Durham County Council

Audit Committee

Date Thursday 28 July 2011

Time 10.00 am

Venue Committee Room 1B - 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 30 June 2011 (Pages 1 - 8)
2. Declarations of interest, if any.
3. Statement of Accounts for the Year Ended 31 March 2011 - Report of Corporate Director, Resources (Pages 9 - 192)
4. 2010/11 Final Outturn for General Fund and Housing Revenue Account - Report of Corporate Director, Resources (Pages 193 - 232)
5. Draft 2010/11 Annual Report to Council - Report of Chair of the Audit Committee (Pages 233 - 246)
6. The Work of Corporate Risk Management in the Quarter period April - June 2011 - Report of Corporate Director, Resources (Pages 247 - 258)
7. Bank Accounts Update - Update by Corporate Director, Resources
8. External Audit Progress Report - Report of External Auditor (Pages 259 - 270)
9. Such other business as in the opinion of the Chairman of the meeting is of sufficient urgency to warrant consideration.
10. 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)

11. Housing and Council Tax Benefit Control Framework - Report of Corporate Director, Resources (Pages 271 - 298)
12. 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 2011

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

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

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

Co-opted Members:

T Hoban and K Larkin-Bramley

Contact: Ros Layfield **Email: ros.layfield@durham.gov.uk**

DURHAM COUNTY COUNCIL

AUDIT COMMITTEE

At a Meeting of the **Audit Committee** held at the on **Thursday 30 June 2011** at **10.00 a.m.**

Present:

Councillor E Bell in the Chair

Members of the Committee:

Councillors L Marshall, B Myers, R Ord, D Southwell and O Temple.

Co-opted Members

Mr T Hoban and Ms K Larkin-Bramley

Apologies for absence were received from Councillors C Carr, B Harrison and M Hodgson

1 Minutes

The Minutes of the meeting held on 26 May 2011 were agreed as a correct record and signed by the Chairman.

Consideration was given to all current items on the Committee's Action Plan (for copy of action plan see file of Minutes). Several items on the Plan were considered later in the meeting, the position with others was provided and dates were set when these would be reported back to Committee. The Plan would be updated accordingly.

2 Declarations of Interest

Declarations of interest were provided by Members of the Committee. A generic declaration of interest would be recorded as Members were school governors, members of various committees of the Council and of the former District Council'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 Annual Internal Audit Report 2010/11

The Committee noted a report of the Manager of Internal Audit and Risk (for copy see file of Minutes) that detailed the Annual Internal Audit Report for 2010/11.

Members were concerned about the duplicate payments being made through the Oracle system and asked for a report about improvements being carried out in this area.

Resolved:
That the Annual Internal Audit Report and the overall opinion provided on the adequacy and effectiveness of the Council's control environment for 2010/11 be noted

4 Review of the Effectiveness of Internal Audit

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

Members were advised that it was proposed to change the title of the Manager of Internal and Risk to that of Chief Internal Audtior, which would provide clarity that the post holder is the head of internal audit.

Resolved:
That the recommendation in the report be agreed.

5 Strategic Audit Plan and Annual Internal Plan 2011/12

The Committee considered a report of the Corporate Director, Resources (for copy see file of Minutes) that:-

- Outlined the audit strategy to implement a risk based approach to internal audit to help provide assurance on the effectiveness of risk management across the Council at both a strategic and operational level.
- Updated management with progress made in developing an assurance framework for the Council to help improve the Council's corporate governance arrangements and inform strategic audit plans.
- Outlined the overall strategy for developing strategic and annual audit plans.
- Presented a draft strategic audit plan for the Council to outline how the audit strategy is to be delivered as part of a rolling programme of planned assurance reviews, and
- Presented an annual plan for the period July 2011 to June 2012 for approval

In response to concerns raised about the role of the Audit Committee about whistle blowing, Members were informed that issues were dealt with and the risks associated were considered as appropriate. The Head of Legal and Democratic Services informed Members that the whistle blowing policy was included in the County Council's Constitution and copy was available on the internet.

Members referred to the timing of reviews included in the strategic plan where a limited assurance opinion had been provided previously and asked further details of follow up. The head of IA audit agreed to review how further assurance could be provided to the Audit Committee through progress reports that audit recommendations relating to such audits had been implemented..

Cameron Waddell, Audit Commission advised that in other public bodies he was aware of the audit practice of not issuing recommendations, allowing the responsible manager to suggest to action to emphasis the responsibility of service managers to take appropriate action in response to issues raised by Audit. The Chairman suggested that the Committee should embrace the potential that this may bring and a pilot of this approach should be considered..

Resolved:

(i) That the audit strategy to improve the risk based approach to internal auditing and the development of draft strategic and annual audit plans be noted.

(ii) That the draft strategic plan for 2011-2016 is noted and that the annual audit plan covering the period July 2011– June 2012 be approved.

(iii) That work would continue during the year to monitor and improve draft strategic plans and that consultation on the development of each subsequent annual audit plan would continue as usual as part of the annual planning process be noted.

6 Review of the Effectiveness of the Audit Committee - Update

The Committee considered a report of the Corporate Director, Resources (for copy see file of Minutes) that presented an action plan for agreement following the workshop held on 13 May 2011 to consider the results of the Audit Commission's SNAP (survey 'n' analysis package) Survey on the effectiveness of the audit committee.

Resolved:

Members agree the required actions and target implementation dates set out in the action plan.

7 Future of Local Public Audit Consultation

The Committee considered a report from the Corporate Director, Resources (for copy see file of Minutes) that informed Members of a consultation exercise being undertaken by the Department of Communities and Local Government (CLG) regarding the future of public audit following the announcement in August 2010 to disband the Audit Commission.

Resolved:

(i) That CLG's proposal for the new local external audit regime as set out in the consultation document be noted.

(ii) That our response to the 50 consultation questions be agreed.

(iii) That the action being taken to transfer the work of the Audit Commission to the private sector for the 2012/13 accounts until such time as the Council can start to appoint its own auditors be noted.

8 Risk Management Improvement Plan

The Committee considered a report of the Corporate Director, Resources (for copy see file of Minutes) that informed the Audit Committee of the proposed Risk Management Improvements for 2011/12, as requested by the Committee following the recent review of the Council's strategic risk management framework by Zurich Municipal.

Resolved:
That the report be noted

9 Risk Management Strategy and Policy for Year April 2011 - March 2012

The Committee received a report from the Corporate Director, Resources (for copy see file of Minutes) that sought approval of the draft Risk Management Strategy and Policy.

The Risk and Governance Manager circulated an example of a risk assessment (relating to fraud) to demonstrate how the strategy is applied in practice.. Members welcomed this approach and the clarify it provided.on the strategy.

Resolved:
That the recommendations contained within the report be approved.

10 Bribery Act 2010

The Committee received a report of the Corporate Director, Resources (for copy see file of Minutes) that provided a briefing to Members in relation to The Bribery Act 2010 which comes into force in July 2011.

Resolved:
That the report be noted

11 Durham Pension Fund Interim Governance Report

The Committee considered a report of the External Auditor (for copy see file of Minutes) that presented the Audit Commission's Durham Pension Fund Interim Governance Report.

Resolved:
That the report be noted

12 Durham County Council Summary Interim Governance Report

The Committee considered a report of the External Auditor (for copy see file of Minutes) that presented the Audit Commission's Interim Governance Report.

Resolved:
That the report be noted

13 Interim Governance Report – Response

The Committee considered a report of the Corporate Director, Resources (for copy see file of Minutes) that provided Members with comments on the Audit Commission's draft Interim Governance Report.

Cameron Waddell, Audit Commission reported that there had been improvements since last year however, there were still a number of risks identified, and the action plan at Appendix 1, made recommendations for each area of concern.

It was noted that the action plan to formally response to the recommendations made and actions taken/planned to address, with timescales where necessary, would be completed and reported to Committee at a later date.

An update was provided by Cameron Waddell on the current position regarding the completion of the draft financial statements. Members noted concerns that not all group accounts had been prepared in time for the 30 June 2011 deadline and the Chairman and Vice-Chairman confirmed that they would make this a priority to finalise the accounts as a matter of urgency. The external auditors were confident that they would have all of the necessary information by 28 July 2011.

Resolved:
That Members note the recommendations raised in the Audit Commission's Interim Governance Report and the on-going work to implement them.

14 Any Other Business

The Chairman agreed to consider the following items of business:-

Draft Annual Governance Statement for the year April 2010 – March 2011

The Committee considered a report of the Corporate Director, Resources (for copy see file of Minutes) that sought approval of the draft Annual Governance Statement (AGS) and a list of significant improvement made.

Resolved:
That the recommendations contained within the report be approved.

Programme of Work for Durham County Council Group Accounts 2010/11

The Committee noted a letter from the External Auditor (for copy see file of Minutes) relating to a risk identified to the Group Accounts Opinion Audit.

Resolved:-
That the identified risk be noted.

15 Exclusion of the Public

Resolved:
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.

