 2015	8.0
December 2016	8.0
December 2017	8.0
December 2018	22.0

129 Recoveries are expressed as a percentage of the authority's claim in the administration, which it is expected may validly include interest accrued up to 22 April 2009 [or maturity date if earlier].

Glitnir Bank hf

130 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.

131 The Icelandic Supreme Court decision to grant UK local authorities priority status, the winding up board made a distribution to creditors in a basket of currencies in March 2012.

132 An element of the distribution is in Icelandic Kroner which has been placed in an escrow account in Iceland and is earning interest of 3.4%. This element of the distribution has been retained in Iceland due to currency controls currently operating in Iceland and as a result is subject to exchange rate risk, over which the Council has no control.

133 The distribution has been made in full settlement, representing 100% of the claim.

134 The authority has made an impairment of 8% of the claim amount due to currency fluctuations.

Recommendations and reasons

135 It is recommended that Cabinet note:

(i) the addition to the Cash Limit reserves of £3.760m in the year. These sums will be held as Earmarked Reserves and be available for Service Groupings to utilise to manage budgets effectively.

(ii) the closing General Reserve balance of £21.874m.

(iii) the closing balance on Earmarked Reserves (excluding Cash Limit Reserves) of £84.539m of which £20.890m relate to schools balances.

136 It is recommended that Cabinet approve:

(i) that capital budget carried forward of £32.213m for the General Fund and £1.465m for the HRA is moved into 2012/13 and that Service Groupings regularly review capital profiles throughout 2012/13 reporting revisions to MOWG and Cabinet as necessary.

(ii) that the power to amend counterparty monetary and time limits is delegated to the Corporate Director Resources. Any changes to the Annual Strategy during the financial year would then be reported to County Council in either the Mid-Year Review or the Final Outturn Report.

Contact: Jeff Garfoot Tel: 03000 261946

Appendix 1: Implications

Finance

The report details the financial outturn for the Council for 2011/12 for Revenue and Capital. The report covers General Fund and Housing Revenue Account for both Revenue and Capital.

Staffing

None.

Risk

None.

Equality and Diversity / Public Sector Duty

None.

Accommodation

None.

Crime and Disorder

None.

Human Rights

None.

Consultation

None.

Procurement

None.

Disability Issues

None.

Legal Implications

None.

Appendix 2: Revenue Summary 2011/12

	Original Budget	Agreed Budget	Service Groupings Final Outturn	Variance	Cash Limit Adjustments: Sums Outside the Cash Limit	Cash Limit Adjustments: Contribution to / Use of Reserves	Cash Limit Position	Cash limit Carry Forward
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Assistant Chief Executive	10,479	11,332	12,106	774	-1,541	375	-392	392
Adult Wellbeing and Health	176,328	167,798	171,703	3,905	-6,213	1,327	-981	981
Children & Young People	105,274	106,171	74,237	-31,934	24,502	6,064	-1,368	1,368
Neighbourhood Services	99,290	108,260	97,082	-11,178	8,850	1,415	-913	913
Regeneration and Economic Dev	39,617	42,447	37,439	-5,008	3,049	1,390	-569	569
Resources	19,125	30,308	21,335	-8,973	4,224	4,126	-623	623
	450,113	466,316	413,902	-52,414	32,871	14,697	-4,846	4,846
Centrally Held Budgets	0	0	1,850	1,850	0	-1,734	116	-116
Contingencies	9,547	1,509		-1,509		-2,500	-4,009	4,009
NET COST OF SERVICES	459,660	467,825	415,752	-52,073	32,871	10,463	-8,739	8,739
Capital charges	-49,020	-48,856	-74,872	-26,016			-26,016	26,016
Gain/Loss on disposal of fixed assets	0	0	64,240	64,240			64,240	-64,240
Interest and Investment income	-577	-577	-1,931	-1,354			-1,354	1,354
Interest payable and similar charges	26,271	25,321	25,004	-317			-317	317
HR Accrual - reversal	0	0	-5,435	-5,435	5,435		0	0
LSSG Grant - Corporate Element	0	0	-115	-115			-115	115
Net Expenditure	436,334	443,713	422,643	-21,070	38,306	10,463	27,699	-27,699
Funded By:								
Council tax	-198,870	-198,870	-198,870	0			0	0
Use of (-) contribution to earmarked reserves	-260	-6,833	5,690	12,523			12,523	-12,523
Estimated net surplus on Collection Fund	-814	-814	-814	0			0	0
Revenue Support Grant	-55,596	-55,596	-55,596	0			0	0
Re-distributed Non Domestic Rates	-179,861	-179,861	-179,861	0			0	0
New Homes Bonus	0	0	-1,506	-1,506		206	-1,300	1,300
Forecast contribution to Cash Limit Reserve	-933	-1,739	3,760	5,499			5,499	-5,499
Forecast contribution to General Reserves	0	0	4,554	4,554			4,554	-4,554
TOTAL	0	0	0	-0	38,306	10,669	48,975	-48,975

Appendix 3: Revenue Summary by Expenditure / Income for 2011/12

	Original Budget	Agreed Budget	Service Groupings Final Outturn	Cash Limit Adjustments: Sums Outside the Cash Limit	Cash Limit Adjustments: Contribution to / Use of Reserves	Cash Limit Position	Cash Limit Carry Forward
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Employees	573,681	587,394	576,221	-9,269	468	-19,974	19,974
Premises	51,066	51,875	56,623	-6,109	-420	-1,781	1,781
Transport	54,173	56,853	54,244	2,358	24	-227	227
Supplies & Services	144,590	151,848	147,671	491	2,492	-1,194	1,194
Agency & Contracted	211,392	215,889	224,334	96	3,246	11,787	-11,787
Transfer Payments	231,690	246,686	249,426	3,605	447	6,792	-6,792
Central Costs	86,329	83,414	89,337	-7,747	5,390	3,566	-3,566
Other	7,903	1,642	634	0	319	-689	689
DRF	0	6,135	10,249	0	-2,150	1,964	-1,964
Capital Charges	49,020	48,856	10,632	38,224	0	0	-0
GROSS EXPENDITURE	1,409,844	1,450,593	1,419,371	21,649	9,816	243	-243
Income							
- Specific Grants	640,387	656,115	631,086	4,917	1,728	-18,384	18,384
- Other Grants & conts	24,854	32,557	40,902	-41	0	8,304	-8,304
- Sales	5,743	6,211	10,551	0	0	4,340	-4,340
- Fees & charges	98,359	103,201	105,292	-8	-799	1,284	-1,284
- Recharges	170,920	167,687	193,705	-14,356	9	11,671	-11,671
- Other	19,468	18,506	22,083	-1,734	-1,585	258	-258
Total Income	959,731	984,277	1,003,619	-11,222	-647	7,473	-7,473
NET COST OF SERVICES	450,113	466,316	415,752	32,871	10,463	-7,230	7,230

Appendix 4: Earmarked Reserves as at 31 March 2012

EARMARKED RESERVES AND CASH LIMIT RESERVES	SERVICE GROUPING	2010/11 CLOSING BALANCE	USE OF RESERVES	CONTRIBUTION TO RESERVES	TRANSFERS BETWEEN RESERVES	TOTAL MOVEMENT ON RESERVES	2011/12 CLOSING BALANCE
ACE AAP/Members Reserve	ACE	-2,414	414	-364	0	50	-2,364
ACE Grant Reserve	ACE	0	0	-140	-93	-233	-233
ACE Operational Reserve	ACE	0	0	-140	0	-140	-140
ACE Regeneration and Communities Reserve	ACE	-1,880	1,880	0	0	1,880	0
Heritage and Culture Reserve	AWH	-111	2	-100	-39	-137	-248
Social Care Reserve	AWH	-425	25	-8,968	39	-8,904	-9,329
Health and Wellbeing Reserve	AWH	-1,566	219	0	0	219	-1,347
Community Safety Reserve	AWH	-75	50	-50	0	0	-75
Aycliffe Young People's Centre Reserve	CYPS	-300	300	-475	0	-175	-475
Continuing Professional Development Reserve	CYPS	-278	0	-95	0	-95	-373
Education Reserve	CYPS	-45	280	-28	0	252	207
CYPS Leisure Reserve	CYPS	-52	0	0	0	0	-52
LEP Reserve	CYPS	-80	80	0	0	80	0
Special Projects Reserve	CYPS	-60	0	0	0	0	-60
Youth Forum Reserve	CYPS	-64	64	0	0	64	0
Neighbourhoods AAP Reserve	NS	-824	483	-163	0	320	-504
Customer Services Reserve	NS	0	0	-360	0	-360	-360
Direct Services Reserve	NS	-1,122	65	-349	0	-284	-1,406
Env. Health and Consumer Protection Reserve	NS	-40	0	-101	0	-101	-141
Sport and Leisure Reserve	NS	-1,254	473	-984	0	-511	-1,765
Strategic Waste Reserve	NS	0	0	-104	0	-104	-104
Transport Asset Management Programme Reserve	NS	-515	150	0	0	150	-365
Economic Development Reserve	RED	-5,353	2,127	-72	2,455	4,510	-843
Planning Reserve	RED	-2,034	260	0	0	260	-1,774
Employability and Training Reserve	RED	-240	0	-615	0	-615	-855
RED Regeneration Reserve	RED	-470	0	-520	-277	-797	-1,267
Housing Regeneration Reserve	RED	-223	128	0	0	128	-95
Housing Solutions Reserve	RED	-860	0	-461	0	-461	-1,321
Restructure Reserve	RED	0	0	-500	-500	-1,000	-1,000
LSVT Reserve	RED	-133	11	0	0	11	-122
Transport Reserve	RED	0	0	-364	0	-364	-364
Funding and Programmes Management Reserve	RED	0	0	-193	-46	-239	-239
North Pennines Reserve	RED	-169	169	0	0	169	0
Resources Corporate Reserve	Resources	-865	200	-499	0	-299	-1,164
Resources DWP Grant Reserve	Resources	-86	86	-159	0	-73	-159
Resources System Development Reserve	Resources	0	0	-700	0	-700	-700
Resources Housing Benefit Subsidy Reserve	Resources	0	600	-1,700	-100	-1,200	-1,200
Resources Land Search Fees Reserve	Resources	0	0	0	-1,000	-1,000	-1,000
Resources Elections Reserve	Resources	0	0	-800	0	-800	-800
Corporate Regeneration Reserve	Corporate Fin	-578	0	0	0	0	-578
Cabinet Reserve	Corporate Fin	-498	0	0	0	0	-498
Equal Pay Reserve	Corporate Fin	-3,473	65	0	0	65	-3,408
Insurance Reserve	Corporate Fin	-11,284	0	-25	-532	-557	-11,841
Performance Reward Grant Reserve	Corporate Fin	-1,694	375	0	0	375	-1,319
MTFP Redundancy and Early Retirement Reserve	Corporate Fin	-19,798	10,246	0	0	10,246	-9,552
New Homes Bonus Reserve	Corporate Fin	0	0	-206	0	-206	-206
Total Non-Schools Reserve		**-58,863**	**18,752**	**-19,235**	**-93**	**-576**	**-59,439**
Schools' Balances							
Schools' Revenue Balance	CYPS	-15,740	3,891	-9,041	0	-5,150	-20,890
Schools' Unspent Grants	CYPS	-639	639	0	0	639	0
DSG Reserve	CYPS	-3,607	0	-603	0	-603	-4,210
Total Schools and DSG Reserve		**-19,986**	**4,530**	**-9,644**	**0**	**-5,114**	**-25,100**
Cash Limit Reserves							
Assistant Chief Executive		-894	60	-392	93	-239	-1,133
Adult Wellbeing and Health		-5,423	0	-981	0	-981	-6,404
Children & Young People		-1,253	933	-1,368	0	-435	-1,688
Neighbourhood Services		-1,292	0	-913	0	-913	-2,205
Regeneration and Economic Dev		-2,391	0	-569	0	-569	-2,960
Resources		-873	0	-623	0	-623	-1,496
Total Cash Limit Reserves		**-12,126**	**993**	**-4,846**	**93**	**-3,760**	**-15,886**
Total Earmarked Reserves		**-90,975**	**24,275**	**-33,725**	**0**	**-9,450**	**-100,425**

Appendix 5: 2011/12 Housing Revenue Account Outturn Position

	2011/12 Budget £000	2011/12 Outturn £000	Variance £000
Income			
Dwelling Rents	-56,610	-56,840	-230
Non Dwelling Rents			
- Garages [net of voids]	-769	-813	-44
- Shops/Other	-96	-92	4
Charges for Services and Facilities	-66	-147	-81
Contributions Towards Expenditure	0	-30	-30
Total Income	**-57,541**	**-57,922**	**-381**
Expenditure			
ALMO Management Fee and Outsourced Contract	18,266	18,266	0
Repairs and Maintenance	4,156	4,574	418
Supervision and Management - General	4,592	5,180	588
Supervision and Management - Special	1,066	815	-251
Rents, rates, taxes and other Charges	42	64	22
Negative HRA Subsidy	4,514	3,790	-724
Depreciation and Impairment of fixed assets [Net MRA Adj]	11,696	11,696	0
Debt Management Costs	120	175	55
Increase/Decrease in bad debt provision	250	885	635
Total Expenditure	**44,702**	**45,445**	**743**
Net cost of HRA services per Authority I&E Account	**-12,839**	**-12,477**	**362**
HRA services share of Corporate and Democratic Core	1,085	1,085	0
HRA share of other amounts included in the whole authority Net Cost of services but not allocated to specific services	560	407	-153
Net cost of HRA Services	**-11,194**	**-10,985**	**209**
Interest payable and Similar Charges [Item 8 Debit]	6,624	6,327	-297
Direct Revenue Financing [Balancing Item on HRA]	4,659	5,380	721
Interest and Investment Income [item 8 credit]	-89	-113	-24
[Surplus] / Deficit for the year on HRA services	**0**	**609**	**609**
Contribution from Stock Options Reserve	0	-342	-342
Contribution from Capital Reserve		-400	-400
Actual Position for Year	**0**	**-133**	**-133**

Audit Committee

30 July 2012

Statement of Accounts for the year ended 31 March 2012

Don McLure, Corporate Director Resources

Purpose of the Report

1 To present to Members the Statement of Accounts for the year ended 31 March 2012 and raise any significant issues arising from the accounts.

Background

2 The ‘Accounts and Audit Regulations 2011’ introduced a two stage approval process for the Statement of Accounts; the first stage is in June each year. The Regulations require that the responsible financial officer, by no later than 30 June 2012, signs and certifies that the Statement of Accounts presents a true and fair view of the financial position of the County Council for the year to 31 March previous, subject to the views of the External Auditor. This stage was completed on 29 June 2012.

3 The second stage, as set out in the Regulations, requires that on or before the 30 September, approval needs to be given to the Statement of Accounts by resolution of a committee, which for Durham County Council is the Audit Committee. This approval will take into account the views of the External Auditor. This is done so that the Statement of Accounts can then be published.

4 The Statement of Accounts is currently subject to audit by the Audit Commission. The audit of the accounts is ongoing. On completion, the Auditor’s report will be incorporated into the published version of the document.

5 The attached Statement of Accounts is currently available for inspection by the public in line with the Regulations and has been published on our website.

Statement of Accounts

6 The Statement of Accounts for the financial year 2011/12 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 2011/12' (the Code) as published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

7 The Code is based on approved accounting standards. 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 in the document to assist in the interpretation of the accounts, which unfortunately are unavoidably technical and complex.

8 To help Members in reading and interpreting the contents, Appendix 2 to this report briefly explains the purpose of each section of the Statement.

Key information from the Statement of Accounts

9 Page numbers used in this report refer to the page numbers on the Statement of Accounts document and not those on the full pack of reports.

10 There are six core statements that provide fundamental information on the financial activities and position of the County Council:

- Movement in Reserves Statement (page 37)
- Comprehensive Income and Expenditure Account (page 39)
- Balance Sheet (page 40)
- Cash Flow Statement (page 41)
- Housing Revenue Account (page 110) and
- Collection Fund (page 115).

11 The Statement of Accounts also includes the accounts for Durham County Council Pension Fund (page 121) for which the County Council is the Administering Authority.

12 The Statement of Accounts shows that the County Council's 'net worth' has fallen in 2011/12 by £299.6m to £571.8m. This is due, in the main, to an increase in pension scheme liabilities for its employees as calculated by the Pension Fund's Actuary under International Accounting Standard (IAS) 19. Although the benefits are not payable until the employees retire, the County Council has a commitment to make the payments which it must disclose at the time the employees earn their future entitlement.

13 The County Council has increased its usable reserves during 2011/12.

a) The general reserve has increased by £4.554m to £21.874m. This reserve is held to cushion the impact of uneven cash flows, unexpected events or emergencies.

b) Earmarked Reserves have increased by £9.450m to £100.425m. Earmarked reserves are held for specific future purposes.

14 The implementation of housing finance reform at the end of the year abolished the housing subsidy system financed by central government and, consequently all housing debt has been reallocated nationally between housing authorities. The result of this reallocation is that the County Council made a capital payment to the Department of Communities and Local Government of £53m financed by loans from the Public Works Loan Board (PWLB). In 2011/12 this payment is charged to the Local Authority (HRA) within the Comprehensive Income and Expenditure Statement and reversed out of the HRA via the Movement in the Housing Revenue Account Statement.

15 Under the new self-financing arrangements, the County Council has prepared a 30 year HRA Business Plan which was approved by County Council on 22 February 2012. This shows that over a 30 year period, the additional debt allocated to the Council can be sustained within the Business Plan and is repaid towards the end of the period.

16 The Pension Fund accounts show that its net assets as at 31 March 2012 have increased by £95.04m to £1,888.63m. Although there was a withdrawal of £1.653m as a result of payments to pensioners exceeding the contributions received and there was a £96.7m return of the Pension Fund's investments.

Bank Accounts and Bank Reconciliations

17 The number of bank accounts held by the County Council has continued to be rationalised. In January 2012 it was reported that 18 bank accounts of the 26 brought from the former district councils remained. The plan was to close 11 of these accounts by the end of March 2012. This has been achieved and only the 7 planned for closure in September 2012 remain.

18 All bank accounts have been reconciled to 31 March 2012 prior to the completion of the Statement of Accounts. This work is now subject to audit by the Audit Commission, as part of the Statement of Accounts audit. The Audit Commission will give an opinion on the work that has been done at the end of their audit.

19 In the current year, reconciliations have been completed as follows:
a) County Fund Account – to 31 May 2012
b) Income Collection Account – to 30 April 2012 (work on-going on 31 May reconciliation)
c) Former district council accounts – to 30 June 2012

Interim Governance Report

20 The findings of the Interim Governance Report and the Action plan were reported to Members on 31 May 2012. That report detailed findings arising from an interim audit. It is anticipated that some of the issues identified at that time will have been resolved, and outstanding issues will be included in the Auditor's report at the completion of the Statement of Accounts audit.

21 The final audit of the Statement of Accounts is now underway. At the end of this process, the Auditor will provide an Annual Governance Report detailing their comments and recommendation for improvements, based on the position at 31 March 2012.

22 An Action Plan will be presented to Members designed to address the Auditor's recommendations at the conclusion of the Audit.

Recommendation

23 It is recommended that the Audit Committee:

a. consider the attached Statement of Accounts for the County Council for the financial year ended 31 March 2012;

b. note the progress on the rationalisation of bank accounts and the current position on bank reconciliations; and

c. note the update on the Audit Commission's recommendations in the Annual Governance Report.

Contact: Don McLure Tel: 0191 383 3550

Appendix 1: Implications

Finance

This report details the financial position of the County Council as at 31 March 2012.

Staffing -

None

Risk -

None

Equality and Diversity -

None

Accommodation -

None

Crime and Disorder -

None

Human Rights -

None

Consultation -

None

Procurement -

None

Disability -

None

Legal Implications -

None

Appendix 2: Statement of Accounts - Summary and Explanation

Item	Pages	Explanation of Purpose and Content
Explanatory Foreword	3	Summary of the most significant matters reported in the accounts, and the overall financial position of the County Council.
Independent Auditor's Report to Durham County Council	31 - 36	Once the Audit is completed the Auditor's report will be included.
Durham County Council Core Financial Statements		
Movement in Reserves Statement	37 – 38	This statement shows the movement in the year on the different reserves held by the County Council analysed into 'usable' reserves and other reserves
Comprehensive Income and Expenditure Account (CIES)	39	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.
Balance Sheet	40	The Balance Sheet shows the value as at the Balance Sheet date (31 March 2012) of the assets and liabilities recognised by the County Council. The net assets of the authority (assets less liabilities) are matched by the reserves held by the County Council.
Cash Flow Statement	41	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.
Notes to the Core Financial Statements	42 - 109	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.
The Housing Revenue Account (HRA)	110 - 114	The HRA Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Authorities charge rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis of which rents are raised, is shown in the Movement on the HRA Statement.

Item	Pages	Explanation of Purpose and Content
Collection Fund	115 - 120	The Collection Fund is an agent's statement that reflects the statutory obligation for billing authorities, such as the County Council, to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and non-domestic rates.
Durham County Council Pension Fund Accounts	121 – 147	Shows the operation and membership of the Pension Fund, the expenditure and income during the year and its financial position at 31 March 2012. Following the Accounts are notes providing further information.
Statement of Responsibilities for the Statement of Accounts	148	Sets out the responsibilities of the County Council and the Corporate Director Resources for the Statement of Accounts.
Annual Governance Statement	149 - 157	Gives assurance that appropriate mechanisms are in place for the maintenance of good governance across the activities of the County Council.
Glossary of Terms used in the Accounts	158 - 169	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 both the quality and suitability of information provided. On that basis your feedback would be welcome.

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

Corporate Director Resources
Durham County Council
County Hall
Durham
DH1 5UE

e-mail: help@durham.gov.uk
Telephone: 03000 260000

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

1. Introduction

This document presents the published accounts for Durham County Council for the year ended 31 March 2012 – 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 2011/12
- Material assets acquired, liabilities incurred
- Sources of funds to meet capital expenditure and other plans
- Borrowing
- Pensions liability
- Material or unusual items
- Significant changes in accounting policies
- Significant provisions, contingencies and material write-offs
- Changes in statutory functions
- Subsequent events
- Future plans

2. Statement of accounts

The Statement of Accounts for the financial year 2011/12 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 2011/12’ (the Code) as published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

The Code is based on International Financial Reporting Standards (IFRS) which were primarily drafted for the commercial sector and are not designed to address all the issues relevant to local government in the UK. The Code therefore prescribes a hierarchy of alternative standards on which accounting treatment should be based. These include 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 UK Generally Accepted Accounting Practice (GAAP) 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 key document for Local Authorities in England is the Accounts and Audit Regulations (England) 2011. These regulations provide the overall legal requirements for the Statement of Accounts and have been incorporated into the Code.

The Code introduces changes that have been reflected in the accounting policies. The two main items are:

- **Heritage Assets**: The Code introduces a new accounting policy in relation to the treatment of heritage assets which will impact on the treatment of those heritage assets managed and held by the County Council. The new standard requires that a new class of asset, heritage assets, is disclosed separately in the County Council’s balance sheet in the 2011/12 financial statements together with comparative data for 2010/11. Heritage assets are assets that are held and managed by the County Council ‘principally for their contribution to knowledge or culture'. The Code requires that heritage assets are measured at valuation in the 2011/12 financial statements (including the 2010/11 comparative information). In addition to recognising the assets on the balance sheet a significant number of narrative disclosure notes are required, e.g. the nature and extent of the collections held by the County Council.

- **Carbon Reduction Commitment Allowances:** Local Authority Accounting Panel (LAAP) Bulletin 91 introduces a new accounting policy in relation to the obligation to purchase and surrender Carbon Reduction Commitment (CRC) Allowances in relation to carbon dioxide emissions. Following the end of 2011/12, participating authorities will submit the annual report on their emissions for the 2011/12 financial year. The retrospective purchase of allowances is anticipated to take place from 1 June 2012. Participating authorities are then required to surrender allowances to the scheme by the last working day in July 2012 in proportion to their reported emissions for the preceding scheme year and in accordance with the scheme requirements.

3. 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 2012.

Durham County Council's core financial statements

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. This is 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.

Comprehensive income and expenditure statement (CIES)

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.

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 authority (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'.

Cash flow statement

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.

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.

The housing revenue account (HRA)

The HRA Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Authorities charge rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis of which rents are raised, is shown in the Movement on the HRA Statement. The HRA Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Authorities charge rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis of which rents are raised, is shown in the Movement on the HRA Statement.

Collection fund

The Collection Fund is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and non-domestic rates.

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 2012. 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.

4. A review of 2011/12

The budget for 2011/12 and Medium Term Financial Plan (MTFP) for the County Council was set against unprecedented levels of reduction in Government support over the MTFP 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 forecasted the loss of £92.4m of Government Grant over the MTFP period with £60.2m in 2011/12.

The Government had top-sliced £145m of Formula Grant nationally in anticipation of schools opting for ‘Academy’ status in 2011/12 in order to create a new Local Authority Central Spend Equivalent Grant (LACSEG). The annual budget reduction from Formula Grant for the County Council as a result of this is £1.4m in 2011/12 and is expected to be £0.9m in 2012/13. In addition, the impact upon the County Council has been significant in relation to Area Based Grants (ABG) and Specific Grants. The reductions in 2011/12 were £25.0m of ABG and £7.1m of specific grants.

In determining Council Tax levels for 2011/12 consideration was given to the Council Tax Freeze Grant. This specific grant of £5m would be paid to the County Council, which is the equivalent of a 2.5% increase, if the County Council chose to maintain Council Tax at 2010/11 levels. The County Council accepted the Council Tax Freeze Grant and, as such, left Council Tax levels for the County Council unchanged when compared to 2010/11. The Council’s budget was therefore funded by a Band D council tax of £1,282.86.

After taking into account estimated budget pressures faced, the County Council was 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 were very substantial the County Council had been working to a robust MTFP timetable which ensured that well developed plans were in place. In addition, the County Council’s initial forecasts of Government Grant reduction anticipated the heavy front loading. This ensured that plans were developed which realised enough financial savings to achieve a balanced budget position for 2011/12.

Despite the financial pressures the County Council was able to support a limited number of investments. These investments enabled the increasing price of the Landfill Tax to be covered whilst the County Council reduces waste going to landfill sites, enabled 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.

Although the County Council was facing unprecedented reductions in revenue funding the County Council recognised the need to invest in key infrastructure projects to support its key priorities. At the same time, a prudent approach to investment was essential. After taking into account the receipt of Government Capital Grants and the receipts from the sale of capital assets the County Council was 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 resulted in the County Council having a £364m capital programme for the MTFP period.

The following paragraphs detail the actual outturn position against this budget. It was anticipated at the time that the budget was set that £1.193m would be drawn from earmarked reserves to finance the budget, the actual position was a contribution to earmarked reserves of £9.450m, of which £5.150m related to schools’ balances and £4.554m was contributed to the general reserve.

General Fund Outturn

1 This section of the report 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

2 The overall outturn for the County Council is detailed in the table below.

	Original Budget	Agreed Budget	Service Groupings Final Outturn	Variance	Cash Limit Adjustments Sums Outside the Cash Limit	Contribution to / Use of Reserves	Cash Limit Position	Cash Limit Carry Forward
	£000	£000	£000	£000	£000	£000	£000	£000
Assistant Chief Executive	10,479	11,332	12,106	774	-1,541	375	-392	392
Adult Wellbeing and Health	176,328	167,798	171,703	3,905	-6,213	1,327	-981	981
Children and Young People	105,274	106,171	74,237	-31,934	24,502	6,064	-1,368	1,368
Neighbourhood Services	99,290	108,260	97,082	-11,178	8,850	1,415	-913	913
Regeneration and Economic Development	39,617	42,447	37,439	-5,008	3,049	1,390	-569	569
Resources	19,125	30,308	21,335	-8,973	4,224	4,126	-623	623
	450,113	466,316	413,902	-52,414	32,871	14,697	-4,846	4,846
Centrally Held Budgets	-	-	1,850	1,850	-	-1,734	116	-116
Contingencies	9,547	1,509	-	-1,509	-	-2,500	-4,009	4,009
NET COST OF SERVICES	459,660	467,825	415,752	-52,073	32,871	10,463	-8,739	8,739
Capital charges	-49,020	-48,856	-74,872	-26,016	-	-	-26,016	26,016
Gain/Loss on disposal of fixed assets	-	-	64,240	64,240	-	-	64,240	-64,240
Interest and Investment income	-577	-577	-1,931	-1,354	-	-	-1,354	1,354
Interest payable and similar charges	26,271	25,321	25,004	-317	-	-	-317	317
HR Accrual - reversal	-	-	-5,435	-5,435	5,435	-	-	-
LSSG Grant - Corporate Element	-	-	-115	-115	-	-	-115	115
Net Operating Expenditure	436,334	443,713	422,643	-21,070	38,306	10,463	27,699	-27,699
Council Tax	-198,870	-198,870	-198,870	-	-	-	-	-
Use of (-) contribution to earmarked reserves	-260	-6,833	5,690	12,523	-	-	12,523	-12,523
Estimated net surplus on Collection Fund	-814	-814	-814	-	-	-	-	-
Revenue Support Grant	-55,596	-55,596	-55,596	-	-	-	-	-
Re-distributed Non Domestic Rates	-179,861	-179,861	-179,861	-	-	-	-	-
New Homes Bonus	-	-	-1,506	-1,506	-	206	-1,300	1,300
Use of (-) contribution to Cash Limit Reserve	-933	-1,739	3,760	5,499	-	-	5,499	-5,499
Use of (-) contribution to general reserve	-	-	4,554	4,554	-	-	4,554	-4,554
TOTAL	-	-	-	-	38,306	10,669	48,975	-48,975

The table details how the Cash Limit Outturn for each Service Grouping is calculated. Two 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. Housing Benefit Subsidy cost pressures.

(ii) Use of or Contribution to Earmarked Reserves

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

3 After taking into account the above exclusions, all Service Groupings have generated a Cash Limit underspend in 2011/12. The 2011/12 Cash Limit underspend for each Service Grouping is detailed below:

Service Grouping	Opening Balance as at 01-Apr-11	Budgeted use of cash limit reserves	Movement during 2011-12	Closing Balance as at 31-Mar-12
	£m	£m	£m	£m
Assistant Chief Executive	-0.894	-	-0.239	-1.133
Adults, Wellbeing and Health	-5.423	-	-0.981	-6.404
Children and Young People	-1.253	0.933	-1.368	-1.688
Neighbourhoods	-1.292	-	-0.913	-2.205
Regeneration and Economic Development	-2.391	-	-0.569	-2.960
Resources	-0.873	-	-0.623	-1.496
Total	-12.126	0.933	-4.693	-15.886

Revenue Outturn

4 The table in paragraph 5 provides a detailed Outturn position for the County Council's 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.

	Original Budget	Agreed Budget	Service Groupings Final	Cash Limit Adjustments: Sums Outside the Cash Limit	Cash Limit Adjustments: Contribution to / Use of Reserves	Cash Limit Position	Cash Limit Carry Forward
	£000	£000	£000	£000	£000	£000	£000
Employees	573,681	587,394	576,221	-9,269	468	-19,974	19,974
Premises	51,066	51,875	56,623	-6,109	-420	-1,781	1,781
Transport	54,173	56,853	54,244	2,358	24	-227	227
Supplies & Services	144,590	151,848	147,671	491	2,492	-1,194	1,194
Agency & Contracted	211,392	215,889	224,334	96	3,246	11,787	-11,787
Transfer Payments	231,690	246,686	249,426	3,605	447	6,792	-6,792
Central Costs	86,329	83,414	89,337	-7,747	5,390	3,566	-3,566
Other	7,903	1,642	634	-	319 -	689	689
DRF	-	6,135	10,249	- -	2,150	1,964	-1,964
Capital Charges	49,020	48,856	10,632	38,224	-	-	-
GROSS EXPENDITURE	1,409,844	1,450,593	1,419,371	21,649	9,816	243	-243
Income							
- Specific Grants	640,387	656,115	631,086	4,917	1,728	-18,384	18,384
- Other Grants & conts	24,854	32,557	40,902	-41	-	8,304	-8,304
- Sales	5,743	6,211	10,551	-	-	4,340	-4,340
- Fees & charges	98,359	103,201	105,292	-8	-799	1,284	-1,284
- Recharges	170,920	167,687	193,705	-14,356	9	11,671	-11,671
- Other	19,468	18,506	22,083	-1,734	-1,585	258	-258
Total Income	959,731	984,277	1,003,619	-11,222	-647	7,473	-7,473
NET EXPENDITURE	450,113	466,316	415,752	32,871	10,463	-7,230	7,230

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

	£m	£m
Gross Expenditure	1,428.308	
Less: Gross Income	-1,005.665	
Net Operating Expenditure		422.643
Financed by:		
Redistributed Non-Domestic Rates	179.861	
Revenue Support Grant	55.596	
Council Tax	198.870	
Net Surplus on Collection Fund	0.814	
New Homes Bonus	1.506	
Net Contribution to Cash Limit Reserves	-3.760	
Net Contribution to Earmarked Reserves		
Schools and DSG	-5.114	
Non-Schools	-0.576	
Net Contribution to General Reserve	-4.554	
TOTAL FINANCING		422.643

5 The final Outturn position for General Reserve is detailed below:

	£m
Opening Balance as at 1 April 2011	-17.320
Add	
Net Contribution to General Reserve	-4.554
Closing General Reserve Balance as at 31 March 2012	-21.874

6 The General Reserve balance detailed above is higher that the County Council's current General Reserve policy of maintaining the reserve between 3% - 4% (£13m - £17m) of Net Revenue Expenditure. The policy will be reviewed as part of the 2013/14 budget setting process due to the potential significant risks associated with the upcoming introduction of new arrangements for Business Rates and Council Tax Benefit from 1 April 2013.

7 Examples of why the General Reserve has increased are detailed below:

- Additional New Homes Bonus Grant - £1.300m
- Additional Local Services Support Grant - £0.115m
- Interest and Investment income - £1.354m more than budget.
- Interest payable and similar charges - £0.317m less than budget

8 The final outturn for Earmarked Reserves is detailed below with fuller detail provided in the Notes to the Accounts. School Balances and Cash Limit Reserves are shown separately.

	Non-Schools £m	Schools £m	Cash Limits £m	TOTAL £m
Opening Earmarked Balance as at 1 April 2011	-58.863	-19.986	-12.126	-90.975
Add				
Net contribution to Earmarked Reserve	-0.576	-5.114	-3.760	-9.450
Closing Earmarked Reserve Balance as at 31 March 2012	**-59.439**	**-25.100**	**-15.886**	**-100.425**

Service Grouping Commentary

9 A summary from each Service Grouping Outturn follows.

Assistant Chief Executive

10 The 2011/12 outturn for Assistant Chief Executives (ACE) is a cash limit under spend of £0.392m. This takes into account adjustments for sums outside the cash limit such as redundancy costs which are met from an earmarked reserve, year end capital accounting entries and use of / contributions to earmarked reserves. The service has undertaken additional activities during the year, the planned cost of which has been met from the ACE cash limit reserve (£60k). In addition, an amount of £93k relating to a grant received for Modern Ways of Working in 2010/11 has been transferred from the

cash limit reserve to a ‘Modern Ways of Working’ earmarked reserve for consistency in the accounting treatment of grants received.

11 The cash limit outturn position compares to the previously forecast position of a cash limit under spend of £0.280m.

12 The main reasons accounting for the outturn position are as follows:

- The employees budget under spent by £0.192m as a result of proactive management of vacancies within the services in preparation for realisation of the 2012/13 MTFP savings proposals.
- Management of staff journeys to ensure only essential travel is undertaken has led to a managed under spend across the service of £17k.
- Supplies and services under spent by £0.167m across the service as managers continue to review expenditure and restrict purchases to those essential to the service’s operation.
- Managers have been able to actively identify and achieve additional income during the year to help finance additional activity particularly within Partnership and Community engagement leading to an over recovery of income of £22k.

13 Further to the quarter 3 forecast outturn report, the following items have been excluded from the cash limit:

- Additional repair and maintenance costs for Community Buildings £6k
- Additional Utility Running Costs of Community Buildings £21k
- Variance in the net cost of Central support services costs £0.462m

14 Taking the outturn position into account, the cash limit reserve to be carried forward for Assistant Chief Executives is £1.133m.

Adults Wellbeing and Health

15 The 2011/12 outturn for Adults, Wellbeing and Health (AWH) is a cash limit under spend of £0.981m. This takes into account adjustments for sums outside the cash limit such as redundancy costs which are met from an earmarked reserve, year end capital accounting entries and use of / contributions to earmarked reserves.

16 The cash limit outturn position compares to the previously forecast position of a cash limit under spend of £0.614m.

17 The main reasons accounting for the outturn position are as follows:

- The re-tendering of the Domiciliary Care contract arrangement secured a reduction in the price paid for this service, which created a saving of £1.8m in the current year;
- Early achievement of a number of future year MTFP management and support service proposals, together with the proactive management and control of vacancies and general budgets across the service has created a net under spend for the year of approximately £4.4m;
- Net spend on care packages is £1.1m below budget. This area of spend is closely monitored to assess the impact of demographic changes. The introduction of the reablement service in April 2011 has had a positive impact on the on-going care levels of service users, enabling them to be more independent than would otherwise have been the case and reducing on-going care needs. Savings have also arisen from consistent and effective application of the existing eligibility criteria, reducing the level of care packages subsequently commissioned;
- To assist in the management of the demographic pressures facing the service over the MTFP period, the service targeted a planned under spend for 2011/12, repeating the planned approach applied in 2010/11. This has enabled the creation of a £6.3m earmarked reserve for demographic pressures and increased cash limit reserves to assist the MTFP position going forward.

18 Further to the quarter 3 forecast outturn report, the following items have been excluded from the cash limit:

- £0.123m of MTFP related Redundancy and Early Retirement costs, which are met from a centrally held earmarked reserve;
- A total of £1.450m of contributions to earmarked reserves, including £0.232m in respect of additional Winter Pressures monies received from the PCT, and specific monies received in respect of reablement (£0.276m), memory services (£0.114m) and carers (£0.262m);
- Other sums outside the cash limit include costs in respect of capital accounting entries, repairs and maintenance costs, and central administration recharges.

19 Taking the outturn position into account, the cash limit reserve to be carried forward for Adults, Wellbeing and Health is £6.404m.

Children and Young People

20 The 2011/12 outturn for Children and Young People Services (CYPS) is a cash limit under spend of £1.368m. This takes into account adjustments for sums outside the cash limit such as redundancy costs which are met from an earmarked reserve, year end capital accounting entries and use of / contributions to earmarked reserves. CYPS planned to use £0.933m from the cash limit reserve during 2011/12, this was included in their original budget and this amount has been used.

21 The cash limit outturn position compares to the previously forecast position of a cash limit under spend of £1.5m.

22 The main reasons accounting for the outturn position are as follows:

- The Connexions service has overspent by £0.96m which is mainly due to the late confirmation of the loss of Government grant. One off grants and balances of £0.96m have been used to offset this.
- Safeguarding and Specialist Services has overspent by £0.82m due to transport costs (£0.8m) to fund contact visits ordered by the courts, excess school travel costs and car allowances. This service also experienced an overspend on independent foster agency and fostering related allowances (circa £2m), which reflects the higher than budgeted number of referrals and caseloads. Managed under spends on employees (£0.5m), supplies and services (circa £0.7m) and additional one off income (circa £0.78m) have helped to mitigate the position in year, with a base budget adjustment of £1.5m built into the 2012/13 base.
- To offset the above overspends there is an under spend on Home to School and college transport of £0.2m.
- A number of savings across Achievement and Early Intervention and Partnership Services (circa £0.5m) mainly relating to in year service restructures, and additional one off non-recurring grants and balances (circa £1.37m) have benefitted the outturn to the value of £1.9m.

23 Further to the quarter 3 forecast outturn report, the following items have been excluded from the cash limit at year end:

- £0.3m use of the Aycliffe Secure Capital Reserve to fund spend on the capital project.
- £95k transfer to the Continuous Professional Development reserve, relating to the trading account surplus at the year end.
- £28k transfer to the Education Reserve has been made, relating to an under spend on Education Business Learning Organisation trading activity.
- the planned £0.237m use of the Education Reserve, in respect of Education Business Learning Organisation, has not been required in 2011/12.
- the planned use of an additional £0.319m of the cash limit reserve, to offset the outturn position, has not been required in 2011/12

24 Taking the outturn position into account, the cash limit reserve to be carried forward for Children and Young People's Services is £1.688m.

Dedicated Schools Grant

25 The Dedicated Schools Grant (DSG) allocation for 2011/12 was £342.551m, however due to schools converting to academies the revised allocation was reduced by £29.058m to £313.493m in year.

26 The pressure areas for the DSG in 2011/12 have been Independent Specific School Fees and Recoupment (£0.24m), school redundancy costs (£0.46m) and advance spend on school repairs and maintenance (£0.55m). This has been offset by unused school based contingencies (£1.12m), staff savings and restructures (£0.4m), reduced non staff spend (£0.13m) and additional income from Impact and KS4 (£0.2m). The outturn position shows a balance of £0.597m to be carried forward to support funding proposals in 2012/13.

27 School budgets show balances of £20.890m at the end of 2011/12, a rise from £15.740m the previous year. There has been some reluctance to commit funds due to Government spending policy for 2011/12 which has a freeze on inflation within school budgets and the reduction in school devolved capital which some schools may now need to fund as a revenue contribution.

Neighbourhood Services

28 The 2011/12 outturn for Neighbourhood Services is a cash limit under spend of £0.913m. This takes into account adjustments for sums outside the cash limit such as redundancy costs which are met from an earmarked reserve, year end capital accounting entries and use of / contributions to earmarked reserves.

29 The cash limit outturn position compares to the previously forecast position of a cash limit under spend of £0.230m.

30 The main reasons accounting for the outturn position are as follows:

- Additional income, and savings associated with waste recycling of approximately £0.400m
- Savings within Street Scene of approximately £0.300m associated with reduced employee costs, and additional grounds maintenance income
- Under spends within Operational Depots of £0.200m associated with savings on utility costs, equipment and repairs and maintenance.
- Savings of £0.200m linked to restructuring within Business Support, and vacant posts that will be used to achieve future year MTFP efficiencies.
- Savings of approximately £0.230m in Training and Development costs
- An over spend of approximately £0.450m associated with Leisure Centres / Indoor Facilities, due to income shortfalls as a result of the economic downturn, and also higher than anticipated costs at leisure centres where closure was delayed.

31 Further to the quarter 3 forecast outturn report, the following items have been excluded from the cash limit:

- An under spend of £0.26m in respect of savings on Street Lighting Energy
- Other sums outside the cash limit include costs in respect of capital accounting entries, central administration recharges, and changes to the Insurance Reserve.

32 In addition, the Service is making the following contributions to Earmarked Reserves:

- £0.649m relating to externally funded Sport and Leisure schemes and the Leisure and Cultural Trust, £0.454m relating to Waste Disposal and collection, and Buildings and Facilities Management, £0.504m in respect of AAP funded schemes that will be completed in 2012/13, and £0.461m relating to Customer Services and Environment Health.

33 Taking the outturn position into account, the cash limit reserve to be carried forward for Neighbourhood Services is £2.205m.

Regeneration and Economic Development

34 The 2011/12 outturn for Regeneration and Economic Development (RED) is a cash limit under spend of £0.569m. This takes into account adjustments for sums outside the cash limit such as redundancy costs which are met from an earmarked reserve, year end capital accounting entries and use of / contributions to earmarked reserves.

35 The cash limit outturn position compares to the previously forecast position of a cash limit under spend of £0.599m.

36 The main reasons accounting for the outturn position shown below, which include staffing savings of £0.9m as a result of making 2012/13 MTFP savings in advance:

- Policy Planning Performance - £22k saving in running expenses and this includes £6k for staffing
- Economic Development - £0.230m saving. The service is experiencing an income pressure of £0.310m on rents from industrial estates. This is mitigated by savings secured on staffing of £0.268m and supplies and services of £0.272m.
- Housing - £0.310m under spend which is largely attributable to savings in the Housing Solutions service of £0.249m arising from savings in temporary accommodation costs whilst a procurement exercise is being undertaken to provide a more holistic service. Staffing savings accounted for £0.138m.
- Planning - £0.485m under spend of which £0.312m relates to staffing costs and the balance relates to supplies and services. Included in this figure is a £0.296m shortfall in building control income.
- Transport - £0.552m saving of which £0.162m relates to staffing. There was additional income of £0.200m in network management from utilities works licences and £0.361m from fees and charges in passenger transport. However, there were additional costs and lower than expected income on traffic and parking management of £0.281m.
- Other costs – £1.030m overspend relating to previously approved contributions to reserves of £0.720m, plus a further £0.300m and contingencies spend of £10k. The contribution to reserves is broadly in line with the one-off staffing saving secured as a result of making 2012/13 MTFP savings early.

37 Taking the outturn position into account, the cash limit reserve to be carried forward for Regeneration and Economic Development is £2.960m.

Resources

38 The 2011/12 outturn for Resources is a cash limit under spend of £0.623m. This takes into account adjustments for sums outside the cash limit such as redundancy costs which are met from an earmarked reserve, year end capital accounting entries and use of / contributions to earmarked reserves.

39 The cash limit outturn position compares to the previously forecast position of a cash limit under spend of £8k.

40 The main reasons accounting for the outturn position are as follows:

- The Asset Management service was overspent by £0.703m, primarily due to under recovery of income associated with industrial sites / units managed by Assets in 2011/12, offset by under spends on premises and supplies and services budgets. These budgets were rebased and realigned prior to disaggregation of the service in 2012/13.
- Finance, including the Revenues and Benefits service, was under spent by £0.108m as a result of managed under spends on supplies and services (earlier than anticipated realisation of software savings) offset by reduced court cost fee income and the one-off use of agency staff to support the Revenues and Benefits services while a new single administration system was developed and embedded.
- HR under spent by £0.253m as a result of management of vacancies prior to a restructure and tight control of supplies and services budgets, plus additional income as a result of one-off accessing of a RIEP grant in early 2012 not anticipated when the budget was established.
- Legal and Democratic under spent by £0.896m due to a combination of early achievement of 2012/13 MTFP savings initiatives, combined with Transport savings realised following management and members action to limit travel to essential journeys only. Savings were also achieved in supplies and services budgets and income overachieved by c£65k through additional activity undertaken in Registrars, and Legal and Democratic services for outside bodies.

- ICT was £0.161m under spent for the year, primarily due to supplies and services savings in relation to software licenses and telecommunications costs, plus the early achievement of 2012/13 MTFP savings.

41 Further to the quarter 3 forecast outturn report, the following items have been excluded from the cash limit:

- £0.055m of MTFP related Redundancy and Early Retirement costs, which are met from centrally held reserves.
- The following variations in the use of and contribution to earmarked reserves - £1.200m reduction in the use of the Housing Benefit Subsidy Reserve, a reduction in the use of £1.047m from the Performance Reward Grant Reserve, a contribution to the Procurement Reserve of £0.500m, contributions to DWP grant reserves £0.159m, a contribution of £0.200m to the Civica Development Reserve and a contribution of £0.500m to the Oracle Release 12 Reserve.
- Other sums outside the cash limit include costs in respect of capital accounting entries, repairs and maintenance costs, and central administration recharges.

42 Taking the outturn position into account, the cash limit reserve to be carried forward for Resources is £1.496m.

Interest Payable and Similar Charges

43 The Revenue Summary at paragraph 2 highlights a £0.317m under spend. This saving has been achieved due to lower than forecast interest rates on loans, and borrowing taking place later than estimated due to higher levels of cash balances than forecast.

Interest and Investment Income

44 There has been an overachievement of investment income of £1.354m which is due to the higher than anticipated levels of cash balances held during 2011/12. This is due in the main to slower than expected use of reserves and capital expenditure.

2011/12 Capital Outturn

45 The original General Fund (GF) Capital Budget for 2011/12 was set at £194.155m and was approved by Cabinet on 23 February 2011.

46 The revised GF Capital Budget for 2011/12 was set at £167.929m and was approved by Cabinet on 8 February 2012.

47 Since the revised budget was approved, an additional £0.311m of Disabled Facilities Grant has been confirmed and is reflected in the total GF Capital Programme detailed in the tables below. The table also details the request for budget to be carried forward which was approved at the Capital Member Officers Working Group held on 14 May 2012.

	Revised 2011-12 Budget	2011-12 Outturn	Variance		Budget carried forward
	£m	£m	£m	%	£m
ACE	2.520	1.094	-1.426	-56.6	0.641
AWH	0.569	0.424	-0.145	-25.5	0.301
CYPS	77.721	70.534	-7.187	-9.2	12.443
NS	26.772	27.037	0.265	1.0	1.321
RED	49.267	37.264	-12.003	-24.4	16.743
Resources	9.572	7.641	-1.931	-20.2	0.611
Other	1.819	*-0.227	-2.046	-112.5	0.153
TOTAL	**168.240**	**143.767**	**-24.473**	**-14.5**	**32.213**

* the negative outturn is due to an amount provided for in 2011/12 which was not required and will not be required in the future

48 In addition to under spends that are being requested to carry forward into 2012/13, the variances in the table above also includes overspends that are due to accelerated spending, where 2012/13 budgets will be adjusted accordingly, and also overspends that are being financed from additional

funding that was received after the capital budget was approved by the County Council in February 2011.

49 The Capital Programme is financed via various funding sources including grants; capital receipts; revenue contributions; contributions from reserves and borrowing. The financing of the 2011/12 Outturn is detailed in the table below.

	2011-12 Outturn £m
Financed by:	
Grants	92.512
Reserves	2.150
Direct Revenue Financing	8.099
Capital Receipts	8.241
Supported Borrowing (Supported Capital Expenditure - Revenue)	8.755
Unsupported Borrowing	24.010
Total General Fund	143.767

Service Grouping Commentary

50 A summary of the Capital Outturn for each Service Grouping is shown below:

Assistant Chief Executive

51 The 2011/12 outturn capital expenditure for Assistant Chief Executive (ACE) was £1.094m, against a quarter 3 revised budgets of £2.520m, a £1.426m under spend for the year.

52 The Capital Member/Officer Working Group has met to review the outturn against the agreed programme on a scheme by scheme basis. Reasons for any budget carry forward and necessary reprofiling have been thoroughly challenged.

53 Included in the ACE capital outturn position is structural maintenance activity on community buildings associated with ACE (£22k). The expenditure is recorded against ACE but the budget and management responsibility for this element of the capital programme is administered and managed by Resources.

54 Planned and budgeted capital expenditure of £0.641m will be reprofiled into 2012/13 and budgets adjusted in year accordingly.

55 The revised capital budget includes £0.806m for which expenditure has been incurred by other services.

Adults Wellbeing and Health

56 The 2011/12 outturn capital expenditure for Adults, Wellbeing and Health (AWH) was £0.424m, against a quarter 3 revised budget of £0.569m, a £0.145m under spend for the year. Capitalised maintenance costs of £0.135m have been included in the AWH outturn position, although the budget was held centrally.

57 The Capital Member/Officer Working Group has met to review the outturn against the agreed programme on a scheme by scheme basis. Reasons for any budget carry forward and necessary reprofiling have been thoroughly challenged.

58 Included in the capital outturn position is accelerated spend on 2012/13 schemes that have been brought forward and commenced in quarter 4 of £21k.

59 Planned and budgeted capital expenditure of £0.301m will be reprofiled into 2012/13 and budgets adjusted in year accordingly.

Children and Young People

60 The 2011/12 outturn capital expenditure for Children and Young People Services (CYPS) was £70.534m, against a quarter 3 revised budget of £77.721m, a £7.187m underspend for the year.

61 The Capital Member/Officer Working Group has met to review the outturn against the agreed programme on a scheme by scheme basis. Reasons for any budget carry forward and necessary reprofiling have been thoroughly challenged.

62 Included in the capital outturn position is overspending on schemes financed by additional capital grants and contributions that were not included in the budget of £2.990m and accelerated spend on 2012/13 schemes that have been brought forward and commenced in quarter 4 of £2.326m.

63 Planned and budgeted capital expenditure of £12.443m will be reprofiled into 2012/13 and budgets adjusted in year accordingly.

Neighbourhood Services

64 The 2011/12 outturn capital expenditure for Neighbourhood Services was £27.037m, against a quarter 3 revised budget of £26.772m, a £0.265m overspend for the year.

65 The Capital Member/Officer Working Group has met to review the outturn against the agreed programme on a scheme by scheme basis. Reasons for any budget carry forward and necessary re-profiling have been thoroughly challenged.

66 Included in the capital outturn position is overspending on schemes financed by additional capital grants and contributions that were not included in the budget of £1.061m and accelerated spend on 2012/13 schemes that have been brought forward and commenced in quarter 4 of £0.524m.

67 Planned and budgeted capital expenditure of £1.321m will be re-profiled into 2012/13 and budgets adjusted in year accordingly.

Regeneration and Economic Development

68 The 2011/12 outturn capital expenditure for Regeneration and Economic Development (RED) was £37.264m, against a quarter 3 revised budget of £49.267m, a £12.003m under spend for the year.

69 The Capital Member/Officer Working Group has met to review the outturn against the agreed programme on a scheme by scheme basis. Reasons for any budget carry forward and necessary reprofiling have been thoroughly challenged.

70 Included in the capital outturn position is overspending on schemes financed by additional capital grants and contributions that were not included in the budget of £3.865m and accelerated spend on 2012/13 schemes that have been brought forward and commenced in quarter 4 of £0.924m.

71 Planned and budgeted capital expenditure of £16.743m will be reprofiled into 2012/13 and budgets adjusted in year accordingly.

Resources

72 The 2011/12 outturn capital expenditure for Resources was £7.641m, against a quarter 3 revised budget of £9.572m, a £1.931m under spend for the year.

73 The Capital Member/Officer Working Group has met to review the outturn against the agreed programme on a scheme by scheme basis. Reasons for any budget carry forward and necessary reprofiling have been thoroughly challenged.

74 Included in the capital outturn position is accelerated spend on 2012/13 schemes that have been brought forward and commenced in quarter 4 of £0.120m.

75 Planned and budgeted capital expenditure of £0.611m will be reprofiled into 2012/13 and budgets adjusted in year accordingly.

76 The revised capital budget included £1.419m for which expenditure has been incurred by other services. In addition, unspent Resources capital budgets of £20k related to Completed Capital projects were released back to Capital contingencies.

Housing Revenue Account (HRA) – 2011/12 Revenue and Capital Outturn

Revenue Outturn

77 The outturn position on the HRA showing the actual position compared with the original budget identifies a surplus outturn position on the revenue account of £0.132m. This results in a healthy level of reserves of £7.820m. The following table summarises the position:

	2011-12 Budget	2011-12 Outturn	Variance
	£m	£m	£m
Income			
Dwelling Rents	-56.610	-56.837	-0.227
Other Income	-0.931	-1.090	-0.159
Interest and Investment Income	-0.089	-0.113	-0.024
Total Income	**-57.630**	**-58.040**	**-0.410**
Expenditure			
ALMO Fees	18.266	18.266	-
Repairs, Supervision and Management Costs	11.871	12.849	0.978
Negative Subsidy Payment to CLG	4.514	3.790	-0.724
Depreciation	11.696	11.696	-
Interest Payable	6.624	6.327	-0.297
Revenue Contributions to Capital Programme	4.659	4.980	0.321
Total Expenditure	**57.630**	**57.908**	**0.278**
2011/12 Surplus to balances	**-**	**-0.132**	**-0.132**

78 In summary, the main variances are explained below:

- Dwelling Rents – additional income is due to the void rates being lower than anticipated in the original estimates.
- Other Income – this results from receipt of administration charges from furniture packs (not previously budgeted for) at Durham City Homes
- Repairs – £0.418m overspend due to additional repairs works carried out by Durham City Homes, financed from efficiency savings in the Supervision and Management budgets. In addition, extra works were carried out to Void properties in an attempt to reduce the re-let times.
- General Management - £0.594m overspend due to £0.342m on Stock Options which is financed from an earmarked reserve. In addition there is a provision of £0.600m included for a court case regarding an outstanding issue with the former Wear Valley District Council and an amount attributable to the cost of rent rebates to tenants above a threshold set by the Government – these costs are partly offset by other efficiency savings.
- Special Management – £0.250m savings on cleaning charges and running expenses in relation to Communal Halls. Special Management are services provided that benefit specific groups of tenants, this includes communal heating, lifts, lighting, caretaking, cleaning and grounds maintenance.
- Subsidy – savings due to additional subsidy being received to cover interest payments on Decent Homes funding of £18.6m allocated in 2011/12.
- Bad Debt Provision – increased provision required as a result of an increased rent arrears position at the year end.
- Interest Payments – reduced interest payable on housing debt arising from a lower rate being charged and the housing debt being lower than originally anticipated in the budget.
- Revenue Support to Capital - £0.321m of the net savings identified above together with an additional £0.400m from the Capital Reserve have been used to support the capital programme and reduce the level of borrowing required.

79 The final position on HRA general and earmarked reserves as at 31 March 2012 is as follows:

- HRA Capital Reserve - £2.000m after expending £0.400m in 2011/12
- Stock Options Reserve - £0.060m after expending £0.342m in 2011/12
- Durham City Homes Improvement Plan - £0.400m
- HRA Reserve - £7.820m following a contribution to the reserve of £0.132m in 2011/12.

Capital Outturn

80 The Housing Revenue Account Capital Budget for 2011/12 was set at £25.245m and was approved by Cabinet on 23 February 2011.

81 The revised Housing Revenue Account (HRA) Capital Budget for 2011/12 was set at £42.792m and was approved by Cabinet on 16 November 2011 and subsequently has been increased by £0.362m to £43.154m at Cabinet on 29 February 2012.

	Revised 2011-12 Budget	2011-12 Outturn	Variance		Budget carried forward
	£m	£m	£m	%	£m
Housing	43.154	41.735	-1.419	-3.3	1.465

82 The Capital Programme is financed via grants, capital receipts, revenue contributions, reserves and borrowing. The financing of the 2011/12 Outturn is detailed in the following table.

	2011-12 Outturn £m
Financed by:	
Grants	2.905
Reserves	0.400
Direct Revenue Financing	4.980
Capital Receipts	1.217
Major Repairs Allowance	11.696
Supported Borrowing (Supported Capital Expenditure - Revenue)	18.600
Unsupported Borrowing	1.937
Total	41.735

83 The above figures do not include the payment to the Secretary of State of £52.891m in relation to HRA Self Financing.

84 The 2011/12 outturn capital spend for the HRA was £41.735m, against a quarter 3 revised budget of £43.154m, a £1.419m under spend for the year.

85 The Capital Member/Officer Working Group has met to review the outturn against the agreed programme on a scheme by scheme basis. Reasons for any budget carry forward and necessary reprofiling have been thoroughly challenged.

86 Included in the capital outturn position is accelerated spend on 2012/13 schemes that have been brought forward and commenced in quarter 4 of £66k.

87 Planned and budgeted capital expenditure of £1.465m will be reprofiled into 2012/13 and budgets adjusted in year accordingly.

Annual Treasury Management Review

Executive Summary

88 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. It 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 against return on investment.

89 The financial year 2011/12 continued the challenging investment environment of previous years; namely low investment returns and continuing heightened levels of counterparty risk. The original expectation for 2011/12 was that Bank Rate would start gently rising from Quarter 4 of 2011 however GDP growth in the UK was disappointing during the year probably due to the UK austerity programme, a lack of rebalancing of the UK economy to exporting and weak growth in our biggest export market - the European Union (EU).

90 The EU sovereign debt crisis grew in intensity during the year until February 2012 when a second bailout package was eventually agreed for Greece. Weak UK growth resulted in the Monetary Policy Committee increasing quantitative easing by £75bn in October 2011 and another £50bn in February 2012. Bank Rate therefore ended the year unchanged at 0.5% while CPI inflation peaked in September at 5.2% but then fell to 3.4% in February, with further falls expected to below 2% over the next two years.

91 Risk premiums were also a constant factor in raising money market deposit rates for periods longer than one month. Widespread and multiple downgrades of the ratings of many banks and sovereigns, continued Eurozone concerns, and the significant funding issues still faced by many financial institutions, meant that investors remained cautious of longer-term commitment.

Treasury Position

92 The Treasury position at the beginning and end of 2011/12 is shown in the table below:

	31 March 2011	Rate / Return	Average Life	31 March 2012	Rate / Return	Average Life
	£m	%	yrs	£m	%	yrs
Total Debt	318	5.3		418	4.1	
Capital financing requirement (CFR)	485			579		
Over / (-) Under borrowing*	-167			-161		
Total Investments	172	0.7	0.1	144	1.1	0.3
Net Debt	146			274		

**Note: includes PFI liabilities of £48m for which borrowing is not required*

93 Investments decreased by £28m across the period, reflecting an outflow of cash from the County Council, however by identifying core cash levels that could be invested in longer dated deposits it was possible to improve the average rate earned on those balances by 0.4%. This policy is also reflected in the increase in the average life of the portfolio.

94 The County Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR).

95 The implementation of housing finance reform at the end of the year abolished the housing subsidy system financed by central government and, consequently, all housing debt has been reallocated nationally between housing authorities. The result of this reallocation is that this Council made a capital payment to the Department of Communities and Local Government of £53m. This resulted in an increase in the CFR and total borrowing of £53m at the end of the year which was all financed by new external borrowing.

96 The CFR and debt figures shown in the table above therefore include these figures.

97 In addition to the HRA borrowing, another £50m of loans was taken from the Public Works Loans Board (PWLB) during the year. This enabled the County Council to take advantage of historically low interest rates and to maintain its under-borrowed position at a manageable level.

Capital Expenditure and Financing

98 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.

99 Actual capital expenditure forms one of the required prudential indicators. The table below shows actual capital expenditure and how this was financed.

	2010-11 Actual £m	2011-12 Estimate £m	2011-12 Actual £m
Non-HRA capital expenditure	120.22	194.16	143.77
Non-HRA PFI and Finance Lease	47.58	-	2.75
HRA capital expenditure	37.86	17.99	41.73
HRA Self-financing	-	-	52.89
Total capital expenditure	205.66	212.15	241.14
Resourced by:			
Capital receipts	27.53	16.27	9.46
Capital grants	72.26	92.52	95.42
Capital reserves	13.14	11.97	11.70
Revenue	17.92	6.67	15.63
Unfinanced capital expenditure	74.81	84.72	108.93

Overall Borrowing Need

100 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 2011/12 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.

101 Part of the County Council's treasury management activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the Corporate Director Resources' treasury management group organises the County Council's cash position to ensure sufficient cash is available to meet the capital plans and cash flow requirements.

102 This may be sourced through borrowing from external bodies (such as the Government, through the PWLB or the money markets), or utilising temporary cash resources within the County Council.

103 The County Council's (non HRA) underlying borrowing need known as its capital finance requirement (CFR) is not allowed to rise indefinitely. 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).

104 The County Council's 2011/12 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 2011/12 on 23 February 2011.

105 The County Council's CFR for the year is shown below, and represents a key prudential indicator.

CFR	31 March 2011 Actual £m	31 March 2012 Estimate £m	31 March 2012 Actual £m
Opening balance	423.688	469.26	484.646
Add unfinanced capital expenditure	74.812	84.72	108.943
Less MRP/VRP	-13.854	-12.95	-14.454
Closing balance	484.646	541.03	579.135

106 The borrowing activity is constrained by prudential indicators for net borrowing and the CFR, and by the authorised limit. 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.

107 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.

108 The table overleaf demonstrates that during 2011/12 the County Council has maintained gross borrowing within its authorised limit.

109 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.

	31 March 2012
	£m
Authorised limit	619.500
Operational boundary	382.289
Average gross borrowing position	338.428

Investment Strategy

110 The prime objective of the County Council's investment strategy is to ensure prudent investment of surplus funds. The County Council's investment priorities are therefore the security of capital, liquidity of investments and, within those objectives, to secure optimum performance. The County Council has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code").

111 Therefore the primary principle governing the County Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration.

Selection Criteria

112 The criteria for providing a pool of high quality investment counterparties are:

1. Banks 1 – the Council's strategy requires the use of UK banks only which have, as a minimum, the following Fitch, Moody's and Standard and Poors credit ratings (where rated):

	Fitch	Moody's	Standard & Poors
Short Term	F1	P1	A-1
Long Term	A	A2	A
Viability/Financial Strength	bb-	C1	-
Support	3	-	-

2. Banks 2 - Part nationalised UK banks – Lloyds Bank and Royal Bank of Scotland. These banks are included so long as they continue to be part nationalised or they meet the ratings in Banks 1 above.

3. Banks 3 – Co-operative Bank - The Council's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time.

4. Bank subsidiary and treasury operation. The Council will use these where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined above.

5. Building societies. The Council only use building societies which meet the ratings for banks outlined above.

6. Money Market Funds.

7. UK Government (including gilts, Treasury Bills and the Debt Management Account Deposit Facility).

8. Local authorities and parish councils.

Time and Monetary Limits applying to Investments

113 The time and monetary limits for institutions on the Council's Counterparty List are as follows:

	Long Term Rating	Money Limit	Time Limit
Banks 1 category high quality	AA	£50m	1 year
Banks 1 category medium quality	A	£25m	3 months
Banks 2 category – part-nationalised	n/a	£50m	1 year
Banks 3 category – Council's banker	A-	£25m	3 months
DMADF/Treasury Bills	AAA	unlimited	6 months
Local Authorities	n/a	£10m each	1 year
Money Market Funds	AAA	£10m each (overall £50m)	liquid

Amendments to Limits

114 In June 2012 the Corporate Director Resources, in consultation with the Cabinet Portfolio Holder for Resources, has increased the monetary limit for the 'Banks 2' category from £50m to £60m.

115 With widespread and multiple downgrades of the ratings of many banks and sovereigns, continued Eurozone concerns, and the significant funding issues still faced by many financial institutions access to high quality counterparties is becoming restricted and this change will enable the County Council to place additional funds with part-nationalised UK banks.

116 In order to provide more flexibility to act in such circumstances it is recommended that the power to amend counterparty monetary and time limits is delegated to the Corporate Director Resources. Any changes to the Annual Strategy during the financial year would then be reported to County Council in either the Mid-Year Review or the Final Outturn Report.

Icelandic Deposits

117 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 authority had £7m deposited across three of these institutions, with varying maturity dates and interest rates as follows:

Bank	Date Invested	Maturity Date	Amount Invested	Interest Rate
			£	%
KSF	30/10/07	28/10/08	1,000,000	6.120
Landsbanki (1)	12/04/07	13/10/08	1,000,000	6.010
Landsbanki (2)	12/04/07	14/04/09	1,000,000	6.040
Glitnir Bank (1)	25/10/06	24/10/08	3,000,000	5.620
Glitnir Bank (2)	18/12/07	16/12/08	1,000,000	6.290
Total			**7,000,000**	

118 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 authority will be determined by the administrators / receivers.

119 The current situation with regards to recovery of the sums deposited varies between each institution.

Kaupthing Singer and Friedlander Ltd

120 The current position on actual payments received and estimated future payouts is as shown in the table. The authority has decided to recognise an impairment based on it recovering 83.5p in the £.

Date	Repayment
	%
Received to 31 March 2012	63.0
Received in May 2012	10.0
January 2013	5.0
January 2014	5.5

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

Landsbanki Islands hf

122 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.

123 Following the Icelandic Supreme Court decision to grant UK local authorities priority status, the winding up board made a distribution to creditors in a basket of currencies in February 2012.

124 An element of the distribution is in Icelandic Kroner which has been placed in an escrow account in Iceland and is earning interest of 3.35%. This element of the distribution has been retained in Iceland due to currency controls currently operating in Iceland and as a result is subject to exchange rate risk, over which the County Council has no control.

125 The current position on estimated future payouts is as shown in the table below and this council has used these estimates to calculate the impairment based on recovering 100p in the £.

Date	Repayment
	%
Received to 31 March 2012	30.0
December 2012	8.0
December 2013	8.0
December 2014	8.0
December 2015	8.0
December 2016	8.0
December 2017	8.0
December 2018	22.0

126 Recoveries are expressed as a percentage of the authority's claim in the administration, which it is expected may validly include interest accrued up to 22 April 2009 [or maturity date if earlier].

Glitnir Bank hf

127 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.

128 The Icelandic Supreme Court decision to grant UK local authorities priority status, the winding up board made a distribution to creditors in a basket of currencies in March 2012.

129 An element of the distribution is in Icelandic Kroner which has been placed in an escrow account in Iceland and is earning interest of 3.4%. This element of the distribution has been retained in Iceland due to currency controls currently operating in Iceland and as a result is subject to exchange rate risk, over which the County Council has no control.

130 The distribution has been made in full settlement, representing 100% of the claim.

131 The authority has made an impairment of 8% of the claim amount due to currency fluctuations.

5. Material assets acquired, liabilities incurred

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

	Expenditure in 2011-12 £000
Aycliffe Secure Unit	4,426
Brandon Junior	5,669
Dene House Comprehensive	5,970
Esh Winning Primary School	4,922
Glen Dene School	1,663
North Durham Academy	8,740
Structural maintenance of buildings - schools	4,325
Schools - schemes funded from capital budgets delegated to schools	4,600
Housing capital programme	41,583
Infrastructure - Street Lighting	3,057
Infrastructure - other	30,170
Netpark	5,673
Renewable Energy Technologies	2,756
Structural maintenance of buildings (non schools)	1,612
Vehicles, Plant and Equipment	14,437
Revenue expenditure funded from capital under statute (REFCUS) (excluding school's delegated)	
Disabled Facilities Grants	3,297
Environment Improvement Schemes	1,387
Members Initiative Fund	1,072
Other REFCUS	19,912

6. 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). The position for the County Council is described in paragraph 7 below.

At 31 March 2012, usable capital receipts of £0.173m, and unapplied capital grants and contributions of £37.227m, (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 £122.299m were also held as at 31 March 2012 for General Fund purposes and another £10.281m in respect of Housing. These are detailed in the Notes to the Core Financial Statements.

7. Borrowing

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.

The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

	2010-11 Actual £m	**2011-12 Estimate £m**	**2011-12 Actual £m**
Non-HRA capital expenditure	120.22	194.16	143.77
Non-HRA PFI and Finance Lease	47.58	-	2.75
HRA capital expenditure	37.86	17.99	41.73
HRA Self-financing	-	-	52.89
Total capital expenditure	205.66	212.15	241.14
Resourced by:			
Capital receipts	27.53	16.27	9.46
Capital grants	72.26	92.52	95.42
Capital reserves	13.14	11.97	11.70
Revenue	17.92	6.67	15.63
Unfinanced capital expenditure	74.81	84.72	108.93

Overall Borrowing Need

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 2011/12 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.

Part of the County Council's treasury management activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the Treasury Management 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 [PWLB] or the money markets), or utilising temporary cash resources within the County Council. The CFR figure includes 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.

The County Council's (non HRA) underlying borrowing need known as its capital finance requirement (CFR) is not allowed to rise indefinitely. 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.

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).

The County Council's 2011/12 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 2011/12 on 23 February 2011.

The County Council's CFR for the year is shown below, and represents a key prudential indicator.

CFR	31 March 2011 Actual £m	31 March 2012 Estimate £m	31 March 2012 Actual £m
Opening balance	423.688	469.26	484.646
Add unfinanced capital expenditure	74.812	84.72	108.943
Less MRP/VRP	-13.854	-12.95	-14.454
Closing balance	484.646	541.03	579.135

The borrowing activity is constrained by prudential indicators for net borrowing and the CFR, and by the authorised limit. 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.

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 2011/12 the County Council has maintained gross borrowing within its authorised limit.

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.

	31 March 2012 £m
Authorised limit	619.500
Operational boundary	382.289
Average gross borrowing position	338.428

During 2011/12 £53m was borrowed as a result of housing finance reform. In addition to the HRA borrowing, another £50m of loans was taken from the Public Works Loans Board (PWLB) during the year. This enabled the Council to take advantage of historically low interest rates and to maintain its under-borrowed position at a manageable level.

Including the above borrowings, and loan repayments of £3m, the overall debt position of the County Council increased by £100m from £318m at 31 March 2011 to £418m at 31 March 2012 which is detailed in the following table.

The total borrowing at 31 March 2011 and 31 March 2012 is detailed in the following table:

31 March 2011 £m		31 March 2012 £m
	Fixed Rate Funding	
289.48	- PWLB	390.50
28.31	- Market	27.41
-	**Variable Rate Funding**	-
317.79		417.91

8. 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 £897.886m (£728.212 in 2010/11). 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 2012, 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.

9. Material or unusual items

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 £1.950m to the asset values have been calculated in accordance with CIPFA's LAAP 82 Bulletins. During 2011/12, £0.324m of impairments have been charged through the Comprehensive Income and Expenditure Statement (CIES).

Housing Finance Reform

The implementation of housing finance reform at the end of the year abolished the housing subsidy system financed by central government and, consequently, all housing debt has been reallocated nationally between housing authorities. The result of this reallocation is that the County Council made a capital payment to the Department of Communities and Local Government of £53m. This resulted in an increase in the CFR and total borrowing of £53m at the end of the year which was all financed by new external borrowing.

In addition to the HRA borrowing, another £50m of loans was taken from the Public Works Loans Board (PWLB) during the year. This enabled the County Council to take advantage of historically low interest rates and to maintain its under-borrowed position at a manageable level.

Including the above borrowings, and loan repayments of £3m, the overall debt position of the County Council increased by £100m from £318m at 31 March 2011 to £418m at 31 March 2012.

On average over the last year cash balances of £138m have been invested short term in the money markets generating a return of £1.5m at an average rate of 1.1%.

10. Significant changes in Accounting policies

For 2011/12 the County Council is required to change its accounting policy for heritage assets and recognise them at valuation. Previously, heritage assets were either recognised as community assets (at cost), as land and buildings (at existing use value) in the property, plant and equipment classification in the balance sheet or were not recognised in the balance sheet as it was not possible to obtain cost information on the assets. The County Council's accounting policies for recognition and measurement of heritage assets are set out in the County Council's summary of significant accounting policies.

In applying the new accounting policy, the County Council has identified that the assets that were previously held within property, plant and equipment at £3.187m should now be recognised as heritage assets and measured at £5.576m with a corresponding increase in unusable reserves (an increase of £2.476m in the Revaluation Reserve and a decrease of £0.087m in the Capital Adjustment Account, representing revaluation losses that would have been recognised in the Surplus or deficit on the provision of services). The County Council will also recognise an additional £10.282m for the recognition of heritage assets that were not previously recognised in the balance sheet. This increase is recognised in the Revaluation Reserve. The 1 April 2010 and 31 March 2011 balance sheets and 2010/11 comparative figures have been restated in the 2011/12 Statement of Accounts to apply the new policy.

11. Significant provisions, contingencies and material write-offs

The County Council's assets have been impaired by £94.210m in 2011/12, charged partly to services in the Comprehensive Income and Expenditure Statement (CIES) and partly to the Revaluation Reserve. This includes both the consumption of economic benefits and also revaluation losses 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. The County Council's housing stock has been impaired by £50.292m due to a decrease in the house price index.

A number of schools have been established as Academies in County Durham during 2011/12, which are 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 £60.274m and have been charged to the CIES below the Net Cost of Services.

As part of a significant project undertaken in 2011/12 to bring together the Council's assets into a single asset register, an opportunity was taken to review accounting treatment and align asset balances. As a result, a number of adjustments were made in 2011/12, the most significant of which was to increase the Revaluation Reserve by £10.378m, matched by a decrease in the Capital Adjustment Account so there was no impact on Net Worth. This variance between the balance sheet and the asset register had been ongoing since 2007/08 when, following the introduction of the Revaluation Reserve on 1 April 2007, a timing issue led to the valuation of newly-recognised Surestart assets being treated differently in the asset register compared to the balance sheet.

The County Council has taken advantage to review the provision for bad debts in respect of Council Tax and NNDR as a result of the progression into a Unitary System from the seven previous systems in operation in the former district areas. Further detail can be found in Note 5 to the Collection Fund.

12. Changes in statutory functions

There have been no changes in statutory functions in 2011/12.

13. Subsequent events

The Statement of Accounts is signed by the Corporate Director Resources on 29 June 2012. 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.

14. 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.

The County Council's Medium Term Financial Plan (MTFP) integrates corporate service and financial planning over a four-year budgeting period – 2012/13 to 2015/16. 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 2012.

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 continues to face unprecedented levels of reductions in Government grants over the current Comprehensive Spending Review (CSR) period to 31 March 2015. The County Council's Formula Grant for 2012/13 was confirmed in December 2011 at £223.2m which is in line with the figure announced in last year's CSR – a reduction of £17.1m when compared to 2011/12. In total, it is forecast that Government Support for the five year period 2011/12 to 2015/16 will reduce by £108.7m and by £115.8m when including the forecast grant reduction for 2016/17. This equates to a 30% reduction in Government Support over this period.

After taking into account estimated base budget pressures and growth in some priority service areas, the County Council is forecasting the need to deliver £159.2m of cash savings for the five year period 2011/12 to 2015/16 and savings of £171.8m when including forecasts for 2016/17. This equates to a 40% net revenue budget reduction over this period.

Despite having to make the above unprecedented level of savings, County Council agreed a net revenue budget of £432.58m for 2012/13. Although the budget requires the delivery of £26.6m of savings in 2012/13 in order to deliver a balanced budget, it is also able to protect and increase some service budgets for the benefit of council tax payers including:

- for the third consecutive year, the council tax for County Durham would stay the same in 2012/13 as the Council accepted the Government's 'one off' Council Tax Freeze Grant. The grant is payable in 2012/13 but not in future years, equates to almost £5m and is equivalent to a 2.5% council tax increase;
- protecting the winter maintenance budget in line with this being a high priority service based upon public consultation feedback;
- increasing the adult social care budget by £2.15m in recognition of the increasing demands on the service due to demographic changes and more people becoming dependent upon these services;
- increasing the children's safeguarding service budget by £1.5m in recognition of increasing demands due to more children entering the care service;
- an additional £3.5m of revenue to invest in new and current capital projects through prudential borrowing. The capital programme for 2012/13 will deliver schemes to the value of over £197m in line with the Council's key priorities to stimulate regeneration and job creation within the local economy.

Grant reductions are forecasted to continue beyond the current CSR and into 2015/16 and 2016/17 after taking into account the Government's outline Departmental Expenditure Limit (DEL) forecasts included in the Chancellor's Autumn Statement on 29 November 2011. Analysis based upon a range of assumptions would indicate that Grant reductions for Councils in these two years could be 5.7% and 3.7% respectively.