16 Annual Fraud Report 2010-11

The Committee considered a report of the Manager of Internal Audit and Risk (for copy see file of Minutes) that informed Members of action taken by Internal Audit during 2010/11 and further action planned, to raise awareness of the risk of fraud and corruption. The aim has been to help embed a strong counter fraud culture across the Council, in accordance with the Council's Counter Fraud and Corruption Strategy. Members were advised of cases of potential fraud and irregularity reported during 2010/11 together with an update on progress and outcomes. The report aimed to raise awareness of potential fraud risks arising from the Audit Commission's 'Protecting the Public Purse' 2010 publication.

Resolved:
That the recommendations contained within the report be agreed.

Action Plan- Work of Audit Committee- Part A- 27 July 2011

Ref No.	Date of Meeting	Item No.	Title of Report	Action Required	By Whom	Report to Committee (date)/ implemented
1.	18.11.10 10.2.11	9	Payment of Invoices	An update on the position will be given to Members every two months. Update provided on 10.2.11 and 26.5.11	Corporate Director, Resources	28.7.11
2.	6.1.11 10.2.11	14	Oracle Update	Written report be provided at the next meeting, and the Project Leader be invited to attend. Further updates to be provided as required	Corporate Director, Resources	TBA
3.	6.1.11	7	Annual Audit Letter	Quarterly update reports on Consolidated Action Plan to be presented to the Ctte on issues raised. Update provided on 26.5.11	Corporate Director, Resources	29.9.11
4.	6.1.11	8	Bank Account Reconciliation	Six monthly update reports be provided	Corporate Director, Resources	28.7.11
5.	6.1.11	6	Housing Benefit Inspection	Quarterly update reports on progress made in implementing recommendations Verbal Update provided on 26.5.11. Revs & Bens Manager to present next update	Revs & Bens Manager	29.9.11
6.	26.5.11	8	Final Accounts – Consolidated Action Plan Update	The establishment of a single asset register with asset valuations being carried out on a 12-month rolling basis. Quarterly update reports on progress made regarding single asset register and asset valuations. Gerald Derby be asked to attend future meeting	Gerald Darby	29.9.11
7.	30.6.11	3	Annual Internal Audit Report	Report about improvements to the Oracle system to reduce the risk of duplicate	Corporate Director, Resources	TBA

				payments being made required at a future meeting.		
8	30/6/11	3	Annual Audit Report	Report required on action being taken to prevent duplicate payments	Head of Finance	29/9/11
9	30/6/11	13	Interim Governance Report - Response	Action plan to be completed with timescales and reported to Committee	Corporate Director Resources	TBA

Audit Committee

28 July 2011

Statement of Accounts for the year ended 31 March 2011

Don McLure, Corporate Director Resources

Purpose of the Report

1 To present to Members the Statement of Accounts for the year ended 31 March 2011.

Background

2 The ‘Accounts and Audit Regulations 2011’ have introduced revised procedures for the production and publication of the annual Statement of Accounts.

3 Approval of the Statement of Accounts is a two stage approval process; the first stage is in June. The Regulations now require that the responsible financial officer, by no later than 30 June 2011, 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, subject to the views of the External Auditor.

4 The second stage, as set out in the Regulations, requires that on or before the 30th 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.

5 The Statement of Accounts is 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.

6 The attached Statement of Accounts is the statutory published accounts for the County Council.

Statement of Accounts

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

8 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 are unavoidably technical and complex.

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

10 The Statement of Accounts also includes the accounts for Durham County Council Pension Fund for which the County Council is the Administering Authority.

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

Recommendation

12 Audit Committee consider the attached Statement of Accounts for the County Council for the financial year ended 31 March 2011.

Contact: Hilary Appleton Tel: 0191 383 3550

p/r/ha03-11
19 July 2011

Appendix 1: Implications

Finance

This report details the financial position of the County Council as at 31 March 2011.

Staffing -

None

Risk -

None

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: 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	29 - 34	Once the Audit is completed the Auditor's report will be included.
Durham County Council Core Financial Statements		
Movement in Reserves Statement	35 – 36	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
Comprehensive Income and Expenditure Account (CIES)	37	The CIES is in two sections. The first section is very similar to the Income and Expenditure Account under the SORP and shows the surplus or deficit on the cost of services. The second section is very similar to the STRGL under the SORP and shows any changes in the net worth that have not been reflected in the cost of services.
Balance Sheet	38	Shows the financial position of the County Council at 31 March 2011.
Cash Flow Statement	39	Summarises the inflows and outflows of cash arising from transactions with other parties for revenue and capital purposes.
Notes to the Core Financial Statements	40 - 101	Gives further explanation to the core financial statements. They aim to assist in understanding by presenting information about the basis of preparation of the core financial statements and show the policies and procedures adopted in compiling the Accounts.
Durham County Council Group Financial Statements	102 - 114	Gives an overall understanding of the County Council's economic activities and financial position by including in Group Financial Statements other entities over which the County Council has the ability to exercise control.
The Housing Revenue Account (HRA)	115 - 119	Records revenue expenditure and income relating to the Authority's housing stock. It is a statutory ring-fenced from the General Fund. It ensures that expenditure on managing tenancies and maintaining dwellings is balanced by rents charged to tenants.
Collection Fund	120 - 123	It is a statutory requirement for a billing authority to establish and maintain a separate fund for the collection and distribution of amounts in respect of council tax and National Non-Domestic Rates

Item	Pages	Explanation of Purpose and Content
Durham County Council Pension Fund Accounts	124 – 153	Full accounts and notes relating to Durham County Council Pension Fund to provide information about the financial position, performance and financial adaptability of the Fund.
Statement of Responsibilities for the Statement of Accounts	154	Sets out the responsibilities of the County Council and the Corporate Director Resources for the Statement of Accounts.
Annual Governance Statement	155 - 166	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	167 - 178	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. It is important to try to improve the quality and suitability of information provided and feedback is welcomed.

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

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

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Telephone: 0300 123 7070

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

Contents

1. Introduction

This document presents the published accounts for Durham County Council for the year ended 31 March 2011 – the 'Statement of Accounts'. It is an important element in demonstrating the County Council's stewardship of public money. It shows the resources available and how they have been used to deliver services in County Durham.

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

- The statutory background to the Statement of Accounts
- Information and Financial Statements
- A review of 2010/11
- Material assets acquired, liabilities incurred and borrowing
- Sources of funds to meet capital expenditure and other plans
- Pensions liability
- Investments in Iceland Banks that went into liquidiation in 2008
- 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 2010/11 is prepared in accordance with the 'Accounts and Audit Regulations 2003', as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 and 2009, the 'Accounts and Audit (England) Regulations 2011 and the 'Code of Practice on Local Authority Accounting 2010/11' (the Code) as published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

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

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

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

The table overleaf gives an overview of the main changes:

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

3. Information and financial statements

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

The information and financial statements are as follows

Independent auditor’s report

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

Durham County Council’s core financial statements

Movement in reserves statement

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

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

Comprehensive income and expenditure statement (CIES)

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

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

Balance sheet

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

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

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

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

Cash flow statement

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

Notes to the accounts

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

Group financial statements

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

The housing revenue account (HRA)

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

Collection fund

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

Durham County Council Pension Fund Accounts

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

Statement of responsibilities for the statement of accounts

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

Annual governance statement

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

Glossary of terms

A glossary of financial terms is provided from page 167, to assist the reader.

4. A review of 2010/11

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

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

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

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

1) The County Council faced a major challenge in 2010/11 when, on 10 June 2010 'in year' Government Grant reductions of £18m for Durham were announced in the Government's 'Emergency' Budget.

2) 2010/11 also saw the introduction of Cash Limits for Service Groupings. This section provides detail of the outturn for the County Council's Service Grouping Cash Limits.

General Fund Outturn

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

Cash Limit Outturn

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

	Agreed Budget	Service Groupings Final	Variance	Cash Limit Adjustments: Sums Outside the Cash Limit	Cash Limit Adjustments: LGR Transtion Costs	Cash Limit Adjustments: Movement on Reserves
	£'000	£'000	£'000	£'000	£'000	£'000
Children & Young People	126,016	110,784	-15,232	7,101	0	6,879
Adult Wellbeing and Health	194,268	197,301	3,033	-6,854	0	-1,602
Neighbourhood Services	111,437	138,869	27,432	-28,477	-286	39
Regeneration and Economic Dev	66,189	63,835	-2,354	-7,365	-78	7,406
Resources	17,906	29,291	11,385	-11,057	-1,441	240
Assistant Chief Executive	14,411	13,884	-527	-2,748	0	2,381
	530,227	553,964	23,737	-49,400	-1,805	15,343
Contingencies	7,674	246	-7,428		0	
LGR Transition Costs	1,260	0	-1,260		1,805	
NET COST OF SERVICES	539,161	554,210	15,049	-49,400	0	15,343
Capital charges	-49,019	-94,550	-45,531			
Interest and Investment income	-1,577	-1,827	-250			
Interest payable and similar charges	24,527	32,088	7,561			
Reversal of HR Accrual	0	8,239	8,239			
LPSA Performance Reward Grant	0	-255	-255			
LABGI Grant	0	-436	-436			
Area Based Grant	-55,940	-55,539	401			
Net Operating Expenditure	457,152	441,930	-15,222	-49,400	0	15,343
Amount required from council tax payers	-198,813	-198,813	0			
Use of earmarked reserves	-21,573	-171	21,402			
Estimated net surplus on Collection Fund	-1,924	-1,924	0			
Revenue Support Grant	-29,333	-29,333	0			
Re-distributed Non Domestic Rates	-202,007	-202,007	0			
Use of general reserve	-3,502	-9,682	-6,180			
TOTAL	0	0	-0	-49,400	0	15,343

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

(i) Sums Outside the Cash Limit

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

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

(ii) LGR Transition Costs

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

(iii) Use of or Contribution to Earmarked Reserves

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

5) After taking into account the above exclusions, all Service Groupings have generated a Cash Limit underspend in 2010/11. It should be noted that the Adults, Wellbeing and Health figure is inflated by

the receipt of Primary Care Trust (PCT) income in February 2011 of £1.92m. This sum is fully committed against activity in 2011/12 and onwards.