Also, in addition to the current public sector pay freeze for 2011/12 and 2012/13, the Government has announced a 1% pay increase cap in the public sector for 2013/14 and 2014/15. Although councils receive no explicit, specific funding to finance pay awards, the Government has confirmed that Grant will be reduced in 2013/14 and 2014/15 based on an assumption that 2.5% had previously been built into formula grant calculations for each of these two years.

Whilst facing unprecedented reduction in revenue funding the County Council recognises the need to invest in key infrastructure projects to support its key priorities. At the same time, the County Council also recognises the need for caution in committing to high levels of prudential borrowing at this stage for future years. The Council continues to strive to attract grant funding from external sources and was recently successful in receiving a grant of £6.9m for improving Superfast Broadband access in remote areas across the County. It is anticipated that a procurement exercise will be carried out in the summer for the engagement of an external partner to support the roll out programme.

Funding of £3.8m has also been confirmed from the Housing and Communities Agency to improve four Gypsy and Travellers' sites across the County. These much needed improvements will start in 2012/13.

Unfortunately, Government support for Capital investment in schools has significantly reduced below expectation for 2012/13 with a £3.6m reduction from the 2011/12 levels.

After taking into account external grants, forecasted income from capital receipts and unsupported prudential borrowing, there will be enough funding for the Council to be able to make new investments of £60.2m in 2012/13 and £43.3m in 2013/14 in addition to the current earmarked schemes in the Capital Programme. This would result in the Council having a total Capital Programme across the 2012/13 to 2015/16 three year MTFP period of £359.4m.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DURHAM COUNTY COUNCIL

Test to be inserted from the Auditor's report, following the Audit Review.

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	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**
Balance at 31 March 2011 brought forward (restated)	17,320	90,975	7,688	3,202	1,206	-	**120,391**	750,993	**871,384**
Movement in Reserves during 2011-12									
Surplus or deficit on provision of services	-39,598	-	-97,171	-	-	-	**-136,769**	-	**-136,769**
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	**-**	-162,837	**-162,837**
Total Comprehensive Income and Expenditure	**-39,598**	**-**	**-97,171**	**-**	**-**	**-**	**-136,769**	**-162,837**	**-299,606**
Adjustments between accounting basis and funding basis under regulations (Note 7)	53,602	-	96,562	-	-1,034	-	**149,130**	-149,130	**-**
Net Increase/Decrease before Transfers to Earmarked Reserves	**14,004**	**-**	**-609**	**-**	**-1,034**	**-**	**12,361**	**-311,967**	**-299,606**
Transfers to/from Earmarked Reserves (Note 8)	-9,450	9,450	742	-742	-	-	**-**	-	**-**
Increase/Decrease inYear	**4,554**	**9,450**	**133**	**-742**	**-1,034**	**-**	**12,361**	**-311,967**	**-299,606**
Balance at 31 March 2012 carried forward	21,874	100,425	7,821	2,460	172	-	132,752	439,026	571,778

	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**
Balance at 1 April 2010 brought forward (restated)	26,977	95,140	8,511	-	23,613	1,200	**155,441**	761,807	**917,248**
Movement in Reserves during 2010-11									
Surplus or deficit on provision of services	80,133	-	-106,130	-	-	-	**-25,997**	-	**-25,997**
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	**-**	-19,869	**-19,869**
Total Comprehensive Income and Expenditure	**80,133**	**-**	**-106,130**	**-**	**-**	**-**	**-25,997**	**-19,869**	**-45,866**
Adjustments between accounting basis and funding basis under regulations (Note 7)	-93,955	-	108,509	-	-22,407	-1,200	**-9,053**	9,053	**-**
Net Increase/Decrease before Transfers to Earmarked Reserves	**-13,822**	**-**	**2,379**	**-**	**-22,407**	**-1,200**	**-35,050**	**-10,816**	**-45,866**
Transfers to/from Earmarked Reserves (Note 8)	4,165	-4,165	-3,202	3,202	-	-	**-**	-	**-**
Increase/Decrease inYear	**-9,657**	**-4,165**	**-823**	**3,202**	**-22,407**	**-1,200**	**-35,050**	**-10,816**	**-45,866**
Balance at 31 March 2011 carried forward (restated)	17,320	90,975	7,688	3,202	1,206	-	120,391	750,991	871,382

2010-11 Gross Expenditure £000	2010-11 Gross Income £000	2010-11 Net Expenditure £000		Note	2011-12 Gross Expenditure £000	2011-12 Gross Income £000	2011-12 Net Expenditure £000
604,580	460,416	144,164	Children's and Education Services		530,700	429,490	101,210
222,549	54,845	167,704	Adult Social Care		203,984	65,054	138,930
59,803	11,013	48,790	Highways and Transportation		58,537	11,916	46,621
80,848	24,297	56,551	Planning and Development		43,060	14,149	28,911
73,865	17,327	56,538	Cultural and Related Services		49,721	13,394	36,327
61,255	8,592	52,663	Environmental Services		67,494	7,410	60,084
1,334	361	973	Courts and Probation		1,066	178	888
11,108	1,029	10,079	Corporate and Democratic Core		13,960	1,384	12,576
69,526	56,544	12,982	Central Services to the Public		69,462	58,157	11,305
-211,079	-	-211,079	Non Distributed Costs *		-7,226		-7,226
158,033	54,876	103,157	Local Authority Housing (HRA) #		153,591	58,251	95,340
205,902	180,062	25,840	Other Housing Services (including Supporting People)		211,536	185,335	26,201
30	-	30	Other Services				-
655	-	655	Local Government Reorganisation				-
1,338,409	**869,362**	**469,047**	**Cost of Services**		**1,395,885**	**844,718**	**551,167**
70,705	-	70,705	Other Operating Expenditure	9	76,952		76,952
55,026	10,036	44,990	Financing and Investment Income and Expenditure	10	87,470	50,832	36,638
959	559,704	-558,745	Taxation and Non Specific Grant Income	11		527,987	-527,987
		25,997	**Surplus or Deficit on Provision of Services**				**136,770**
		62,818	Surplus or deficit on revaluation of PPE assets	12			-11,486
		249	Surplus or deficit on revaluation of available for sale financial assets	24			295
		-42,610	Actuarial gains/losses on pension assets/liabilities	24			174,700
		-588	Difference between actuary's estimate and actual employer's pension contributions	24			-672
		19,869	**Other Comprehensive Income and Expenditure**				**162,837**
		45,866	**Total Comprehensive Income and Expenditure**				**299,607**

Exceptional Items included within the Cost of Services 2010/11 and 2011/12

1. Local Authority (HRA) #

   a. The implementation of housing finance reform at the end of the year abolished the housing subsidy system financed by central government and, consequently, all housing debt has been reallocated nationally between housing authorities. The result of this reallocation is that this Council made a capital payment to the Department of Communities and Local Government of £53m. In 2011/12 this payment is charged to Local Authority (HRA) within the Comprehensive Income and Expenditure Statement and reversed out of the HRA via the Movement in the Housing Revenue Account Statement.

   b. 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 1 April 2010. The associated cost is included in Local Authority Housing (HRA) in the 2010/11 comparative figures.

2. Non-distributed costs *.

   a. In the 2010/11 comparative figures part of the Non Distributed costs (-£212.27m) relates to the negative past service costs from the change from RPI to CPI when calculating Pension Liabilities. See Note 1 Accounting Policies, item 4 Exceptional Items.

01 April 2010 (restated) £000	31 March 2011 (restated) £000		Notes	31 March 2012 £000
2,150,087	1,946,597	Property, Plant & Equipment	12	1,905,999
15,858	15,858	Heritage Assets	13, 48, 49, 50	15,858
6,426	6,211	Investment Property	14	4,221
2,602	1,979	Intangible Assets	15	2,561
-	-	Assets Held for Sale		-
8,224	3,310	Long Term Investments	16	2,567
7,616	6,010	Long Term Debtors	16	6,545
2,190,813	**1,979,965**	**Long Term Assets**		**1,937,751**
130,762	76,284	Short Term Investments	16	69,010
-	-	Assets Held for Sale	20	1,263
4,243	3,875	Inventories	17	5,337
79,385	83,418	Short Term Debtors	18	87,183
129,152	69,178	Cash and Cash Equivalents	19	42,874
343,542	**232,755**	**Current Assets**		**205,667**
-101,141	-13,920	Cash and Cash Equivalents	19	-13,110
-13,448	-5,344	Short Term Borrowing	16	-13,597
-147,868	-144,525	Short Term Creditors	21	-124,809
-	-18,024	Provisions	22	-16,048
-262,457	**-181,813**	**Current Liabilities**		**-167,564**
-	-	Long Term Creditors		-
-18,088	-9,594	Provisions	22	-10,272
-306,832	-315,631	Long Term Borrowing	16	-410,999
-978,645	-776,438	Other Long Term Liabilities	40, 41, 45	-945,577
-51,085	-57,861	Capital Grants Receipts in Advance	37	-37,227
-1,354,650	**-1,159,524**	**Long Term Liabilities**		**-1,404,075**
917,248	**871,383**	**Net Assets**		**571,779**
155,441	120,391	Usable Reserves	23	132,753
761,807	750,992	Unusable Reserves	24	439,026
917,248	**871,383**	**Total Reserves**		**571,779**

2010-11 £000		2011-12 £000
25,997	Net surplus (-) or deficit on the provision of services	136,770
-57,813	Adjustments to net surplus or deficit on the provisions of services for non-cash movements (Note 25)	-98,095
6,319	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities (Note 26)	8,651
-25,497	Net Cash flows from Operating Activities (Note 27)	47,326
-1,840	Investing Activities (Note 28)	87,879
90	Financing Activities (Note 29)	-109,711
-27,247	Net increase (-) or decrease in cash and cash equivalents	25,494
28,011	Cash and cash equivalents at 1 April	55,258
55,258	Cash and cash equivalents at 31 March	29,764

Notes to the Core Financial Statements

1. Accounting policies

1. General Principles

The Statement of Accounts summarises the County Council's transactions for the 2011/12 financial year and its position at the year-end of 31 March 2012. The County Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2011, which those Regulations require to be prepared in accordance with proper accounting practices.

Those practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 (the Code) and the Service Reporting Code of Practice 2011/12 (SeRCOP), 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 no more than three months or less from the date of acquisition and that 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 53 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 54 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 fixed 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 fixed 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 council in accordance with statutory guidance.

Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the General Fund Balance (Minimum Revenue Provision), 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 nonmonetary 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.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

12. Heritage Assets

Tangible and Intangible Heritage Assets

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

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

Recognition and measurement

A key feature of heritage assets is that they have cultural, environmental or historical associations that make their preservation for future generations important. Heritage assets are maintained principally for their contribution to knowledge and culture. Where an asset meets the definition of a heritage asset but is used for operational purposes, it is not classified as a heritage asset. For example, a historic building used as a museum is classified within land and buildings, as this is its primary purpose, but the exhibits within it may be classified as heritage.

Heritage assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the County Council's accounting policies on property, plant and equipment. However, some of the measurement rules are relaxed in relation to heritage assets and the County Council's approach is as follows:

- Heritage assets valuations are based on insurance values, where available, as this is the most appropriate and relevant basis. In some cases, these values are supported by professional valuations, for example by auction houses.
- Insurance values are reviewed regularly and assets will be revalued where a change is deemed to be significant.
- In the absence of insurance values, for example where an asset is either not insured or is self-insured, the asset's most recent valuation before reclassification is used. This is usually historic cost but some buildings and monuments were measured on an existing use value (EUV) basis prior to reclassification.
- Where no appropriate valuation is available, heritage assets are not disclosed on the balance sheet, however they are disclosed in the narrative notes to the financial statements.

Items are recognised on the balance sheet where they are held by the County Council on long-term loan or where the County Council has the risks and rewards of ownership, as evidenced by the need to insure them. Similarly, items that the County Council has lent out long-term are not recognised. Items held on short-term loan, for example for temporary exhibitions, are not recognised.

The County Council is custodian or guardian of a number of monuments or sites. These are recognised as heritage assets; however they do not usually have any appropriate valuation so they are not recognised on the balance sheet.

The County Council's collections of heritage assets are accounted for as follows:

Museum Collections and Artefacts

This includes museum exhibits and items such as books of remembrance and miners banners. They are reported in the balance sheet at insurance value.

Artwork, including Public Art and Sculptures

This includes paintings, sculptures and outdoor public art installations around the county. Some items in this collection are reported at insurance value, others at cost and there are a number for which no value is available so they are not reported on the balance sheet.

The distinction between sculptures, monuments and statues can be subjective, however for the purposes of classification the County Council has determined that sculptures are generally modern, commissioned pieces of art, monuments can be modern or historic and are usually dedicated to people or events and statues are usually historical structures. Monuments and statues are included under the heading "Monuments, Statues and Historic Buildings" below.

Monuments, Statues and Historic Buildings

This includes war and colliery memorials, statues and non-operational historic buildings around the county. Some items in this collection are reported at insurance value, some at existing use value and some at cost. There are a number for which no value is available and are not reported on the balance sheet.

Civic Regalia and Silverware

This includes civic chains, badges of office and silverware used for civic purposes, and are recorded at insurance value.

Geophysical / Archaeological

This includes pit wheel sites and roman archaeological sites. No appropriate or relevant valuations are available for these assets so they are not recognised on the balance sheet.

Depreciation

Depreciation is not charged on heritage assets which have indefinite lives.

Impairment

The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets, e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the County Council's general policies on impairment.

Disposal

Heritage assets are rarely disposed of. However, in such cases, disposal proceeds are accounted for in accordance with the County Council's general provisions relating to the disposal of property, plant and equipment. Proceeds are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts

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 the Capital Receipts Reserve.

14. Interests in Companies and Other Entities

The Code requires local authorities to produce group accounts to reflect significant activities provided to Council taxpayers by other organisations in which an authority has an interest. The County Council has reviewed its interests in companies and other entities that have the nature of subsidiaries, associates and jointly controlled entities against the criteria for group accounts as set out in the Code and has concluded that there are no such material interests that require the preparation of 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 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.

19. 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 Service Reporting Code of Practice 2011/12 (SeRCOP). 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 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 SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services.

20. 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).

Deprecation 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.
- Infrastructure – straight-line allocation over 40 years.

Where an item of Property, Plant and Equipment has a value greater than £5m 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.

21. 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 losses previously 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 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). 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.

22. 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. 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 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.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment.

For the BSF Schools PFI Project, the liability was written down by an initial capital contribution of £0.270m.

Non-current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the County Council. The amounts payable to the PFI operators each year are analysed into five elements:

- Fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement.
- Finance cost – an interest charge of 10.15% on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

- Contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- Payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease).
- Lifecycle replacement costs – proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out.

Details of the value of assets, liabilities and estimates of future payments over the next 25 years can be found in Note 41.

23. 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 example, 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.

24. 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.

25. Contingent Liabilities

A contingent liability arises where an event has taken place that gives the County Council 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 County Council. 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..

26. Contingent Assets

A contingent asset arises where an event has taken place that gives the County Council 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 County Council.

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.

27. 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.

28. 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.

29. Value Added Tax (VAT)

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

30. Carbon Reduction Commitment Allowances

The County Council is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. This scheme is currently in its introductory phase which will last until 31 March 2014. The County Council is required to purchase and surrender allowances, currently retrospectively, on the basis of emissions i.e. carbon dioxide produced as energy is used. As carbon dioxide is emitted (i.e. as energy is used), a liability and an expense are recognised. The liability will be discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the County Council is recognised and reported in the costs of the County Council's services and is apportioned to services on the basis of energy consumption.

2. Accounting Standards that have been issued but have not yet been adopted

The adoption of amendments to IFRS 7 Financial Instruments: Disclosures (issued October 2010) by the code will result in a change in accounting policy that requires disclosure.

The amendments are intended to allow users of financial statements to improve their understanding of transfer transactions of financial assets, including the possible effects of any risks that may remain with the entity that transferred the assets. It also includes additional disclosure requirements where there is a disproportionate amount of transfer transactions around the end of the reporting period. The effective date of the standard was 1 July 2011 but we are not required by the Code to implement this amended disclosure requirement until 1 April 2012.

Following a review of the Authority's financial assets and liabilities at 31 March 2012, it is considered unlikely that the IFRS 7 accounting standard will have a material impact on the financial statements of the Authority.

3. 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 2011/12. 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 2012, 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 2011/12
- 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 (now The Academy at Shotton Hall) 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 £15.806m.Further details can be found in Note 41.
- Group Accounts – The County Council has financial relationships with other related companies, joint ventures and joint arrangements, details of which can be found in Note 38. There are a number of criteria by which the County Council must determine whether its interest in such bodies is significant enough to be included in the County Council's consolidated accounts. After consideration of these criteria, the County Council has determined that the consolidation of related companies would have no material effect on the County Council's financial position and therefore it is not necessary to produce Group Accounts for 2011/12.
- 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.

4. 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 2012 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 £174.58m for funded LGPS benefits. However, the assumptions interact in complex ways. During 2011/12, the County Council's actuaries advised that the net pensions liability for funded LGPS benefits had increased by £15.51m as a result of estimates being corrected as a result of experience and increased by £141.15m attributable to updating of the assumptions.
Equal Pay	Provisions made for the likely payments in respect of Equal Pay settlement. Claims are provided for in short terms provisions and these have been included at current prices as the time value of these payments is within 12 months.	If payments are not made within 12 months, it is unlikely that any additional amounts will be due in respect of late settlement of Equal Pay claims

Item	Uncertainties	Effect if actual results differ from assumptions
Arrears	At 31 March 2012, the Authority had a balance of debtors of £99.65m. A review of significant balances suggested that an impairment of doubtful debts of 16.55% (£16.49m) was appropriate. However, in the current economic climate it is not certain that such an allowance would be sufficient.	If collection rates were to deteriorate, a doubling of the amount of the impairment of doubtful debts would require an additional £16.49m to be set aside as an allowance.

5. 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.

6. Events after the balance sheet date

The Statement of Accounts was authorised for issue by the Corporate Director Resources on 29 June 2012. 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 2012, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

A number of local authority schools are due to convert to Academy status during 2012/13, which is a non-adjusting event in 2011/12. This change in status will lead to the removal of these schools from the balance sheet in 2012/13 and the loss on disposal will be charged to the Comprehensive Income and Expenditure Statement (CIES) below the Net Cost of Services. One school converted on 1 April 2012, resulting in a loss of £19.619m. A number of others have submitted an application to the Department for Education (DfE) and are likely to convert before 31 March 2013 with an estimated loss of £10.757m.

7. 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.

2011-12:

	Usable Reserves					
Adjustments primarily involving the:	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
Capital Adjustment Account:						
Reversal of items debited or credited to the CI&E Statement:						
Charges for depreciation and impairment of non-current assets	-57,273	-17,920				75,193
Revaluation losses on Property Plant and Equipment	-18,067	-47,293				65,360
Movements in the market value of Investment Properties	-126					126
Amortisation of intangible assets	-1,032	-178				1,210
Capital grants and contributions applied	71,781	2,905				-74,686
Movement in the Donated Assets Account						
Revenue expenditure funded from capital under statute	-5,863	-152				6,015
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CI&E Statement	-70,619	-1,229				71,848
Exceptional Item: Payment to Secretary of State (HRA Reform)		-52,891				52,891
Insertion of items not debited or credited to the CI&E Statement:						
Statutory provision for the financing of capital investment	14,453					-14,453
Capital expenditure charged against the General Fund and HRA Balances	10,250	5,380				-15,630
Capital Receipts Reserve:						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the CI&E Statement	5,945	2,706	-8,651			-
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals	-53		53			-
Use of the Capital Receipts Reserve to finance new capital expenditure			9,458			-9,458
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	-1,506		1,506			-
Transfer from Deferred Capital Receipts Reserve upon receipt of cash	-69		-1,332			1,401
Deferred Capital Receipts Reserve:						
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the CI&E Statement	435					-435
Major Repairs Reserve:						
Reversal of Major Repairs Allowance Credited to the HRA		11,696	-11,696			-
Use of the Major Repairs Reserve to finance new capital expenditure			11,696			-11,696
Financial Instruments Adjustment Account:						
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	187					-187
Pensions Reserve:						
Reversal of items relating to the retirement benefits debited or credited to the CI&E Statement (see note 24)	-53,072	-198				53,270
Employer's pensions contributions and direct payments to pensioners payable in the year	57,012	612				-57,624
Collection Fund Adjustment Account:						
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	-551					551
Accumulated Absences Account:						
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	-5,434					5,434
Total Adjustments	-53,602	-96,562	1,034	-	-	149,130

2010-11:

Adjustments primarily involving the:	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
	Usable Reserves					
Capital Adjustment Account:						
Reversal of items debited or credited to the CI&E Statement:						
Charges for depreciation and impairment of non-current assets	-57,295	-12,793	-	-	-	70,088
Revaluation losses on Property Plant and Equipment	-65,275	-117,013	-	-	-	182,288
Movements in the market value of Investment Properties	-1,330	-94	-	-	-	1,424
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
Insertion of items not debited or credited to the CI&E Statement:						
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
Capital Receipts Reserve:						
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
Major Repairs Reserve:						
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
Financial Instruments Adjustment Account:						
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
Pensions Reserve:						
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
Collection Fund Adjustment Account:						
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
Accumulated Absences Account:						
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
Total Adjustments	93,955	-108,508	22,407	1,200	-	-9,054

8. 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 2011/12.

	Balance at 31 March 2011 £000	Transfers out 2011-12 £000	Transfers in 2011-12 £000	Balance at 31 March 2012 £000
General Fund:				
Balances held by schools under a scheme of delegation	15,740	-3,891	9,041	20,890
AAP / Members Reserve	2,414	-414	364	2,364
AAP Reserve - Neighbourhoods	824	-483	163	504
Assistant Chief Executive - Grant Reserve	-	-	233	233
Assistant Chief Executive - Operational Reserve	-	-	140	140
Aycliffe Young Peoples Centre Reserve	300	-300	475	475
DWP Grant Reserve	86	-86	159	159
Cabinet Reserve	498	-	-	498
Cash Limit Reserve	12,126	-1,086	4,846	15,886
Community Safety Reserve	75	-50	50	75
Continuing Professional Development Reserve	278	-	95	373
Corporate Reserve	865	-200	499	1,164
Customer Services Reserve	-	-	360	360
Dedicated Schools Grant and Education Reserve	3,652	-280	631	4,003
Direct Services Reserve	1,122	-65	349	1,406
Economic Development Reserve	5,353	-4,582	72	843
Elections Reserve	-	-	800	800
Employability and Training Reserve	240	-	615	855
Environmental Health and Consumer Protection Reserve	40	-	101	141
Equal Pay Reserve	3,473	-65	-	3,408
Funding and Programmes Management Reserve	-	-	239	239
Health and Wellbeing Reserve	1,566	-219	-	1,347
Heritage and Culture Reserve	111	-2	139	248
Housing Benefit Subsidy Reserve	-	-	1,200	1,200
Housing Solutions Reserve	860	-	461	1,321
Insurance Reserve	11,284	-	557	11,841
Land Search Fees Reserve	-	-	1,000	1,000
Leisure Reserves	52	-	-	52
LEP Reserve	80	-80	-	-
LSVT Reserve	133	-11	-	122
MTFP Redundancy and Early Retirement Reserve	19,798	-10,246	-	9,552
New Homes Bonus Reserve	-	-	206	206
North Pennines Reserve	169	-169	-	-
Performance Reward Grant Reserve	1,694	-375	-	1,319
Planning Reserve	2,034	-260	-	1,774
Regeneration Reserve - Corporate	578	-	-	578
Regeneration Reserve - Housing	223	-128		95
Regeneration Reserve - RED	470		797	1,267
Regenerataion and Communities Reserve	1,880	-1,880	-	-
Restructure Reserve	-	-	1,000	1,000
Schools Unspent Grant Reserve	639	-639	-	-
Social Care Reserve	425	-64	8,968	9,329
Special Projects Reserve	60	-	-	60
Sport and Leisure Reserve	1,254	-473	984	1,765
Strategic Waste Reserve	-	-	104	104
System Development Reserve	-	-	700	700
Transport Reserve	-	-	364	364
Transport Asset Management Programme Reserve	515	-150	-	365
Youth Forum Reserve	64	-64	-	-
Total	90,975	-26,262	35,712	100,425
HRA:				
Capital Reserve	2,400	-400	-	2,000
Stock Options Reserve	402	-342	-	60
DCH Improvements Reserve	400	-	-	400
Total	3,202	-742	-	2,460

9. Other operating expenditure

2010-11 £000		2011-12 £000
12,042	Parish council precepts	12,119
367	Levies	443
1,199	Payments to the Government Housing Capital Receipts Pool	1,506
57,097	Gains/losses on the disposal of non-current assets	62,884
70,705	**Total**	76,952

10. Financing and investment income and expenditure

2010-11 £000		2011-12 £000
16,342	Interest payable and similar charges	16,730
30,210	Pensions interest cost and expected return on pensions assets	21,900
-2,394	Interest receivable and similar income	-2,409
-27	Impairment of Financial Investments	324
-	Movement in market value of investment properties	126
859	Other investment income	-33
44,990	**Total**	36,638

11. Taxation and non-specific grant income

2010-11 £000		2011-12 £000
-211,819	Council tax income *	-211,251
-202,008	Non domestic rates	-179,862
-85,564	Non-ringfenced government grants	-62,188
-59,354	Capital grants and contributions	-74,686
-558,745	**Total**	-527,987

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

12. Property, plant and equipment

Movement on Balance 2011-12:

	Operational					Non-Operational		
	Council Dwellings £000	Land & Buildings £000	Vehicles, Plant, Furniture & Equipement £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total £000
Cost or valuation								
At 1 April 2011 (restated)	512,540	1,077,415	103,873	365,101	2,201	79,346	28,025	2,168,501
Additions	37,156	39,539	21,150	33,228	237	37	29,673	161,020
Revaluation increases/(decreases)	-65,475	-18,909	-	-	-44	-2,619	1,540	-85,507
Derecognition - disposals	-1,252	-78,896	-11,764	-	-2	-8,733	-133	-100,780
Derecognition - other	-	-385	-	-	-	-	-	-385
Assets reclassified (to)/from Held for Sale	-	-92	-	-	-	-1,504	-	-1,596
Assets reclassified (to)/from Investment Properties	-	1,733	-	-	-	64	-	1,797
Assets reclassified (to)/from Intangible	-	-11	-	-	-	-	-918	-929
Other reclassifications	9,488	5,858	15	1,482	86	16,040	-32,969	-
Other movements in cost or valuation	-	-4,501	-	-	-34	-5,270	-	-9,805
At 31 March 2012	492,457	1,021,751	113,274	399,811	2,444	77,361	25,218	2,132,316
Accumulated Depreciation and Impairment								
At 1 April 2011 (restated)	-13,002	-65,778	-65,017	-66,859	-202	-11,047	-	-221,905
Depreciation charge	-11,696	-26,533	-14,222	-9,569	-	-475	-	-62,495
Depreciation written out on revaluation	11,831	18,248	-	-	5	84	-	30,168
Impairment losses/(reversals)	-1,071	-5,533	-32	-	29	-4,493	-133	-11,233
Derecognition - disposals	34	13,325	10,588	-	1	5,233	133	29,314
Assets reclassified (to)/from Investment Properties	-	28	-	-	-	-	-	28
Other reclassifications	-7	1,223	-	-	46	-1,262	-	-
Other movements in cost or valuation	-	4,501	-	-	34	5,270	-	9,805
At 31 March 2012	-13,911	-60,519	-68,683	-76,428	-87	-6,690	-	-226,318
Net Book Value								
At 31 March 2012	478,546	961,232	44,591	323,383	2,357	70,671	25,218	1,905,998
At 31 March 2011 (restated)	499,538	1,011,637	38,856	298,242	1,999	68,299	28,025	1,946,596
The Revaluations / Impairments above:								
Revaluation increases/(decreases)	-65,475	-18,909	-	-	-44	-2,619	1,540	-85,507
Depreciation written out on revaluation	11,831	18,248	-	-	5	84	-	30,168
Impairment losses/(reversals)	-1,071	-5,533	-32	-	29	-4,493	-133	-11,233
	-54,715	**-6,194**	**-32**	**-**	**-10**	**-7,028**	**1,407**	**-66,572**
Are recognised as follows:								
In the Revaluation Reserve	-3,819	17,261	-	-	11	-3,507	1,540	11,486
In the Surplus/Deficit on the Provision of Services	-50,896	-23,455	-32	-	-21	-3,521	-133	-78,058

Comparative Movements in 2010-11

	Operational					Non-Operational		
	Council Dwellings £000	Land & Buildings £000	Vehicles, Plant, Furniture & Equipement £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total £000
Cost or valuation								
At 1 April 2010 (as reported)	670,593	1,112,383	95,716	340,238	5,815	96,995	15,240	2,336,980
Prior Period Adjustment (Heritage Assets)	-	-827	-22	-	-2,416	-	-	-3,265
At 1 April 2010 (restated)	670,593	1,111,556	95,694	340,238	3,399	96,995	15,240	2,333,715
Additions	31,647	79,259	15,535	23,733	86	-	30,599	180,859
Revaluation increases/(decreases)	-188,110	-42,812	-	-	-	-15,639	-7	-246,568
Derecognition - disposals	-3,206	-79,746	-7,469	-	-	-2,339	-	-92,760
Derecognition - other	-	-5,673	-	-	-	-	-	-5,673
Assets reclassified (to)/from Held for Sale	-	-	-	-	-	-	-	-
Assets reclassified (to)/from Investment Properties	-	-	-	-	-	-	-1,072	-1,072
Assets reclassified (to)/from Intangible	-	-	-	-	-	-	-	-
Other reclassifications	1,616	14,831	113	1,130	-1,284	329	-16,735	-
Other movements in cost or valuation	-	-	-	-	-	-	-	-
At 31 March 2011 (restated)	512,540	1,077,415	103,873	365,101	2,201	79,346	28,025	2,168,501
Accumulated Depreciation and Impairment								
At 1 April 2010 (as reported)	-241	-52,922	-60,087	-58,026	-202	-12,228	-	-183,706
Prior Period Adjustment (Heritage Assets)	-	74	-	-	3	-	-	77
At 1 April 2010 (restated)	-241	-52,848	-60,087	-58,026	-199	-12,228	-	-183,629
Depreciation charge	-11,944	-28,481	-11,151	-8,833	-4	-194	-	-60,607
Depreciation written out on revaluation	-	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
Assets reclassified (to)/from Investment Properties	-	-	-	-	-	-	-	-
Other reclassifications	-107	106	-	-	1	-	-	-
Other movements in cost or valuation	-	-	-	-	-	-	-	-
At 31 March 2011 (restated)	-13,002	-65,778	-65,017	-66,859	-202	-11,047	-	-221,905
Net Book Value								
At 31 March 2011 (restated)	499,538	1,011,637	38,856	298,242	1,999	68,299	28,025	1,946,596
At 31 March 2010 (restated)	670,352	1,058,708	35,607	282,212	3,200	84,767	15,240	2,150,086
The Revaluations / Impairments above:								
Revaluation increases/(decreases)	-188,110	-42,812	-	-	-	-15,639	-7	-246,568
Depreciation written out	-	12,592	-	-	-	50	-	12,642
Impairment losses/(reversals)	-758	-20,907	-9	-	-	971	-	-20,703
	-188,868	**-51,127**	**-9**	**-**	**-**	**-14,618**	**-7**	**-254,629**
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	-73,781	-9	-	-	-5,729	-7	-192,457

Depreciation

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

- Council Dwellings – major repairs allowance as a proxy for depreciation
- Land and Buildings – up to 50 years
- Vehicles, Plant, Furniture & Equipment – mainly over 10 years, however some specialised items are depreciated over up to 25 years
- Infrastructure – 40 years
- Surplus – up to 50 years

Capital Commitments

At 31 March 2012, the County Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2012/13 and future years budgeted to cost £62.308m. Similar commitments at 31 March 2011 were £68.911m. The major commitments are:

❖ Building Schools for the Future	£40.572m
❖ Co-Location (Integrated Hubs)	£0.388m
❖ Basic Need (Schools)	£0.763m
❖ Primary Capital Programme	£8.546m
❖ Catchgate Children's Home	£0.265m
❖ Highways Capitalised Maintenance	£2.457m
❖ North Dock, Seaham	£0.283m
❖ Durham City Vision	£0.579m
❖ Decent Homes Partnership	£6.384m
❖ Housing New Build Phase II, Crook	£1.074m
❖ Demolition of annexe at County Hall	£0.430m
❖ Demolition of Dragonville Depot	£0.303m
❖ Telephony Replacement	£0.264m

13. Heritage Assets

Reconciliation of the Carrying Value of Heritage Assets Held by the Authority

	Museum Collection and Artefacts £000	Artwork, Public Art and Sculptures £000	Monuments, Statues and Historic Buildings £000	Civic Regalia and Silverware £000	Total Assets £000
Cost or valuation					
At 1 April 2010	9,482	1,287	4,435	654	15,858
Additions					-
Disposals					-
Revaluations					-
Impairment Losses/(reversals) recognised in the Revaluation Reserve					-
Impairment Losses/(reversals) recognised in Surplus or Deficit on the Provision of Services					-
Depreciation					-
At 31 March 2011	9,482	1,287	4,435	654	15,858
Cost or valuation					
At 1 April 2011	9,482	1,287	4,435	654	15,858
Additions					-
Disposals					-
Revaluations					-
Impairment Losses/(reversals) recognised in the Revaluation Reserve					-
Impairment Losses/(reversals) recognised in Surplus or Deficit on the Provision of Services					-
Depreciation					-
At 31 March 2012	9,482	1,287	4,435	654	15,858

Museum Collections and Artefacts

Where museum exhibits and artefacts are recognised on the balance sheet they are reported at insurance value.

Artwork, including Public Art and Sculptures

Where items of artwork are recognised on the balance sheet they are reported at insurance value, where available, otherwise at cost.

Monuments, Statues and Historic Buildings

Where monuments, statues and historic buildings are recognised on the balance sheet they are reported at insurance value, where available, otherwise at existing use value or at cost.

Civic Regalia and Silverware

Civic regalia and silverware are recorded at insurance value, where available.

Insurance values are reviewed regularly and assets will be revalued where a change is deemed to be significant.

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:

2010-11 £000		2011-12 £000
6,426	Balance at start of the year	6,211
	Additions:	
-	Acquisitions	-
-	Enhancements	-
	Disposals	-39
-1,287	Net gains/losses from fair value adjustments	-126
	Transfers:	
-	From Held for Sale	-
1,072	To/from Property, Plant and Equipment	-1,825
-	Other Changes	-
6,211	**Balance at end of the year**	4,221

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 generated 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 Authority. The useful lives assigned to the major software suites used by the Authority 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	1,461	5	Straight line
Government Connects	Licence	October 2010	132	5	Straight line
Accounting Software	Licence	March 2011	160	5	Straight line
BSF Schools Software	Licence	March 2011	85	5	Straight line
HRA Software	Licence	March 2011	87	5	Straight line
Web Filtering Software	Licence	June 2011	135	5	Straight Line
ICT Sharepoint Software	Licence	January 2012	79	3	Straight Line
Learning Platform	Licence	March 2012	46	5	Straight Line
Income Software	Licence	March 2012	161	5	Straight line
Assets transferred due to LGR					
Various software	Licence	2006	36	various	Straight line
Various software	Licence	2007	383	various	Straight line
Various software	Licence	2008	1,017	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:

2010-11 Software £000		2011-12 Software £000
	Balance at start of year:	
8,427	Gross carrying amounts	7,510
-5,825	Accumulated amortisation	-5,531
2,602	**Net carrying amount at start of year**	1,979
	Additions:	
681	Purchases	873
-	Reclassification from Property, Plant and Equipment	929
-1,505	Disposals	-3,527
-93	Impairment losses recognised in the Surplus/Deficit on the Provision of Services	
-1,025	Amortisation for the period	-1,210
1,319	Amortisation written out on disposal	3,517
1,979	**Net carrying amount at end of year**	2,561
	Comprising	
7,510	Gross carrying amounts	5,785
-5,531	Accumulated amortisation	-3,224
1,979		2,561

16. Financial instruments

Categories of Financial Instruments

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

2010-11 Long-term £000	2010-11 Current £000		2011-12 Long-term £000	2011-12 Current £000
		Investments		
1,348	76,284	Loans and receivables	901	69,010
1,962	-	Available-for-sale financial assets	1,667	-
-	-	Unquoted equity investment at cost	-	-
-	-	Financial assets at fair value through profit and Loss	-	-
3,310	76,284	**Total Investments**	2,567	69,010
		Debtors:		
6,010	83,418	Loans and receivables	6,545	87,183
-	-	Financial assets carried at contract amounts	-	-
6,010	83,418	**Total Debtors**	6,545	87,183
		Borrowings:		
-315,631	-5,344	Financial Liabilities at amoritsed cost	-410,999	-13,597
-	-	Financial Liabilities at fair value through profit and loss	-	-
-315,631	-5,344	**Total Borrowings**	-410,999	-13,597
		Other Long term Liabilitites:		
-47,576	-2,519	PFI and finance lease liabilities	-46,987	-2,756
-47,576	-2,519	**Total other long term liabilities:**	-46,987	-2,756
		Creditors:		
-	-144,525	Financial liabilities at amortised cost	-	-124,809
-	-	Financial liabilities carried at contract amount	-	-
-	-144,525	**Total Creditors**	-	-124,809

Reclassifications

There have been no reclassifications for the financial year 2011/12.

Soft Loans

The 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 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 Council at 31 March 2012 was £0.646m (31 March 2011 £0.564m).

There are also occasions when the 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 Council can be separated from the financing cost of the transaction.

The value of soft loans received by the Council at 31 March 2012 was £0.723m (31 March 2011 £1.01m)

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

2010-11						2011-12				
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
16,342				16,342	Interest expense	16,730				16,730
				-	Losses on derecognition					-
		249		249	Reductions in fair value			295		295
				-	Impairment losses		324			324
				-	Fee expense					-
16,342	-	249	-	16,591	**Total expense in Surplus or Deficit on the Provision of Services**	16,730	324	295	-	17,349
	2,029			2,029	Interest income		1,963			1,963
	365			365	Interest income accrued on impaired financial assets		446			446
	27			27	Increase in fair value					-
				-	Gains on derecognition					-
				-	Fee income					-
-	2,421	-	-	2,421	**Total income in Surplus or Deficit on the Provision of Services**	-	2,409	-	-	2,409
				-	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					-
16,342	-2,421	249	-	14,170	**Net gain/(loss) for the year**	16,730	-2,085	295	-	14,940

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 2011			31 March 2012	
Carrying Amount £000	Fair Value £000		Carrying Amount £000	Fair Value £000
-456,059	-491,572	Financial liabilities	-549,405	-632,201
-	-	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 2012) arising from a commitment to pay interest to lenders above current market rates.

31 March 2011			31 March 2012	
Carrying Amount £000	Fair Value £000		Carrying Amount £000	Fair Value £000
163,380	163,380	Loans and receivables	156,193	156,193
6,010	6,010	Long-term debtors	6,545	6,545

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.