6) The Cash Limit underspend for 2010/11, for each Service Grouping is detailed below:

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

Revenue Outturn

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

	Agreed Budget	Service Groupings Outturn	Variance	Cash Limit Adjustments: Sums Outside the Cash Limit	Cash Limit Adjustments: LGR Transition	Cash Limit Adjustments: Movement on Reserves	Cash Limit Position
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Employees	620,856	627,131	6,275	-6,257	-787	-6,883	-7,652
Premises	52,359	49,792	-2,567	211	-116	0	-2,472
Transport	54,849	57,179	2,330	2,182	0	0	4,512
Supplies & Services	216,146	215,960	-186	-575	-755	2,125	609
Agency & Contracted	229,216	231,814	2,598	-324	0	0	2,274
Transfer Payments	253,969	246,853	-7,116	4,873	0	1,104	-1,139
Central Costs	85,399	129,877	44,478	-39,173	0	14,625	19,930
Other	0	1,001	1,001	-2	0	0	999
RCCO	0	9,199	9,199	0	-147	0	9,052
Capital Charges	49,019	94,550	45,531	-45,531	0	0	-0
GROSS EXPENDITURE	1,561,813	1,663,357	101,544	-84,596	-1,805	10,971	26,114
Income							
- Specific Grants	655,340	653,851	-1,489	5,525	0	-2,015	2,021
- Other Grants & conts	40,658	50,433	9,775	-220	0	-254	9,301
- Sales	5,611	9,246	3,635	0	0	0	3,635
- Fees & charges	104,419	106,709	2,290	-141	0	-40	2,109
- Recharges	206,483	264,068	57,585	-40,172	0	-524	16,889
- Other	19,075	25,086	6,011	-188	0	-1,539	4,284
Total Income	1,031,586	1,109,393	77,807	-35,196	0	-4,372	38,239
NET EXPENDITURE	530,227	553,964	23,737	-49,400	-1,805	15,343	-12,126

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

	£m	£m
Net Operating Expenditure		441.93
Financed by:		
Redistributed Non-Domestic Rates	202.01	
Revenue Support Grant	29.33	
Council Tax	198.81	
Net Surplus on Collection Fund	1.93	
Net Use of Earmarked Reserves	0.17	
Use of General Reserves	9.68	
TOTAL FINANCING		441.93

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

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

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

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

	£m
LGR Pension Augmentation	2.5
LGR Transition Costs	1.2
Contribution to Crematoria Reserve	(0.2)
Total Use of General Reserve	**3.5**

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

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

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

	Non-Schools	Schools	TOTAL
	£m	£m	£m
Opening Earmarked Balance as at 1 April 2010	81.30	13.84	95.14
Less			
Net (use of) / contribution to Earmarked Reserve	(18.75)	6.45	(12.30)
Closing Earmarked Reserve Balance as at 31 March 2011	**62.55**	**20.29**	**82.84**

Service Grouping Commentary

13) A summary from each Service Grouping Outturn follows.

Assistant Chief Executive Service Grouping (ACE)

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

- £0.14m Repair and Maintenance and Design Service Recharge costs incurred.
- £0.79m Additional Pension Augmentation and Adjustment for IFRS accumulated Balance Adjustment.
- £2.72m Additional charge relating to Central Admin Charges.
- £1.21m Over recovery relating to Central Services – Income.
- £0.12m Additional Capital Charges.

Transfer to Earmarked Reserves

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

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

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

Partially offset by:

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

Adults Wellbeing and Health Service Grouping (AWH)

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

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

18) Key variations against budget are as follows:

- Through the careful management and control of vacant posts and general budgets across the service, an underspend of £2.6m has been achieved. This approach has ensured that the planned underspend for the service was achieved as targeted and also created opportunities for achieving restructures and service rationalisation required whilst minimising the impact of such changes on existing employees and services.

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

Children and Young Peoples Service Grouping (CYPS)

19) The final 2010/11 Revenue Outturn position for CYPS is an underspend against Cash Limit of £1.25m.

20) Throughout the year, reference was made to the need for CYPS to manage an in year cut to Area Based Grant of £2.76m, additional specific grant reductions and the continuing pressures on Safeguarding and Specialist Services. Budgets were reduced at Quarter Two and future budget monitoring reports reflected the grant loss.

21) By 31 March 2011, the anticipated outturn position is largely as predicted. Spending on transport budgets was around £0.4m above budget and pressures on foster placements, legal fees and contact visits exceeded budget by over £2m. To counter these overspends, Service Managers continued to limit spend on all aspects of their budgets, staff slippage in some areas was significant and the service also made use of 'one off' reserves and deployed grant funding to best effect.

22) Abortive preparation and development costs in relation to Wave 6 of the BSF programme that had been planned for County Durham, impacted on the County Council's revenue budget, as some of the BSF capital projects will not be proceeding. The revenue pressure outside the CYPS cash limit for 2010/11 was £0.28m.

23) From January 2011, Private Finance Initiative (PFI) unitary charges were due for 3 new schools. This has increased expenditure and income by around £2m, but will have a net nil effect on the 2010/11 revenue budget, as the cost is covered by a mix of grants and school contributions. However, as part of this expenditure relates to capital financing, then £0.04m appears in the accounts as an underspend (outside the cash limit) and has been balanced as part of the County Council's final year end accounts process.

24) By 31 March 2011, a high volume of redundancy payments were actioned, linked to either savings or grant loss referred to in the Medium Term Financial Plan. £1.05m was set against Corporate contingencies as part of the year end accounting process.

25) School balances have increased during 2010/11 from £13.84m to £20.29m which includes £0.64m of unspent grants. Schools make their own spending decisions against their delegated budget and in this uncertain climate as to future school funding levels, schools quite naturally are taking the opportunity to carry forward a buffer against future commitments. In 2010/11, the County Council also released the balance of equal pay/job evaluation monies being held up to the initial settlement date of 31 December 2008 (£2.8m) and many schools are still carrying forward such monies in case of potential disproportionate effects on their budgets when Job Evaluation is eventually settled.

26) The DfE introduced a scheme for the 'Capping of Balances' in 2007/08 which was agreed by the Schools Forum. This agreed a scheme for monitoring balances at the end of the Financial Year which allows schools to carry forward the greater of 8% of their budget or £0.03m for Primary Schools and 5% of their budget or £0.03m for Secondary Schools. Any sums in excess of this require a Capping of Balances Return to be completed by schools with a case for this to be carried forward (an allowable commitment) - this is monitored by the School Funding Team in the following financial year. The Schools Forum has the power to claw back any excess balance where the commitment does not materialise.

Neighbourhood Services Service Grouping

27) The final 2010/11 Revenue Outturn position for Neighbourhood Services was an underspend against Cash Limit of £1.29m. The main reasons for this net underspend are as follows:

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

Regeneration and Economic Development (RED)

28) The final 2010/11 Revenue Outturn position for RED was an underspend against Cash Limit of £2.39m. The major variations are as follows:

- ❖ A £1.10m underspend in Economic Development relating in the main to a £0.23m underspend on staffing, a £0.43m underspend on economic and regeneration initiatives and a £0.17m underspend on supplies and services budgets.
- ❖ A £0.41m underspend in Planning relating in the main to £0.12m underspend in staffing, a £0.17m underspend in grant expenditure and a £0.21m underspend on transport / running expenses budgets.

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

Resources Service Grouping

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

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

30) The following budgets are held centrally.