17. Inventories

Year to 31 March 2012	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
Consumable Stores	2,397	18,006	-17,457	-17	-	2,929
Maintenance Materials	499	481	-496	-	-	484
Client Services Work in Progress	125	762	-680	555	-	762
Rechargeable Works	854	3,649	-3,341	-	-	1,162
Total	3,875	22,898	-21,974	538	-	5,337
Year to 31 March 2011						
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
Total	4,243	18,797	-20,478	1,313	-	3,875

18. Short Term Debtors

2010-11 £000		2011-12 £000
25,113	Central government bodies	22,887
2,335	Other local authorities	4,167
4,813	NHS bodies	1,330
328	Public corporations and trading funds	1
60,296	Other entities and individuals	71,260
-12,067	Less: Bad debt provision	-16,491
80,818		83,154
2,600	Payments in advance	4,029
83,418	**Total**	87,183

19. Cash and cash equivalents

2010-11 £000		2011-12 £000
104	Cash at bank	4
-13,920	Overdraft	-13,110
55,000	Cash held on demand (call accounts)	35,064
14,074	Deposits held for liquidity purposes	7,806
55,258	**Cash and Cash Equivalents balance**	29,764

20. Assets held for sale (Current)

2010-11 £000		2011-12 £000
-	**Balance outstanding at start of year**	-
	Assets newly classified as held for sale:	
-	Property, Plant and Equipment	1,596
-	Assets sold	-333
-	**Balance outstanding at year-end**	1,263

21. Short Term Creditors

2010-11 £000		2011-12 £000
-29,331	Central government bodies	-21,367
-342	Other local authorities	-1,329
-3,986	NHS bodies	-3,311
-98,638	Other entities and individuals	-90,155
-132,297		-116,162
-12,228	Receipts in Advance	-8,647
-144,525	**Total creditors**	-124,809

22. Provisions

The provisions at 31 March 2012 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 £0.806m 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
Balance at 1 April 2011	101	8,820	18,024	673	27,618
Additional provisions made in 2011-12	-	3,854	7,483	394	11,731
Amounts used in 2011-12	-	-2,271	-9,458	-	-11,729
Unused amounts reversed in 2011-12	-	-1,300	-	-	-1,300
Unwinding of discounting in 2011-12	-	-	-	-	-
Balance at 31 March 2012	101	9,103	16,049	1,067	26,320

23. Usable reserves

Movements in the County Council's usable reserves are detailed in the Movement in Reserves Statement.

31 March 2010 £000	31 March 2011 £000		31 March 2012 £000
23,613	1,206	Usable Capital Receipts Reserve	173
1,200	-	Major Repairs Reserve	-
8,511	7,688	Housing Revenue Account	7,821
26,977	17,320	General Fund Balance	21,874
95,140	90,975	Earmarked reserves	100,425
-	3,202	Earmarked reserves - HRA	2,460
155,441	120,391	**Total**	132,753

24. Unusable reserves

01 April 2010 (restated) £000	31 March 2011 £000		31 March 2012 £000
533,833	436,918	Revaluation Reserve	412,848
1,219,989	1,051,614	Capital Adjustment Account	940,450
-3,557	-2,687	Financial Instruments Adjustment Account	-2,500
2,806	1,944	Deferred Capital Receipt	979
-18,174	-9,934	Short Term Accumulating Absences Account	-15,369
-975,648	-728,212	Pensions Reserve	-897,886
1,053	804	Available for Sale financial Reserve	509
1,505	546	Collection Fund	-5
761,807	750,993	**Total**	439,026

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.

2010-11 £000		2011-12 £000
521,075	**Balance at 1 April (as reported)**	436,918
12,758	Prior period adjustment (Heritage Assets)	-
533,833	**Balance at 1 April (restated)**	436,918
43,799	Upward revaluation of assets	29,198
-106,617	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	-17,712
-62,818	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	11,486
-12,214	Difference between fair value depreciation and historical cost depreciation	-13,594
-21,883	Accumulated gains on assets sold or scrapped	-28,475
-	Historical cost impairment adjustment	6,513
-34,097	Amount written off to the Capital Adjustment Account	-35,556
436,918	**Balance at 31 March (restated)**	412,848

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.

2010-11 £000		2011-12 £000
1,053	**Balance at 1 April**	804
-	Upward revaluation of investments	-
-249	Downward revaluation of investments not charged to the Surplus/Deficit on the Provision of Services	-295
804		509
-	Accumulated gains on assets sold and maturing assets written out to the Comprehensive Income and Expenditure Statement as part of Other Investment Income	-
804	**Balance at 31 March**	509

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

2010-11 £000		2011-12 £000
1,220,076	**Balance at 1 April (as reported)**	1,051,614
-87	Prior period adjustment (Heritage Assets)	-
1,219,989	**Balance at 1 April (restated)**	1,051,614
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
-69,906	- Charges for depreciation and impairment of non-current assets	-75,193
-182,288	- Revaluation losses on Property, Plant and Equipment	-65,360
-1,025	- Amortisation of intangible assets	-1,210
-16,891	- Revenue expenditure funded from capital under statute	-6,015
-62,735	- 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	-71,848
-	- Exceptional Item: Payment to the Secretary of State (HRA reform)	-52,891
-332,845		-272,517
34,097	Adjusting amounts written out of the Revaluation Reserve	35,556
-298,748	Net written out amount of the cost of non-current assets consumed in the year	-236,961
	Capital financing applied in the year:	
27,525	- Use of Capital Receipts Reserve to finance new capital expenditure	9,458
13,144	- Use of the Major Repairs Reserve to finance new capital expenditure	11,696
59,354	- Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	74,686
13,854	- Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	14,453
17,920	- Capital expenditure charged against the General Fund and HRA balances	15,630
131,797		125,923
-1,424	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	-126
1,051,614	**Balance at 31 March (restated)**	940,450

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.

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.

2010-11 £000		2011-12 £000
-3,557	**Balance at 1 April**	-2,687
-	Interest on Icelandic loans credited to I&E in year	-
432	Premiums amortised to General Fund iin year	214
-51	Discounts amortised to General Fund in year	-27
-	Impairment of Icelandic loans	-
489	Reversal of all previous Icelandic loan entries	-
870	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	187
-2,687	**Balance at 31 March**	-2,500

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).

2010-11 £000		2011-12 £000
-975,648	**Balance at 1 April**	-728,212
42,610	Actuarial gains or losses(-) on pensions assets and liabilities	-174,700
588	Difference between Actuary's estimate and Actual Employers' Pension Contributions	672
134,680	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	-53,270
69,558	Employer's pensions contributions and direct payments to pensioners payable in the year	57,624
-728,212	**Balance at 31 March**	-897,886

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.

2010-11 £000		2011-12 £000
2,807	**Balance at 1 April**	1,945
-	Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	435
-862	Transfer to the Capital Receipts Reserve upon receipt of cash	-1,401
1,945	**Balance at 31 March**	979

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.

2010-11 £000		2011-12 £000
1,505	**Balance at 1 April**	546
-959	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	-551
546	**Balance at 31 March**	-5

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.

2010-11 £000			2011-12 £000	
	-18,174	**Balance at 1 April**		-9,935
18,174		Settlement or cancellation of accrual made at the end of the preceding year	9,935	
-9,935		Amounts accrued at the end of the current year	-15,369	
	8,239	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		-5,434
	-9,935	**Balance at 31 March**		-15,369

25. Cash flow statement – non-cash movements

2010-11 £'000		2011-12 £'000
-60,608	Depreciation	-62,496
-193,192	Impairment and downward revaluation	-78,184
-1,024	Amortisations	-1,210
27	Impairment of Icelandic assets	-324
-8,239	Transfer to/from Accumulated Absences account	5,434
-801	Increase/decrease in the provision for bad debts	1,765
3,343	Increase/decrease in creditors	14,281
3,228	Increase/decrease in debtors	2,000
-368	Increas/decrease in stock	1,462
204,238	Pension liability	4,354
-62,553	Carrying amount of non-current assets sold	-71,848
58,136	Other non-cash items	86,670
-57,813		-98,095

26. Cash flow statement – items included in investing activities

2010-11 £000		2011-12 £000
-	Purchase of short-term (not considered to be cash equivalents) and long-term investments	-
-	Proceeds from short-term (not considered to be cash equivalents) and long-term investments	-
6,319	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	8,651
-	Other items for which the cash effects are investing or financing cash flows	-
6,319	**Net cash flows from investing activities**	8,651

27. Cash flow statement – operating activities

The cash flows for operating activities include the following items:

2010-11 £000		2011-12 £000
642,025	Employee costs	566,289
218,013	Rent allowances and council tax benefit	231,190
-211,819	Council Tax income	-211,251
-287,682	Dedicated Schools Grant	-313,493
-210,091	Benefit Grants	-217,019
-202,008	Redistributed NNDR	-179,862
-242,123	Other Government Grants	-152,846
-	Payment to government for HRA self-financing	52,891
16,565	Interest paid	13,832
-2,410	Interest received	-2,303
-	Dividends received	-

28. Cash flow statement – investing activities

2010-11 £000		2011-12 £000
154,604	Purchase of property, plant and equipment, investment property and intangible assets	189,746
789,881	Purchase of short-term (not considered to be cash equivalents) and long-term investments	222,717
-	Other payments for investing activities	-
-6,319	Proceeds from the sale of property, plant and equipment, non-current assets held for sale, investment property and intangible assets	-8,651
-849,024	Proceeds from short-term (not considered to be cash equivalents) and long-term investments	-229,455
-90,982	Other receipts from investing activities	-86,478
-1,840	**Net cash flows from investing activities**	87,879

29. Cash flow statement – financing activities

2010-11 £000		2011-12 £000
-11,156	Cash receipts of short-term and long-term borrowing	-102,891
-1,279	Other receipts from financing activities	-12,091
2,417	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	3,103
10,108	Repayments of short-term and long-term borrowing	2,168
-	Other payments for financing activities	-
90	**Net cash flows from financing activities**	-109,711

30. Amounts reported for resource allocation decisions (SEGMENTAL)

The tables below are a reconciliation of the 2011/12 internal management reports (monitoring and outturn) used by the County Council's Cabinet to make decisions and the 2011/12 Comprehensive Income and Expenditure Statement (CIES).

The income and expenditure of the County 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	-76,280	-63,559	-123,701	-25,113	-80,857	-3,023	-372,533
Government grants	-376,451	-15,421	-2,910	-4,327	-231,778	-199	-631,086
Total Income	**-452,731**	**-78,980**	**-126,611**	**-29,440**	**-312,635**	**-3,222**	**-1,003,619**
Employee Expenses	353,469	61,118	86,353	28,404	40,186	6,691	576,221
Other operating expenses	150,555	181,103	113,629	30,987	272,066	7,284	755,624
Support recharges	22,944	8,462	23,711	7,488	21,718	1,353	85,676
Total Operating Expenses	**526,968**	**250,683**	**223,693**	**66,879**	**333,970**	**15,328**	**1,417,521**
Net Cost of Services	**74,237**	**171,703**	**97,082**	**37,439**	**21,335**	**12,106**	**413,902**

Reconciliation to cost of services in the CIES	**£000**
Net cost of services in service analysis	413,902
Add services not included in the main analysis	-24,225
Add amounts not reported to management	97,190
Remove amounts not included in the CIES	64,300
Cost of Services in CIES	**551,167**

Reconciliation to Subjective Analysis	**Service Analysis £000**	**Services not in Analysis £000**	**Not reported to Mngmt £000**	**Not Included in CI+E £000**	**Cost of Services £000**	**Corporate Amounts £000**	**Total £000**
Fees, charges and other service income	-372,533				-372,533		-372,533
Interest and investment income					-	-2,409	-2,409
Interest received on finance leases (lessor)					-		-
Income from Council Tax					-	-211,251	-211,251
Government Grants and Contributions	-631,086			74,686	-556,400	-316,736	-873,136
Council Tax Freeze Grant				4,972	4,972		4,972
IAS19							-
Total Income	**-1,003,619**	**-**	**-**	**79,658**	**-923,961**	**-530,396**	**-1,454,357**
Employee Expenses	576,221				576,221		576,221
Other service expenses	755,624				755,624		755,624
Support Service recharges	85,676				85,676		85,676
Contribution to Housing Capital Receipts Pool					-	1,506	1,506
Interest Payable					-	16,730	16,730
Impairment of Financial Investments					-	450	450
Net Trading				-423	-423	-33	-456
Precepts and Levies				-443	-443	12,562	12,119
HRA			95,340		95,340		95,340
Gain or Loss on the disposal of non-current assets				-53	-53	62,884	62,831
Direct Revenue Funding			1,850	-13,780	-11,930		-11,930
Change in Fair Value of Investment Properties				-126	-126		-126
Other Adjustments				-533	-533		-533
IAS19		-24,225			-24,225	21,900	-2,325
Total Operating Expenses	1,417,521	-24,225	97,190	-15,358	1,475,128	115,999	1,591,127
Surplus or deficit on provision of services	**413,902**	**-24,225**	**97,190**	**64,300**	**551,167**	**-414,397**	**136,770**

The tables below are a reconciliation of the 2010/11 internal management reports (monitoring and outturn) used by the County Council's Cabinet to make decisions and the 2010/11 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	-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
Total Income	**-537,569**	**-71,072**	**-131,424**	**-43,028**	**-320,674**	**-5,626**	**-1,109,393**
Employee Expenses	374,335	74,420	93,255	31,632	49,644	7,840	631,126
Other operating expenses	244,916	184,118	142,645	60,782	268,248	8,832	909,541
Support recharges	33,096	9,858	28,447	13,365	30,501	2,820	118,087
Total Operating Expenses	**652,347**	**268,396**	**264,347**	**105,779**	**348,393**	**19,492**	**1,658,754**
Net Cost of Services	**114,778**	**197,324**	**132,923**	**62,751**	**27,719**	**13,866**	**549,361**

Reconciliation to cost of services in the CIES	**£000**
Net cost of services in service analysis	549,361
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
Cost of Services in CIES	**469,047**

Reconciliation to Subjective Analysis	**Service Analysis £000**	**Services not in Analysis £000**	**Not reported to Mngmt £000**	**Not Included in CI+E £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	-653,851			59,354	-594,497	-346,926	-941,423
IAS19							-
Total Income	**-1,109,393**	**-**	**-**	**59,348**	**-1,050,045**	**-561,139**	**-1,611,184**
Employee Expenses	631,126				631,126		631,126
Other service expenses	909,541				909,541		909,541
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				-169	-169		-169
IAS19		-232,848		2,169	-230,679	30,210	-200,469
Total Operating Expenses	**1,658,754**	**-232,848**	**103,403**	**-10,217**	**1,519,092**	**118,089**	**1,637,181**
Surplus or deficit on provision of services	**549,361**	**-232,848**	**103,403**	**49,131**	**469,047**	**-443,050**	**25,997**

31. Trading operations

The deficit for the year on trading operations relating to Direct Services and Technical Design Services is charged as Financing and Investment Income and Expenditure - Other investment income (see note 10). The summary revenue account for these services is shown below. The impact of IAS 19 in the Comprehensive Income and Expenditure Account is to increase gross expenditure for Direct Services and Technical Design Services by £0.455m and therefore reduce the deficit on trading operations by the same amount.

		2009-10 £000	2010-11 £000	2011-12 £000
Highways Operations The Authority runs a highway operations team, which maintains the network of roads,footpaths and street lighting within the County. They also compete and carry out work for external bodies. The trading objective of the team is to meet the net cash limit target as set. The cumulative surplus over last three financial years: £394,000	Turnover	-27,270	-29,270	-31,373
	Expenditure	27,350	29,189	30,980
	Surplus(-)/Deficit	80	-81	-393
Fleet The Authority operates an in house Fleet Management Service which has the direct responsibility for the management and safeguarding of Authority's Operators Licence along with the responsibility of the safe and cost effective maintenance and procurement of the Authority's 1066 vehicles. Whilst the objective of the service is to only recover the actual the capital cost and maintenance of the fleet, the service also undertakes taxi vehicle examinations along with maintenance work for external bodies through Service level agreements. The cumulative deficit over last three financial years: £496,000	Turnover	-12,545	-18,803	-17,912
	Expenditure	12,817	18,834	18,105
	Surplus(-)/Deficit	272	31	193
Depots The Authority operates from five main strategic depots and two satellite depots covering the County of Durham. The depots along with possessing vehicle maintenance facilities provide operational bases to front line services from within Neighbourhood Services and RED/ the authority . The service also lets depot accommodation to external bodies. The trading objective is to meet the net cash limit target as set. The cumulative deficit over last three financial years: £1,717,000	Turnover	-2,768	-2,771	-2,529
	Expenditure	3,931	3,203	2,651
	Surplus(-)/Deficit	1,163	432	122
Buildings R&M and Construction The Authority runs a 'Building Services' team which procures, maintains buildings and, constructs major and minor projects, on behalf of all Five Directorates within Durham County Council as well as a wide range of other service users. 'Building Services' also complete and carry out work for external bodies both private and public. The in house team demonstrates Value for Money by delivering services on time, within cost and to the required standard using a combination of directly employed staff and supply chain partners. The trading objective of the team is to meet the net cash limit target as set. The cumulative surplus over last three financial years: £1,162,000	Turnover	-20,951	-18,103	-21,614
	Expenditure	20,084	18,718	20,704
	Surplus(-)/Deficit	-867	615	-910
Housing Maintenance The Authority provides a housing repairs and maintenance service on behalf of Durham City Homes. The Durham Housing Maintenance Team procures services, maintains tenant's homes and undertakes 'decent homes' improvements to approximately 6,100 homes. The in-house team demonstrates Value for Money by delivering against a wide range of performance indicators. The costs of services are benchmarked against other service providers from across the UK. The trading objective of the team is to meet with the net cash limit target as set. The cumulative surplus over last three financial years: £259,000	Turnover	-	-5,590	-6,109
	Expenditure	-	5,589	5,851
	Surplus(-)/Deficit	-	-1	-258
Cleaning Services The Authority runs a Building Cleaning Service which procures services, maintains buildings working across the entire portfolio of Durham County Council's buildings. The Building Cleaning Services also undertake works on behalf of a number of service users both internal and external to Durham County Council. The costs of services are benchmarked with other Local Authority providers from across the UK. The trading objective of the team is to meet the net cash limit target set. The cumulative deficit over last three financial years: £1,043,000	Turnover	-3,898	-3,308	-3,163
	Expenditure	3,621	4,098	3,693
	Surplus(-)/Deficit	-277	790	530

Catering Services

The Authority runs a Catering Service which procures goods and services, and provides both canteen services and an event catering service. These services are available to both internal and external bodies. The in-house team demonstrates Value for Money having been awarded the catering for Durham County Council following a competitive tender. Services are provided using a combination of directly employed staff and Agency Workers. The trading objective of the team is to meet the net cash limit target as set. The cumulative deficit over last three financial years: £664,000

	2009-10 £000	2010-11 £000	2011-12 £000
Turnover	-1,257	-1,098	-853
Expenditure	1,320	1,282	1,270
Surplus(-)/Deficit	63	184	417

Trading operations are incorporated into the Comprehensive Income and Expenditure Statement. Some are an integral part of one of the Authority's services to the public (e.g. refuse collection), whilst others are support services to the Authority's services to the public (e.g. schools catering). The expenditure of these operations is allocated or recharged to headings in the Net Operating Expenditure or Continuing Operations. Only a residual amount of the net surplus on trading operations is charged as Financing and Investment Income and Expenditure (see Note 10)

32. 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 2011/12 £5.543m (£5.426m in 2010/11 as restated) 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.

33. Members' allowances

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

2010-11 £000		2011-12 £000
1,674	Salaries	1,676
292	Allowances	289
125	Expenses	112
2,091	**Total**	2,077

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 Note 2 £	Total £
Chief Executive - George Garlick	2011-12	200,000	-	277	-	26,200	226,477
	2010-11	200,000	-	828	-	42,900	243,728
Corporate Director - Resources	2011-12	140,000	-	695	-	18,340	159,035
Note 1	2010-11	68,871	-	56	-	14,807	83,734
Corporate Director - Adults,Wellbeing	2011-12	127,287	-	165	-	16,675	144,127
and Health	2010-11	126,000	-	54	-	27,027	153,081
Corporate Director - Children and Young	2011-12	140,000	-	686	-	18,340	159,026
People's Service	2010-11	140,000	-	676	-	30,030	170,706
Corporate Director - Neighbourhood	2011-12	140,000	-	134	-	18,340	158,474
Services	2010-11	140,000	-	159	-	30,030	170,189
Corporate Director - Regeneration and	2011-12	140,000	-	-	-	18,340	158,340
Economic Development	2010-11	140,000	-	-	-	30,030	170,030
Assistant Chief Executive	2011-12	120,000	-	-	-	15,720	135,720
	2010-11	120,000	-	151	-	25,740	145,891
Monitoring Officer	2011-12	109,578	-	-	-	14,355	123,933
Note 2	2010-11	110,000	-	-	-	23,595	133,595

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 : Pension Contributions - The note shows a reduction in pension contributions in 2011/12. This is due to a change in the way that the County Council contributes to the Pension Fund on behalf of its employees. In 2010/11 all contributions were made as a percentage of salary, but in 2011/12 the percentage has been reduced and a lump sum deficit payment that is not attributable to individual members of the Pension Fund has been made to the Pension Fund.

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	2011-12 School Staff	2011-12 Other Staff	2011-12 Total	2010-11 School Staff	2010-11 Other Staff	2010-11 Total
£50,000 - £54,999	143	72	215	151	84	235
£55,000 - £59,999	90	52	142	90	58	148
£60,000 £64,999	38	12	50	43	24	67
£65,000 - £69,999	18	18	36	20	19	39
£70,000 - £74,999	7	13	20	10	9	19
£75,000 - £79,999	8	12	20	9	14	23
£80,000 - £84,999	7	3	10	14	2	16
£85,000 - £89,999	6	2	8	3	3	6
£90,000 - £94,999	3	3	6	3	8	11
£95,000 - £99,999	0	8	8	0	16	16
£100,000 - £104,999	0	3	3	1	0	1
£105,000 - £109,999	0	2	2	0	2	2
£110,000 - £114,999	1	5	6	0	7	7
£115,000 - £119,999	0	0	0	0	0	0
£120,000 - £124,999	0	1	1	1	1	2
£125,000 - £129,999	0	2	2	0	1	1
£130,000 - £134,999	0	2	2	0	1	1
£135,000 - £139,999	0	1	1	0	0	0
£140,000 - £144,999	0	4	4	0	3	3
£145,000 - £149,999	0	0	0	0	0	0
£150,000 - £154,999	0	0	0	0	0	0
£155,000 - £159,999	0	0	0	0	1	1
£160,000 - £164,999	0	0	0	0	0	0
£165,000 - £169,999	0	0	0	0	0	0
£170,000 - £174,999	0	0	0	0	0	0
£175,000 - £179,999	0	0	0	0	0	0
£180,000 - £184,999	0	1	1	0	0	0
£185,000 - £189,999	0	0	0	0	0	0
£190,000 - £194,999	0	0	0	0	0	0
£195,000 - £199,999	0	0	0	0	0	0
£200,000 - £204,999	0	1	1	0	1	1
	321	217	538	345	254	599

The numbers of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the table below:

(a) Exit package cost band (including special payments)	(b) Number of compulsory redundancies 2010-11	(b) Number of compulsory redundancies 2011-12	(c) Number of other departures agreed 2010-11	(c) Number of other departures agreed 2011-12	(d) Total number of exit packages by cost band [(b) + (c)] 2010-11	(d) Total number of exit packages by cost band [(b) + (c)] 2011-12	(e) Total cost of exit packages in each band 2010-11 £000	(e) Total cost of exit packages in each band 2011-12 £000
£0 - £20,000	12	117	308	190	320	307	3,198	2,482
£20,001 - £40,000	3	10	135	132	138	142	3,924	3,887
£40,001 - £60,000	4	0	30	39	34	39	1,613	1,809
£60,001 - £80,000	0	0	10	2	10	2	693	134
£80,001 - £100,000	0	0	7	2	7	2	600	153
£100,001 - £150,000	0	0	6	2	6	2	697	223
Total	**19**	**127**	**496**	**367**	**515**	**494**	**10,725**	**8,688**

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:

2010-11 £000		2011-12 £000
617	Fees payable to the Audit Commission with regard to external audit services carried out by the appointed auditor for the year	531
37	Fees payable to the Audit Commission in respect of statutory inspections	-
167	Fees payable in the year to the Audit Commission for the certification of grant claims and returns	116
15	Fees payable in respect of other services provided by the Audit commission during the year	-
836	**Net cash flows from investing activities**	647

The total fees paid to the Audit Commission of £531,000 reflects the audit work undertaken in 2011/12 and includes a payment of £20,000 relating to the audit work undertaken in 2010/11.

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	Final DSG for 2011/12			313,493
B	Plus			
	Brought forward from 2010/11			3,607
C	Less			
	Carry forward to 2012/13 agreed in advance			3,303
D	Agreed budgeted distribution in 2011/12	23,024	290,773	313,797
E	Less			
	Actual central expenditure	19,352		
F	Less			
	Actual ISB deployed to schools		293,538	
G	Plus			
	Local authority contribution for 2011/12			
H	Carry forward to 2012/13	3,672	-2,765	4,210 *

* 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 13 July 2011 adjusted for a reduction of £29,058,853 as a result of 13 schools converting to academy status during the financial year. DfE redirects funding to the YPLA for the proportionate Schools Budget Share from the point of conversion and hence this is no longer received by the County Council

B: Figure brought forward from 2010/11 as agreed with the Department.

C: Any amount which the authority decided after consultation with the schools forum to carry forward to 2012/13 rather than distribute in 2011/12 – this will be the difference between estimated and final DSG for 2011/12, or a figure (positive or negative) brought forward from 2010/11 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 2011/12

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 2011/12 which will have the effect of substituting for DSG in funding the School Budget.

H: Carry forward to 2012/13:

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

– For ISB, the over deploymenton the ISB relates to transfers from central expenditure during the year on contingencies and recoupement 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 2011/12 already agreed (C).

£5.201m 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 2011/12:

2010-11 £000		2011-12 £000
	Credited to Taxation and Non Specific Grant Income:	
-211,819	Council Tax Income	-211,251
-202,008	Non Domestic Rates	-179,862
	Non-Ring Fenced Government Grants	
-55,540	- Area Based Grants	-
-29,333	- Revenue Support Grants	-55,596
-436	- LABGI (Local Authority Business Growth Incentive Grant)	-
-255	- LPSA (Local Public Service Agreement) Performance Reward Grant	-
-	- Local Services Support Grant	-114
-	- Council Tax Freeze Grant	-4,972
-	- New Homes Bonus Scheme Grant	-1,506
-59,354	Capital Grants and Contributions	-74,686
-558,745		-527,987

Grant and Contribution Income Credited to Services

2010-11 £000		2011-12 £000
	Credited to Services:	
-344	Arts Projects	-274
-75	Asylum seekers grant	-154
-306	Campus closure grant	-
-138	CDENT grant	-450
-134	Contact Point Implementation grant	-
-378	Darlington Borough Council	-373
-17	DCLG Grant	-
-2,052	DCSF grant	-522
-287,682	Dedicated schools grant (DSG)	-313,493
-110	DEFRA Grant	-385
-50	Department for Business Innovation & Skills grant	-
-1,499	Department for Transport grant	-2,816
-1,546	DFTC Concessionary Fares grant	-
-	Early Intervention Grant	-23,869
-485	Education Authorities-other	-325
-366	Educational visits	-290
-151	English heritage grants	-76
-2,275	ERDF grant	-453
-402	Health commercial placements	-373
-985	Heritage lottery fund grant	-993
-129	Home Office-positive futures grant	-124
-5,473	Housing Benefit - Admin Grant	-5,360
-54,064	Housing Benefit Grant - Council tax	-53,585
-123,914	Housing Benefit Grant - Rent Allowance	-131,030
-37,168	Housing Benefit Grant - Rent Rebate	-38,842
-	Learning Disability and Health Reform Grant	-9,725
-38,525	Learning and skills Council grant	-20,569
-27	Learning Skills Council	-
-569	Natural England	-254
-8,217	NHS - care costs	-16,231
-308	NHS - joint arrangements	-3,282
-615	NNDR Cost of Collection Allowance	-606
-950	ONE-single capital pot	-228
-4,769	Other local authorities	-2,003
-14,612	PCT's	-281
-1,635	PFI Grants	-5,519
-165	Police Authority	-251
-303	Preventative technology grant	-
-60	Probation Service	-188
-16,511	School standards grant	-
-	Social care reform grant	-2,500
-449	Sports Council Grant	-228
-43,210	Standards Fund grant	-8,470
-416	Supporting People 18 to 21	-401
-1,300	Supporting people programme grant	-1
-19,608	Sure start grant	-336
-1,252	Teacher Development Agency grant	-624
-71	Train to Gain	-228
-95	TSI	-67
-325	YJB - ISSP grant	-
-322	Youth justice grant	-
-611	Youth offending teams grant	-1,020
-193	Youth opportunities fund grant	-
-25,827	Other grants and contributions	-20,430
-700,688		-667,229

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:

2010-11 £000		2011-12 £000
	Capital Grants and Contributions Receipts in Advance	
-412	Local Enterprise Growth Initiative (LEGI)	-
-1,495	Growth Point	-
-430	Single Housing Investment Programme (SHIP)	-
-4,015	Transit 15	-3,012
-45	Durham City Vision	-
-263	Bowburn Development	-11
-	Netpark Phase 2 Infrastructure - ERDF	-566
-1,621	Home and Community Agency	-189
-83	Single Programme	-
-417	Durham City Vision	-
-15	English Heritage	-15
-16	PCT	-
-314	DEFRA	-214
-5,934	DFT	-6,220
-10	Dti	-10
-480	Heritage Lottery Fund	-480
-35,519	Standards Fund	-24,252
-21	Sure Start	-21
-31	Aycliffe Young People's Centre	-
-	Environment Agency	-11
-	DfE Capital Grant - Aiming High Disabled Children	-226
-	Sport England	-
-789	PCT	-88
-730	IT Improvements	-696
-48	LD Shared Living	-4
-29	Improving Care Home Environment	-29
-246	SCP Mental Health	-177
-34	Community Safety Grant	-34
-21	English Heritage	-21
-353	Social Care Reform Grant	-353
-68	RIEP Community Safety Grant	-8
-4,423	Other	-590
-57,862	**Total Capital Grants and Contributions Receipts in Advance**	-37,227

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 2011/12 is shown in Note 33.

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 community associations as well as holding positions such as school governors or being a member of a Local Parish or Town Council. 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.

The local environmental projects, youth groups and community associations, in which members are involved received grant funding to the value of £423,442 in 2011/12. 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. Members are also involved in the Citizen Advice Bureau (CAB) delivering advice services across the county, which received financial support to the value of £453,236.One member is employed by Derwentside CAB.

During 2011/12, works and services to the value of £5,898 were commissioned from companies in which three members had an interest. Contracts were entered into in full compliance with the County Council Standing Orders.

Chief Officers of the County Council are also required to complete a Related Party Declaration. It should be noted that the following declarations have been made:

Corporate Director	Related party declaration
Neighbourhood Services	Non-Executive Member on the Board of the Durham County Waste Management Company (incorporating Premier Waste Management Limited)
Regeneration and Economic Development	Non-Executive Member on the Board of the Durham County Waste Management Company (incorporating Premier Waste Management Limited) Director of VISIT County Durham Director of Durham Villages Regeneration Company Limited (DVRC)

No further declarations were identified.

Entities Controlled or Significantly Influenced by the County Council

The County Council has financial relationships with a number of related companies, those considered significant, for example due to the level of investment, are detailed below.

Durham County Waste Management Company Limited (DCWMC)

The Environmental Protection Act 1990 required local authorities to establish waste management companies to provide their waste disposal functions. This led to the creation of DCWMC in 1993. The County Council holds 84% of the share capital with Darlington Borough Council holding the remaining 16%. In 2011/12 the principal activities of the company included the collection, disposal and recycling of trade and municipal waste. The Board of the DCWMC has a total of 8 members of which 5 are officers from the County Council.

The Waste Management Company receives payments from DCC for services provided which are reflected in the single entity accounts of DCC. In 2011/12 payments of £7.4m were paid to the Waste Management Company for waste disposal services excluding Land Fill Tax. The payment in 2010/11 was £6.2m.

County Durham Development Company Limited (CDDC)

The Company is wholly owned by the County Council and limited by guarantee. It was established in 1986 to promote, encourage and secure the economic development of the County. However, during 2011/12 the activities of CDDC have been integrated within the County Council's directorate of Regeneration and Economic Development

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. Dale and Valley Homes is paid a management fee to fund the staff costs and related administration expenses. The main source of income of the company is the management fee receivable from the County Council, which in 2011/12 was £5.911m. The deficit for the year to 31 March 2012 was £0.078m (31 March 2011 surplus of £0.661m).

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 County Council. East Durham Homes is paid a management fee to fund the staff costs and related administration expenses. The main source of income of the company is the management fee receivable from the County Council, which in 2011/12 totalled £16.501m. The housing assets remain in the ownership of the County Council and are included in the balance sheet of the authority. The net liability of the company at 31 March 2012 is £14.546m (31 March 2011: £11.479m) and the deficit for the year to 31 March 2012 was £7.288m (31 March 2010: £2.880m surplus). The debtors of East Durham Homes as at 31 March 2012 are valued at £ 0.753m of which £0.529m is owed by the County Council .Creditors are valued at £3.105 m. Of the creditor balance £0.765m is due to the County Council.

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 is reviewed each year to consider whether a full independent valuation of the holding is required. 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 2011 or 31 December 2010.

There are no outstanding balances owed to or from NIAL at the end of the year. NIAL Group Ltd made a loss before tax of £2.884m and a profit after tax of £1.404m for the year ended 31 December 2011. In the previous year, the Group made a loss before tax of £4.823m and a loss after tax of £1.786m.

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 1.45% of the total shareholding in Peel Airports Limited . The Company accounts for 2011/12 are not yet available.

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 2012 are £2.075m (31 March 2011: £1.957m). Durham County Council is the administrative body and employing authority for the crematorium.

It should be noted that the Central Durham Crematorium Statutory Small Bodies Return is still subject to external audit. 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 2012 are £0.446m (31 March 2011: £0.293m). Durham County Council is the administrative body and employing authority for the crematorium.

It should be noted that the Mountsett Crematorium Small Bodies Return is still subject to external audit. 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 90 bodies, including borough, parish and town councils, colleges, academy schools, statutory bodies and admitted bodies. During 2011/12, the Pension Fund had an average balance of £19.535m (£18.005m in 2010/11) of surplus cash deposited with the County Council. In 2011/12 the County Council paid the fund a total of £0.187m (£0.105m in 2010/11) 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.

2010-11 £000		2011-12 £000
423,688	**Opening Capital Financing Requirement**	484,646
	Capital investment:	
133,010	Property, Plant and Equipment	158,269
2,845	Property, Plant and Equipment - Finance Leases	2,751
44,733	Property, Plant and Equipment - PFI	-
270	Repayment of Deferred Liability	-
681	Intangible Assets	874
24,126	Revenue Expenditure Funded from Capital under Statute	26,359
-	Exceptional Item: Payment to the Secretary of State (HRA reform)	52,891
	Sources of finance:	
-27,526	Capital receipts	-9,458
-72,262	Government grants and other contributions	-95,416
-13,144	Major Repairs Allowance	-11,696
	Sums set aside from revenue:	
-17,921	- Direct revenue contributions	-15,630
-13,854	- Minimum Revenue Provision	-14,454
484,646	**Closing Capital Financing Requirement**	579,136
	Explanation of movements in year	
14,096	Increase/(decrease) in underlying need to borrow (supported by government financial assistance)	16,106
-716	Increase/(decrease) in underlying need to borrow (unsupported by government financial assistance)	75,633
2,845	Assets acquired under finance leases	2,751
44,733	Assets acquired under PFI contracts	-
60,958	**Increase/(decrease) in Capital Financing Requirement**	94,490

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 2011 £000		31 March 2012 £000
-	Other Land and Buildings	-
7,281	Vehicles, Plant, Furniture and Equipment	7,137
7,281		7,137

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 2011 £000		31 March 2012 £000
	Finance lease liabilities (net present value of minimum lease payments):	
1,870	Current	2,052
3,535	Non-Current	3,650
329	Finance costs payable in future years	468
5,734	**Minimum lease payments**	6,170

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

31 March 2011 Minimum Lease Payments £000	31 March 2011 Finance Lease Liabilities £000		31 March 2012 Minimum Lease Payments £000	31 March 2012 Finance Lease Liabilities £000
2,139	1,870	Not later than one year	2,279	2,052
3,595	3,535	Later than one year and not later than five years	3,879	3,639
-	-	Later than five years	12	11
5,734	5,405		6,170	5,702

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 2011 £000		31 March 2012 £000
1,584	Not later than one year	1,256
3,675	Later than one year and not later than five years	2,855
1,281	Later than five years	882
6,540		4,993

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 2011 £000		31 March 2012 £000
259	Minimum lease payments	259
-	Contingent rents	-
-264	[Sublease payments receivable]	-264
-5		-5

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 2011 £000		31 March 2012 £000
2,247	Not later than one year	2,280
6,123	Later than one year and not later than five years	5,621
7,630	Later than five years	6,758
16,000		14,659

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.

In 2011/12 no rents were received by the authority in respect of contingent rents (2010/11 Nil)

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.

Value of assets at 31 March 2012

31 March 2011 £000		31 March 2012 £000
45,003	Net book value at 1 April	12,944
-	Additions	627
-99	Depreciation	-261
-21,092	Impairment	-
-11,276	Loss on disposal	-
12,536	Net book value at 31 March	13,310

In addition to the net book value of £13.310m 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 £2.496m and the total net value of land & buildings for these schools carried forward is £15.806m.

Value of liabilities at 31 March 2012

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 2011/12 are summarised below:

31 March 2011 £000		31 March 2012 £000
-	**Balance outstanding at start of year**	44,691
-42	Payments during the year	-649
44,733	Capital expenditure incurred in the year	-
-	[other movements]	-
44,691	**Balance outstanding at year-end**	44,042

Estimates of future payments due

	Payments for Services £000	Reimbursement of Capital Expenditure £000	Interest £000	Total £000
Payable in 2012-13	1,923	704	4,468	7,095
Payable within two to five years	7,966	3,208	17,131	28,305
Payable within six to ten years	10,522	5,233	19,354	35,109
Payable within eleven to fifteen years	12,001	8,496	16,116	36,613
Payable within sixteen to twenty years	12,773	12,270	11,052	36,095
Payable within twenty-one to twenty-four years	10,654	14,131	3,661	28,446
Total	55,839	44,042	71,782	171,663

Contract payments are partially linked to inflation as measured by the RPIx index (all items excluding Mortgage Interest Payments). These estimates assume that after 2012-13 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. The County Council has not been informed by the contractor of any plans for re-financing

42. Impairment losses

The County Council's assets have been impaired by £94.210m in 2011/12, charged partly to services in the Comprehensive Income and Expenditure Statement (CIES) and partly to the Revaluation Reserve. This includes both the consumption of economic benefits and also revaluation losses 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. The County Council's housing stock has been impaired by £50.292m due to a decrease in the house price index.

43. Termination benefits

The authority terminated the contracts of a number of employees in 2011/12. The value of the redundancy payments charged to services in 2011/12 was £10,802,616 and in 2010/11 was £7,097,048. The table below analyses the payments made in the relevant financial years. The majority of the payments made in 2011/12 are due to the rationalisation of services within the Authority.

2010-11 £000		2011-12 £000
1,938	Children's and Education Services	4,719
3,035	Adult Social Care	994
551	Highways and Transportation	1,117
429	Planning and Development	556
198	Cultural and Related Services	926
156	Environmental Services	841
7	Central Services	270
18	Local Authorirty Housing - HRA	-
283	Housing General	486
445	Trading	743
37	Corporate and Democratic Core	150
7,097	**Total**	10,802

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 2011/12, the County Council paid £20.334m to Teachers' Pensions in respect of teachers' retirement benefits, representing 14.1% of pensionable pay. The figures for 2010/11 were £22.630m and 14.1%. 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:

2010-11 Local Government Pension Scheme £000	2010-11 Discretionary Benefits Arrangements £000		2011-12 Local Government Pension Scheme £000	2011-12 Discretionary Benefits Arrangements £000
		Comprehensive Income and Expenditure Statement		
		Cost of services:		
43,829	-	- Current service cost	38,544	-
	-6,550	- Past service cost	410	-
-205,720				
-	-	- Settlements and curtailments	-9,210	-
		Net operating expenditure		
3,551	-	- Current service cost	1,626	-
		Financing and Investment Income and Expenditure:		
103,500	4,200	- Interest cost	102,120	4,020
-77,490	-	- Expected return on scheme assets	-84,240	-
-132,330	-2,350	Total Post Employment Benefit Charged to the Surplus and Deficit on the Provision of Services	49,250	4,020
		Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement:		
42,370	240	- Actuarial gains and (losses)	-170,140	-4,560
-89,960	-2,110	Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	-120,890	-540
		Movement in Reserves Statement		
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	-49,250	-4,020
		Actual amount charged against the General Fund Balance for pensions in the year:		
63,688		Employer's contributions payable to scheme	51,812	
	5,870	Retirement beneftis payable to pensioners		5,812

Assets and Liabilities in Relation to Post-employment Benefits

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

2010-11 Funded Liabilities: Local Government Pension Scheme £000	2010-11 Unfunded Liabilities: Discretionary Benefits Arrangements £000		2011-12 Funded Liabilities: Local Government Pension Scheme £000	2011-12 Unfunded Liabilities: Discretionary Benefits Arrangements £000
2,061,690	84,270	**Opening balace at 1 April**	1,904,270	75,860
47,380	-	Current service cost	40,170	-
103,500	4,200	Interest cost	102,120	4,020
16,010	-	Contributions by scheme participants	14,660	-
-42,840	-240	Actuarial (gains) and losses	156,660	4,560
-75,750	-5,820	Benefits paid	-81,780	-5,760
-205,720	-6,550	Past service costs	410	-
-	-	Curtailments	-	-
-	-	Settlements	-15,570	-
1,904,270	75,860	**Closing balance at 31 March**	2,120,940	78,680

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

2010-11 Funded Liabilities: Local Government Pension Scheme £000		2011-12 Funded Liabilities: Local Government Pension Scheme £000
1,170,900	**Opening balace at 1 April**	1,252,590
77,490	Expected rate of return	84,240
-470	Actuarial gains and losses	-13,480
64,410	Employer contributions	51,790
16,010	Contributions by scheme participants	14,660
-75,750	Benefits paid	-81,780
-	Settlements	-6,360
1,252,590	**Closing balance at 31 March**	1,301,660

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 £70.76m (2010/11: £77.02m).

Scheme History

	31 March 2008 £000	1 April 2009 £000	31 March 2010 £000	31 March 2011 £000	31 March 2012 £000
Present value of liabilities:					
Local Government Pension Scheme	-894,240	-	-	-	-
		-1,479,950	-2,061,690	-1,904,270	2,120,940
Discretionary Benefits	-39,730	-76,600	-84,270	-75,860	-78,680
Fair value of assets in the Local Government Pension Scheme	678,810	885,380	1,170,900	1,252,590	1,301,660
Surplus/(deficit) in the scheme:					
Local Government Pension Scheme	-215,430	-594,570	-890,790	-651,680	-819,280
Discretionary Benefits	-39,730	-76,600	-84,270	-75,860	-78,680
Total	-255,160	-671,170	-975,060	-727,540	-897,960
Adjusted Total *	-255,138	-670,970	-975,648	-728,212	-897,886

Scheme history for years ended 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 £897.886m 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 2013 is £54.4m. Expected contributions for the Discretionary Benefits scheme in the year to 31 March 2013 are £6.08m.

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:

2010-11			2011-12	
Local Government Pension Scheme	Discretionary Benefits Arrangements		Local Government Pension Scheme	Discretionary Benefits Arrangements
		Mortality assumptions:		
Standard SAPS Normal Health All Amounts		Year of Birth base table	Standard SAPS Normal Health All Amounts	
105%	105%	Scaling to above base table rates	105%	105%
		Longevity at 65 for current pensioners:		
21.9	21.9	- Men	22.0	22.0
24.0	24.0	- Women	24.1	24.1
		Longevity at 65 for future pensioners:		
23.7	23.7	- Men	23.8	23.8
26.0	26.0	- Women	26.1	26.1
		Principle financial assumptions (% per annum)		
3.7	3.6	- Rate of inflation (RPI)	3.5	3.4
2.8	2.7	- Rate of inflation (CPI)	2.5	2.4
5.2	n/a	- Rate of increase in salaries	5.0	n/a
2.8	2.7	- Rate of increase in pensions	2.5	2.4
5.4	5.5	- Rate for discounting scheme liabilities	4.7	4.6
		Commutation:		
60.0	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. (2011-12)	60.0	n/a
80.0	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. (2011-12)	80.0	n/a
n/a	n/a	- Percentage each member is assumed to exchange of the maximum amount permitted of their pre 1 April 2008 pension entitlements. (2010-11)	n/a	n/a
n/a	n/a	- Percentage each member is assumed to exchange of the maximum amount permitted of their post 31 March 2008 pension entitlements. (2010-11)	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 2011 Long-term expected rate of return % pa	31 March 2011 Asset split %		31 March 2012 Long-term expected rate of return % pa	31 March 2012 Asset split %
8.4	55.9	Equity investments	8.1	45.8
7.9	5.6	Property	7.6	7.1
4.4	25.4	Government bonds	3.1	34.4
5.1	10.2	Corporate bonds	3.7	11.1
1.5	2.9	Cash	1.8	1.6
8.4	0.0	Other	8.1	0.0
6.8	100.0	**Total**	5.8	100.0

History of Experience Gains and Losses

The actuarial gains identified as movements on the Pensions Reserve in 2011/12 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2012:

	2007-08		2008-09		2009-10		2010-11		2011-12	
	£000	%	£000	%	£000	%	£000	%	£000	%
Difference between the expected and actual return on assets										
- Funded	-61,450	-9.1%	-154,050	-26.5%	243,240	20.8%	-470	0.0%	-13,480	-2.70%
Experience gains and losses on liabilities										
- Funded #	4,591	0.5%	3,685	0.4%	20,620	1.0%	16,248	0.9%	-16,232	-0.80%
- Unfunded #	534	-1.3%	467	-1.2%	2,550	-3.0%	744	-1.0%	160	-0.20%

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 2012.

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) Durhamgate Scheme

A significant risk has developed within the Durhamgate scheme where the contractor continues to submit claims for additional costs for delays, design faults and unforeseen works. These claims are being challenged and work is also ongoing to reduce the scope of the works and to secure additional external funding for the scheme.

d) Municipal Mutual Insurance

Historically the Municipal Mutual Insurance Company (MMI) was the principle provider of insurance to the County Council. In the early 1990's it became clear that MMI was in danger of becoming insolvent. It was determined that MMI would close to new business and there would be an orderly run down of all the existing and prospective claims. The County Council signed up to this agreement and if remaining assets prove insufficient to cover liabilities then a Scheme of Arrangement will be invoked. It is now becoming clear that a solvent run-off of the Company is now potentially unlikely. Any contribution to the Scheme of Arrangement will be met from the Insurance Reserve.

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. Heritage Assets: Five-year Summary of Transactions

The Code of Practice requires that the financial statements contain a summary of transactions relating to heritage assets for the accounting period and each of the previous four accounting periods; however this information need not be given for any accounting period beginning before 1 April 2010, the effective date of the restatement, where it is not practicable to do so. It is not practicable to produce this information for periods prior to 1 April 2010 and there have been no transactions since this date.

49. Heritage Assets: Further Information on the Council's Collection

Museum Collections and Artefacts

This includes:

- Museum exhibits owned by or on long-term loan to the County Council at Durham DLI Museum, Killhope Lead Mining Museum, Durham Town Hall and Shildon Locomotion Museum (excluding items belonging to the National Railway Museum). The museums are open to the public. Killhope holds the national collection of spar boxes, ornate mineral creations developed by miners in the North Pennines. Further details of the collections can be found on the museums' websites.
- Artefacts held by the Council's Learning Resources service. These items are not on public display but are available for schools and other educational establishments to borrow via an online catalogue.
- Items held by Durham County Record Office, including documents, photographs, films and sound recordings. Public access to the record office is by appointment and an online catalogue is available. The records are stored securely with appropriate temperature and humidity control. These items are not recognised on the balance sheet as they have no separate insurance values.
- Books of remembrance and miners banners held in civic buildings

Artwork, including Public Art and Sculptures

This includes items of art, including paintings and murals, many of which are open to the public, and public art and sculptures around the county which are publicly accessible. A number of public artworks are not recorded on the balance sheet as they have no insurance value and there is no recent cost information available.

Items of art in the public and administrative areas of civic buildings are not recorded on the balance sheet as their insurance value cannot be separately distinguished from the buildings and contents insurance values.

Paintings held at the DLI museum, Durham Town Hall and by Durham Learning Resources are included in the Museum Collections category above.

Monuments, Statues and Historic Buildings

This includes war and colliery memorials, statues and non-operational historic buildings around the county, which are all publicly accessible. Included here are the historic buildings at Killhope Lead Mining Museum, although they could also be classed as museum exhibits.

A number of monuments and statues are not recorded on the balance sheet as they have no insurance value.

Civic Regalia and Silverware

This includes civic chains, badges of office and silverware used for civic purposes. These items are held in safe storage when they are not being used for official purposes.

Geophysical / Archaeological

This includes pit wheel sites around the county and excavations at Binchester Roman Fort (the County Council is the guardian of the site). They are not recorded on the balance sheet, as they have no insurance value and the land has no cost or market value. Binchester is open to the public from April to October. The pit wheel sites are publicly accessible.

Various archaeological items found around the county are on deposit at Bowes Museum, Barnard Castle. They are not recognised as heritage assets by the County Council as they are held by the museum.

Preservation and Management

Since the Local Government Reorganisation in 2009 the County Council has developed a strategy in order to rationalise office accommodation throughout the county. The office accommodation project team has produced procedural guidelines to set out the agreed approach to dealing with heritage assets during office accommodation moves and/or refurbishments, including working with other local museums, services and specialists where needed, to assess the feasibility, and make suggestions for re-homing of other items.

Options for re-homing items that need to be relocated include:

- adding to the museums service collection
- temporary removal then reinstating in the refurbished building (where possible and suitable security measures can be made)
- relocation to another civic or community building
- gifting the item to a local museum
- disposal (in line with the County Council disposal procedure)

Some items are currently in safe storage until they can be returned for display at a suitable location.

50. Heritage Assets: Change in Accounting Policy Required by the Code of Practice for Local Authority Accounting in the United Kingdom

The *Code of Practice on Local Authority Accounting in the United Kingdom 2011/12* introduced a change to the treatment in accounting for heritage assets held by the County Council. As set out in the summary of significant accounting policies, the County Council now requires heritage assets to be carried in the balance sheet at valuation.

For 2011/12 the County Council is required to change its accounting policy for heritage assets and recognise them at valuation. Previously, heritage assets were either recognised as community assets (at cost), as land and buildings (at existing use value) in the property, plant and equipment classification in the balance sheet or were not recognised in the balance sheet as it was not possible to obtain cost information on the assets. The County Council's accounting policies for recognition and measurement of heritage assets are set out in the County Council's summary of significant accounting policies.

In applying the new accounting policy, the County Council has identified that the assets that were previously held within property, plant and equipment at £3.187m should now be recognised as heritage assets and measured at £5.576m with a corresponding increase in unusable reserves (an increase of £2.476m in the Revaluation Reserve and a decrease of £0.087m in the Capital Adjustment Account, representing revaluation losses that would have been recognised in the Surplus or deficit on the provision of services). These assets are made up of monuments, statues, historic buildings, public art and civic regalia which were previously recognised primarily in the community assets classification of property, plant and equipment, although a small number of monuments and historic buildings in land and buildings also met the criteria for heritage assets.

The County Council will also recognise an additional £10.282m for the recognition of heritage assets that were not previously recognised in the balance sheet. This increase is recognised in the Revaluation Reserve. The 1 April 2010 and 31 March 2011 balance sheets and 2010/11 comparative figures have been restated in the 2011/12 Statement of Accounts to apply the new policy. The effects of the restatement are as follows:

- ❖ At 1 April 2010 the carrying amount of heritage assets is presented at its valuation at £15.858m. The element that was previously recognised in the property, plant and equipment has been classified and written down by £3.187m. Unusable reserves have increased by £12.671m.
- ❖ The fully restated 1 April 2010 balance sheet is provided on page 40. The adjustments that have been made to the balance sheet over the version published in the 2010/11 Statement of Accounts are as follows:

Effect on Opening Balance Sheet 1 April 2010

	Opening Balances as at 1 April 2010	Restatement	Restatement required to opening balances as at 1 April 2010
	£000	£000	£000
Property, Plant and Equipment	2,153,274	-3,187	2,150,087
Heritage Assets	-	15,858	15,858
Long-Term Assets	**2,178,142**	**12,671**	**2,190,813**
Total Net Assets	**904,577**	**12,671**	**917,248**
Unusable Reserves	749,136	12,671	761,807
Net Worth / Total Reserves	**904,577**	**12,671**	**917,248**

Comprehensive Income and Expenditure Statement

This change in accounting policy has resulted in no restatement of any of the lines in the Comprehensive Income and Expenditure Statement.

Movement in Reserves Statement – Unusable Reserves 2010/11

The restatement of the relevant lines of the Movement in Reserves Statement, as of 31 March 2011, as a result of the application of the new accounting policy is presented in the table below.

	As Previously Stated 31 March 2011	As Restated 31 March 2011	Restatement 2011
	£000	£000	£000
Balance as at the end of the previous reporting period 31 March 2010	749,136	761,807	12,671
Surplus or Deficit on the Provision of Services	-	-	-
Other Comprehensive Income and Expenditure	-19,869	-19,869	-
Adjustments between the accounting basis and the funding basis under regulations	9,053	9,053	-
Increase / (decrease) in the year	**-10,816**	**-10,816**	**-**
Balance at the end of the current reporting period 31 March 2011	**738,320**	**750,991**	**12,671**

The resulting restated balance sheet for 31 March 2011 is provided on page 40. The adjustments that have been made to that balance sheet over the version published in the 2010/11 Statement of Accounts are as follows:

	As Previously Stated 31 March 2011 £000	As Restated 31 March 2011 £000	Restatement 2011 £000
Property, Plant and Equipment	1,949,784	1,946,597	-3,187
Heritage Assets	-	15,858	15,858
Long-Term Assets	**1,967,294**	**1,979,965**	**12,671**
Total Net Assets	**858,712**	**871,383**	**12,671**
Unusable Reserves	738,321	750,992	12,671
Net Worth / Total Reserves	**858,712**	**871,383**	**12,671**

The effect of the change in accounting policy in 2010/11 has been that heritage assets are recognised at £15.858m on the balance sheet resulting in an increase in unusable reserves of £12.671m and property, plant and equipment being restated by £3.187m.

51. 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.

2010-11 £000		2011-12 £000
408	Balance at 1st April	439
22	New Funds opened in year	-
-	Funds closed in year	-81
19	Interest on balances, dividends etc, received	17
-10	Expenditure on prizes etc	-18
439	**Balance at 31st March**	357

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

52. 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 Council
- Liquidity risk – the possibility that the Council might not have funds available to meet its commitments to make payments
- Re-financing risk – the possibility that the Council might be required to renew a financial instrument on maturity at disadvantageous interest rates or terms.
- Market risk – the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates and stock market movements.

Overall procedures for managing risk

The 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/Local Government (Scotland) Act 2003 and associated regulations.

These require the Council to comply with the CIPFA Prudential Code, the CIPFA Code of Practice on Treasury Management in the Public Services and investment guidance issued through the Act.

These are required to be reported and approved at or before the Council's annual Council Tax setting budget or before the start of the year to which they relate. These items are reported with the 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 Council on 23 February 2011 and is available on the County Council website.

The key issues within the strategy were

- ❖ The Authorised Limit for 2011/12 was set at £591.500m and revised to £619.500m in the Mid-Year Review (reported to County Council 7 December 2011). This is the maximum limit of external borrowings or other long term liabilities.
- ❖ The Operational Boundary was set at £354.289m and revised to £382.289m in the Mid-Year Review. 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 30% based on the County Council's net debt.

These policies are implemented by the 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.

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 £111.880m 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 2012 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 £23.415m of the £71.260m 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:

Bank	Date Invested	Maturity Date	Amount Invested (£)	Int. Rate (%)	Carrying Amount (£)	Impairment (£)
KSF	30/10/07	28/10/08	1,000,000	6.120	206,971	275,592
Landsbanki [1]	12/04/07	13/10/08	1,000,000	6.010	617,562	380,053
Landsbanki [2]	12/04/07	14/04/09	1,000,000	6.040	599,915	403,930
Glitnir Bank [1]	25/10/06	24/10/08	3,000,000	5.620	600,334	693,509
Glitnir Bank [2]	18/12/07	16/12/08	1,000,000	6.290	191,176	255,652
Total			**7,000,000**		**2,215,958**	**2,008,736**

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

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 £630,000 (63%) was received to the end of 2011/12 and the revised impairment is based on the assumption that a further 20.5% will be received by the end of 2013/14, taking total dividends expected to be paid to 83.5%.

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

Date	Repayment
Received to 31 March 2012	63.00%
May 2012	10.00%
January 2013	5.00%
January 2014	5.50%

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 Icelandic Supreme Court decision to grant UK local authorities priority status, the winding up board made a distribution to creditors in a basket of currencies in February 2012.

An element of the distribution is in Icelandic Kroner which has been placed in an escrow account in Iceland and is earning interest of 3.35%. This element of the distribution has been retained in Iceland due to currency controls currently operating in Iceland and as a result is subject to exchange rate risk, over which the County Council has no control.

The current position on estimated future payouts is as shown in the table below and this council has used these estimates to calculate the impairment based on recovering 100p in the £.

Date	Repayment
Received to 31 March 2012	30.5%
May 2012	12.5%
December 2012	7.0%
December 2013	7.0%
December 2014	7.0%
December 2015	7.0%
December 2016	7.0%
December 2017	7.0%
December 2018	7.0%
December 2019	8.0%

Recovery is subject to the uncertainties and risks 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.

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 the deposit maturity date.

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. The Icelandic Supreme Court decision to grant UK local authorities priority status, the winding up board made a distribution to creditors in a basket of currencies in March 2012.

An element of the distribution is in Icelandic Kroner which has been placed in an escrow account in Iceland and is earning interest of 3.4%. This element of the distribution has been retained in Iceland due to currency controls currently operating in Iceland and as a result is subject to exchange rate risk, over which the County Council has no control.

The distribution has been made in full settlement, representing 100% of the claim and the County Council has made an impairment of 8% of the claim amount due to currency fluctuations.

Foreign exchange risk in Relation to Icelandic Deposits

The County Council has foreign exchange exposure resulting from an element of the settlement received from Glitnir/Landisbanki. This is being held in Icelandic kroner in an escrow account due to the current imposition of currency controls.

Accounting for Interest and Impairment

Interest credited to the Comprehensive Income and Expenditure Statement in 2011/12 was £0.446m and the impairment (principal plus interest not received) was adjusted by £0.324m, 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.

Liquidity Risk

The County Council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through a comprehensive cash flow management system, as required by the CIPFA Code of Practice.

The County Council has a comprehensive cash flow management system that seeks to ensure that cash is available when needed. If unexpected movements occur, the County Council has ready access to borrowings from the money markets to and the Public Works Loans Board. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

All sums owing 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 as follows:

31 March 2011 £000		31 March 2012 £000
2,159	Less than one year	7,507
7,507	Between one and two years	3,546
8,216	Between two and five years	19,904
31,468	Between five and ten years	70,071
53,529	Between ten and fifteen years	68,820
127,641	Between fifteen and twenty years	108,523
26,793	Between twenty and twenty five years	26,796
60,470	More than twenty five years	112,739
317,783	**Total**	417,906

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 of 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 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 2012, if interest rates had been 1% higher with all other variables held constant, the main effect would be a decrease of £56.750m in the fair value of fixed rate borrowings, although this would not impact on the Surplus or Deficit on the Provision of Services or other Comprehensive Income and Expenditure.

The approximate impact of a 1% fall in interest rates would be as above but with the movements being reversed. These assumptions are based on the same methodology as used in the note – Fair Value of Assets and Liabilities carried at Amortised Cost.

Price Risk

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

53. Exceptional Items

i) 2010/11

a. The change from RPI to CPI as the basis for future revaluation and pension increases had a significant impact on the actuarial present value of the promised retirement benefits. It also had a significant impact on the value of past service costs calculated under IAS19 resulting in a negative past service costs of £212.27m compared to a positive £14.51m in 2009/10. These cost are allocated to the Non Distributed Cost line of the Comprehensive Income and Expenditure Statement.

b. 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 1 April 2010. Within the Comprehensive Income and Expenditure Statement are the associated costs included in the Local Authority Housing (HRA) Costs of Services in the 2010/11 comparative figures.

ii) 2011/12

a. The implementation of housing finance reform at the end of the year abolished the housing subsidy system financed by central government and, consequently, all housing debt has been reallocated nationally between housing authorities. The result of this reallocation is that this Council made a capital payment to the Department of Communities and Local Government of £53m. In 2011/12 this payment is charged to Local Authority (HRA) within the Comprehensive Income and Expenditure Statement and reversed out of the HRA via the Movement in the Housing Revenue Account Statement.

54. Prior Period Adjustments (PPAs)

The *Code of Practice on Local Authority Accounting in the United Kingdom 2011/12* introduced a change to the treatment in accounting for heritage assets held by the County Council. As a result of recognising these assets, the balance sheet, movement in reserves statement and relevant notes to the accounts have been amended and the detail can be found in Note 50.

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

2010-11 £000		Notes	2011-12 £000
	Income		
-53,425	Dwelling Rents (Net of voids)	6	-56,837
-851	Non Dwelling Rents (Net of voids)		-905
-101	Charges for Services and Facilities		-147
-344	Contributions towards Expenditure		-39
-54,721	Total Income		-57,928
	Expenditure		
12,819	Repairs and Maintenance	8	13,210
9,846	Supervision and Management	8	15,218
65	Rent, Rates, Taxes and Other Charges	9	64
3,184	Negative HRA Subsidy Payable	5	3,790
113	Debt Management Costs		175
130,061	Depreciation and Impairment of Non-Current Assets	10 & 11	65,391
303	Movement in the Allowance for Bad Debts	7	885
-	Exceptional Item - Payment to the Secretary of State	12	52,891
-	Sums directed by the Secretary of State that are expenditure in accordance with UK GAAP		152
156,391	Total Expenditure		151,776
101,670	Net Cost of HRA Services per Authority Income and Expenditure Statement		93,848
1,085	HRA Services Share of Corporate and Democratic Core		1,085
402	HRA Share of Other Amounts Included in the Whole Authority Net Cost of Services but Not Allocated to Specific Services		407
103,157	Net Cost of HRA Services		95,340
849	Gain (-) or Loss on Sale of HRA Non-Current Assets		-1,499
5,845	Interest Payable and Similar Charges		6,348
-69	Interest and Investment Income		-113
-3,652	Capital Grants & Contributions Receivable		-2,905
106,130	Deficit for the Year on HRA Services		97,171

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.

2010-11 £000		2011-12 £000	£000
8,511	Balance on the HRA at the end of the previous year		7,688
-106,130	Deficit for the year on the HRA Income and Expenditure Statement	-97,171	
108,509	Adjustments between accounting basis and funding basis under statute	96,561	
2,379	Net Increase before transfer to or from reserves	-610	
-3,202	Transfers to (-) or from reserves	742	
-823	Increase or decrease (-) in the year on the HRA		132
7,688	**Balance on the HRA at the end of the current year**		7,820

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.

2010-11 £000		2011-12 £000
-114,465	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)	-50,942
-849	Gain or loss (-) on sale of HRA Non-Current Assets	1,478
4,925	Net charges made for retirement benefits in accordance with IAS 19	-198
539	Employer's contributions payable to the Pension Fund and retirement benefits payable direct to pensioners	612
1,341	Capital expenditure funded by the HRA	5,380
-	Payment to the Secretary of State (to write the revenue transaction out of the HRA as this is defined by Statute to be capital expenditure)	-52,891
-108,509	***Adjustments between accounting basis and funding basis under statute***	**-96,561**

Notes to HRA Income and Expenditure Account

1. Housing Stock

The County Council was responsible for managing an average of 18,818 dwellings during 2011/12. 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 1st April, 2011	11,443	1,942	5,469	18,854
Add:				
Additions	17	37	4	58
Less:				
Sales	47	-	1	48
Demolitions	43	25	14	82
Other Disposals	-	-	-	-
Stock at 31 March, 2012	11,370	1,954	5,458	18,782

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 (4,266 dwellings) and East Durham Homes (8,448 dwellings), and one in-house provider – Durham City Homes (6,068 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 2011 £000	Asset Type	Valuation at 31 March 2012 £000
	Operational Assets	
494,655	Dwellings	473,711
4,882	Garages	4,833
499,537	Total Dwellings including Garages	478,544
26,526	**Other Land and Buildings**	22,804
6,472	**Non-Operational Assets**	1,491
532,535	**Balance Sheet Valuation**	502,839

The Vacant Possession value of the dwellings held in the Housing Revenue Account as at 1 April 2011 was £1,336.21m. 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 £41.735m during 2011/12 on its HRA Assets and a further £52.891m in relation to HRA Self Financing as shown below:

2010-11 £000		2011-12 £000
	Expenditure	
37,862	Improvements to Council Housing	41,735
-	Exceptional Item - Payment to the Secretary of State (HRA Self Financing)	52,891
37,862	**Total Expenditure**	94,626

This expenditure was financed as follows:

2010-11 £000		2011-12 £000
	Financing	
11,944	Majors Repairs Allowance	11,696
1,375	Capital Receipts	1,217
16,548	Supported Borrowing	18,600
1,802	Prudential Borrowing HCA New Build	1,937
-	Prudential Borrowing (HRA Self Financing)	52,891
3,652	Capital Grants	2,905
1,341	Revenue Contributions	4,980
1,200	Reserves and Balances	400
37,862	**Total Financing**	94,626

4. Capital Receipts

During 2011/12 the County Council generated £3.028m gross capital receipts from the sale of its Housing assets as shown in the following table:

2010-11 £000		2011-12 £000
	Source of Receipt	
1,610	Council House Sales (RTB Legislation)	2,070
706	Qualifying Council House Disposals	943
40	Council House Mortgage Repayments	15
307	Housing Land & Other Sales	-
2,663	**Total Capital Receipts**	3,028

Under the Capital Receipts Pooling Arrangements the County Council had to pay over to the Government £1.506m of the above sale proceeds in 2011/12. This is shown in the following table:

	Capital Receipt £000	Usable Element £000	Poolable Element £000
Source of Receipt			
Council House Sales (RTB Legislation)	2,070	575	1,495
Qualifying Council House Disposals	943	943	-
Council House Mortgage Repayments	15	4	11
Housing Land & Other Sales	-	-	-
Total	3,028	1,522	1,506

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:

2010-11 £000		2011-12 £000
29,589	Management and Maintenance	31,437
11,944	Major Repairs Allowance	11,696
6,709	Charges for Capital	7,460
48,242	**Subsidy Allowances**	50,593
	Less:	
-6	Mortgage Interest	-2
-51,046	Assumed Rent Income	-54,434
-51,052	**Subsidy Reductions**	-54,436
-374	Prior Years Adjustments	53
-3,184	**Total Subsidy Payable(-) / Due**	-3,790

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. From 1 April 2012 the HRA Subsidy System is being abolished (refer to Note 12).

6. Dwelling Rents

This sum represents the gross rental income due for the year after allowance is made for empty properties. During the year 1.22% of properties available for rent were vacant, which is less than the Government's target of 2% for empty properties. The average rent in 2011/12 was £59.39 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 2012 was £3.743m (£3.362m at 1 April 2011).

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 2012 is £2.874m (£2.527m at 1 April 2011).

The actual charge to the HRA in respect of bad debts provision and debts written off in 2011/12 was £0.885m. This charge relates to write-offs of uncollectable rent of £0.538m and an increase in provision of £0.347m 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	6,188	2,448	8,636
Supervision and Management	6,167	3,463	9,630
Total Management Fee	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 2011/12 the total charge made for depreciation of HRA assets was £12.525m as shown below: -

2010-11 £000	Asset type	2011-12 £000
11,944	Operational Assets: Dwellings	11,696
829	Operational Assets: Other Buildings e.g. Garages	651
-	Operational Assets: Vehicles, Plant & Equipment	178
-	Non-operational Assets: Shops etc	-
-	Government Grants Written Down	-
12,773	**Total Depreciation Charge**	12,525

11. Impairment of Property, Plant and Equipment

There were revaluations in 2011/12 in respect of impairment on HRA assets. The net result in the current year of impairment charges £52.866m.

12. Payment to the Secretary of State

The HRA Subsidy System was abolished on 1 April 2012 and replaced by a new system of self-financing for Council Housing. Under the new system of self-financing each Local Authority will keep the money raised locally from rents and use it to run their stock in return for a one off reallocation of housing debt. The Government's self-financing debt allocation for Durham was set at £240.172m which is higher than the existing debt of £187.281m assumed in the HRA Subsidy system. To exit the HRA Subsidy System Durham County Council must pay the Secretary of State the amount by which the self-financing debt allocation exceeds the existing subsidy debt amount i.e. £52.891m.

£52.891m recognises the payment to the Secretary of State in accordance with the requirements of the Settled Payments Determination 2012.

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.

Income and Expenditure Account

2010-11 £000		Notes	2011-12 £000
	Income		
-197,184	Council Tax due from Taxpayers	2	-199,551
-53,520	Council Tax Benefit		-53,062
-92,458	Non Domestic Rates due from Ratepayers	3	-108,044
-343,162	Total Income		-360,657
	Expenditure		
	Precepts and Demands	4	
210,854	Durham County Council (including 123 Parishes of £12.12m)		210,989
23,775	Durham Police Authority		23,782
13,613	County Durham & Darlington Fire & Rescue Authority		13,617
	Business Rates		
91,843	Payment to National Pool		107,438
615	Costs of Collection		606
	Bad & Doubtful Debts		
883	Write Offs - Council Tax		741
433	Change in Provision for Bad &Doubtful Debts	5	3,172
2,313	Distribution of Previous Years Estimated Surplus	6	967
344,329	Total Expenditure		361,312
1,167	Movement on Fund Balance		655
-1,816	Surplus on Fund Brought Forward		-649
-649	**Fund Balance Carried Forward**	**7**	**6**

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 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.

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	143,000	6/9ths	95,333
Over £ 40,000 up to £ 52,000	Band B	28,617	7/9ths	22,258
Over £ 52,000 up to £ 68,000	Band C	28,058	8/9ths	24,940
Over £ 68,000 up to £ 88,000	Band D	18,884	1	18,884
Over £ 88,000 up to £120,000	Band E	8,350	11/9ths	11,428
Over £120,000 up to £160,000	Band F	3,533	13/9ths	5,103
Over £160,000 up to £320,000	Band G	1,987	15/9ths	3,312
Over £320,000	Band H	251	2	502
		232,680		181,760
Chargeable Properties (after single person discounts etc) (Taxbase) 2011-12:				**155,021.1**

The Council Tax base for 2010/11 was £154,976.2

The average Band D Council Tax for the year was made up as follows:

Authority	2010-11 £000	2011-12 £000
Durham County Council	1,282.86	1,282.86
Durham Police authority	153.41	153.41
County Durham & Darlington Fire & Rescue Authority	87.84	87.84
Band D Tax (Plus Town/ Parish precept as applicable)	1,524.11	1,524.11

Council Tax due from Taxpayers of £199.551m is made up of the following Charges and reliefs:

		2011-12 £000
Property charges		292,831
less:	Disabled relief	-306
	Property exemptions	-11,244
	Discounts	-27,595
	Personal disregard	-1,075
	Transitional relief	2
	Benefits	-53,062
		199,551

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).

		2011-12 £000
Council tax due from Taxpayers		199,551
Add back Benefits receivable		53,062
less:	Parishes	-12,119
	Write-offs	-741
	Increase in provision for Bad and Doubtful Debts	-3,172
		236,581

Dividing by the Band D Council Tax £1524.11 give an average Taxbase of 155,225.7 compared with 155,021.1 at Budget Setting

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 2011/12 the general multiplier amounted to £0.433 (£0.414 in 2010/11) and the Small Business Relief was set at £0.426 (£0.407 in 2010/11).

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 2012 was £296.256m (£294.489m at 31 March 2011).

Non-Domestic rates due from Ratepayers of £108.044m is made up of the following charges and reliefs

		2011-12 £000
Property charges		121,920
Less:	Charitable relief, net of Council contribution	-8,536
	Small business relief	-5,674
	Property exemptions	-3,380
	Voids	5,096
	Interest payable	-121
	Bad Debts written off	-542
	Increase in Bad Debts Provision	-899
	Rates deferral Scheme	180
		108,044

Applying the general multiplier of £0.433 to the average (simple mean) rateable value of £295.272m for 2011/12 would give gross rates chargeable for 2011/12 of £127.853m.

After adjusting for amended bills for previous years and weighting the simple mean brings us back to the property charges of £108.044m.

4. Precepts and Demands

The following authorities made a Precept or demand on the Fund in 2011/12:

Authority	2010-11 £000	2011-12 £000
Durham County Council	210,854	210,989
Durham Police Authority	23,775	23,782
County Durham & Darlington Fire & Rescue Authority	13,613	13,617
Total	248,242	248,388

In 2011/12, the County Demands include Town and Parish precepts totalling £12.119m. In 2010/11, the County Demands include Town and Parish precepts of £12.041m

A total of 123 Town and Parish Councils levied a Precept in 2011/12. In addition, the newly formed Charter Trust for the City of Durham raised a charge of £4.29 for each Band D equivalent residential dwelling in the former City of Durham.

The Band D Town or Parish precept ranged from £nil to £256.04. 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:

Authority	2010-11 £	2011-12 £
Brandon & Byshottles	141,365	142,050
Chilton	198,694	201,855
Easington Colliery	345,000	320,000
Ferryhill	614,120	611,840
Great Aycliffe	1,623,000	1,616,850
Horden	470,299	470,221
Monk Hesleden	254,191	258,000
Murton	305,000	320,000
Peterlee	1,407,621	1,456,894
Seaham	1,109,555	1,106,470
Sedgefield	232,435	232,435
Shildon	651,370	660,380
Spennymoor	1,208,240	1,209,490
Stanley	800,000	800,000
Trimdon	145,000	152,250
Sub Total	9,505,890	9,558,735
Other Town and Parish Precepts	2,535,599	2,560,413
Total	12,041,489	12,119,148

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 2011/12 the bases applied are as follows:

Council Tax: Advantage has been taken of the progression into a Unitary Council Taxpayers account categorising Council Tax arrears on the same basis for the whole County. Arrears at 31st March 2012 have been analysed by age of debt and stage of recovery action being taken. These have been put into three broad categories:

Category 1.No reminder yet sent;

Category 2.First, second or final reminder; and,

Category 3.Summons (including liability orders, bailiff and bankruptcy)

A percentage has been applied to the total arrears in various groupings as below:

Category of Arrears	Year	Percentage provision applied
Category 1- No reminders yet sent	2011/12	1.50%
	2009/10 and 2010/11	5%
	2006/07 to 2008/09	30%
	2000/01 to 2005/06	50%
	1999/2000 and older	100%
Category 2- First, second or final reminder	2011/12	15%
	2009/10 and 2010/11	25%
	2006/07 to 2008/09	50%
	2005/06 and older	100%
Category 3- Summons etc	2011/12	25%
	2009/10 and 2010/11	50%
	2006/07 to 2008/09	70%
	2005/06 and older	100%

This is considered to be the first stage of an annual review of the overall debtors provision. However, due to the increase in arrears during 2011/12, despite increasing the provision by 70%, the overall proportion of arrears covered by the provision has risen from 30% to just 33.23%.

NNDR: During 2011/12, the NND Ratepayers accounts have been merged into a Unitary system. This uniformity has enabled a better analysis of arrears at the year end and the debts have been categorised (as with Council Tax arrears) into:

Category 1.No reminder yet sent;

Category 2.First, second or final reminder; and,

Category 3.Summons (including liability orders, bailiff and bankruptcy)

A percentage has been applied to the total arrears in various groupings as below:

Category of Arrears	Year	Percentage provision applied
Category 1- No reminders yet sent	2011/12	10%
	2010/11	20%
	2009/10 and older	100%
Category 2- First, second or final reminder	2011/12	20%
	2010/11	40%
	2009/10 and older	100%
Category 3- Summons etc	2011/12	40%
	2010/11	80%
	2009/10 and older	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 2011/12 was shared between principal authorities as follows: -

Authority	Total Surplus distributed in 2010-11 £000	Total Surplus distributed in 2011-12 £000
Durham County Council	1,924	814
Durham Police Authority	246	97
County Durham & Darlington Fire & Rescue Authority	143	56
Total Distributed	2,313	967

7. Collection Fund Balance

The Collection Fund balance at the end of the 2011/12 financial year amounted to a deficit of £6,463 which is due to be shared between principal authorities as shown below:

Authority	2010-11 £000	2011-12 £000
Durham County Council	547	5
Durham Police Authority	65	1
County Durham & Darlington Fire & Rescue Authority	37	-
Total Distributed	649	6

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:

Authority	Collection Fund Deficit £000	Provision for Bad debts- Council Tax Arrears £000	Council Tax Arrears £000	Council Tax Overpayments and Prepayments £000
Durham County Council	5	-6,486	19,516	-4,022
Durham Police Authority	1	-776	2,334	-481
County Durham & Darlington Fire & Rescue Authority	-	-457	1,376	-284
Total Distributed	6	-7,719	23,226	-4,787

Fund Account

2010-11				2011-12	
£000	£000		Notes	£000	£000
		DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED IN THE FUND			
101,633		Contributions receivable	5	96,448	
9,057		Transfers in from other pension funds	6	7,945	
4		Other income		5	
	110,694				104,398
-86,533		Benefits payable	7	-99,973	
-11,164		Payments to and on account of leavers	8	-4,874	
-1,247		Administrative expenses	9	-1,204	
-1,545		Other payments		0	
	-100,489				-106,051
	10,205	**Net additions/(-) withdrawals from dealings with members**			**-1,653**
		RETURN ON INVESTMENTS			
38,221		Investment income	10	40,132	
69,702		Profit and losses on disposal of investments and change in market value of investments	13	65,556	
0		Taxation	11	0	
-6,510		Investment management fees	12	-8,992	
	101,413	**Net returns on investments**			**96,696**
	111,618	**NET INCREASE IN THE NET ASSETS AVAILABLE FOR BENEFITS DURING THE YEAR**			**95,043**
	1,681,969	**NET ASSETS OF THE FUND AT 1ST APRIL**			1,793,587
	1,793,587	**NET ASSETS OF THE FUND AT 31ST MARCH**			1,888,630

Net Assets Statement

2010-11 £000	2010-11 £000		Notes	2011-12 £000	2011-12 £000
		INVESTMENT ASSETS			
35,717		Fixed interest securities	13	44,332	
898,953		Equities	13	814,163	
356,100		Index linked securities	13	367,949	
444,319		Pooled investment vehicles	13	585,361	
441		Loans	13	425	
39,649		Other cash deposits	13	60,657	
608		Derivative contracts	13	3,876	
	1,775,787				1,876,763
		Other investment balances			
7,089		Dividend accruals	13,16	6,816	
566		Tax recovery	13,16	516	
2,637	10,292	Other investment balances	13,16	21,844	29,176
	1,786,079	**Total Investment Assets**			1,905,939
		INVESTMENT LIABILITIES			
-1,920		Derivative contracts	13	-153	
-6,112		Other investment balances	17	-16,399	
	-8,032				-16,552
	1,778,047	**NET INVESTMENT ASSETS**			1,889,387
		Current assets			
18,718		Contributions due from employers	16	5,568	
2,438		Other current assets	16	2,537	
	21,156				8,105
		Current liabilities			
-694		Unpaid benefits	17	-480	
-4,922		Other current liabilities	17	-8,382	
	-5,616				-8,862
	1,793,587	**NET ASSETS OF THE SCHEME AVAILABLE TO FUND BENEFITS AT 31ST MARCH**			**1,888,630**

The accounts summarise the transactions of the pension fund 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 reported accounting period.