Interest Payable and Similar Charges

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

Interest and Investment Income

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

Capital Outturn

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

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

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

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

Service	Original Budget 2010/11	Slippage from 2009/10	Original Budget 2010/11 inc slippage from 09/10	Revised Government Grant funding and budget adj	Reprofiling to future years	In year revisions	Total Revised Budget 2010/11	Actual outturn March 31st 2011
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
CYPS	63,719	40,609	104,329	-1,508	-41,919	3,205	64,106	52,666
AWH	436	8,536	8,972	-200	-7,739	717	1,750	1,744
NEI	23,168	26,114	49,282	-728	-19,972	1,074	29,656	23,630
RED	20,017	48,973	68,990	-978	-25,634	6,840	49,219	36,388
RES	17,580	3,543	21,123	-1,000	-9,828	-883	9,411	5,786
ACE	3,110	693	3,803	-	-2,338	-	1,465	10
Other	-	-	-	-	-2,000	2,000	-	-
Total General Fund	128,030	128,468	256,499	-4,414	-109,430	12,953	155,607	120,225
Total HRA	34,103	596	34,699	10,943	-7,255	600	38,987	37,862
General Fund and HRA Total	162,133	129,064	291,197	6,529	-116,685	13,553	194,593	158,087

37) The following table details the request for slippage.

	Revised 2010/11 Budget	**2010/11 Outturn**	**Variance**		**Slippage Request**
	£m	**£m**	**£m**	**%**	**£m**
ACE	1.46	0.01	(1.45)	(100.0)	1.18
AWH	1.75	1.74	(0.01)	0	0.64
CYPS	64.10	52.67	(11.44)	(17.8)	11.70
NS	29.66	23.63	(6.03)	(20.3)	7.25
RED	49.22	36.38	(12.83)	(26.1)	12.88
Resources	9.41	5.79	(3.62)	(38.5)	3.64
TOTAL	**155.60**	**120.22**	**(35.38)**	**(22.7)**	**37.29**

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

	Original Budget 2010/11	Slippage from 2009/10	Original Budget 2010/11 inc slippage from 09/10	Revised Government Grant funding and budget adj	Reprofiling to future years	In year revisions requested	Total Revised Budget 2010/11	Actual outturn March 31st 2011
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
General Fund financing:								
Grants and Contributions	67,566	52,954	120,519	-3,414	-18,439	-16,004	82,662	68,610
Capital Receipts	3,000	20,247	23,247	-	-	500	23,747	26,150
Direct Revenue Financing / Reserves	5,443	8,408	13,851	-	-3,708	-560	9,584	16,579
Borrowing	52,022	46,859	98,881	-1,000	-87,284	29,016	39,614	8,885
	-	-	-	-	-	-	-	
Total General Fund	128,030	128,468	256,499	-4,414	-109,430	12,953	155,607	120,225
HRA financing:								
Grants and Contributions	-	-	-	10,943	-7,255	-	3,688	3,652
Capital Receipts	-	596	596	-	-	600	1,196	1,375
Direct Revenue Financing	2,781	-	2,781	-	-	-	2,781	1,341
Major Repairs Allowance	12,967	-	12,967	-	-	-	12,967	13,144
ALMO Supported Borrowing	14,500	-	14,500	-	-	-	14,500	14,500
Supported Borrowing	2,048	-	2,048	-	-	-	2,048	2,048
Unsupported Borrowing	1,807	-	1,807	-	-	-	1,807	1,802
Total HRA	34,103	596	34,699	10,943	-7,255	600	38,987	37,862
	-	-	-	-	-	-	-	
Total financing	162,133	129,064	291,197	6,529	-116,685	13,553	194,593	158,087

Service Grouping Commentary

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

ACE

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

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

AWH

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

43) The key variations relate to:

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

CYPS

44) The revised CYPS Capital budget for 2010/11 is £64.11m with Outturn of £52.67m.

45) The CYPS Capital budget has a number of significant components that are available for different purposes. From the previous financial year there has been £40.6m of slippage, largely on new primary schools and Aycliffe Secure Unit building projects. (School Devolved Capital is included in this total.) Total spend in 2010/2011 was £52.67m.

46) Most of the activity was funded via Government grant and as a consequence, budget monitoring is undertaken against specific project areas e.g.:-

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

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

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

NEIGHBOURHOOD SERVICES

48) The revised budget for Neighbourhood Services at 31 March 2011 was £29.66m. Actual expenditure incurred was £23.63m, resulting in an underspend of £6.03m.

49) The reasons for the underspends shown by service area are as follows;

Sport and Leisure (underspend of £3.53m)

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

Technical Services (£0.23m underspend)

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

Direct Services (underspend of £2.64m)

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

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

53) This underspend relates mainly to the ICT equipment project which was financed from the LGR Transition funding available. This equipment was not received prior to the year end however it has since been received and will be funded from LGR transition costs in 2011/12.

54) Although the year end underspend described above, amounts to £6.03m, additional grants, contributions and transfers from other services were highlighted after the Q3 report to Corporate Management Team (CMT), and when these were taken into account, the result was an amended slippage figure of £8.28m. £5.64m of this slippage was approved by MOWG on 8 March 2011.

RED

55) The revised RED Capital budget for 2010/11 is £49.22m with Outturn of £36.39m. Investment in this area is key to Economic Regeneration of the County. Key areas of investment during 2010/11 are shown below:

Major Scheme	£m
• Barnard Castle Vision	0.86
• North Dock, Seaham	1.81
• St John's Square	3.91
• Durham City Vision	3.40
• Durham County Cricket Club	0.50
• Durhamgate	1.41
• Housing Renewal Programme	3.94
• Travellers' Site – East Howle	1.99
• LEGI	0.92
• Disabled Facilities Grant and Financial Assistance	5.88

	Policy	
•	Industrial Estates	0.96
•	NETPark	1.81
•	Town Centres	0.20

RESOURCES

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

Asset Management (underspend of £4.69m)

57) Due to the uncertainty of the future of many buildings due to the rationalisation of property, has meant the commitment to major expenditure has been deferred. Some orders were placed later in the year and these commitments will be realised in 2011/12. Also, the total underspend relating to Disability Discrimination Act / Fire Safety and Structural Maintenance, Capitalised Repairs and Maintenance and Periodic Electrical Inspections was £2.61m. However, after including expenditure by other Service Groupings relating to these schemes only £1.5m has been slipped into 2011/12.

58) The budget for the Accommodation Strategy was partially reprofiled into future years, and works were funded from other capital budgets which requires £1.79m to be slipped into 2011/12.

59) A further £0.23m is requested to be slipped into 2011/12 due to delays in identifying projects for Energy Efficiency (£0.1m) and minor works (£0.1m).

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

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

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

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

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

62) The County Council is responsible for managing the HRA which is concerned solely with the management and maintenance of the County Council's housing stock of around 19,000 dwellings. The HRA comprises the housing stock inherited from former Easington, Wear Valley and Durham City Councils. Two arms length management organisations (ALMOs) have been established to manage Easington and Wear Valley housing stock (East Durham Homes and Dale and Valley Homes respectively) whilst Durham City is managed in-house. The responsibility for managing the HRA lies solely with the County Council and this is not delegated or devolved to the ALMOs.

63) The County Council approved the HRA budget on 26 February 2010. The 2010/11 HRA set a balanced budget which included rental income of £54.16m, direct expenditure on ALMO fees, repairs, maintenance, management and supervision of £31m and a revenue contribution to the capital programme of £2.78m. Also included as a 'negative subsidy' payment of £0.77m, depreciation of £11.94m and interest payments on housing debt of £7.71m. The rent increase approved by County Council was an average of 2.1% which equated to an average rent of £55.50 per week – an increase of £1.15 per week from 2009/10.

64) The outturn position on the HRA showing the actual position compared with the original budget identifies a surplus outturn position on the revenue account alongside a healthy level of reserves of £7.67m. The following table summarises the position:

	Budget £m	Actual £m	Variance £m
Income			
Dwelling Rents	-53.32	-53.42	-0.10
Other Income	-0.84	-1.30	-0.46
Interest and Investment Income	-0.07	-0.07	0
TOTAL INCOME	**-54.23**	**-54.79**	**-0.56**
Expenditure			
ALMO Fees	18.29	18.26	-0.03
Repairs, Supervision and Management Costs	12.73	11.83	-0.90
Negative Subsidy Payment to CLG	0.77	3.22	2.44
Depreciation	11.94	11.94	0
Interest Payable	7.71	5.83	-1.88
Revenue Contributions to Capital Programme	2.78	1.34	-1.44
TOTAL EXPENDITURE	**54.23**	**52.43**	**-1.81**
Net Position	**0**	**-2.36**	**-2.36**

65) The actual position is a surplus of £0.87m after adjusting for the underspend on the revenue contribution to capital of £1.44m, plus £0.20m from East Durham Homes and £0.15m of expenditure incurred in connection with the stock options process which is to be met out of reserves.

66) The surplus of £0.87m generated during 2010/11 has been allocated as follows:

- £0.40m to support Durham City Homes Improvement Plan;
- £0.47m to support the Capital Programme in future years.

67) In summary, the main variances are explained below:

- Income – addition income of £0.34 m includes a contribution from East Durham Homes of £0.20m received to support the capital programme deminimus capital receipts and other miscellaneous income;
- Repairs - £0.12m overspend due to fire damage of £0.03m in Wear Valley and additional repairs in Durham City £0.10m;
- General Management - savings in management of £0.78m arising from savings on insurance of £0.24m, Durham City Homes cancelled inspection £0.07m and delay in implementing service improvement plan £0.48m;
- Special Management - £0.17m saving includes reduced contribution towards supported housing £0.07m, savings from closure of communal rooms/sheltered accommodation £0.08m, and efficiencies in garden maintenance service £0.02m;
- Subsidy - additional negative subsidy payment £2.44m which includes settlement of prior claims totalling £0.38m;
- Interest payments - reduced interest payable on housing debt resulting from lower interest charges of £1.89m;
- Revenue support to Capital - reduced requirement to use revenue contributions to finance the capital programme £1.44m in 2010/11, although resources have been earmarked to support the slippage carried forward into 2011/12.

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

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

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

HRA - Decent Homes Programmes – Actual Spend £31.83m

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

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

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

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

Round 1 - £3.36m

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

Round 2 - £1.75m

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

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

2010/11 Treasury Management Report

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

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

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

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

Capital Expenditure and Financing

79) The County Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants or revenue contributions), which has no resultant impact on the County Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

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

	2009/10 Actual £m	2010/11 Estimate £m	2010/11 Actual £m
Non-HRA capital expenditure	92.59	155.60	120.22
HRA capital expenditure	27.33	38.99	37.86
Total capital expenditure	119.92	194.59	158.08
Resourced by:			
Capital receipts	19.41	24.94	27.53
Capital grants	45.71	86.35	72.26
Capital reserves	12.45	12.97	18.26
Revenue	8.82	12.36	12.80
Unfinanced capital expenditure	33.51	57.97	27.23

Overall Borrowing Need

81) The County Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the County Council's debt position. The CFR results from the capital activity of the County Council and what resources have been used to pay for the capital spend. It represents the 2010/11 unfinanced capital expenditure (see above table), and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

82) Part of the County Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the County Council's cash position to ensure sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the Government, through the Public Works Loan Board [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.

83) 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.

84) The total CFR can also be reduced by:

- the application of additional capital financing resources (such as unapplied capital receipts); or

- ❖ charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

85) The County Council's 2010/11 MRP Policy, as required by the Department of Communities and Local Government (CLG) guidance was approved as part of the Treasury Management Strategy Report for 2010/11 on 26 February 2010.

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

CFR	**31 March 2010 Actual £m**	**31 March 2011 Estimate £m**	**31 March 2011 Actual £m**
Opening balance	400.984	418.524	423.688
Add unfinanced capital expenditure (as above)	33.516	62.578	27.235
Add Finance lease / PFI	3.084		47.848
Less MRP/VRP	(13.896)	(11.840)	(13.854)
Closing balance	**423.688**	**469.262**	**484.916**

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

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

	31 March 2010 Actual £m	**31 March 2011 Estimate £m**	**31 March 2011 Actual £m**
Net borrowing position	145.92	136.19	171.82
CFR	423.69	469.26	484.92

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

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

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

Treasury Position as at 31 March 2011

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

	31 March 2010	31 March 2011
	£m	**£m**
Fixed Rate Funding		
- PWLB	289.43	289.48
- Market	26.70	28.31
Variable Rate Funding		
- PWLB		
- Market	0	0
Total Debt	**316.13**	**317.79**
CFR	**423.69**	**484.92**
Over/ - under borrowing	**-107.56**	**-167.13**
Investments	**170.21**	**145.36**

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

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

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

5. Material assets acquired, liabilities incurred and borrowing

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

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

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

31 March 2010		**31 March 2011**
£m		**£m**
	Fixed Rate Funding	
289.43	- PWLB	289.48
28.31	- Market	28.31
0	**Variable Rate Funding**	0
316.13		317.79

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).

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

General and earmarked reserves of a revenue nature, totalling £112.270m were also held as at 31 March 2011 for General Fund purposes and another £10.876m in respect of Housing. These are detailed the Notes to the Core Financial Statements.

7. Pensions liability

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

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

8. Investments in Iceland Banks

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

The County Council had £7m deposited across the three Icelandic Banks which were outstanding at the time of their collapse in October 2008. Since 2008/09 impairment of £1.627m to the asset values have been calculated in accordance with CIPFA's LAAP 82 Bulletin Update 4. During 2010/11, £0.027m of impairments have been charged through the CIES.

9. Significant provisions, contingencies and material write-offs

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

A review was carried out of all Earmarked Reserves to identify the flexibility available to create a 'Strategic Reserve'. The review identified that a Strategic Reserve of £27m could be created by amalgamating a range of Earmarked Reserves. The County Council's Earmarked Reserves are detailed in the Notes to the Accounts.

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

Earmarked Reserves	**Opening Balance**	**Use of Reserves**	**Contributions to reserves**	**New reserves established**	**Closing Balance**
	£m	**£m**	**£m**	**£m**	**£m**
Schools	13.838	-2.192	8.088		19.734
				0.639	0.639
	13.838	-2.192	8.088	0.639	20.373
Non-Schools	81.302	-48.756	5.783	16.470	54.799
Strategic Reserve		-7.106	26.903		19.797
	81.302	-55.862	32.686	16.470	74.596
TOTAL	**95.140**	**-58.054**	**40.774**	**17.109**	**94.969**

The County Council's assets have been impaired by £94.302m, this includes both loss on revaluation of the assets and the consumption of economic benefits. The County Council has suffered revaluation losses in 2010/11 due to the downturn in the economy as well as the on-going review of the County Council's asset base since Local Government Reorganisation in 2009/10. This has led to revaluation losses on some former District Council and former County Council assets. Over £22.8m revaluation losses on Sports and Leisure facilities have been charged to Neighbourhood Services.

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

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

10. Changes in statutory functions

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

11. Subsequent events

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

12. Future plans

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

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

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

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

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

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

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

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

Although the financial pressures are great, the County Council has been able to support a limited number of investments in the MTFP. These investments will enable the increasing price of the Landfill Tax to be covered whilst the County Council reduces waste going to landfill sites, enabling nearly £2m to be invested in Safeguarding Children Services, protect services for older people and tourism whilst resourcing more enforcement procedures based upon consultation feedback.

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

[Holding Pages for the Independent Auditor’s Report to Durham County Council]

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

	General Fund Balance £000	Earmarked General Fund Reserves £000	Housing Revenue Account £000	Earmarked HRA Reserves £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Capital Grants Unapplied £000	**Total Usable Reserves £000**	Unusable Reserves £000	**Total Authority Reserves £000**
Balance at 31 March 2010 carried forward	26,977	95,140	8,511	-	23,613	1,200	-	**155,441**	704,365	**859,806**
Movement in Reserves during 2010-11										
Surplus or deficit on provision of services	75,511	-	1,163	-	-	-	-	**76,674**	-	**76,674**
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	-	**-**	95,348	**95,348**
Total Comprehensive Income and Expenditure	**75,511**	**-**	**1,163**	**-**	**-**	**-**	**-**	**76,674**	**95,348**	**172,022**
Adjustments between accounting basis and funding basis under regulations (Note 8)	-85,358	-	1,202	-	-22,407	-1,200	-	**-107,763**	107,763	**-**
Net Increase/Decrease before Transfers to Earmarked Reserves	**-9,847**	**-**	**2,365**	**-**	**-22,407**	**-1,200**	**-**	**-31,089**	**203,111**	**172,022**
Transfers to/from Earmarked Reserves (Note 9)	171	-171	-3,202	3,202	-	-	-	**-**	-	**-**
Increase/Decrease inYear	**-9,676**	**-171**	**-837**	**3,202**	**-22,407**	**-1,200**	**-**	**-31,089**	**203,111**	**172,022**
Balance at 31 March 2011 carried forward	17,301	94,969	7,674	3,202	1,206	-	-	124,352	907,476	1,031,828

	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	Capital Grants Unapplied £000	**Total Usable Reserves £000**	Unusable Reserves £000	**Total Authority Reserves £000**
Balance at 31 March 2009 carried forward	42,372	89,615	6,997	-	37,349	1,888	-	**178,221**	1,022,233	**1,200,454**
Movement in Reserves during 2009-10										
Surplus or deficit on provision of services	-99,719	-	-5,797	-	-	-	-	**-105,516**	-	**-105,516**
Other Comprehensive Income and Expenditure	-1,033	-	-	-	-	-	-	**-1,033**	-234,097	**-235,130**
Total Comprehensive Income and Expenditure	**-100,752**	**-**	**-5,797**	**-**	**-**	**-**	**-**	**-106,549**	**-234,097**	**-340,646**
Adjustments between accounting basis and funding basis under regulations (Note 8)	90,881	-	7,311	-	-13,735	-688	-	**83,769**	-83,769	**-**
Net Increase/Decrease before Transfers to Earmarked Reserves	**-9,871**	**-**	**1,514**	**-**	**-13,735**	**-688**	**-**	**-22,780**	**-317,866**	**-340,646**
Transfers to/from Earmarked Reserves (Note 9)	-5,524	5,524	-	-	-	-	-	**-**	-	**-**
Increase/Decrease inYear	**-15,395**	**5,524**	**1,514**	**-**	**-13,735**	**-688**	**-**	**-22,780**	**-317,866**	**-340,646**
Balance at 31 March 2010 carried forward	26,977	95,139	8,511	-	23,614	1,200	-	155,441	704,367	859,808