The actuarial position of the fund, which does take account of such obligations, is disclosed in Notes 3 and 4, along with the actuarial statement. These accounts should therefore be read in conjunction with the information contained within this note.

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 Council administers the Scheme on behalf of 90 contributing employers (including Durham County Council itself) the names of which are:

Local Authorities:
Durham County Council
Darlington Borough Council

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

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

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

Statutory Bodies:
Barnard Castle School
BRandH Academy
Carmel College
Central Durham Joint Crematoria Committee
Durham & Darlington Fire & Rescue Services
Durham Police Authority
Federation of Abbey Schools
Framwellgate Academy
Hermitage Academy
HummersKnott Academy
Hurworth School
King James Academy
Livin plc (formerly Sedgefield Borough Homes)
Longfield Academy
Longfield Academy - D'ton Sch. of Maths
NCD Academy (Consett)
NCD Academy (North)
North East Fire Control
Park View Academy
Parkside Academy
Reid Street Primary
Shotton Hall Academy
St Aidan's Academy
St. John's School (Sixth Form Centre)
Staindrop Academy
Teesdale Academy
Valuation Tribunal Service
West Park Academy

Admitted Bodies:
Bowes Museum
Carillion
Cestria
Children's Links
Compass Group
Creative Management Services
Dale & Valley Homes
Derwentside Homes
East Durham Homes Ltd
FLiC
Hobson Golf Club Ltd
KGB Cleaning & Support Services
Kier East Durham
Leisureworks
Mears
Mitie PFI Ltd
Morrisons Facility Services Ltd
Murton Welfare Association
Peterlee Fire Company Ltd
Taylor Shaw (Longfield)
Taylor Shaw (Primaries)
Taylor Shaw (Branksome)
Teesdale Housing Association
The Forge
Three Rivers Housing Group

During 2011/12, 13 academy schools have been established as individual contributing employers within the DCC Pension Fund. Prior to these schools converting to academy status, staff were employed by either Durham County Council or Darlington Borough Council.

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 2011/12 the number of pensionable employees in the Fund was 17,149 (18,526 in 2010/11), and the number of pensioners was 16,045 (15,341 in 2010/11).

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:

2010-11			2011-12	
Benefits	Contributions		Benefits	Contributions
£000	£000		£000	£000
68,169	70,319	Administering Authority	81,352	66,630
16,737	25,660	Scheduled Bodies	16,381	24,867
1,627	5,654	Admitted Bodies	2,240	4,951
86,533	**101,633**		**99,973**	**96,448**

The Corporate Director - Resources is responsible for the administration of the Pension Fund and is assisted by the Pensions and Strategic Finance Teams 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 on the County Council's website at 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 (IFRSs)
- CIPFA Code of Practice on Local Authority Accounting in the UK 2011/12
- 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 draft accounts were authorised by the Corporate Director Resources on 29 June 2012.

The financial statements summarise the transactions and the net assets of the Pension Fund available. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial valuations of the Fund, which do take account of such obligations, are carried out every three years. The Actuary completed a valuation during 2010/11, the results of which will determine the contribution rates from 1 April 2011 to 31 March 2014. The previous valuation was undertaken as at 31 March 2007 following which contribution rates were set for 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 2012. 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, 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.
- ❖ 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 IFRSs requires management to make judgements, estimates and assumptions which affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

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

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

The Pension Fund Accounts contain estimated figures that are based upon assumptions made about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However as balances cannot be determined with certainty, actual results may be materially different from the assumptions and estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Item	Uncertainties	Effect if actual differs from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied. Note 3 summarises the results of the actuarial valuation.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance a 3 year increase in life expectancy would reduce the funding target by 4%. A 1% fall in the yield from bonds would reduce the funding target by 13%. If pension increases were 1% higher than expected, the funding target would reduce by 9%. A 25% fall in the market value of equities and property investments would lead to a 12 % fall in the funding target. If pensionable pay increases are 1% higher than assumed, the funding target will decrease by 5%.
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 or bond yields falling	Every 1% increase / decrease in market value would result in an increase/ decrease in the value of the fund of approximately £19m.
Fair Value of investments	The Accounts are as at 31 March 2012 and all the investments held by the fund are valued as at that date using the best estimate possible of 'fair value', as detailed in 'Significant Accounting Policies - Valuation of Investments'.	The use of estimates for investment values is greatest for those assets classified at Level 3. There is a risk that the investment may be over or under-stated in the accounts, however the Pension Fund Committee consider the Fund Managers' Investment Reports quarterly, and discuss the nature of the investments and associated risks, valuations of underlying holdings, and investment performance. Officers maintain an on-going review of valuations on a monthly basis. The total value of Level 3 investments held by the fund is £17.69m. Every 1% increase/ decrease in fair value would result in an increase/ decrease in the value of the fund by approximately £0.18m

Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these accounts.

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

Valuation of Investments

Investments are included in the accounts at their fair value as at their reporting date; 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 bid market price basis as a basis of fair value where fund managers provide valuations in this manner.
- ❖ 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. Single priced unitised securities are valued at the reported price.
- ❖ Fixed interest securities that are traded on an exchange are accounted for at bid market price as a basis of fair value where fund managers provide valuations in this manner.
- ❖ 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 the portfolio investments forms part of the investment agreement for the PPIP.
- ❖ Index linked securities are valued at bid market value where fund managers provide valuations in this manner.
- ❖ 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. The future value of foreign currency contracts is based on market forward exchange rates at the reporting date and determined as the gain or loss that would arise if the outstanding contract were matched at that date with an equal and opposite contract.
- ❖ Where fund Managers are unable to supply investment valuations in line with the above policies, valuations will be included as supplied by the Fund Manager, usually at mid-market price.

Investment transactions

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

Acquisitions costs of investments

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

Interest on property development

The Fund does not directly hold any property investments; all property investment is made through Pooled Investment Vehicles.

Contributions receivable

Contribution income is categorised and recognised as follows:

- Member contributions are recognised in the period they are deducted from salary;
- Employer's normal contributions are recognised in the period in which the employee's normal contributions are deducted from salary;
- Employer's 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.

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 18.

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 5 as additional contributions from members.

Transfers to and from other schemes

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

Individual transfer values out/ in 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.

Pension benefits payable

Pension benefits are recognised and recorded in the accounting records and reported in the financial statements as an expense in the period to which the benefit relates.

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.

Investment income

Income from equities is recognised in the fund account 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.

Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/ losses during the year.

Taxation

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

Investment Management Fees

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

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

Note 12 includes details relating to investment management fees.

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 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

- 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.
- In practice, each individual employer's position is assessed separately and contributions are set out in Aon Hewitt Limited's report dated 30 March 2011 (the "actuarial valuation report"). In addition to the contributions shown above, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.
- The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement. Different approaches adopted in implementing contribution increases and individual employers' recovery periods are set out in the actuarial valuation report.
- The valuation was carried out using the projected unit actuarial method for most employers and the main actuarial assumptions used for assessing the funding target and the contribution rates were as follows:

Discount rate for periods in service Scheduled Bodies Admission Bodies	 6.80% p.a. 6.25% p.a.
Discount rate for periods after leaving service Scheduled Bodies Admission Bodies	 6.80% p.a. 4.75% p.a.
Rate of pay increases	5.3% p.a.
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	3.3% p.a.
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 current Actuary to the Fund, Aon Hewitt Limited, for inclusion in the accounts of the Fund. It provides a summary of the results of their 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, the Administering Authority of the Fund, 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 has indicated that comparator figures are also required from the previous valuation date, 31 March 2007.

During 2010/11, there was a change from the use of RPI to CPI for the price indexation of benefits.

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.

CIPFA's Code of Practice on local authority accounting for 2011/12 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.

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

Assumptions

The 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:

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

* In excess of Guaranteed Minimum Pension increases in payment where appropriate
** In addition, we have allowed for the same age related promotional salary scales as set out in the 2010 Valuation Report for 31 March 2010 measurement date and as set out in the 2007 Valuation Report for 31 March 2007 measurement date.

Principal demographic assumptions

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

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

** The scaling factors shown apply to normal health retirements

	31 March 2010	31 March 2007
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. Contributions Receivable

2010-11 £000		2011-12 £000
	Employer's contributions	
75,304	Normal	44,786
2,379	Augmentation	1,719
-	Deficit funding	27,728
	Members contributions	
23,773	Normal	22,059
177	Additional contributions	156
101,633		**96,448**
70,319	Administering Authority	66,630
25,660	Scheduled Bodies	24,867
5,654	Admitted Bodies	4,951
101,633		**96,448**

6. Transfers in from other pension funds

2010-11 £000		2011-12 £000
-	Group Transfers	-
9,057	Individual Transfers	7,945
9,057		**7,945**

7. Benefits Payable

2010-11 £000		2011-12 £000
-70,793	Pensions	-76,026
-19,393	Commutations and lump sum retirement benefits	-27,678
-1,340	Lump sum death benefits	-1,290
4,993	Recharged benefits	5,021
-	Purchased annuities	-
-86,533		**-99,973**
-68,169	Administering Authority	-81,352
-16,737	Scheduled Bodies	-16,381
-1,627	Admitted Bodies	-2,240
-86,533		**-99,973**

8. Payments To And On Account Of Leavers

2010-11 £000		2011-12 £000
-6	Refunds to members leaving service	-5
-1	Payments for members joining state scheme	-1
-	Purchase of annuities	-
-11,157	Individual transfers to other schemes	-4,868
-	Group transfers to other schemes	-
-11,164		**-4,874**

9. Administration Expenses

2010-11 £000		2011-12 £000
-1,022	DCC Suppport Costs	-1,038
-6	Legal fees	-64
-41	External Audit Fees	-43
-13	Internal Audit Fees	-13
-165	Actuarial fees	-46
-1,247		**-1,204**

10. Investment Income

2010-11 £000		2010-11 £000
1,838	Interest from fixed interest securities	2,430
5,957	Income from index-linked securities	4,291
24,655	Dividends from equities	27,042
123	Interest on cash deposits	177
5,648	Income from pooled investment vehicles	6,192
38,221		**40,132**

11. Taxation

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

❖ United Kingdom IncomeTax

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.

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.

2010-11 £000		2011-12 £000
-6,199	Manager Fees	-8,695
-171	Custody Fees	-149
-140	Advisor Fees	-148
-6,510		**-8,992**

13. Investments

Analysis by investment manager

The Pension Fund has six investment managers to manage its assets:

- 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')
- Baring Asset Management Limited ('Barings').

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	22.4	Global Equities	Active
BlackRock	20	UK Equities	Active
BlackRock (pooled)	5.6	Global Equities	Passive
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 analysed by Investment Manager at 31 March 2012 were as follows:

2010-11 £000	%		2011-12 £000	%
496,286	28.60	Edinburgh Partners	403,103	22.25
362,841	20.91	Blackrock	508,849	28.09
287,166	16.55	Alliance Bernstein	285,431	15.75
352,594	20.32	RLAM	367,949	20.31
94,551	5.45	CBRE	116,888	6.45
141,499	8.16	Baring Asset Management	129,406	7.14
152	0.01	Other	179	0.01
1,735,089	**100.00**		**1,811,805**	**100.00**

Of the total value of net investment assets reported in the Net Assets Statement as at 31 March 2012, £1.812m (or 95.89%) is invested through Investment Managers (£1.735m or 97.58% of the total in 2010/11).

Reconciliation of Movements in Investments and Derivatives 2011/12

Investment category	Value at 31 March 2011	Purchases at cost	Sales proceeds	Change in market value	Value at 31 March 2012
	£000	£000	£000	£000	£000
Fixed interest securities	35,717	169,081	-164,929	4,463	44,332
Equities	898,953	245,845	-308,231	-22,404	814,163
Index linked securities	356,100	1,711,127	-1,771,561	72,283	367,949
Pooled investment vehicles	444,319	187,724	-55,673	8,991	585,361
	1,735,089	2,313,777	-2,300,394	63,333	1,811,805
Derivative contracts:					
Futures, margins & options	0	1,281	-1,068	2,414	2,627
Forward foreign currency	-1,312			2,408	1,096
	1,733,777	**2,315,058**	**-2,301,462**	**68,155**	**1,815,528**
Other investment balances:					
Loans	441				425
Other cash deposits	39,649			-2,599	60,657
Dividend accruals	7,089				6,816
Tax recovery	566				516
Other investment balances	-3,475				5,445
Net Investment Assets	**1,778,047**			**65,556**	**1,889,387**

Reconciliation of Movements in Investments and Derivatives 2010/11

Investment category	Value at 31 March 2010	Purchases at cost	Sales proceeds	Change in market value	Value at 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
	1,632,497	1,635,008	-1,603,584	71,168	1,735,089
Derivative contracts					
Forward foreign currency	-1,017	0	0	-295	-1,312
	1,631,480	1,635,008	-1,603,584	70,873	1,733,777
Other investment balances:					
Loans	466				441
Other cash deposits	20,490			-1,171	39,649
Dividend accruals	6,619				7,089
Tax recovery	593				566
Other investment balances	-2,465				-3,475
Net Investment Assets	**1,657,183**			**69,702**	**1,778,047**

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.

Analysis of Investments

2010-11 £000		2011-12 £000
	Fixed interest securities	
32	UK - Public sector	6,113
11,044	UK - other	8,474
24,641	Overseas - Public sector	29,745
-	Overseas - other	-
35,717		**44,332**
	Equities	
485,517	UK quoted	469,321
151	UK unquoted	179
413,285	Overseas quoted	344,663
898,953		**814,163**
	Index linked securities	
345,140	UK quoted - Public sector	358,390
10,960	Overseas quoted -Public sector	9,559
356,100		**367,949**
	Pooled Investment Vehicles	
261,827	Managed funds - non property - UK - quoted	390,702
55,322	Managed funds - non property - Overseas - quoted	44,840
25,339	Managed funds - non property - UK - unquoted	26,087
33,645	Unit Trusts - property - UK	34,276
68,186	Unit Trusts - property - Overseas	89,456
444,319		**585,361**
	Derivative Contracts	
608	Forward foreign exchange contracts - assets	1,248
-1,920	Forward foreign exchange contracts - liabilities	-153
0	Derivatives - UK quoted	2,628
-1,312		**3,723**
	Other Investment Balances	
	Loans	
441	Loans - long term - local authorities	425
441		**425**
	Cash and Short Term Investments	
25,220	Loans - short term - money market	25,370
14,429	Managers' cash	35,287
-	Cash in Hand	-
39,649		**60,657**
1,773,867	Total	**1,876,610**

Analysis of Derivatives

Objectives and policies for holding derivatives

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

Most of the holding in derivatives is to hedge liabilities or exposures to reduce risk in the fund. Derivatives may be used to gain exposure to an asset more efficiently than holding the underlying asset or hedge against the risk of adverse currency movement on the Fund's investments. The use of derivatives is managed in line with the investment management agreement agreed between the Pension Fund and it’s investment managers.

The Pension Fund invests in the following types of derivatives:

1. **Forward foreign currency**

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

2. **Options**

The fund wants to benefit from the potentially greater returns available from investing in equities but wishes to minimise the risk of loss of value through adverse equity price movements. During the year the fund bought a number of equity option contracts which can protect it from falls in value in the main markets in which the scheme invests.

The values of derivative contracts held by the Pension Fund are as follows:

2010-11 £000	**Derivative Contracts**	**2011-12 £000**
	Forward foreign exchange contracts	
608	Assets	1,248
-1,920	Liabilities	-153
-1,312	**Net Forward foreign exchange contracts**	**1,095**
	Futures, Margins and Options Contracts	
0	Assets	2,628
0	Liabilities	0
0	**Net Futures, Margins & Options**	**2,628**
-1,312	**Net market value of derivative contracts**	**3,723**

Investments Exceeding 5% of the Market Value of the Fund

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

- Diversified Yield Plus fund - a pooled fund of Broad Bonds through AllianceBernstein. The value of this investment at 31 March 2012 was £259.343m or 13.7% (£261.827m or 14.6% at 31 March 2011);
- Aquila Life Fund S1, through Blackrock, which was £123.262m or 6.5% at 31 March 2012.

14. Financial Instruments

Classification of financial instruments

Accounting policies describe how different asset classes of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised.

The following table analyses the carrying amounts of financial assets and liabilities (excluding cash) by category and net assets statement heading:

2010-11 Designated as fair value through profit and loss	2010-11 Loans and receivables	2010-11 Financial liabilities at amortised cost		2011-12 Designated as fair value through profit and loss	2011-12 Loans and receivables	2011-12 Financial liabilities at amortised cost
£000	£000	£000		£000	£000	£000
			Financial assets			
35,717			Fixed interest securities	44,332		
898,953			Equities	814,163		
356,100			Index linked securities	367,949		
444,319			Pooled investment vehicles	585,361		
608			Derivative contracts	3,876		
	14,429		Cash		35,287	
441			Loans	425		
25,220			Other investment balances	25,370		
	31,448		Debtors		37,281	
1,761,358	45,877	0		1,841,476	72,568	0
			Financial liabilities			
-1,920			Derivative contracts	-153		
		-11,728	Creditors			-25,261
0			Borrowings	0		
-1,920	0	-11,728		-153	0	-25,261
1,759,438	**45,877**	**-11,728**		**1,841,323**	**72,568**	**-25,261**
		1,793,587	**Net Assets at 31 March**			**1,888,630**

Net gains and losses on financial instruments

31 March 2011		31 March 2012
	Financial Assets	
70,873	Fair Value through profit and loss	68,155
-1,171	Loans and receivables	-2,599
	Financial Liabilities	
0	Fair Value through profit and loss	0
0	Loans and receivables	0
0	Financial liabilities measured at amortised cost	0
69,702	**Total**	65,556

Valuation of financial instruments carried at fair value

The valuation of financial instruments has been classified into three levels according to quality and reliability of information used to determine fair values.

LEVEL 1

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts. Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

LEVEL 2

Financial instruments at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

LEVEL 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include unquoted equity investments and hedge fund of funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investment in private equity are based upon valuations provided by the general partners to the private equity in which Durham County Council Pension Fund has invested. These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS and US GAAP. Valuations are usually undertaken annually.

The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into Levels 1 to 3, based on the level at which the fair value is observable.

Values at 31 March 2012	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
	£000	£000	£000	£000
Financial Assets				
Financial Assets at fair value through profit and loss	1,464,030	359,600	17,693	1,841,323
Loans and receivables	72,568			72,568
Total Financial Assets	**1,536,598**	**359,600**	**17,693**	**1,913,891**
Financial Liabilities				
Financial Liabilities at fair value through profit and loss		-16,399		-16,399
Financial Liabilities at amortised cost	-8,862			-8,862
Total Financial Liabilities	**-8,862**	**-16,399**	**0**	**-25,261**
Net Financial Assets	**1,527,736**	**343,201**	**17,693**	**1,888,630**

15. Nature and Extent of Risk Arising From Financial Instruments

Risk and risk management

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

i. **MARKET RISK** the possibility that financial loss might arise for the Pension Fund as a result of changes in such measures as interest rates movements;

ii. **CREDIT RISK** the possibility that other parties might fail to pay amounts due to the Pension Fund;

iii. **LIQUIDITY RISK** the possibility that the Pension Fund might not have funds available to meet its commitments to make payments.

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

Responsibility for the fund’s risk management strategy rests with the Pension Fund Committee. The objective of the risk management strategy is to identify, manage and control the risks faced by the council’s pensions operations whilst achieving a good return on investment. Risk is measured, in part, by the administering authority’s risk management team 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’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 Pension Fund Committee has decided upon the following strategic target asset allocation following advice from Independent Advisers and with due regard for the objectives and liabilities of the Pension Fund and the risks facing the Fund:

Asset Class	Permitted Assets	Benchmark and Performance Target	Proportion of Total Fund *
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%	22.4%
Global Equities	Global Equities	FTSE – All World Developed (Gross)	5.6%
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

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. Client accounts are strictly segregated to ensure that the Pension Fund assets are separately identifiable. Conservative investment practices are ensured by the Custodian where they invest cash collateral.

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

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

i. MARKET RISK

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

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

These risks are managed in two ways:

- The exposure of the fund to market risk is monitored through a factor risk analysis to ensure that risk remains within tolerable levels

- Specific risk exposure is limited by applying risk-weighted maximum exposures to individual investments.

Other price risk

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

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

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

Other price risk – sensitivity analysis

Following analysis of historical volatility, fund manager volatility and expected investment return movement during the financial year, in consultation with the fund's investment advisers, the Pension Fund has determined that the potential market movements in market price risk, shown in the table below, are reasonably possible for the 2012/13 reporting period. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

If the market price of the fund investments were to increase/ decrease in line with these potential market movements, the value of assets available to pay benefits in the market price by Fund Manager would vary as illustrated in the following table:

Manager	Asset type	Asset value as at 31 March 2012	Potential market movements	Value on increase	Value on decrease
		£000	%	£000	£000
RLAM	UK Index Linked Gilts	367,949	7%	393,705	342,193
BlackRock	UK Equity	508,849	21%	615,707	401,991
Edinburgh Partners	Global Equity	403,103	21%	487,755	318,451
Barings	DAA	129,406	8%	139,758	119,054
Alliance Bernstein	Broad Bonds	259,344	7%	277,498	241,190
Alliance Bernstein	PPIP	26,087	21%	31,565	20,609
CBRE	Unlisted	87,525	13%	98,903	76,147
CBRE	Listed	29,363	20%	35,236	23,490
Other		179	21%	217	141
Total change in assets available		**1,811,805**		**2,080,344**	**1,543,265**

Interest Rate Risk

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

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

Interest rate risk - sensitivity analysis

The Pension Fund recognises that interest rates can vary and can affect both income to the fund and the value of the net assets available to pay benefits. The following table shows the fund's asset values having direct exposure to interest rate movements as at 31 March 2012 and the effect of a +/- 50 BPS change in interest rates on the net assets available to pay benefits (assuming that all other variables, in particular exchange rates, remain constant):

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

Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the fund (£UK). The fund holds both monetary and non-monetary assets denominated in currencies other than £UK.

The fund's currency rate risk is routinely monitored by the Pension Fund and its investment advisers in accordance with the fund's risk management strategy, including monitoring the range of exposure to currency fluctuations.

Currency risk - sensitivity analysis

Following analysis of historical data in consultation with the fund as investment advisers, the Pension Fund considers the likely volatility associated with foreign exchange rate movements will range between 7% and 13%. For prudence, the Pension Fund has opted to use a 13% fluctuation (as measured by one standard deviation) based on the fund adviser's analysis of long-term historical movements in the month end exchange rates over a rolling 12 month period.

This analysis assumes that all other variables, in particular interest rates, remain constant.

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

Manager	Currency exposure by asset type	Level of unhedged exposure	Total Volatility	Asset value at 31 March 12	Value on increase	Value on decrease
				£000	£000	£000
RLAM	UK Index Linked Gilts	0%	0%	367,949	367,949	367,949
BlackRock	UK Equity	0%	0%	508,849	508,849	508,849
Edinburgh Ptns	Global Equity	100%	13%	403,103	455,506	350,700
Barings	DAA	20%	3%	129,406	133,288	125,524
Alliance Bernstein	Broad Bonds & PPIP	0%	0%	285,431	285,431	285,431
CBRE	Global Property	10%	1%	116,888	118,057	115,719
Other	UK	0%	0%	179	179	179
Total change in assets available				**1,811,805**	**1,869,259**	**1,754,351**

ii. CREDIT RISK

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

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

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

The Pension Fund has sole responsibility for the initial and ongoing appointment of custodians. 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 segregated client account. As at 31 March 2012, the level of exposure to the custodian is 1.9% of the total value of the portfolio.

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

The Pension Fund believes it has managed its exposure to credit risk. 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.

iii. LIQUIDITY RISK

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

The vast majority of the Pension Fund 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.

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 to ensure that cash is available when needed, through the risk management procedures set out in the prudential indicators and treasury and investment strategy reports, and through a comprehensive cash flow management system.

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

16. Analysis of debtors

2010-11 £000		2011-12 £000
3	Central government bodies	928
21,136	Other local authorities	5,767
-	NHS bodies	-
-	Public corporations and trading funds	-
10,309	Other entities and individuals	30,586
31,448	**Total debtors**	37,281

17. Analysis of creditors

2010-11 £000		2011-12 £000
-623	Central government bodies	663
-1,412	Other local authorities	1,660
-	NHS bodies	-
-	Public corporations and trading funds	-
-9,693	Other entities and individuals	22,938
-11,728	**Total creditors**	25,261

18. Additional Voluntary Contributions (AVCs)

The Pension Fund offers two types of AVC arrangement:

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

The table below refers only to the money purchase AVCs:

	Value at 31 March 2011 £000	Purchases * £000	Sales £000	Change in Market Value £000	Value at 31 March 2012 £000
HECM	2,374	57	246	80	2,265
Prudential	2,683	1,007	1,256	171	2,605
Standard Life	1,373	50	231	28	1,220
Total	**6,430**	**1,114**	**1,733**	**279**	**6,090**

* Purchases represent the amounts paid to AVC providers in 2011/12.

The financial statement above, relating to money purchase AVCs, is not audited by the Audit Commission as these AVCs 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 2009.

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:

- ❖ 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
c) Key management personnel

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.

<table>
<tr><th>Transaction</th><th>Description of the Financial Effect</th></tr>
<tr><td>Contributions receivable - £96.448m</td><td>Amounts received from employers in respect of contributions to the Pension Fund.</td></tr>
<tr><td>Debtors - £5.568m</td><td>Amounts due in respect of employers and employee contributions</td></tr>
<tr><td>Creditors - £1.032m</td><td>Amounts due to the Administering Authority in respect of administration expenses.</td></tr>
<tr><td>Administration Expenses - £1.038m</td><td>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.</td></tr>
<tr><td>Long term loans</td><td>The long-term loans were 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, which was 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 2012 was £0.425m (£0.441m at 31 March 11), details are as follows:
<table>
<tr><th>Amount outstanding 31 March 2011
£000</th><th>Employer</th><th>Amount outstanding 31 March 2012
£000</th></tr>
<tr><td>292</td><td>Durham County Council</td><td>283</td></tr>
<tr><td>149</td><td>Sunderland City Council</td><td>142</td></tr>
<tr><td>441</td><td></td><td>425</td></tr>
</table></td></tr>
<tr><td>Durham County Council - Administering Authority</td><td>Part of the Pension Fund’s cash holdings are invested on the money markets by Durham County Council.
During 2011/12 the Pension Fund had an average surplus cash balance of £19.535m (£18.005m in 2010/11) and earned interest of £0.187m on these deposits (£0.105m in 2010/11).</td></tr>
</table>

b) MEMBER RELATED

Member related parties include:

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

Durham County Council and Darlington Borough Council have a number of members who are on the Pension Fund Committee. These members are subjected to a declaration of interest circulation as with all Durham County Council members. Each member of the pension fund committee is also required to declare their interests at the start of each meeting.

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

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

c) KEY MANAGEMENT PERSONNEL

Related parties in this category include:

- ❖ Key management i.e. Senior officers and their close families

- Companies and businesses controlled by the key management of the Pension Fund or their close families.

Several employees of Durham County Council hold key positions in the financial management of the Pension Fund. These employees and their financial relationship with the fund, expressed as cash equivalent transfer values, are set out in the following table:

Key Managers	Accrued pension as at 31 March 2012	Accrued pension as at 31 March 2011
	£	£
Corporate Director Resources	1,378,282	1,288,981
Strategic Finance Manager	544,237	481,201

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

20. Contingent Assets

a) PENSION CONTRIBUTIONS ON EQUAL PAY PAYMENTS

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

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

b) FOREIGN INCOME DIVIDENDS (FIDS)

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

Up until 1 July 1997 UK Pension Funds were entitled, under UK tax law, to reclaim tax credits attaching to dividends received from UK resident companies. However, Pension Funds which received dividends designated by UK companies as FIDs, or dividends received from overseas companies, were not entitled to a refundable tax credit.

Since UK sourced dividends came with a 20 percent tax credit, the net investment income return from UK companies paying such dividends was significantly higher than UK companies paying FIDs or from overseas companies, for which no credit was available. As a result there was a disincentive for Pension Funds to invest in such companies.

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

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

c) WITHHOLDING TAX (WHT) CLAIMS

Pension funds, investment funds and other tax exempt bodies across Europe have in recent years been pursuing claims against a number of EU Member States for the recovery of withholding taxes suffered on EU sourced dividend income. These claims were made in the light of the Fokus Bank (Case E-1/04) ruling in

December 2004 on the grounds that the WHT rules of those Member States are in breach of the free movement of capital principle of the EC Treaty.

The legal arguments used to support Fokus claims are strong and rely on existing case law. The EU Commission announced that it is taking action against a number of member states which operate discriminatory rules regarding the taxation of outbound dividends.

A test case in the Netherlands on behalf of a number of UK pension funds was successful and in January 2009 notification from the Dutch Tax Authorities was received that the claims brought by the test claimant for the recovery of withholding taxes going back to 2003 had been accepted and would be repaid in the near future.

Following the ruling in the Netherlands which essentially states that the Dutch tax authorities should not have levied a "withholding tax" (WHT) on dividend payments to tax exempt bodies (such as UK pension funds) located within the European Union but outside the Netherlands, a similar process for reclaiming WHT in other EU Member States is now on-going.

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

21. Statement of Investment Principles

In accordance with the Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2009, the County Council has prepared and reviewed a written statement of the investment policy of the Pension Fund. This statement has been adopted by the Pension Fund Committee and is published in the Annual Report, a copy of which is available on the County Council's website at 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 and has been reviewed by the Pension Fund Committee during 2012. As a minimum it must be revised whenever there is a material policy change in matters set out in the Funding Strategy Statement or the Statement of Investment Principles. The Funding Strategy Statement has been adopted by the Pension Fund Committee and is published in the Annual Report, a copy of which is available on the County Council's website at durham.gov.uk

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 2012 and its expenditure and income for the year ended 31 March 2012.

Don McLure

Corporate Director, Resources

29 June 2012

Annual Governance Statement 2011/12

1. SCOPE OF RESPONSIBILITY

Durham County Council (the Council) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

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

The Council has approved, adopted and published on its website, a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework – "Delivering Good Governance in Local Government". This statement explains how the Council has complied with the code and also meets the requirements of Regulation 4 (3) of the Accounts and Audit (England) Regulations 2011 in relation to the publication of an Annual Governance Statement.

2. THE PURPOSE OF THE GOVERNANCE FRAMEWORK

The governance framework comprises of the systems and processes, and culture and values, by which the Council is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services 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 Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at the Council for the year ended 31 March 2012 and up to the date of approval of the statement of accounts.

3. THE GOVERNANCE FRAMEWORK

The key elements of the systems and processes that comprise the Council's governance arrangements are detailed in the Council's local Code of Corporate Governance, which is documented in the Council's Constitution. This sets out the key documents and processes that determine the way the Council is directed and controlled to meet the six core principles of the CIPFA/ SOLACE Framework. The following sections demonstrate assurance that the Council has complied with each of these principles in practice, and also highlights where we have further improved our corporate governance arrangements during 2011/12.

Principle 1: Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area

The Sustainable Community Strategy 2010-30 (SCS) which has been produced by the Council in conjunction with its partners on the County Durham Partnership (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:

- Altogether wealthier;
- Altogether better for children and young people;

- Altogether healthier;
- Altogether greener;
- Altogether safer.

The SCS is renewed every three years and this work provides input into the Council Plan and various strategic planning work such as the Joint Strategic Needs Assessment.

The CDP, which is the strategic partnership for the County, is made up of key public, private and voluntary sector partners, and is underpinned by thematic partnerships set around the five priority themes. Operationally, it is supported by the Delivery Implementation Group (DIG), whose role is to monitor performance towards implementing the SCS, and consider strategically how plans align and where efficiencies and value can be maximised through integration, shared services and joint commissioning.

The Council Plan contains the Council's corporate priorities and the key actions to take in support of delivering the longer term goals in the SCS and the Council's own improvement agenda. The Council Plan is supported by a series of Service Plans at a Service Grouping level which details the planned actions to deliver the Council's vision. Plans developed in partnership are also in place to deliver the goals of the SCS. For example, during the year, the thematic partnership for 'Altogether Better for Children and Young People' revised the Children, Young People's and Families Plan for 2012-2016.

The Council Plan and the Medium Term Financial Plan 2012 - 16 (MTFP2) enable the Council to make best use of resources, and enable the continued provision of value for money (VFM) services that meet the needs of residents, businesses and other stakeholders. To provide assurance on it's VFM in 2011/12, the Council used profiles based on the Audit Commission's VFM profiles. Independent assurance of our VFM was also gained from the Audit Commission, who issued an unqualified VFM conclusion in October 2011. To enable better use of resources, we have further strengthened our governance arrangements by:

- Implementing a single asset register;
- Developing Asset Management plans;
- Reviewing the Capital Prioritisation process through Corporate Management Team and the Member Officer Working Group;
- Unitising both the Finance function and Human Resources function across the Council.

To measure the quality of services, the Council has a locally led performance management framework. In 2011, Cabinet agreed a new approach, the 'Future of performance management, efficiency and improvement in Durham', following abolition of the national local government performance framework. Detailed reports on the Council's performance have been provided to Cabinet on a quarterly basis, and assurance is also gained through performance clinics between the Chief Executive and individual Directors during the year. Through good governance, the Council continues to improve the quality of services, and this has been confirmed by external independent sources of assurance. For example, during 2011/12, in Children and Young People's Services, the conclusions of a number of independent external assessments were that:

- Ofsted rated County Durham's Children's Services as 'outstanding' following inspection of safeguarding and services for Looked After Children;
- A positive result of the unannounced inspection of contact, referral and assessment was achieved with no areas identified for priority action;
- All Children's Homes are judged good or better;
- The outcome of the last four fostering inspections and the last two adoption service inspections received an 'outstanding' grading;
- Aycliffe Centre for children was rated outstanding;
- Overall 4 star rating for the Adoption Service.

A comprehensive schedule of Savings targets have been programmed which are designed to achieve the necessary savings to enable us to deliver a balanced budget and MTFP. To ensure the effective delivery of its objectives and efficiency savings, the Council has also undertaken a series of Extended Management Team meetings consisting of the Chief Executive, Directors and Heads of Service with a programme of activity linked to the strategic management of the Council. Assurance over the delivery of this programme is gained by detailed and frequent monitoring undertaken by CMT and Cabinet and the target savings of £66m for 2011/12 have been delivered.

Members have robustly scrutinised the performance of the Council, demonstrated by a number of key scrutiny reviews of Council services during 2011/12, which are outlined in the Overview and Scrutiny Annual Report.

The Council considers the governance implications of its actions, and revised its Code of Corporate Governance in March 2012 to ensure that it remains consistent with the principles of the CIPFA/SOLACE Framework – "Delivering Good Governance in Local Government".

Principle 2: Members and officers working together to achieve a common purpose with clearly defined functions and roles

The key document describing the roles and responsibilities of Member and Senior Officer posts and functions is the Council Constitution.

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 have held regular briefing sessions with Cabinet Portfolio Members and their support Members. For example, a number of informal sessions took place throughout the MTFP planning process to ensure CMT and Cabinet have a shared understanding of the complexities in the MTFP process, and all Opposition parties were briefed during the development of the MTFP.

The Council has appointed the Corporate Director, Resources as Chief Financial Officer (CFO) and Section 151 Officer to fulfil the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010). The CFO, who is a member of the Corporate Management Team and reports directly to the Chief Executive, has been involved in all Corporate Management Team discussions, and has reviewed all reports to Cabinet which have financial implications. The CFO has also provided an opinion under section 25 of the Local Government Act 2003 on the reserves for the County Council, which Members considered when setting the budget.

Member remuneration is overseen by an independent panel, and their report was approved by Council on in February 2012.

Principle 3: Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour

The key elements of the Council's approach to communicating and embedding the expected standards of behaviour for Members and staff are detailed in the Council Constitution. The Council's Codes of Conduct included in the Constitution also apply to its partnership working.

The Standards Committee has the key governance role of promoting and monitoring high standards of conduct by elected members, independent members and co-opted members. The Standards Committee Annual Report was presented to the Full Council in October 2011, outlining its business which includes details of Member conduct complaints and Local Government Ombudsman investigations.

The ethical framework will be reviewed during 2012/13 to confirm that it meets the requirements of the Localism Bill, due to be enacted on 31 July 2012, and as part of this work, the Council will demonstrate that the ethical agenda is being developed with the public and other stakeholders, rather than being inward-facing. Where appropriate, however, we have still reviewed key governance documents to ensure our values are followed in practice, such as the Council's Policy Framework Procedure Rules which were updated in May 2011. In terms of disclosure of gifts, hospitality and interests, assurance is gained over Member declarations and registrations by the Monitoring Officer maintaining and monitoring the Register of Gifts, Interests and Hospitality for Members, which is available online. Staff declarations are maintained and monitored by their Head of Service.

A climate of openness has been encouraged by the Council Leader who holds regular Cabinet meetings at various locations throughout County Durham. The values of the Council are further promoted in the Single Equality Scheme which includes 'protected characteristics' covered by the Equality Act. Supporting this scheme is an impact assessments process, which ensures that the impact on equality is considered in the Council's decision making. For example, in 2011/12, the MTFP was fully equality impact assessed. Our commitment is further demonstrated by equality impact assessment training, attended by 174 people during the year.

Principle 4: Taking informed and transparent decisions which are subject to effective scrutiny and managing risk

The Council's Constitution sets out how the Council operates, how decisions are made and the procedures which are followed to ensure that these are effective, transparent and accountable to local people. This includes the Officer Scheme of Delegation, which is reviewed annually in line with the review of the Constitution. A revised Constitution was approved by the full Council in May 2011, having been reviewed by an all-party group, namely the Constitution Working Group. Key changes to the Constitution in 2011/ 12 were:

- Amending the Scheme of Delegation to align it with changes in responsibilities;
- A Civic Protocol and Order of Precedence guidance document for event organisers where civic dignitaries would be invited to attend;
- Inclusion of the revised Code of Practice for Members and Officers in dealing with planning matters;
- Incorporation of the revised Local Code of Corporate Governance, following completion of the Annual Governance Statement for 2010/11;
- Extending the remit of the Corporate Issues Overview and Scrutiny Committee to include the oversight role of RIPA.