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

2009-10				2010-11		
Gross Expenditure £000	Gross Income £000	Net Expenditure £000		Gross Expenditure £000	Gross Income £000	Net Expenditure £000
572,303	431,861	140,442	Children's and Education Services	600,554	460,269	140,285
213,705	51,176	162,529	Adult Social Care	222,542	54,737	167,805
63,822	2,857	60,965	Highways and Transportation	59,801	10,918	48,883
60,251	21,343	38,908	Planning and Development	81,449	22,557	58,892
63,548	18,938	44,610	Cultural and Related Services	79,220	17,085	62,135
58,953	5,586	53,367	Environmental Services	61,408	8,366	53,042
836	-	836	Courts and Probation	1,334	361	973
			Central Services			
10,416	2,429	7,987	Corporate and Democratic Core	11,108	1,029	10,079
61,234	54,544	6,690	Central Services to the Public	69,526	56,544	12,982
14,510	-	14,510	Non Distributed Costs	-211,120	-	-211,120
60,518	59,662	856	Local Authority Housing (HRA)	50,578	54,876	-4,298
185,711	177,830	7,881	Other Housing Services (including Supporting People)	205,855	180,010	25,845
15,628	18,484	-2,856	Other Services	30	-	30
7,452	-	7,452	Local Government Reorganisation	655	-	655
1,388,887	**844,710**	**544,177**	**Cost of Services**	**1,232,940**	**866,752**	**366,188**
10,187	-	10,187	Other Operating Expenditure	70,886	-	70,886
87,180	16,090	71,090	Financing and Investment Income and Expenditure	55,033	10,036	44,997
562	520,500	-519,938	Taxation and Non Specific Grant Income	959	559,704	-558,745
		105,516	**Surplus or Deficit on Provision of Services**			-76,674
		-28,062	Surplus or deficit on revaluation of PPE assets			-52,399
		579	Surplus or deficit on revaluation of available for sale financial assets			249
		261,380	Actuarial gains/losses on pension assets/liabilities			-42,610
		200	Difference between actuary's estimate and actual employer's pension contibutions			-588
		1,033	Movement in General Fund Balance due to harmonisation as a result of LGR			0
		235,130	**Other Comprehensive Income and Expenditure**			-95,348
		340,646	**Total Comprehensive Income and Expenditure**			**-172,022**

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

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

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

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

1 April 2009 £000	31 March 2010 £000		Notes	31 March 2011 £000
2,094,987	2,108,503	Property, Plant & Equipment	13	2,119,132
6,427	6,426	Investment Property	14	6,017
3,891	2,602	Intangible Assets	15	1,979
0	0	Assets Held for Sale		0
4,895	8,224	Long Term Investments	16	3,310
7,676	7,616	Long Term Debtors	16	6,010
2,117,876	**2,133,371**	**Long Term Assets**		**2,136,448**
180,681	130,762	Short Term Investments	16	76,284
0	0	Assets Held for Sale		0
3,918	4,243	Inventories	18	3,875
86,218	79,385	Short Term Debtors	19	85,750
30,332	129,152	Cash and Cash Equivalents	20	69,178
301,149	**343,542**	**Current Assets**		**235,087**
-8,387	-101,141	Cash and Cash Equivalent	20	-13,920
-9,948	-13,448	Short Term Borrowing	16	-5,344
-159,999	-127,758	Short Term Creditors	21	-135,084
0	0	Provisions		0
0	0	Liabilities in Disposal Groups		0
-178,334	**-242,347**	**Current Liabilities**		**-154,348**
0	0	Long Term Creditors		0
-34,321	-36,262	Provisions	22	-33,559
-316,750	-306,832	Long Term Borrowing	16	-315,631
-675,622	-980,581	Other Long Term Liabilities	39, 40, 43,	-778,308
0	0	Donated Assets Account		0
-13,544	-51,085	Capital Grants Receipts in Advance	36	-57,861
-1,040,237	**-1,374,760**	**Long Term Liabilities**		**-1,185,359**
1,200,454	**859,806**	**Net Assets**		**1,031,828**
178,221	155,441	Usable Reserves	23	124,352
1,022,233	704,365	Unusable Reserves	24	907,476
1,200,454	**859,806**	**Total Reserves**		**1,031,828**

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.

2009-10 £000		**2010-11 £000**
105,516	Net surplus (-) or deficit on the provision of services	-76,674
-92,020	Adjustments to net surplus or deficit on the provisions of services for non-cash movements	44,858
6,836	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	6,319
20,332	Net Cash flows from Operating Activities (Note 26)	-25,497
-27,479	Investing Activities (Note 27)	-1,840
1,081	Financing Activities (Note 28)	90
-6,066	Net increase (-) or decrease in cash and cash equivalents	-27,247
21,945	Cash and cash equivalents at 1 April	28,011
28,011	Cash and cash equivalents at 31 March	55,258

1. Accounting policies

1. General Principles

The Statement of Accounts summarises the County Council's transactions for the 2010/11 financial year and its position at the year-end of 31 March 2011. The County Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2003, which those Regulations require to be prepared in accordance with proper accounting practices.

These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 and the *Best Value Accounting Code of Practice 2010/11*, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 Act.

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.

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.

3. Cash and Cash Equivalents

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

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

4. Exceptional Items

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

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.

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 either an amount calculated on a prudent basis determined by the authority in accordance with statutory guidance].

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

7. Employee Benefits

Benefits Payable During Employment

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

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

Termination Benefits

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

Post Employment Benefits

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

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

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

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

The Local Government Pension Scheme

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

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

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

5. 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
6. 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
7. 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
8. 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
9. 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
10. 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
11. 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. Area Based Grant

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

13. Intangible Assets

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

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the County Council will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset.

Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised).

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

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

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

14. Interests in Companies and Other Entities

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

15. Inventories and Long Term Contracts

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

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

16. Investment Property

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

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

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

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

17. Jointly Controlled Operations and Jointly Controlled Assets

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

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

18. Leases

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

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

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

The County Council as Lessee

Finance Leases

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

Lease payments are apportioned between:

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

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

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

Operating Leases

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

The County Council as Lessor

Finance Leases

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

Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

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

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

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

Operating Leases

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

Overheads and Support Services

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

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

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

19. Property, Plant and Equipment

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

Recognition

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

Measurement

Assets are initially measured at cost, comprising:

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

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

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

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

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

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

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

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

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

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

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

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

Impairment

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

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

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

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

Depreciation

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

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 up to a maximum of 10 years
- infrastructure – straight-line allocation over 40 years.

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

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

20. Disposals and Non-current Assets Held for Sale

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

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

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

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

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

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

21. Private Finance Initiative (PFI) and Similar Contracts

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the County Council is deemed to control the services that are provided under its PFI schemes, and as ownership of the property, plant and equipment will pass to the County Council at the end of the contracts for no additional charge, the County Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

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 Scheme X, the liability was written down by an initial capital contribution of £x.

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 x% 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.

22. Provisions, Contingent Liabilities and Contingent Assets

Provisions

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

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

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

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

Provision for Back Pay Arising from Unequal Pay Claims

The County Council has made a provision for the costs of settling claims for back pay arising from discriminatory payments incurred before the County Council implemented its equal pay strategy.

However, statutory arrangements allow settlements to be financed from the General Fund in the year that payments actually take place, not when the provision is established. The provision is therefore balanced by an Equal Pay Back Pay Account created from amounts credited to the General Fund balance in the year the provision was made or modified. The balance on the Equal Pay Back Pay Account will be debited back to the General Fund balance in the Movement in Reserves Statement in future financial years as payments are made.

23. Landfill Allowance Schemes

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

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

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

24. Contingent Liabilities

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

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

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

25. Contingent Assets

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

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

26. Reserves

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

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

27. Revenue Expenditure Funded from Capital under Statute

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

28. VAT

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

2. IFRS 1 Note

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

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

		IFRS Transition Adjustments					
	UK GAAP 1 April 2009 £000	Short-term Accumulating Absences £000	Leases £000	Government Grants £000	Fixed Assets £000	Cash and Cash Equivalents £000	IFRS 1 April 2009 £000
Property, Plant & Equipment	2,070,049		3,836		21,102		2,094,987
Investment Property	27,529				-21,102		6,427
Intangible Assets	3,891						3,891
Long Term Investments	4,895						4,895
Long Term Debtors	7,676						7,676
Long Term Assets	**2,114,040**	**-**	**3,836**	**-**	**-**	**-**	**2,117,876**
Short Term Investments	203,541					-22,860	180,681
Inventories	3,918						3,918
Short Term Debtors	87,358		-1,140				86,218
Cash and Cash Equivalents	7,472					22,860	30,332
Current Assets	**302,289**	**-**	**-1,140**	**-**	**-**	**-**	**301,149**
Cash and Cash Equivalent	-8,387						-8,387
Short Term Borrowing	-9,948						-9,948
Short Term Creditors	-171,003			11,004			-159,999
Current Liabilities	**-189,338**	**-**	**-**	**11,004**	**-**	**-**	**-178,334**
Provisions	-17,712	-16,609					-34,321
Long Term Borrowing	-316,750						-316,750
Other Long Term Liabilities	-672,354		-3,268				-675,622
Capital Grants Receipts in Advance	-222,708			209,164			-13,544
Long Term Liabilities	**-1,229,524**	**-16,609**	**-3,268**	**209,164**	**-**	**-**	**-1,040,237**
Net Assets	**997,467**	**-16,609**	**-572**	**220,168**	**-**	**-**	**1,200,454**
Usable Reserves							
Usable Capital Receipts Reserve	-37,349						-37,349
Major Repairs Reserve	-1,888						-1,888
Housing Revenue Account	-6,997						-6,997
General Fund Balance	-43,512		1,140				-42,372
Earmarked Reserves	-89,615						-89,615
	-179,361	**-**	**1,140**	**-**	**-**	**-**	**-178,221**
Unusable Reserves							
Revaluation Reserve	-468,807				39		-468,768
Capital Adjustment Account	-1,017,143		-568	-220,168	-39		-1,237,918
Financial Instruments Adjustment Account	3,861						3,861
Deferred Capital Receipt	-3,287						-3,287
Short Term Accummulating Absences Account	-	16,609					16,609
Pension Reserve	670,970						670,970
Available for Sale Financial	-1,632						-1,632
Collection Fund	-2,068						-2,068
	-818,106	**16,609**	**-568**	**-220,168**	**-**	**-**	**-1,022,233**
Total Reserves	**-997,467**	**16,609**	**572**	**-220,168**	**-**	**-**	**-1,200,454**

	UK GAAP 31 March 2010 £000	IFRS Transition Adjustments: Short-term Accumulating Absences £000	Leases £000	Government Grants £000	Fixed Assets £000	Cash and Cash Equivalents £000	IFRS 31 March 2010 £000
Property, Plant & Equipment	2,102,122		5,283		1,097		2,108,502
Investment Property	7,524				-1,097		6,427
Intangible Assets	2,602						2,602
Long Term Investments	8,224						8,224
Long Term Debtors	7,616						7,616
Long Term Assets	**2,128,088**	**-**	**5,283**	**-**	**-**	**-**	**2,133,371**
Short Term Investments	170,518					-39,756	130,762
Inventories	4,243						4,243
Short Term Debtors	80,950		-1,565				79,385
Cash and Cash Equivalents	89,396					39,756	129,152
Current Assets	**345,107**	**-**	**-1,565**	**-**	**-**	**-**	**343,542**
Cash and Cash Equivalent	-101,141						-101,141
Short Term Borrowing	-13,448						-13,448
Short Term Creditors	-178,250			50,492			-127,758
Current Liabilities	**-292,839**	**-**	**-**	**50,492**	**-**	**-**	**-242,347**
Provisions	-18,088	-18,174					-36,262
Long Term Borrowing	-306,832						-306,832
Other Long Term Liabilities	-976,349		-4,232				-980,581
Capital Grants Receipts in Advance	-238,041			186,956			-51,085
Long Term Liabilities	**-1,539,310**	**-18,174**	**-4,232**	**186,956**	**-**	**-**	**-1,374,760**
Net Assets	**641,046**	**-18,174**	**-514**	**237,448**	**-**	**-**	**859,806**
Usable Reserves							
Usable Capital Receipts Reserve	-23,613						-23,613
Major Repairs Reserve	-1,200						-1,200
Housing Revenue Account	-8,511						-8,511
General Fund Balance	-28,542		1,565				-26,977
Earmarked Reserves	-95,140						-95,140
	-157,006	**-**	**1,565**	**-**	**-**	**-**	**-155,441**
Unusable Reserves							
Revaluation Reserve	-477,258				954		-476,304
Capital Adjustment Account	-980,623		-1,051	-237,448	-954		-1,220,076
Financial Instruments Adjustment Account	3,557						3,557
Deferred Capital Receipt	-2,806						-2,806
Short Term Accummulating Absences Account	-	18,174					18,174
Pension Reserve	975,648						975,648
Available for Sale Financial Instruments Reserve	-1,053						-1,053
Collection Fund	-1,505						-1,505
	-484,040	**18,174**	**-1,051**	**-237,448**	**-**	**-**	**-704,365**
Total Reserves	**-641,046**	**18,174**	**514**	**-237,448**	**-**	**-**	**-859,806**

Short-term accumulating compensated absences

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

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

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

Leases

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

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

Government Grants

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

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

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

Fixed Assets

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

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

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

Cash and Cash Equivalents

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

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

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

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

These assets have been included in the 2010/11 financial statements as community assets, which are held at historic cost. However, under the 2011/12 Code, heritage assets are carried at valuation, which may be made by any method that is appropriate and relevant, although they may be held at historic value, where it is not practicable to establish a valuation.

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

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

4. Critical judgements in applying accounting policies

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

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.

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

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

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

Investments

The County Council had £7m deposited across three Icelandic Banks which collapsed in 2008. Impairments to the asset values have been calculated in accordance with CIPFA's LAAP 82 Bulletin Update 4.

Recovery is subject to the following uncertainties and risks:

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

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

This would result in an additional impairment estimated to be in the region of £4m.

6. Material items of income and expense

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

7. Events after the balance sheet date

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

8. Adjustments between accounting basis and funding basis under regulations

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

2010/11:

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	-132,497	-10,469	-	-11,944	-	154,910
Revaluation losses on Property Plant and Equipment						
Movements in the market value of Investment Properties						
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	-55,386	-1,029	-6,319	-	-	62,734
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 Grants Unapplied Account:						
Capital grants and contributions unapplied credited to the CI&E Statement						
Application of grants to capital financing transferred to the Capital Adjustment Account						
Capital Receipts Reserve:						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the CI&E Statement						
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
Adjustments primarily involving the						
Deferred Capital Receipts Reserve:						
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the CI&E Statement						
Major Repairs Reserve:						
Reversal of Major Repairs Allowance Credited to the HRA						
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 x)	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
Unequal Pay Back Pay Adjustment Account:						
Amount by which amounts charged for Equal Pay claims to the CI&E Statement are different from the cost of settlements chargeable in the year in accordance with statutory requirements						
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	85,358	-1,202	22,407	1,200	-	-107,763

2009/10:

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	-98,416	-9,695	-	-11,762	-	119,873
Revaluation losses on Property Plant and Equipment						
Movements in the market value of Investment Properties						
Amortisation of intangible assets	-1,288	-	-	-	-	1,288
Capital grants and contributions applied	37,185	-	-	-	-	-37,185
Movement in the Donated Assets Account						
Revenue expenditure funded from capital under statute	-5,700	-	-	-	-	5,700
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CI&E Statement	2,356	1,205	-6,836	-	-	3,275
Insertion of items not debited or credited to the CI&E Statement:						
Statutory provision for the financing of capital investment	13,896	-	-	-	-	-13,896
Capital expenditure charged against the General Fund and HRA Balances	7,430	1,393	-	-	-	-8,823
Capital Grants Unapplied Account:						
Capital grants and contributions unapplied credited to the CI&E Statement						
Application of grants to capital financing transferred to the Capital Adjustment Account						
Capital Receipts Reserve:						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the CI&E Statement						
Use of the Capital Receipts Reserve to finance new capital expenditure	-	-	19,414	-	-	-19,414
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	-1,157	-	1,157	-	-	-
Transfer from Deferred Capital Receipts Reserve upon receipt of cash	-480	-	-	-	-	480
Adjustments primarily involving the						
Deferred Capital Receipts Reserve:						
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the CI&E Statement						
Major Repairs Reserve:						
Reversal of Major Repairs Allowance Credited to the HRA	-	-	-	12,450	-	-12,450
Use of the Major Repairs Reserve to finance new capital expenditure						
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	304	-	-	-	-	-304
Pensions Reserve:						
Reversal of items relating to the retirement benefits debited or credited to the CI&E Statement (see note x)	-103,247	-633	-	-	-	103,880
Employer's pensions contributions and direct payments to pensioners payable in the year	60,363	419	-	-	-	-60,782
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	-562	-	-	-	-	562
Unequal Pay Back Pay Adjustment Account:						
Amount by which amounts charged for Equal Pay claims to the CI&E Statement are different from the cost of settlements chargeable in the year in accordance with statutory requirements						
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	-1,565	-	-	-	-	1,565
Total Adjustments	-90,881	-7,311	13,735	688	-	83,769