Overview and Scrutiny, which consists of an Overview and Scrutiny Management Board and six committees, has the key role to make decision-making processes transparent, accountable and inclusive and to improve services for people by being responsive to their needs. To maintain independent assurance, the Council refreshed co-opted members to the Council's Overview and Scrutiny Committees in March 2012. Where appropriate, Members have scrutinised the decisions of the Council, demonstrated by a number of key scrutiny reviews which are outlined in the Overview and Scrutiny Annual Report

To maintain the accountability and integrity of the Council's decision-making, a number of further improvements to governance in this area have been implemented in 2011/ 12, notably:

- The Data Protection Policy, which includes a Data Breach procedure;
- The development of Records Retention schedules for all service areas;
- Assurance provided by an independent third party that the Council has complied with the Code of Connection under the Government Connect programme;
- The revised Contract Procedure Rules, which are the Council's rules on how a contract must be let. The involvement of the corporate procurement team on all procurements provides assurance that the Rules are being complied with;
- The Corporate Strategy for Commissioning and Procurement, which includes the supplier engagement strategy reviewed by local enterprise agencies;
- The Civica Fraud Management Software.

The Council has ensured that it complies with legal requirements in its decision making by ensuring that all reports requiring a decision include the legal implications, report authors confirming that they have obtained legal advice on proposals contained in reports, and the source of that legal advice.

The Council operates a risk management approach that supports its decision making processes. This is underpinned by a risk management strategy and policy, which was reviewed in January 2012, and is overseen by the Corporate Risk Management Group, which met four times during the year. Each key decision made by the Council has been supported by a risk assessment, and in addition, each efficiency proposal underpinning the MTFP was risk assessed. Strategic risks were reviewed throughout the year.

The Council has an Audit Committee with responsibility for monitoring and reviewing the risk, control and governance processes and associated assurance processes. The committee met eight times in 2011/ 12.

The key mechanisms provided for the public to raise concerns about potential breaches of conduct are:

- the Confidential Reporting Code (Whistle blowing policy), which is part of the Council's Constitution, and is monitored by the Audit Committee;
- the Council's complaints procedures, which are monitored by the Standards Committee, whose remit includes Member conduct complaints, Local Government Ombudsman investigations and complaints handling by Services. Reports on complaints have been provided quarterly to the Committee.

The arrangements for counter-fraud of benefits will change during 2012/13 as a result of the central government proposal to bring benefits and tax credit fraud investigations under a Single Fraud Investigation Service, administered by the Department for Works and Pensions.

Principle 5: Developing the capacity and capability of Members and Officers to be effective

The Council is committed to continually meeting the development needs of Members and Officers.

Our approach to Member development is outlined in the Member Learning and Development Strategy, which was reviewed in 2011 to reflect the extension of responsibilities of the Member Development and Support Group, who oversee the implementation of the strategy. Assurance on the effectiveness of our approach to Member development is demonstrated by the Council being awarded the North East Charter on Member Development in May 2011.

To support employees through the major restructuring process associated with the MTFP outcomes, an Employee Support Programme is in place. A number of key governance improvements around officer capability have also been delivered during the year, namely:

- Implementing the Homeworking policy;
- Reviewing the Disciplinary policy in consultation with the Trade Unions;
- Undertaking an interim review of the Officer appraisal process;
- Reviewing the Recruitment and Selection Policy.

Assurance on the effectiveness of our approach to Officer development is demonstrated by the Council maintaining the Investor in People Standard.

Additional independent assurance over the Council's recruitment and selection procedures was provided by the post-registration visit in May 2011 of the UK Border Agency, who reported 'full compliance' for our systems and procedures for monitoring the employment of foreign nationals who require the right to work in the UK, and this is reflected in the CRB Disclosure Policy.

Principle 6: Engaging with local people and other stakeholders to ensure robust public accountability

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 Council's relationships with partners are managed through the Partnership Governance Framework, which was updated in 2011.

The Council's approach to engaging stakeholders is outlined in the Consultation and Engagement Strategy. This is complemented by the County Durham Partnership Community Engagement and Empowerment framework, which has shaped and supported a common vision and approach for community engagement by partners in County Durham, and the County Durham Compact, which provides a framework for partnership and engagement with the voluntary and community sector. Key examples of, and improvements in, our engagement with stakeholders during the year include:

- Stakeholders being involved in the development of the MTFP, demonstrated by undertaking a detailed consultation process which can be found in the County Council's MTFP and Budget Report. The 2012/13 budget decisions have taken the results of this consultation into account especially in relation to the areas of the budget to protect and those areas where a greater level of saving is expected;
- Extensive consultation with service users and families/parents around planning activity, such as the CYPFP annual review workshops;
- The new Staff Recognition scheme launched in 2011;
- Raising awareness of Members, Officers and key Partners in respect of the Councillor Call for Action process;
- The development of an appeals mechanism to ensure that the Council has a robust mechanism in place for Petitions, and that petitioners have an opportunity to challenge Council inaction regarding a particular petition issue;
- Further improving the Council's website to achieve a SOCITIM 3 star rating, and expanding the use of social media;

- Corporate Directors holding regular briefing sessions with Members, and holding regular staff roadshows to keep staff up to date with priorities and plans for change;
- Commencing a programme of Community Governance reviews.

The Council has a strong commitment to working with partners to meet the needs of its communities. There are 14 Area Action Partnerships (AAP) in place across the County, who are each governed by a board comprising members of the public, partner organisations and elected Councillors. These are multi-agency partnerships who are fully engaged with the community in identifying and resolving local priorities, and utilise locality budgets to drive improvements to service quality. 105 people attended the inaugural Countywide AAP meeting in 2011.

Assurance over the effectiveness of the AAPs was provided by an Overview and Scrutiny report, presented to Cabinet in September 2011, which concluded that AAPs were fit for purpose, as the governance arrangements were shown to be an extremely robust mechanism for ensuring the Council works with local communities and key partners to make sure local services meet local needs. Furthermore, AAPs were also commended in a national award scheme, and a high quality pilot approach used as part of the participatory budgeting process was highlighted nationally to be one of the best in the country.

4. REVIEW OF EFFECTIVENESS

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the senior managers within the Council who have responsibility for the development and maintenance of the governance environment, the 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 involves the key Member and Officer functions outlined below, namely:

- The Executive;
- Chief Financial Officer;
- Monitoring Officer;
- Overview and Scrutiny Committee;
- Standards Committee;
- Audit Committee.

The Council's Constitution sets out the governance roles and responsibilities of these functions. In addition:

- The Corporate Director, Resources co-ordinates and oversees the Council's corporate assurance arrangements by:
  - ❖ Preparing and maintaining the Council's Code of Corporate Governance as a formal framework for the 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 Council complies with the principles of good governance and recommending improvements.
- 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 Council's governance arrangements generally and how they impacted on their service areas. These included consideration of the effectiveness of internal controls.

Based on internal audit work undertaken during 2011/12, 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 Council in 2011/12. This moderate opinion ranking provides assurance that there is basically a sound system of control in place across the Council, but there are some weak areas and some evidence of non-compliance that are being corrected and improvements put in place. Control objectives are often achieved but improvements need to be made in our strive for excellence.

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.

5. 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 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 2010/11, an action plan, containing the following recommendations was produced. Progress made in implementing each recommendation, as outlined below, was confirmed by the Corporate Director, Resources and formed the starting point of the work to produce the 2011/12 AGS.

1. 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. Operational processes are much more effective. Bank reconciliation work is up to date and the Oracle system is much more reliable such that user confidence in the system is much improved.

2. Pay Harmonisation and Single Status.

A project is in place to develop and implement a pay structure for the Council and resolve outstanding pay harmonisation and single status issues, which have been complex given the implications of TUPE following Local Government Reorganisation. During 2011/12, the target date was revised to December 2012, and we are on target to implement this action by that date.

3. Implement an Information Management and Governance Strategy

A staged approach is being taken to developing the Council's information management and governance arrangements focusing on 3 main areas: records management, data protection, and access to information. A new Data Protection Policy and Data Breach procedures were agreed by Cabinet in May 2011 and awareness raising has taken place with all Heads of Service and Tier 4 managers, and has been rolled out to all staff. Key elements still to be developed are a formal procedure for dealing with access to information requests, including freedom of information and environmental information, and a long term records management strategy for the Council. This is no longer considered a significant area for governance improvement.

4. Implement revised Financial Management Standards.

The 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 Council. Most of the work to implement these standards is complete, but finalisation requires the input of a number of finance staff who are currently focused on producing the annual accounts.

5. Business Continuity.

To develop a robust ICT architecture with as few single points of failure as possible and replication of key systems, a business continuity specification and options for delivery are being developed by the Head of ICT.

6. Changing Government Policy on the Ethical Framework.

Following the abolition of the current Standards regime, the Council will review the ethical framework and implement a new compliant, fit for purpose and workable ethical structure for the Council. Supporting this, advice and guidance will be provided to Members and Officers on the new ethical structure. Progress has been delayed due to the late changes to the Localism Bill, such as clarification on the production of a recommended code from LGA and the regulations on interests. An initial report agreeing the establishment of a new Standards Committee was presented to full Council on the 21st March 2012.

7. Improve accessibility to key policies.

A single searchable database of all current strategies, policies and procedures has been developed as part of the Council's new intranet which was launched in April 2012. To complement traditional briefings and communications on strategies and policies, online e-learning packages have been developed and introduced for key policies such as data protection. This action is now complete.

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. To support this, a Performance Management Framework for Integrated teams has been implemented, and this action is now complete.

9. Succession Planning.

Effective succession planning for the future is a long-term goal, but the Redeployment Policy is the key policy in place to match the "at risk" employee skills with the changing demands of the Council during this period of significant change. This action is now complete.

The Corporate Director, Resources also sought assurance on the effectiveness of the Council's governance arrangements from each of the 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 Council's governance arrangements are required. The most significant issues, agreed by the Corporate Management Team (CMT) at its meeting on 20 June 2012, and as reported to the Audit Committee on 28 June 2012, together with a summary of action taken or being taken to address each issue, are detailed below. These issues have all been carried forward from the Annual Governance Statement for 2010/ 11, as target dates were revised either due to external pressures, or where, although progress has been made, it was always envisaged that the actions would not be fully completed by March 2012. No new significant issues were identified as a result of our annual effectiveness review.

1. Continue the positive direction of travel by implementing the planned control improvements to financial systems.

The actions to address the financial systems weaknesses will be incorporated into the Resources Service Improvement Plan. Progress on these improvement plans will be monitored by CMT throughout the year.

2. Pay Harmonisation and Single Status.

Work is underway to fully implement the project, and resolve outstanding pay harmonisation and single status issues, with planned implementation from October 2012 subject to the outcome of trade union employee ballots.

3. Implement revised Financial Management Standards

The revised Financial Management Standards should be finalised and implemented as soon as possible on the basis that the original implementation date has been missed.

4. Business Continuity.

Develop a robust ICT architecture with as few potential single points of failure as possible and replication of key systems.

5. Changing Government Policy on the Ethical Framework.

When central government have clarified the late changes to the Localism Bill, we will review the ethical framework and implement a new compliant, fit for purpose and workable ethical structure for the Council, and provide advice and guidance to Members, Officers and other key stakeholders on the new ethical structure.

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.

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.

Carbon Reduction Commitment (CRC)

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

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.

Heritage Assets

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

Historical Cost

The original purchase cost of an asset.

Housing Benefit

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

Housing Revenue Account (HRA)

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

IAS

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

ICT

Information and Communications Technology

IFRIC

Interpretations originated from the International Financial Reporting Interpretations Committee.

IFRS

International Financial Reporting Standards – issued and set by the International Accounting Standards Board (IASB). These are standards that companies and organisations follow when compiling their financial statements. They have been adapted to apply to local authorities and are consolidated in the Code of Practice on Local Authority Accounting (the Code). The Code 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.

Intangible Heritage Asset

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

Inventory

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

Investment

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

Investment Properties

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

IPSAS

International Public Sector Accounting Standards Board.

Joint Venture

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

LAAP Bulletin

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

Leasing

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

Levy

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

Liabilities

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

LGR

Local Government Re-organisation.

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.

Service Reporting Code of Practice (SeRCOP)

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

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.

Tangible Heritage Asset

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

Transfer Values

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

Treasury Management Policy and Strategy

A plan outlining the 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.

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Audit Committee

30 July 2012

Medium Term Financial Plan (3), Council Plan and Service Plans 2013/14 – 2016/17

Report of Don McLure, Corporate Director Resources

Purpose of the Report

1 To provide an update on progress being made in developing the Medium Term Financial Plan (3), Council Plan and Service Plans 2013/14 – 2016/17.

Background

2 The Audit Committee have previously requested that they are updated on progress in developing the MTFP (3). The attached report was presented to Cabinet on 11 July 2012 and identifies the planning frameworks that will be utilised in developing MTFP (3).

Recommendations and Reasons

3 Audit Committee are asked to note the current position in relation to the development of MTFP (3).

Contact: Jeff Garfoot Tel: 03000 261946

Appendix 1: Implications

Finance
There are no direct financial implications arising for the Council as a result of this report.

Staffing

None

Risk

None

Equality and Diversity

None

Accommodation

None

Crime and disorder

None

Human rights

None

Consultation

None

Procurement

None

Disability

None

Legal Implications

Cabinet

11 July 2012

Medium Term Financial Plan (3), Council Plan and Service Plans 2013/14 – 2016/17

Durham County Council

Report of Corporate Management Team
Don McLure, Corporate Director Resources and Lorraine O'Donnell, Assistant Chief Executive
Councillor Alan Napier, Cabinet Portfolio Holder for Resources

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Purpose of the Report

1 The report aims to develop the planning frameworks which will enable the Council to develop the 2013/14 Budget, the 2013/14 – 2016/17 Medium Term Financial Plan (MTFP) and Council Plan/Service Plans.

Background

2 To ensure the next MTFP for 2013/14 to 2016/17, Council Plan and Service Plans can be developed effectively, it is important to agree a robust plan and timetable.

3 The Council's first MTFP was approved for the four year period 2011/12 – 2014/15. For reference purposes the Council's MTFP for 2011/12 – 2014/15 will be referred to as MTFP (1); MTFP for 2012/13 – 2015/16 will be referred to as MTFP (2) and MTFP for 2013/14 – 2016/17 will be referred to as MTFP (3). The County Council faced a major challenge in setting the 2011/12 budget. After taking into account estimated budget pressures faced, the Council was required to achieve £66.4m of savings in 2011/12 and £123.4m of savings over the whole of the MTFP(1) period 2011/12 to 2014/15. This is the equivalent to 30% of the Council's 2010/11 Net Revenue Expenditure Budget.

4 At this stage the following key areas need to be considered:

(i) uncertainty in relation to the 2013/14 Financial Settlement for the Council and the relationship in this regard with the major changes associated with the Business Rate Retention (BRR) scheme with effect from 1 April 2013;

(ii) the impact on the MTFP (3) process of the Local Council Tax Support Scheme (LCTSS) with effect from 1 April 2013;

(iii) options for addressing the £0.86m 2013/14 Budget shortfall where savings had not yet been identified when the 2012/13 – 2015/16 MTFP (2) was agreed by Full Council on 22 February 2012;

(iv) proposed approach to the Council Plan and Service Plans;

(v) a draft MTFP (3) /Council Plan timetable;

(vi) proposed approach for consultation on the MTFP (3) and Council Plan;

(vii) equality considerations.

Finance Settlement and Business Rate Retention

5 The Comprehensive Spending Review (CSR) published in October 2010 detailed the Government's overall spending control totals for the four year period 2011/12 to 2014/15. The control totals for the Department for Communities and Local Government (CLG) were also detailed which enabled the Council to model future years' settlements.

The CSR also identified the following:

(i) in December 2010, Councils would receive details of their Finance Settlement for both 2011/12 and 2012/13;

(ii) in December 2012, Councils would receive details of their Finance Settlement for both 2013/14 and 2014/15.

6 A two year settlement was received for 2011/12 and 2012/13 in December 2010. This made financial planning much clearer with the actual 2012/13 Finance Settlement being in line with the figure published in December 2010. The Council's 2012/13 Formula Grant announced in December 2011 is made up as follows;

	£m
Redistributed Business Rates	219.0
Revenue Support Grant	4.2
TOTAL FORMULA GRANT	**223.2**

7 At this stage however for 2013/14 and 2014/15 the Council is reliant upon estimated figures for the settlement based upon the initial CSR spending control totals. The current forecast reductions in Government funding for 2013/14 and 2014/15 for the Council are as follows:

Year	**Grant Reduction**
	£m
2013/14	7.03
2014/15	14.84

8 The baseline position for 2013/14 will also be impacted by the introduction of BRR. The Government carried out an initial consultation on BRR in Autumn 2011. The Government's response to this initial consultation process was published in December 2011 and contained the following commitments:

(i) the Government confirmed the intention to introduce BRR from April 2013. The legislation would be contained within the Local Government Finance Bill, currently passing through Parliament and expected to be enacted in early Autumn;

(ii) Councils from 2013/14 would be able to retain a percentage of business rates collected. This percentage would be the retained ‘local share’. The remainder would be retained by the Government as a ‘central share’;

(iii) no Council would be worse off at the outset of the scheme compared to the Formula Grant they would have received in 2013/14 under the former funding arrangements.

(iv) Councils’ baseline funding position would be determined by considering the following:

- 2012/13 Formula Grant

- A limited number of technical adjustments to the current relative needs formula e.g. utilisation of population data from the 2011 Census which could be significant.

- The 2013/14 CSR grant reduction;

(v) if a council’s baseline funding is to be greater than the business rate income they can raise locally, a ‘top up’ would be paid to ensure councils would be financially no worse off. This will be the case in Durham. If a Council’s baseline funding is to be less than their business rate income, they would have to pay the Government a ‘tariff’ to equalise their starting position;

(vi) a number of Working Groups would be set up tasked with producing the BRR scheme which would form the next stage of the consultation process.

9 The Working Groups have been operational for a number of months now and are developing the scheme. The aim is for the next phase of consultation to begin in July 2012. In the meantime, in May 2012 the Government published a ‘Statement of Intent’ which included the following indications:

(i) the ‘local share’ was recommended as being 50% i.e. the Council would retain 50% of business rates collected, with the Government retaining the remaining 50% as a ‘central share’;

(ii) the retention of a 50% ‘central share’ by Government would result in Councils having to continue to receive Revenue Support Grant to ensure the initial baseline funding level is maintained;

(iii) the Government would introduce a ‘safety net’ if Councils’ baseline funding significantly reduced. At the present time the Government is expecting the safety net to be accessed if an authority’s baseline funding reduces by around 10% due to a reduction in business rate income. It would be highly unlikely that Durham County Council would ever meet this criterion due to the low level of ‘local share’ rate retention compared to the baseline funding level;

(iv) a number of other funding streams are to be included in the BRR in addition to the current level of Formula Grant. The funding streams in question and their value for the Council are detailed overleaf:

Type of Grant	2012/13 Grant
	£m
Early Intervention Grant	24.788
Homelessness Prevention Grant	0.510
Learning Disability and Health Reform Grant	10.009
Local Lead Flood Authorities Grant (part only)	0.200
Council Tax Support Grant (current estimate)	38.123
TOTAL TRANSFER	**73.630**

10 Based upon the above, the Council's estimated BRR baseline funding position for 2013/14 would be as follows:

	£m
Current Formula Grant	223.20
Add Funding Transfer	73.63
Less Forecast Funding Reduction	(7.03)
BRR BASELINE FUNDING	**289.80**

11 A great deal is still unknown in relation to the BRR scheme but it is hoped that the July 2012 consultation will provide further clarification. It is likely that the full picture will not be known until the Finance Settlement is received in December 2012.

Local Council Tax Support Scheme (LCTSS)

12 The Government also included in the CSR 2010 a policy commitment to introduce a localised Council Tax support scheme from 2013/14 which was reported to Cabinet on 18 April 2012, reducing expenditure nationally by 10% (£500m). The Welfare Reform Act 2012 abolished Council Tax benefits, paving the way for new localised schemes to be introduced under the auspices of the Local Government Finance Bill.

13 The Government published a consultation paper in August 2011 and its response to the consultation in December 2011 which confirmed the following:

(i) that the scheme would be implemented from April 2013;

(ii) that funding would be reduced by 10% (circa £4.6m for the Council, circa £0.55m for Police and circa £0.35m for Fire). The loss of benefit subsidy from the Government and replacement with a discount under the new scheme, would result in an estimated 20% reduction in the Council's Council Tax base. The consequential reduction in Council Tax income would be compensated by the receipt of the LCTSS grant funding (less the 10% loss), which is to be included within the BRR scheme.

(iii) that the new grant would be based on the Office of Budget Responsibility's (OBR) forecast of the level of council tax benefit that would have been awarded in 2013/14 under the current regime, taking into account the forecast for economic growth contained in the March 2012 Budget. Local authorities will be responsible for the costs of any increase in caseload or costs above the OBR forecasts as the level of Government support will be fixed

14 Cabinet received a report on progress on developing a LCTSS for Durham on 18 April 2012. To achieve a financially neutral position for the Council, a new scheme would need to reduce payments to Council Tax working age benefit recipients by circa £5.5m in total, taking into account the level of precepts levied by Police, Fire and local Town and Parish Councils. As pensioners in receipt of council tax benefit are to be protected under the new scheme and taking into account that pensioners account for 50% of current council tax benefit payments, working age claimant costs would need to reduce by circa 20% to achieve a cost neutral position. The proposed LCTSS for County Durham, to be subject to public consultation during the Autumn, will be considered by Cabinet in September.

Technical Reforms of Council Tax

15 The Government is also proposing a range of technical changes to Council Tax discounts and exemptions, to be included in the Local Government Finance Bill. This will provide additional local discretion to introduce local schemes in a number of areas, where previously statutory limitations applied. The proposed technical reforms of council tax include:

(i) the ability to charge 100% on second homes – the Council's current policy is that second homes receive a 10% discount;

(ii) the ability to amend the discount percentage for empty properties that are uninhabitable due to undergoing major repair – currently a 100% discount is awarded for a maximum of one year;

(iii) the ability to amend the discount percentage for empty unfurnished homes – currently a 100% discount is applied for a maximum of 6 months;

(iv) proposals for a three phased approach to discounts on long term empty properties, providing local discretion on the percentage discount allowed and the ability to charge a premium rate (most likely 150%) for properties empty for over two years;

(v) amendments to the statutory instalment periods, currently 10 months - April to January, with the requirement for local authorities to communicate this within the 2013/14 bill.

16 The statement of intent on the technical reforms of council tax notes that Government will 'make provision to ensure that any extra revenue generated if billing authorities set a discount of less than 100% is retained and does not affect the distribution of central government grant'. This would indicate that the Council may be able to benefit from the additional council tax generated as a result of the review of empty property discounts in 2012/13, plus any additional council tax generated by these legislative changes in 2013/14. Previously, the Government grant formula would have been adjusted in the following year.

17 The Government are publicly making links between the cost pressures that local government will face as a result of the LCTSS proposals and the increased flexibility afforded through the technical reforms of council tax. The options available to the Council in this regard will be factored into the report

on the LCTSS to Cabinet in September, with any proposed changes being subject to public consultation alongside the LCTSS consultation in the Autumn.

Changes to Public Health Service Delivery from 1 April 2013

18 Members will be aware that local authorities are to assume responsibility for public health from April 2013. Previous reports to Cabinet have highlighted that an understanding of the resources that will transfer from the NHS to local government for public health is necessary to plan effective transition and to continue to improve health outcomes for local people. Since our expected baseline for 13/14 (calculated from current resourcing levels) is £42.9 million, it is clear that confirmation of this baseline is urgently required for the council to incorporate within our MTFP.

19 A consultation document, *Healthy Lives, Healthy People: Update on Public Health Funding* has just been published with a closing date for responses of 14 August. The paper developed by the Advisory Committee on Resource Allocations (ACRA) proposes a significant change to the way in which the national health budget is allocated to local authorities by focusing on a single deprivation measure. Initial analysis carried out by ANEC suggests that:

a) The north east would lose £53.6 million if the proposals were accepted whilst the south east, east of England and south west would gain;

b) County Durham would lose £19.7 million i.e. 46% of current funding.

20 The paper states that no authority will see a real terms drop in funding in 13/14 other than in exceptional circumstances and has yet to propose how quickly allocations would be moved from the baseline to the new levels. Notice is provided of the Department of Health's intention to notify councils of their actual allocations by the end of 2012. Clearly this means that there will be considerable uncertainty within the development of MTFP3.

21 Given the scale of the funding reductions that the proposals would mean for the county and the region, work is underway through ANEC and with partners to develop robust responses to the consultation.

2013/14 Base Budget Shortfall

22 The current MTFP (2) model (attached at Appendix 2) was included in the Budget report to Council on 23 February 2012. The model identified that additional savings were required over the 2013/14 – 2015/16 period of £23.28m. The shortfall in 2013/14 was £0.86m. Before identifying any additional savings for 2013/14 a thorough review of 2013/14 base budget pressures has been carried out. The table overleaf summarises the results of the review:

	£m	£m
Current MTFP (2) Shortfall		**0.860**
Increase in Shortfall		
1 **Council Tax Income –** the current MTFP (2) model assumes a 2.5% Council Tax increase in 2013/14. The introduction of the LCTSS will result in an estimated 20% reduction in the Council's tax base. This will result in the assumed 2.5% Council Tax increase generating less income than originally forecast.	0.984	
2 **Landfill Tax –** the latest estimate is for Landfill Tax to increase by £1.03m. This is £19k higher than the original estimate.	0.019	
3 **Car Mileage Saving –** the current MTFP (2) Model for 2013/14 assumes a £80k saving relating to the reduction in the current car mileage rate to 45p per mile. This saving will not be achieved as the Pay and Conditions Review is now recommending a mileage rate of 48p per mile following consultation and negotiation with the trade unions.	0.080	
Total Increase in Shortfall		**1.083**
Reductions in Shortfall		
1 **Staff Turnover Allowance –** current staffing budgets in 2012/13 include a 3% reduction to account for staff turnover. The current MTFP (2) model for 2013/14 includes a reduction to 2% due to financial pressures associated with reduced levels of staff turnover in recent years. This risk has been reassessed with the reduction being amended to 2.5%.	(1.200)	
2 **Concessionary Fares –** the current MTFP (2) model for 2013/14 includes an estimate of a £0.6m increase in the budget for Concessionary Fares. This pressure has been reassessed based upon current levels of demand. It is felt that the pressure can be reduced to £0.08m.	(0.520)	
Total Reductions in Shortfall		**(1.720)**
REVISED SHORTFALL		**0.223**

23 Further work is presently being carried out in relation to the financing of the capital budget and on investment income on cash balances. It is expected that this work will identify additional resources for the 2013/14 budget due to lower interest rates on borrowing than forecast and higher cash balances than forecast. At this stage, after taking into account estimated savings from the financing of the capital budget and investment income, it can therefore be assumed that the 2013/14 Budget is broadly in balance.

24 Service Groupings have been asked if there are any additional base budget pressures which cannot be accommodated within cash limits. At this stage

Service Groupings have confirmed that there are no new base budget pressures to include in the MTFP (3).

2013/14 – Risk Assessment

25 As outlined previously, it is recognised that Local Government funding arrangements will change fundamentally from April 2013. The full details of how these revised funding arrangements will work are yet to be fully determined. Although the Council expects to learn more via a summer consultation on BRR and via the Finance Settlement in December 2012, it will still be a period of time before the risks associated with the revised arrangements are fully understood.

26 A risk assessment has therefore been carried out in relation to the 2013/14 budget. Although the budget model for 2013/14 is broadly balanced at this stage the following risks have been identified which could impact upon this position.

(i) **Forecast Grant Reduction** – the Council is presently forecasting a £7.03m reduction in Government funding in 2013/14. This forecast is based upon the CSR spending control totals for the Department for Communities and Local Government. This is the Council's best forecast at this stage but the Government has announced that a small number of technical adjustments (e.g. use of 2011 Census data) to formulae will be considered as part of the introduction of BRR. On that basis, it is possible that the actual Government grant reduction could vary from the £7.03m forecast.

(ii) **Council Tax Support Grant Baseline** – the Government has indicated that this funding stream will be absorbed into the BRR scheme. In addition to the fact that the level of support will be based on OBR forward forecasts, which may not be reflective of the position in County Durham, once the funding is received the sum provided will not vary based upon volume/activity i.e. if the number of council tax benefit payments increases either due to increased demand or increased take up, the Council will need to finance the cost. This is of particular concern when it is considered that approximately a third of people who are entitled to claim council tax benefit don't actually claim currently.

(iii) **Business Rates** – at this stage it is assumed that the Council will retain the 50% 'local share' of business rates collected locally. Based upon 2011/12 outturn for business rates, this figure is estimated to be £53m. If income collection reduced during 2013/14, the Council will need to finance the loss.

(iv) **Housing Benefit Admin Grant** – the Government reduced the Housing Benefit Admin Grant in 2012/13 by £0.52m to £4.8m. The position for 2013/14 will be impacted by the following:

- Introduction of Universal Credit
- Introduction of LCTSS

It is not clear what will happen to the grant received in 2013/14 but there is a risk that there will be a reduction without a commensurate reduction in the short term to the Council's costs.

27 Of the risks identified above the outcomes for (ii) and (iii) are very much associated with the local economy i.e. if unemployment increases there is likely to be an increase in council tax benefit claimants and a reduction in business rate income which could significantly impact upon the Council's budget. The Government's view is that Councils should build this risk into their MTFP (3) and budget planning processes, based on their own local circumstances and risk tolerances.

28 The outcome in relation to risks (i) and (iv) should be clarified as part of the Finance Settlement in December 2012, whilst the other risks will not manifest fully until during 2013/14. The Council will need to utilise budget flexibility to address these risks if they materialise. In future there will be an increased importance placed on monitoring the performance of the Collection Fund in year.

29 During this period of financial uncertainty prudent budget flexibilities will be developed during the MTFP (3) planning process.

MTFP (3) 2013/14 – 2016/17

30 In line with current policy the Council continues annually to develop a four year MTFP. The current MTFP (2) identified that additional savings in excess of £23m were required. An early assessment has been carried out in relation to the new MTFP (3) for the period 2013/14 – 2016/17. The following issues have been identified which will result in a deteriorating position for the period.

(i) **Level of Government Grant Cuts for 2015/16 and 2016/17 Detailed in the March 2012 Budget**

The 2011 Autumn Statement had already identified that the Government intended to continue reducing public expenditure in 2015/16 and 2016/17 i.e. beyond the current CSR period. The March 2012 Budget confirmed the need to continue with reductions in 2015/16 and 2016/17 but also that the position had deteriorated since the 2011 Autumn Statement. Based on these revised Government forecasts, the impact on Durham is detailed below:

Year	Current MTFP (3) Forecast Grant Reduction	Revised Forecast Based on March 2012 Budget	Increase in Forecast Grant Reductions
	£m	**£m**	**£m**
2015/16	11.560	15.600	4.040
2016/17	7.100	9.530	2.430
TOTAL REDUCTION	**18.660**	**25.130**	**6.470**

(ii) **Council Tax Increases –** the reduced level of Council Tax generated from a 2.5% increase in 2013/14 of £0.984m detailed earlier in the report due to the reductions in the tax base because of the LCTSS process will detrimentally impact on every year of the new MTFP (3) period.

31 Once additional base budget pressures are taken in to account for 2016/17 e.g. pay and price inflation, the savings shortfall for the three year period 2014/15 – 2016/17 is forecast to be £48m (2013/14 assumed to produce a balanced budget but reliant upon delivery of the already planned £19.7m of savings).

32 The current approach to the identification of savings has been to ask each Service Grouping to achieve a set percentage reduction in budgets. To achieve further savings of £48m, it is felt that a fundamental strategic review should be carried out on all budgets from a cross cutting perspective as well as an in depth review of all service grouping budgets. This review has begun and will continue throughout 2012 and where necessary into 2013, with the aim of identifying the necessary savings for the period 2014/15 to 2016/17. In addition to the above, consideration will also be given to the following:

(i) **Running Expenses** – all day to day running expenses will be reviewed with the view of making significant savings.

(ii) **Fees and Charges** – all Fees and Charges will be reviewed to determine if additional income could be reasonably raised.

(iii) **Procurement** – consideration will be given to how savings can be achieved from procurement processes and from effective price negotiation with existing contractors.

33 The exercises referred to above are expected to identify the savings required to assist in meeting the MTFP (3) forecasted model shortfall of £48m for 2014/15 – 2016/17.

Proposed Approach to the Council Plan and Service Plan

34 The Council Plan is a 4 year rolling plan, setting out what the Council is aiming to achieve. The development of the current Council Plan was integral to deciding on the priorities for the MTFP (3). Investments and savings agreed as part of the MTFP (3) are targeted to achieving the objectives identified in the Council Plan as part of our strategic planning process.

35 A fundamental review of the Council's priorities was carried out in 2010/11 in light of the significant challenge of needing to reduce our spending following reductions to Government grant funding. A lighter touch review was conducted in 2011/12. Members formed a key part of these processes and were consulted through a number of seminars.

36 The priorities set out in the current Council Plan reflect our decision, backed up by consultation findings, to protect frontline services. Our spending plans and priorities for last year, this year and the forthcoming two years are based on these assumptions. It is therefore envisaged that there will be limited changes to the Council Plan for 2013/14, but the new plan will need to align to changes in national policy and our local delivery context. Locally changes in NHS structures, in particular the new joint Health and Wellbeing Strategy which is due for completion in November, and any changed priorities as a

consequence of the election of a Police and Crime Commissioner in November will need to be incorporated.

37 The review of the Council Plan objectives and outcomes will take place over the summer and autumn, alongside work on MTFP (3) proposals. This will allow the Council Plan to be updated to reflect relevant changes in Government policy, including welfare reform and localisation of council tax support, plus any changes in our local priorities for example arising from consideration of performance outcomes for the current year.

38 Draft Service Plans for each service grouping are scheduled for development during the autumn, based on the revised Council Plan framework agreed with Cabinet. The final draft Council Plan will be presented to Cabinet and Council for consideration alongside the final MTFP (3) proposals, early in 2013.

39 Work on a refresh of the Sustainable Community Strategy (SCS) is also scheduled from Summer 2012, with the update planned to be complete by September 2013. Work to review priorities and objectives will feed into the Council Plan for 2013/14 where possible, and be fully integrated for the 2014/15 plan.

Draft MTFP (3)/Council Plan Timetable

40 The development of the MTFP (3) is fundamental to ensuring that the Council can plan and prepare for the continuing reductions in government funding. The draft timetable for delivery of the MTFP (3)/Council Plan has taken the following into account:

- The need to make limited changes to Council priorities as part of the development of the Council Plan.
- A review of progress during the current year.
- Consultation requirements.
- Equality considerations.
- Government announcements.
- The need to consider both revenue and capital.

41 A high level timetable is detailed below with a more detailed timetable attached at Appendix 3.

11 July 2012	Cabinet report on MTFP (3) scope, timetable and approach to consultation.
26 July 2012	Overview and Scrutiny Management Board considers Cabinet report of 11 July 2012.
14 September 2012	Corporate Issues Overview and Scrutiny Committee considers Cabinet report of 11 July 2012.
10 October 2012	Cabinet report on MTFP (3) proposals, Council Plan objectives and outcomes for consultation.

October – November	First phase of consultation on MTFP (3) outlook and scope.
12 November	Corporate Issues Overview and Scrutiny Committee considers Cabinet report of 10 October 2012
19 December 2012	Special Cabinet considers detailed proposals for MTFP (3) in light of Government Finance Settlement and outcome of initial consultation.
20 December – 11 January	Second phase of consultation on MTFP (3).
8 January 2013	Corporate Issues Overview and Scrutiny Committee considers 19 December 2012 Cabinet report.
6 February 2012	Special Cabinet recommends 2013/14 Budget and 2013/14 – 2016/17 MTFP (3), Council Plan and Service Plans.
20 February 2012	Full Council considers 2013/14 Budget and 2013/14 – 2016/17 MTFP (3), Council Plan and Service Plans

Proposed Option for Consultation on the MTFP (3) and 2013/14 Budget

42 It is proposed that the consultation for the 2013/14 Budget and 2013/14 to 2016/17 MTFP (3) takes place in two phases.

43 The first phase is proposed to take place during October and November 2012 and would utilise a wide range of engagement mechanisms to seek the views of the wider community to inform the development of the Council's proposals. The second phase would take place in January 2013 and would focus on feedback to the wider community on the outcome of the consultation, as well as seeking targeted responses to the draft proposals from key partner agencies.

44 It is proposed that the wider public consultation held during October and November would use a wide range of mechanisms that have proved to be effective in earlier budget rounds. These will include:

- Presentations to Area Action Partnerships
- Presentations to groups representing equality strands
- A survey of the Citizens' Panel
- Online Surveys

45 The key purpose of this phase of the consultation would be to:

(i) Highlight that the proposed budget for 2013/14 is in line with the four year MTFP (1) that was agreed in 2011 and which reflected the findings of the extensive consultation with the public to inform a four year programme.

(ii) Highlight the Council's commitment to carry out targeted consultations prior to reaching a final decision on potential service changes. This element of the consultation would outline how these consultations had impacted on decisions taken in the current financial year and would highlight a number of the consultations that would be carried out in 2013/14.

(iii) Outline the likely scale of the longer term financial challenges facing the Council beyond the 2013/14 financial year.

46 Following the first phase of the consultation, once the results have been analysed and the financial settlement has been received, it is proposed phase two of the consultation would entail informing key partner agencies, the AAPs and equalities groups the outcome of the consultation and the final budget proposals prior to consideration by Cabinet in February 2013.

Equality Consideration

47 Alongside the development of the MTFP (3), equality impact assessments will be considered throughout the decision making process. This is in line with the Equality Act 2010 which under the public sector equality duty requires us to pay 'due regard' to the need to:

- eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;

- advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;

- foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

48 To ensure that equalities considerations are properly built into this year's MTFP (3) process, an updated overall summary of the cumulative impacts of the previous MTFP decisions in the 2011/12 and 2012/13 financial years was provided as part of the June 2012 Cabinet report on MTFP (2) delivery progress, and quarterly going forward. Equalities considerations will also be built into the MTFP (3) guidance to services, setting out an overall timetable and approach for completing Equalities Impact Assessments for any additional savings proposals identified to meet the additional budget shortfall.

49 In addition we will continue to ensure full Equalities Impact Assessments inform final decision-making on implementing MTFP (3) savings for 2013/14 and subsequent years. This is built into management arrangements to monitor delivery of all MTFP savings, and will help to ensure that any changes implemented take into account equality impacts of changes and that mitigating actions are taken where possible.

Recommendations

50 Cabinet are asked to

(i) note the broadly balanced budget position forecast at this stage for 2013/14

(ii) note the risks identified in relation to the 2013/14 budget and the mitigating actions for consideration in this regard;

(iii) note the £48m MTFP (3) Model shortfall for the period 2014/15 – 2016/17 and the proposed approach to identifying additional savings

(iv) note the uncertainty in relation to the 2013/14 Finance Settlement. Total clarity in this regard will not be available until the Settlement is received in December 2012;

(v) note the impact and risks of the introduction of the Business Rate Retention scheme;

(vi) note the impact and risks of the introduction of the Local Council Tax Support Scheme;

(vii) that the Council respond to the consultation on public health funding.

(viii) agree the outlined approach to consulting on the MTFP (3);

(ix) agree the MTFP (3)/Council Plan Timetable

(x) agree the proposed approach to preparing the Council Plan and Service Plans;

(xi) agree the proposals to build equalities considerations into decision making.

Contact:	**Jeff Garfoot**	**Tel:**	**03000 261 946**
	Gordon Elliott	**Tel:**	**03000 263605**
	Jenny Haworth	**Tel:**	**0191 383 6598**
	Kevin Edworthy	**Tel:**	**03000 268 045**

Appendix 1: Implications

Finance
The report highlights the current shortfall in the 2013/14 MTFP (3) Model and identifies how the review of base budget pressures has enabled a broadly balanced budget position to be achieved at this stage. The report also highlights a £48m budget shortfall for the period 2014/15 – 2016/17 and what processes are being put in place to address this position.

Staffing
The savings proposals within the MTFP (3) and any additional savings identified could impact upon staff. Due HR processes will need to be followed.

Risk
A risk assessment is included in the report in relation to 2013/14 and the mitigating actions being planned.

Equality and Diversity / Public Sector Equality Duty
Equalities considerations are built into the proposed approach to developing the MTFP (3), Council Plan and Service Plans, as a key element of the process.

Accommodation
None

Crime and Disorder
None

Human Rights
Any Human Rights issues will be considered for any detailed MTFP (3) and Council Plan proposals as they are developed and decision made to take these forward. There are no Human Rights implications from the information within this report.

Consultation
The proposed consultation process is an integral element of this report and it is suggested will involve a series of deliberative discussions with the public throughout November 2012.

Procurement
None

Disability issues
All requirements will be considered as part of the equalities considerations outlined within the main body of the report.

Legal Implications
None

APPENDIX 2

Medium Term Financial Plan (2) 2012/13 - 2015/16 Model

	2012/13	2013/14	2014/15	2015/16
	£'000	£'000	£'000	£'000
Savings to Achieve Financial Balance in Current MTFP	**24,976**	**14,919**	**17,144**	**0**
Net Government Grant Reductions	17,177	4,930	14,840	11,560
Council Tax Increase (2.5% each year)	0	-4,989	-5,117	-5,245
Council Tax Freeze Grant	-4,989	4,989	0	0
Council Tax Freeze Grant 2011/12 Adjustment	38	0	0	0
Council Tax - Collection Fund Adjustment	814	0	0	0
Council Tax Base - Estimated 2012/13 Increase	-800	0	0	0
Reduction of C.Tax Discount on Long Term Empty Homes	-2,100	2,100	0	0
New Homes Bonus	-2,550	0	0	0
Variance in Business Rate Income	0	0	0	0
Use of Earmarked/Cash Limit Reserve in AWH	-2,150	-2,000	3,150	1,000
Estimated Variance in Resource Base	**5,440**	**5,030**	**12,873**	**7,315**
Pay inflation (0% - 1% - 1% - 1.5%)	0	2,330	2,270	3,400
Price Inflation (2% - 2% - 1.5% - 1.5%)	2,500	2,500	1,650	1,650
Corporate Risk Contingency Budget	3,200	0	0	0
Staff Turnover Allowance - reduction from 3% to 2%	0	2,400	0	0
Base Budget Pressures				
Landfill Tax	1,070	1,011	964	917
Carbon Reduction Commitment - 'Carbon Tax'	0	200	0	0
Disturbance Allowances re Accommodation Strategy	0	0	-220	0
Additional Employer Pension Contributions	1,200	1,300	1,100	1,000
Concessionary Fares	850	600	600	600
Energy Price Increases	1,350	500	500	500
Fuel Price Increases	1,000	0	0	0
Pension Augmentation	1,850	0	0	0
Community Building running costs	180	0	-180	0
Housing Benefit Lost Admin Grant	520	-100	-100	-100
Animal Health Grant	83	0	0	0
Bank Compliance Software	0	100	0	0
Safeguarding Children - Increased volumes	1,500	0	0	0
AWH Demographic Pressures	2,150	2,000	2,000	2,000
Service Investment Priorities				
Contaminated Land	100	0	0	0
Community Governance Reviews	100	-50	0	0
Prudential Borrowing to fund new Capital Projects	500	2,000	2,000	2,000
Capital Financing for current programme	3,027	1,500	1,000	1,500
Investment Income	0	-415	0	0
TOTAL PRESSURES	**21,180**	**15,876**	**11,584**	**13,467**
SUM TO BE MET FROM SAVINGS	**26,620**	**20,906**	**24,457**	**20,782**
Savings				
MTFP Savings	-18,419	-19,726	-15,744	0
Additional 2% Savings	-7,073	0	0	-7,073
ABG Saving	-893	0	0	0
Additional Savings to Identify as part of 2013/14 Budget	0	-860	-8,713	-13,709
Sub Total	**-26,385**	**-20,586**	**-24,457**	**-20,782**
Other Savings				
Essential Car User	-210	-240	0	0
Car Mileage saving	-25	-80	0	0
TOTAL SAVINGS	**-26,620**	**-20,906**	**-24,457**	**-20,782**

Appendix 3: MTFP (3), Council Plan and Service Plan delivery timetable

DATE	TASK	LEAD	Cabinet / Council	Overview & Scrutiny	Members Seminar	Consultation
11 Jul	Cabinet considers report on outlook, MTFP (3) scope and timetable.	LO, DM				
26 Jul	Overview and Scrutiny Management Board consideration of 11 July Cabinet report on MTFP (3)/ Council Plan timetable.	FJ				
Sept-Nov	Development of Council Plan and Service Plans.	Service Groupings				
14 Sept	Corporate Issues Overview and Scrutiny Committee consideration of 11 July Cabinet report on MTFP (3) / Council Plan timetable.	FJ				
25 Sept	Members' Seminar on Council Plan, council budgets and scope of MTFP (3).	JG/LO				
10 Oct	Cabinet considers report on detailed scene-setting, MTFP (3) consultation and Council Plan objectives and outcomes.	LO, DM				
11 Oct-8 Nov	Consultation on MTFP (3) outlook and scope.	GE				
29 Oct-30 Nov	Initial equality impact assessments of MTFP (3) proposals.	Service Groupings				

DATE	TASK	LEAD	Cabinet / Council	Overview & Scrutiny	Members Seminar	Consultation
12 Nov	Corporate Issues Overview and Scrutiny Committee consideration of 10 October Cabinet report on scene-setting, MTFP (3) consultation and Council Plan objectives and outcomes.	FJ				
Nov/Dec	Discussion with partners at County Durham Partnership Board.	LO				
3-17 Dec	Quality assurance and review of initial equality impact assessments.	JH				
19 Dec	Special Cabinet considers report on financial settlement, consultation responses and MTFP (3) proposals.	LO, DM				
20 Dec-11 Jan	Consultation on MTFP (3) proposals.	LO				
January	Finalisation of Council Plan and Service Plans and completion of quality assurance and equality impact assessments of MTFP (3) proposals.	Service Groupings				
1 Feb	Special Overview and Scrutiny Management Board meeting with Corporate Issues Overview and Scrutiny Management Board to consider report on 2013/14 Budget, 2013/14 to 2016/17 MTFP (3) and Council Plan and service plans for 2013/14.	FJ				

DATE	TASK	LEAD	Cabinet / Council	Overview & Scrutiny	Members Seminar	Consultation
6 Feb	Special Cabinet considers 2013/14 Budget, 2013/14 to 2016/17 MTFP (3) and Council Plan and service plans for 2013/14.	LO, DM				
20 Feb	Full Council considers 2013/14 Budget, 2013/14 to 2016/17 MTFP (3) and Council Plan and service plans for 2013/14.	LO, DM				

KEY

DM	Don McLure
LO	Lorraine O'Donnell
JG	Jeff Garfoot
JH	Jenny Haworth
GE	Gordon Elliott
FJ	Feisal Jassat

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Audit Committee update

Durham County Council

Audit 2011/12

audit commission

The Audit Commission is a public corporation set up in 1983 to protect the public purse.

The Commission appoints auditors to councils, NHS bodies (excluding NHS foundation trusts), police authorities and other local public services in England, and oversees their work. The auditors we appoint are either Audit Commission employees (our in-house Audit Practice) or one of the private audit firms. Our Audit Practice also audits NHS foundation trusts under separate arrangements.

We also help public bodies manage the financial challenges they face by providing authoritative, unbiased, evidence-based analysis and advice.

Contents

Introduction

1 The purpose of this paper is to provide the Audit Committee with a report on progress in delivering our responsibilities as your external auditors. It includes an update on the externalisation of the Audit Practice.

2 This paper also seeks to highlight key emerging national issues and developments which may be of interest to members of the Audit Committee. The paper concludes by asking a number of questions which the Committee may wish to consider in order to assess whether it has obtained sufficient assurance on emerging issues.

3 If you require any additional information regarding the issues included within this briefing, please contact me or your Audit Manager using the contact details at the end of this update.

4 Finally, please also remember to visit our website (www.audit-commission.gov.uk) which now enables you to sign up to be notified of any new content that is relevant to your type of organisation.

Cameron Waddell
District Auditor

18 July 2012

Progress report

Financial statements

5 We have completed our walkthrough testing of the Council's significant financial systems (including those relating to the Pension Fund) and presented our Interim Governance report to members at the last Audit Committee meeting in May.

6 We carried out some early substantive testing on material balances and transactions to reduce pressure on officers at the post-statements.

7 We are now in the post-statements stage of our work and will report findings in due course to the committee in September.

8 We will continue to liaise with the Corporate Director Resources, Principal Finance Officer (Strategic Finance) and Manager of Internal Audit and Risk to discuss audit issues and ongoing developments at the Council.

VFM conclusion

9 Our work on the VFM conclusion continues to focus on updating our understanding on an ongoing basis until the point at which the VFM conclusion is issued, and will largely comprise:

- outcomes from our review of agendas, minutes and other reports; and
- outcomes from our programme of established liaison meetings with officers.

10 Our view continues to be that Durham County Council has sound arrangements to address financial resilience and arrangements to secure economy, efficiency and effectiveness. Our audit work challenges whether this continues to be the case.

Update on outsourcing the work of the Audit Practice

11 Following the award of geographical contracts for the audit of principal local authorities and NHS bodies, the Audit Commission has held meetings in each contract area to introduce the winning firms to audited bodies.

12 It has in parallel commenced consultation on the appointment of auditors to individual bodies with a view to making those appointments at its Board meeting on 26 July 2012. Firms will take up audit appointments for the 2012/13 audit year from 1 September 2012 when the interim appointment of the current auditor will come to an end.

13 Following consultation with audit suppliers, the Audit Commission has put in place arrangements to facilitate the smooth transfer of any part-completed 2011/12 work from the Audit Practice to incoming audit firms so that they can maximise reliance on the work of the Audit Practice and complete the work expeditiously.

Update on the residual Audit Commission

14 The Commission is reducing and reshaping its workforce so that it can deliver its remaining core functions of audit regulation, contract management and sector support.

15 The Department of Communities and Local Government has advertised for a new Chairman of the Audit Commission to lead through the period of transition and downsizing, in advance of its proposed abolition. The new Chairman will take up post following the end of the term of office of the current Chairman in September 2012.

Other matters of interest

2012/13 audit fees

Fee scales for 2012/13 audits of local government and NHS bodies

16 Following a consultation exercise, the Audit Commission has agreed the work programme and fee scales for 2012/13 audits of local government and NHS bodies. It sent out letters notifying organisations of the new fees on Wednesday 11 April 2012.

17 As previously advised, the outsourcing of the Audit Commission's in-house Audit Practice means that these fees will be fixed for a five-year period, irrespective of the rate of inflation.

Fee scales for 2012/13 National Fraud Initiative

18 The Audit Commission's consultation on its proposals for the 2012/13 National Fraud Initiative (NFI) work programme and scale of fees ended in March 2012 and the results of this exercise were published on 30 May 2012.

19 The Commission did not propose to introduce any new mandatory data matches in the NFI for 2012/13, so the main work programme will remain unchanged from 2010/11.

20 In recognition of the financial pressures that public bodies are facing in the current economic climate, the scale of fees for mandatory participants will also remain the same as for NFI 2010/11.

2010/11 National Fraud Initiative

21 In May 2012 the Audit Commission published the results of the NFI for 2010/11.

22 The NFI is a data matching exercise which is hosted on a secure website. It compares information held by around 1,300 organisations including councils, the police, hospitals and 77 private companies. This helps to identify potentially fraudulent claims, errors and overpayments.

23 When there is a 'match', there may be something that warrants investigation and examples of the data matches the NFI undertakes are set out in the table overleaf.

Table 1: **Examples of data matches covered by the NFI**

Data match	Possible fraud or error
Pension payments to records of deceased people.	Obtaining the pension payments of a deceased person.
Housing benefit payments to payroll records.	Claiming housing benefit by failing to declare an income.
Council tax records to electoral register.	A council taxpayer gets single person discount whilst living with other countable adults and thus being ineligible.
Payroll records to other payroll records.	An employee is working for one organisation while being on long-term sick leave at another.

24 The latest NFI in England identified almost £229 million of fraud, overpayments and errors. This is made up of £139 million for 2010/11 plus £90 million not previously reported from earlier exercises. Over the same period, £47 million was identified in Scotland, Wales and Northern Ireland, raising the UK-wide total to £275 million.

25 The highest value categories identified in England continue to be pensions (£98 million), council tax single person discount (£50 million) and housing benefit (£31 million).

26 The latest report is accompanied by a series of case studies from the private and public sectors and a briefing for elected members. The briefing includes a series of questions that members can put to officers.

27 Since the initiative's start in 1996, the programme has helped detect £939 million, taking it a step closer to achieving a £1 billion payback to the public purse.

Public Sector Internal Audit Standards

28 The Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (IIA) announced a formal collaboration in May 2011.

29 This collaboration has recently led to the formation of the UK Internal Audit Standards Advisory Board, which will provide oversight and challenge to the development of UK-wide Public Sector Internal Audit Standards.

30 The new unified set of internal audit standards will be based on the mandatory elements of the IIA's International Professional Practices Framework and it is proposed that they will apply across the UK to central and local government and the NHS (excluding foundation trusts).

Payment by Results

31 The Audit Commission published *Local payment by results* on 5 April 2012. This is a briefing paper which considers potential issues arising from local authorities using payment by results (PbR) as a method of commissioning and paying for services.

32 PbR is a new approach, where commissioners pay service providers according to how well they achieve specified outcomes, rather than by outputs or volumes of service. These outcomes may be social, economic, financial, or a combination of all three. PbR is not the only contract type that rewards good performance, and commissioners should always consider other options alongside PbR to choose the most suitable approach.

33 What sets PbR apart from other contract types is that a significant amount of payment is withheld until the results are delivered. The payment is directly related to the level of success.

34 National PbR schemes are developing quickly. Some early schemes include reducing reoffending; diverting young offenders from custodial sentences; helping the unemployed to find work; preventing children from being taken into care; keeping frail older people in their own homes; and improving the management of chronic health conditions.

35 The briefing sets out to help councils understand what PbR might entail. As most schemes are at an early stage, the Audit Commission has identified a range of issues that local commissioners should consider if they are to use PbR successfully, drawing on some national and international examples.

36 The briefing suggests that there are five principles that any PbR scheme needs to meet if it is likely to succeed:

- a clear purpose;
- a full understanding of the risks;
- a well-designed payment and reward structure;
- sound financing; and
- effective management and evaluation.

37 The Audit Commission has sent the briefing to council chief executives and other key stakeholders.

The rights of local electors

38 The Audit Commission has published an updated version of *Council accounts: a guide to your rights.* The publication aims to help local electors by explaining their rights and how to engage with auditors in relation to the accounts. It also points electors to other sources of advice and more information where they have concerns that are not about the accounts.

39 The publication is accompanied by a Notice of an Objection form designed to assist electors wishing to present their objection to an item or items of accounts to the auditor.

40 Members of the Audit Committee may find it helpful to familiarise themselves with the document which can be found on the Audit Commission's website.

NAO role in local VFM studies

41 The NAO currently carries out around 60 VFM studies on central government initiatives and programmes each year. From next year, it will produce an increasing number of studies focusing on the local government sector.

42 A new Local Government Reference Panel has been set up to give councils an input to the NAO's programme of local government value for money studies. The panel, which will meet twice a year, includes representatives from nine local authorities as well as from CIPFA, Community Service Volunteers and the University of Birmingham.

43 The programme comprises three studies in 2012/13, the first being communication between central and local government, rising to four in 2013/14 and six in 2014/15.

44 Subject to Parliamentary approval, the NAO eventually expects to assume the Audit Commission's role in setting the framework for local audit, through a code of audit practice.

CIPFA's brief guide to Local Government Finance reforms

45 As the Local Government Finance Bill enters its concluding stages in the House of Commons, CIPFA has published a guide to some of the proposed changes.

46 CIPFA's *Brief Guide to Local Government Finance Reform*s seeks to answer some common questions that local government officers and elected members may have surrounding the localisation of support for council tax and business rate retention.

47 The guide explains the purpose of the proposals and their impact. It includes simplified examples of the proposed changes. At the time of writing, all the legislation and guidance has yet to be published, so the guide represents the latest known position. CIPFA will publish additional guidance once the detail becomes known.

Key considerations

48 The Audit Committee may wish to consider the following questions in respect of the issues highlighted in this briefing paper.

- Has the Committee asked officers the questions set out in the Audit Commission's NFI briefing for elected members? Is the Committee satisfied with the answers?
- Have officers considered the Audit Commission's briefing paper on local payment by results agreements?

Contact details

49 If you would like further information on any items in this briefing, please contact either your District Auditor/Engagement Lead or Audit Manager.

50 Alternatively, all Audit Commission reports - and a wealth of other material - can be found on our website: www.audit-commission.gov.uk.

Cameron Waddell

District Auditor

0844 798 1632

c-waddell@audit-commission.gov.uk

Catherine Banks

Audit Manager

0844 798 1601

c-banks@audit-commission.gov.uk

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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Audit Commission

1st Floor
Millbank Tower
Millbank
London
SW1P 4HQ

Telephone: 0844 798 3131
Fax: 0844 798 2945
Textphone (minicom): 0844 798 2946

www.audit-commission.gov.uk July 2012

Audit Committee

30 July 2012

Strategic Risk Management Progress Report for the Quarter period April to June 2012

Report of Corporate Management Team

Don McLure, Corporate Director Resources

Purpose of the Report

1. The purpose of this report is to highlight the strategic risks facing the Council and to give an insight into the work carried out by the Corporate Risk Management Group during the period April to June 2012.

Background

2. Each Corporate Director has a designated Service Risk Manager to lead on risk management at a Service Grouping level. In addition, the Council has designated the Deputy Leader of the Council and the Corporate Director, Resources as Member and Officer Risk Champions respectively. Collectively, they meet together with the Risk and Governance Manager as a Corporate Risk Management Group (CRMG). A summary setting out how the Council deals with the risk management framework is detailed in Appendix 2.

3. Throughout this report, both in the summary and the Appendices, all risks are reported as 'Net Risk' (after putting in place mitigating controls to gross risk), which is based on an assessment of the impact and likelihood of the risk occurring with existing controls in place.

Current status of the risks to the Council

4. As at 30th June 2012, there were 50 strategic risks, a decrease of 5 from the previous period end at 31 March 2012. In summary, the key risks to the Council are:

   - Slippage in delivery of the MTFP will require further savings, which may result in further service reductions/ job losses;
   - Failure to identify and effectively regulate Contaminated Land;
   - Coastal erosion and improved environment may be adversely impacted if a programme of repairs to Seaham North Pier is not undertaken;
   - A deterioration in public health services resulting from the transfer of public health responsibilities to the Local Authority and the impact of future funding proposals;
   - Government budget plans to cut Local Government funding further for 2015/ 16 and 2016/ 17 as part of the next Comprehensive Spending Review would have major impact on services including frontline services that customers rely on;

- The Council may be liable to legal challenge if a single status agreement is not implemented in full;
- The CDP may fail to narrow inequality and deprivation gaps due to the loss of Area Based Grant funding;
- Potential claw-back from MMI (former insurers) under the Scheme of Arrangement (SOA);
- Potential restitution of search fees going back to 2005;
- Industrial Action will adversely impact service delivery.

Progress on addressing these key risks is detailed in Appendix 3.

5. Appendix 4 of this report lists all of the Council's strategic risks as at 30 June 2012.

6. Management has identified and assessed these risks using a structured and systematic approach, and is taking proactive measures to mitigate these risks to a manageable level. This effective management of our risks is contributing to improved performance, decision-making and governance across the Council.

7. The following, ongoing projects have been supported in various ways, including risk analysis through workshops and meetings, giving critical feedback on risk management documentation and procedures, attending project / board meetings and helping to maintain the risk register through challenge and identifying controls.

   - Accommodation Strategy;
   - Community Buildings;
   - County Durham Plan;
   - Local Council Tax Support Scheme;
   - Police Reforms;
   - Potentially Violent Persons' Database;
   - Public Health Reforms;
   - School Meals Procurement;
   - Welfare Reforms.

Recommendations and reasons

8. Audit Committee is requested to confirm that this report provides assurance that strategic risks are being effectively managed within the risk management framework across the Council.

Contact: David Marshall Tel: 0191 3834311

Appendix 1: Implications

Finance - Addressing risk appropriately reduces the risk of financial loss.

Staffing - Staff training needs are addressed in the risk management training plan.

Risk – Not a key decision

Equality and Diversity/Public Sector Equality Duty - None

Accommodation - None

Crime and disorder - None

Human rights - None

Consultation - None

Procurement – None.

Disability issues – None.

Legal Implications – None.

Appendix 2: Background

A large amount of work is being carried out across the Council in shaping and developing our approach to risk management where the Cabinet and the Corporate Management Team have designated the Deputy Leader of the Council and the Corporate Director, Resources as Member and Officer Risk Champions respectively.

Together they jointly take responsibility for embedding risk management throughout the Council, and are supported by the Manager of Internal Audit and Risk, the lead officer responsible for risk management, as well as the Risk and Governance Manager. Each Service Grouping also has a designated Service Risk Manager to lead on risk management at a Service Grouping level, and act as a first point of contact for staff who require any advice or guidance on risk management. Collectively, the Risk Champions, Service Risk Managers and the Risk and Governance Manager meet together as a Corporate Risk Management Group. This group monitor the progress of risk management across the Council, advise on strategic risk issues, identify and monitor corporate cross-cutting risks, and agree arrangements for reporting and awareness training.

An Audit Committee is in place, and one of its key roles is to monitor the effective development and operation of risk management and overall corporate governance in the Authority.

It is the responsibility of the Corporate Directors to develop and maintain the internal control framework and to ensure that their Service resources are properly applied in the manner and to the activities intended. Therefore, in this context, Heads of Service are responsible for identifying and managing the key risks which may impact on their respective Service, and providing assurance that adequate controls are in place, and working effectively to manage these risks where appropriate. In addition, independent assurance of the risk management process, and of the risks and controls of specific areas, is provided by Internal Audit. Reviews by external bodies, such as the Audit Commission, Ofsted and Care Quality Commission, may also provide some independent assurance of the controls in place.

Risks are assessed in a logical and straightforward process, which involves the Risk Owner (within the Service) assessing both the impact on finance, service delivery or stakeholders if the risk materialises, and also the likelihood that the risk will occur over a given period. The assessment is confirmed by the Service Management Team, and Chief Officers agree their Risk Register with the Cabinet Member responsible for their Portfolio Service.

An assurance mapping framework is being developed to demonstrate where and how the Council receives assurance that its business is run efficiently and effectively, highlighting any gaps or duplication that may indicate where further assurance is required or could be achieved more effectively.

Appendix 3: Strategic Risks

Risks are assessed at two levels:

- Gross Impact and Likelihood are based on an assessment of the risk without any controls in place;
- Net Impact and Likelihood are based on the assessment of the current level of risk, taking account of the existing controls/ mitigation in place.

As at 30 June 2012, there were 50 strategic risks, a decrease of 5 from the previous period end at 31 March 2012.

The following matrix summarises the total number of strategic risks based on their Net risk assessment as at 30 June 2012. Where there have been changes to the number of risks from the last quarter period end, the risk total as at 31 March 2012 is highlighted in brackets.

Overall number of Strategic Risks as at 30 June 2012

Impact					
Critical	**1** (1)	**3** (3)	**4** (3)		
Major		**3** (3)	**5** (6)	**4** (5)	
Moderate		**4** (5)	**13** (14)	**5** (7)	**2** (2)
Minor			**3** (3)	**2** (2)	**1** (1)
Insignificant					
Likelihood	Remote	Unlikely	Possible	Probable	Highly Probable

In summary, key points to draw to your attention are:

1 Beneficial outcomes

- The risk "*Failure to deliver the restructured BSF programme on time and with minimal service disruption*" has been closed as the programme is entering the closing stages. Managers have consistently taken a systematic approach to managing associated risks and the residual risk is now considered low. All projects have been completed on time or are progressing to programme, and the BSF programme as a whole is on budget. Most importantly all the schools involved are already seeing the educational benefit of the investments we have made. Further investments will be made through new Priority Schools Building Programme in future years.

- "*Alternate Weekly Collection project is not delivered to programme*". 100% of the collections are now up and running the likelihood of this risk occurring has reduced from Possible to Unlikely. This has secured service improvements with minimal disruption to residents.
- The risk "*Disused unmaintained Coal Authority mine workings on DCC land may result in serious injury/financial claims against the Council*" has seen two actions completed and, once the strategy for dealing with these hazards has been approved, the likelihood and impact of this risk should be reduced. This has helped minimise the risk of serious injury and financial loss.
- A number of mitigating actions have been completed which has reduced the likelihood of the risk "*Delays in processing both new and changes to benefit claims*" from Probable to Possible as the backlog is being reduced. This has helped minimize the risk of inconvenience to claimants.
- The "*Risk of injury to gypsies, travellers and staff due to site-related hazards*" has been closed. The programme of improvements has been completed, minimising the risk of injury.

2 Significant New and Increased Risks

Three new risks have been identified this quarter:

- "*The potential for the Police Reforms to weaken the ability of the Council and its partners to cut crime and anti-social behaviour".* The changes relating to police accountability and governance create uncertainties around leadership, priorities, local partnerships and funding. A Transition Project Board has been set up to manage the legalities and technicalities of the transition. **(AWH)**
- "*Merger of Children/Adults Services*". This is part of the ongoing work on reducing management costs at all levels within the organisation, amid unprecedented financial pressure and major reforms to the NHS and Public Health. Project management arrangements will be established and the new director will lead the reorganisation required to merge and integrate the majority of functions currently provided within the existing service groupings. **(AWH and CYPS)**
- "*Government budget plans to cut Local Government funding further for 2015/ 16 and 2016/ 17 as part of the next Comprehensive Spending Review would have major impact on services including frontline services that customers rely on*". This risk has been included to highlight the impact the next CSR could have on the Council and the Community should the anticipated reductions in funding occur. **(RES)**
- The impact of the risk that '*A deterioration in public health services resulting from the transfer of public health responsibilities to the Local Authority and the impact of future funding proposals'* has been reassessed and is now considered to be critical, because it has emerged that future funding proposals may result in a significant budget reduction.**(AWH)**

Due to the current volume of legislative and policy changes, the Net Likelihood of the following risks occurring has been increased from Unlikely to

Possible. However, they are expected to decrease during the next quarter as mitigating actions are implemented:

- "*Failure to consult with communities on major service & policy changes leading to legal challenge & delays in implementation*". **(ACE)**
- "*Failure to consider equality implications of decisions on communities leading to legal challenge and delay in the implementation of change*". **(ACE)**

3 Removed Risks

The following five risks have been **removed** from the register in this quarter following effective management of the risks by the Services, as all mitigating actions have been completed to reduce them to a level where management now consider existing controls to be adequate.

- "*Failure to co-ordinate infrastructure support to the V&CS, leading to a failure to channel resources to those in greatest need*". This risk was closed as the residual risk is now deemed to be low. **(ACE)**
- "*Risk of injury to gypsies, travellers and staff due to site-related hazards*". This risk has been removed as all mitigating actions have been completed. **(AWH)**
- "*Failure to deliver the restructured BSF programme on time and with minimal service disruption*". The BSF programme is nearing completion and the net risk is low. **(CYPS)**
- "*Unpredictable, volatile financial demands leading to MTFP targets and cash limits being breached*". This risk was closed as the net risk is low. **(CYPS)**
- "*Insufficient number of adequately skilled staff to maintain the expected level of services*". This risk was closed as management believe that a robust process of having sound business cases to support any staffing reduction is now embedded as a business as usual activity. **(RES)**
- As the draft Annual Statement of Accounts have been presented within the target deadline, the risk that *'If the fundamental recommendations in the Annual Governance Report (AGR) are not addressed this will result in continued problematic closure of accounts and increased external audit activity / further poor AGR's being issued'* has been closed. **(RES)**
- The risk that '*Integrated Service Delivery benefits will not be realised if contractors fail to deliver the ICT infrastructure on time'* has been removed from the report, as it is now considered a business as usual risk. **(CYPS)**
- The unitisation of the Finance and HR & OD staff has been completed successfully for both functions and this has helped secure improvements with minimal disruption to service delivery, and therefore the associated risk has been closed. **(RES)**

4 Key Risks

The risks shown in the tables below are considered the key risks to the Council. Where there have been changes to the risk assessment from the last quarter period end, these are highlighted in the column headed ‘Direction of Travel’. The target for when the risk will be at an acceptable level, or where further improvements in mitigation are not possible, is highlighted in the column headed ‘Anticipated date when risk will be at an acceptable level’.

Impact					
Critical			**Risks 1, 2, 3 and 4**		
Major				**Risks 5, 6, 7 and 8**	
Moderate					**Risks 9 and 10**
Minor					
Insignificant					
Likelihood	Remote	Unlikely	Possible	Probable	Highly Probable

Ref	Service owning the risk	Corporate Theme	Risk	Net Impact	Net Likelihood	Proposed Key Actions	Direction of Travel	Anticipated date when risk will be at an acceptable level
1	RES Risk Owner: D McLure	Altogether Better Council	Slippage in delivery of the MTFP will require further savings, which may result in further service reductions/ job losses	Critical	Possible	The Delivery plan implementation will be monitored by CMT and Cabinet.		This will be a significant risk for at least the next 4 years. No further mitigation is planned at the current stage.
2	NS Risk Owner: J Waller	Altogether Greener	Failure to identify and effectively regulate Contaminated Land	Critical	Possible	Out of the 140 sites identified, the top 10 sites were assessed during 2011/ 12. There is a permanent £100k revenue budget from 2012/13 in the Medium Term Financial Plan to mitigate this risk. Outcomes of initial inspections will be reviewed to identify whether additional resources are required.		Once the first phase of inspections (i.e. the top 10 sites) has been completed during 2012/13, this will provide a clearer position on the resource and funding needed to inspect the remaining 130 sites.
3	NS Risk Owner: T Collins	Altogether Wealthier	Coastal erosion and improved environment may adversely impacted if a programme of repairs to Seaham North Pier is not undertaken.	Critical	Possible	Funds allocated in the 2013-14 budget for the design for the repairs to the structure.		To mitigate the risk, funds are being investigated as part of the 2013/14 budget for the design of repairs to the structure.
4	AWH Risk Owner: R Shimmin	Altogether Healthier	A deterioration in public health services resulting from the transfer of public health responsibilities to the LA and the impact of future funding proposals	Critical	Possible	Several mitigating actions have been planned. Representations on the interim recommendation for future funding of Public Health will also be sent to the Department of Health.	Impact of the risk reassessed and considered to be critical	The transfer will be completed by 1 April 2013.

Ref	Service owning the risk	Corporate Theme	Risk	Net Impact	Net Likelihood	Proposed Key Actions	Direction of Travel	Anticipated date when risk will be at an acceptable level
5	RES Risk Owner: D McLure	Altogether Better Council	Government budget plans to cut Local Government funding further for 2015/ 16 and 2016/ 17 as part of the next Comprehensive Spending Review would have major impact on services including frontline services that customers rely on	Major	Probable	Sound financial forecasting based on the Government's "Red Book" plans. A timetable of key milestone dates to be agreed by Cabinet in July 2012.	New Risk	This is related to key risk 1 above.
6	RES Risk Owner: D McLure	Altogether Better Council	The Council may be liable to legal challenge if a single status agreement is not implemented in full.	Major	Probable	Council approval will be obtained prior to commencing formal negotiations, involving Trade Unions. Outcomes will be implemented (subject to negotiations) by the end of 2012. Allocation of resources for staff support and administration of appeals.		The project to bring this risk to an acceptable level will be completed by December 2012**.**
7	RED Risk Owner: L O'Donnell	Altogether Wealthier	The CDP may fail to narrow inequality and deprivation gaps due to the loss of Area Based Grant funding	Major	Probable	Development and implementation of localised performance measurement of outcomes.		An action plan for CDP is in place. This will remain a significant risk for at least the next 4 years.
8	RES Risk Owner: D McLure	Altogether Better Council	Potential claw-back from MMI (former insurers) under the Scheme of Arrangement (SOA)	Major	Probable	The cost of any clawback will be met from the Insurance Reserve		Supreme Court ruling has been made. Currently waiting formal response from MMI before considering the options going forward

Ref	Service owning the risk	Corporate Theme	Risk	Net Impact	Net Likelihood	Proposed Key Actions	Direction of Travel	Anticipated date when risk will be at an acceptable level
9	RES Risk Owner: C Long-bottom	Altogether Better Council	Potential restitution of search fees going back to 2005	Moderate	Highly Probable	The Council has signed up to a class action defence by LGA appointed solicitors		Dependent upon the outcome of the negotiations/ litigation currently being defended by lawyers instructed in group litigation
10	RES Risk Owner: K Jobson	Altogether Better Council	Industrial Action will adversely impact service delivery	Moderate	Highly Probable	Arrangements in place to ensure continuity of essential services during industrial action.		

Appendix 4: List of all Strategic Risks (per Corporate Theme)

Based on the **Net** risk assessment as at 30 June 2012, the following tables highlight the risks for each Corporate Theme. Where there have been changes to the risk assessment from the last quarter period end, these are highlighted in the column headed Direction of Travel.

Corporate Theme – Altogether Better Council

	Service	Risk
1	Resources	The Council may be liable to legal challenge if a single status agreement is not implemented in full.
2	Resources	Industrial Action will adversely impact service delivery
3	Resources	Government budget plans to cut Local Government funding further for 2015/ 16 and 2016/ 17 as part of the next Comprehensive Spending Review would have major impact on services including frontline services that customers rely on.
4	Resources	Potential claw-back from MMI (former insurers) under the Scheme of Arrangement (SOA)
5	Resources	Potential restitution of search fees going back to 2005
6	Resources	Slippage in delivery of the MTFP will require further savings, which may result in further service reductions/ job losses
7	RED	Increased demand for Housing Solution Service beyond current staffing capacity due to changes in Government Welfare legislation.
8	ACE	Serious breach of law regarding management of data/information, including an unauthorised release requiring notification to ICO
9	RED	Adverse impact on Durham City Homes revenue, capacity and resources and tenants due to changes in Government legislation.
10	Resources	If fuel & energy price & usage continue to rise it will have major financial implications for the Council and impact on community
11	Neighbourhood Services	If Local Authority schools choose not to take our services, Building Services could see a loss of business if the academies do not use Council services and/ or opt out of the SLA to procure outside agencies to carry out compliance, building and maintenance/ grounds maintenance works.
12	Neighbourhood Services	Failure to effectively support events organised by the Council or taking place on Council land.

	Service	Risk
13	Resources	Inconsistent approach to managing funding bids by Services could expose the Council to financial losses and reputational damage.
14	Resources	Collection Fund and Debtors collection rates do not reach target set for 2012/13
15	Neighbourhood Services	Limited knowledge of DEBS live system by some budget holders could adversely impact on service delivery and performance in NS
16	Resources	Major Interruption to IT Service Delivery
17	Adults, Wellbeing & Health	Potential for the Police Reforms to weaken the ability of the Council and its partners to cut crime and anti-social behaviour
18	ACE	The data used to produce performance information is of insufficient quality to ensure reliability for decision making purposes
19	Resources	Delays in processing both new and changes to benefit claims.
20	Resources	Due to the amount of change occurring across the Council, the potential for fraud and error is increasing.
21	ACE	Failure to consult with communities on major service & policy changes leading to legal challenge & delays in implementation
22	ACE	Failure to consider equality implications of decisions on communities leading to discrimination/not promoting equality of opportunity
23	Adults, Wellbeing & Health	Work Related Stress – STAFF
24	Neighbourhood Services	Consistent health and safety policies, practices and procedures across the Neighbourhoods Service are not embedded across NS
25	Neighbourhood Services	The performance of building services does not improve to make them more competitive.
26	Neighbourhood Services	The Alternate Weekly Collection project is not delivered to programme.
27	Adults, Wellbeing & Health/ CYPS	Merger of Children/Adults Services
28	ACE	Failure to substantially deliver the Community Buildings Strategy by March 2014, leading to continuation of current issues

Altogether Safer

	Service	Risk
29	RED	Disused unmaintained Coal Authority mine workings on DCC land may result in serious injury/financial claims against the Council
30	Adults, Wellbeing & Health	A service failure of Safeguarding leads to death or serious harm to a service user.
31	CYPS	Failure to protect child from death or serious harm (where service failure is a factor or issue) – CYPS
32	ACE	Failure to prepare for, respond to and recover from a major incident or interruption, and to provide essential services.
33	Neighbourhood Services	Damage to Highways assets as a result of a severe weather event.
34	Adults, Wellbeing & Health	Violence and Aggression Staff
35	Adults, Wellbeing & Health	Unauthorised encampment
36	RED	Serious injury or loss of life due to Safeguarding failure (Transport Service)

Altogether Greener

	Service	Risk
37	Neighbourhood Services	Failure to identify and effectively regulate Contaminated Land
38	Neighbourhood Services	Failure to effectively deliver the proposed Waste Management Solution.

Altogether Healthier

	Service	Risk
39	Adults, Wellbeing & Health	A deterioration in public health services resulting from the transfer of public health responsibilities to the LA and the impact of future funding proposals
40	Adults, Wellbeing & Health	Potential financial, operational, and reputational risks arising from proposed NHS Reforms
41	Adults, Wellbeing & Health	Increased cost to the authority from revision to “Ordinary residence” guidance
42	Adults, Wellbeing & Health	Management and administration of service users medications

Altogether Better for Children and Young People

	Service	Risk
43	CYPS	Failure to meet escalating costs of external and high-cost placements effectively where highly-specialised provision is required
44	CYPS	Children/families experience lack of interface between Adult/Children's Services as a result of failure to work closely together
45	RED	Employment Services for young people (18-24 year olds) are under resourced and unco-ordinated between service groups.

Altogether Wealthier

	Service	Risk
46	RED	The CDP may fail to narrow inequality and deprivation gaps due to the loss of Area Based Grant funding
47	Neighbourhood Services	Coastal erosion and improved environment may be adversely impacted if a programme of repairs to Seaham North Pier is not undertaken.
48	RED	Diminishing Capital Resources, continuing depressed land values and slow growth in the private sector will impact on the ability to deliver major projects and Town initiatives within proposed timescales.
49	RED	Private housing stock condition worsens with adverse implications for local economy, health & neighbourhood sustainability.
50	RED	East Durham Homes additional Government funding is not forthcoming due to Government cut backs.