9. Transfers to/from earmarked reserves

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

	Balance at 1 April 2009 £000	Transfers out 2009-10 £000	Transfers in 2009-10 £000	Balance at 31 March 2010 £000	Transfers out 2010-11 £000	Transfers in 2010-11 £000	Balance at 31 March 2011 £000
General Fund:							
Balances held by schools under a scheme of delegation	17,801	-7,624	3,661	13,838	-2,192	8,088	19,734
AAP Reserve	60	-	1,484	1,544	-440	824	1,928
ABG Reserve	9,582	-	5,636	15,218	-11,653	-	3,565
Asset Management Reserve	141	-	-	141	-141	-	-
Aycliffe Young Peoples Centre Reserve	1,721	-	306	2,027	-2,027	300	300
Benefits Administration Reserve	-	-	-	-	-	86	86
Building Services Defects Liability Reserve	-	-	912	912	-300	-	612
Cabinet	7,496	-1,248	-	6,248	-5,750	-	498
Cash Limit Reserve	-	-	-	-	-	12,126	12,126
Children's Fund Returned Grant	127	-	-	127	-127	-	-
Community Safety	86	-	-	86	-64	53	75
Connexions	491	-13	-	478	-478	-	-
Consumer Protection	-	-	-	-	-	40	40
Continuing Professional Development	662	-264	-	398	-120	-	278
Corporate Reserve	2,604	-65	183	2,722	-2,272	415	865
Culture & Leisure	817	-97	235	955	-391	2,342	2,906
Direct Service Organisation	933	-933	-	-	-	-	-
Early Retirement Pensions	8,154	-	-	8,154	-8,154		-
Education Reserve	3,423	-118	385	3,690	-1,169	1,770	4,291
Enforcement Reserve	-	-	-	-	-	45	45
Equal Pay Reserve	4,846	-2,371	499	2,974	-	499	3,473
General Housing Subsidy	26			26	-26	-	-
Health and Wellbeing Reserve	-	-	-	-	-	804	804
HMO Licensing Reserve	100	-50		50	-50	-	-
Housing General Fund Reserve	-	-	-	-	-	1,083	1,083
Information & Technical Support Service	687	-500		187	-187	-	-
Insurance	15,565	-1,113	1,068	15,520	-5,000	765	11,285
LABGI Economic Growth Fund	135	-	267	402	-	-	402
LEP Reserve	-	-	80	80	-	-	80
LSVT Reserve	160	-	-	160	-27	-	133
Performance Reward Grant Reserve	-	-	1,559	1,559	-120	255	1,694
Planning	560	-	1,630	2,190	-289	-	1,901
Reallocated underspends	868	-	-	868	-868	-	-
Regeneration & Communities	9,264	-384	200	9,080	-4,823	762	5,019
Section 106 Agreements	232	-	-	232	-232	-	-
Special Projects	3,000	-60	1,860	4,800	-3,437	7	1,370
Strategic Finance Reserve	-	-	-	-	-7,106	26,903	19,797
TAMP Funding Reserve	-	-	400	400	-	115	515
Twin Bin Implementation	10	-	-	10	-10	-	-
Youth Forum	64	-	-	64			64
Total	89,615	-14,840	20,365	95,140	-57,453	57,282	94,969
HRA:							
Housing Repairs Account	-	-	-	-	-	-	-
Capital Reserve	-	-	-	-	-	2,400	2,400
Stock Options Reserve	-	-	-	-	-	402	402
DCH Improvements Reserve	-	-	-	-	-	400	400
Total	-	-	-	-	-	3,202	3,202

10. Other operating expenditure

2009-10 £000		**2010-11 £000**
11,577	Parish council precepts	12,042
404	Levies	367
1,157	Payments to the Government Housing Capital Receipts Pool	1,199
-2,951	Gains/losses on the disposal of non-current assets	57,278
10,187	**Total**	70,886

11. Financing and investment income and expenditure

2009-10 £000		2010-11 £000
17,262	Interest payable and similar charges	16,342
56,970	Pensions interest cost and expected return on pensions assets	30,210
-5,105	Interest receivable and similar income	-2,394
45	Impairment of Financial Investments	-27
1,918	Other investment income	866
71,090	**Total**	44,997

12. Taxation and non-specific grant income

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

13. Property, plant and equipment

Movement on Balance 2010/11:

	Operational						Non-Operational		
	Council Dwellings £000	Land & Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Investment Properties £000	Total £000
Cost or valuation									
At 1 April 2010 (restated)	670,593	1,067,612	95,716	340,238	5,815	96,995	15,240	6,873	2,299,082
Additions	31,647	79,259	15,535	23,733	86	-	30,599	-	180,859
Revaluation increases/(decreases)	-19,495	2,916	-	-	-	-15,639	-7	-1,634	-33,859
De-recognition - disposals	-3,387	-79,746	-7,469	-	-	-2,339	-	-	-92,941
De-recognition - other	-	-5,673	-	-	-	-	-	-	-5,673
Other movements in cost or valuation	1,616	14,831	113	1,130	-1,284	329	-17,807	1,072	-
At 31 March 2011	680,974	1,079,199	103,895	365,101	4,617	79,346	28,025	6,311	2,347,468
Accumulated Depreciation and Impairment									
At 1 April 2010 (restated)	-241	-52,922	-60,087	-58,026	-202	-12,228	-	-447	-184,153
Depreciation charge	-11,944	-28,481	-11,151	-8,833	-4	-194	-	-	-60,607
Depreciation written out	-	12,548	-	-	-	50	-	153	12,751
Impairment written out	-758	-20,907	-9	-	-	971	-	-	-20,703
De-recognition - disposals	48	23,760	6,230	-	-	354	-	-	30,392
Other movements in depreciation and impairment	-107	106	-	-	1	-	-	-	-
At 31 March 2011	-13,002	-65,896	-65,017	-66,859	-205	-11,047	-	-294	-222,320
Net Book Value									
At 31 March 2011	667,972	1,013,303	38,878	298,242	4,412	68,299	28,025	6,017	2,125,148
At 31 March 2010 (restated)	670,352	1,014,690	35,629	282,212	5,613	84,767	15,240	6,426	2,114,929

Comparative Movements in 2009/10

	Operational						Non-Operational		
	Council Dwellings £000	Land & Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Investment Properties £000	Total £000
Cost or valuation									
At 1 April 2009	629,053	1,096,883	75,295	323,713	2,964	98,112	38,075	30,195	2,294,290
IFRS restatements	-	23,334	7,186	-	1	-	-	-23,335	7,186
At 1 April 2009 (restated)	**629,053**	**1,120,217**	**82,481**	**323,713**	**2,965**	**98,112**	**38,075**	**6,860**	**2,301,476**
Additions	27,027	34,856	14,802	16,525	379	-	15,479	13	109,081
Revaluation increases/(decreases)	17,179	-115,645	-	-	2	273	-	-	-98,191
De-recognition - disposals	-1,061	-7,816	-2,216	-	-5	-1,703	-	-	-12,801
De-recognition - other	-	-483	-	-	-	-	-	-	-483
Other movements in cost or valuation	-1,605	36,483	649	-	2,474	313	-38,314	-	-
At 31 March 2010	**670,593**	**1,067,612**	**95,716**	**340,238**	**5,815**	**96,995**	**15,240**	**6,873**	**2,299,082**
Accumulated Depreciation and Impairment									
At 1 April 2009	-6,899	-76,057	-49,065	-49,718	-236	-12,068	-	-2,668	-196,711
IFRS restatements	-	-2,234	-3,349	-	-	-	-	2,234	-3,349
At 1 April 2009 (restated)	**-6,899**	**-78,291**	**-52,414**	**-49,718**	**-236**	**-12,068**	**-**	**-434**	**-200,060**
Depreciation charge	-11,802	-34,326	-9,533	-8,308	-1	-162	-	-	-64,132
Depreciation written out	18,397	58,776	-	-	-	6	-	-	77,179
Impairment written out	-827	-13,891	-	-	-	-	-	-13	-14,731
De-recognition - disposals	783	14,942	1,860	-	-	6	-	-	17,591
Other movements in depreciation and impairment	107	-132	-	-	35	-10	-	-	-
At 31 March 2010	-241	-52,922	-60,087	-58,026	-202	-12,228	-	-447	-184,153
Net Book Value									
At 31 March 2010 (restated)	670,352	1,014,690	35,629	282,212	5,613	84,767	15,240	6,426	2,114,929
At 31 March 2009 (restated)	622,154	1,041,926	30,067	273,995	2,729	86,044	38,075	6,426	2,101,416

Depreciation

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

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

Capital Commitments

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

- AYPC New Build £3.244m
- Coxhoe Primary £0.134m
- Sedgefield Primary £0.133m
- Building Schools for the Future £20.497m
- Co-Location (Integrated Hubs) £4.827m

❖ Children's Centres	£0.300m
❖ Carriageway Maintenance	£5.049m
❖ Bridges	£0.267m
❖ Decent Homes Partnership	£19.050m
❖ NETPark Grow-on Space	£5.259m
❖ North Dock, Seaham	£0.425m
❖ Durhamgate	£3.675m
❖ Housing Group Repairs – Craghead	£0.635m
❖ Housing New Build Phase II – Crook	£5.416m

14. Investment properties

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

2009-10 £000		2010-11 £000
6,426	Balance at start of the year	6,426
-	Net gains/losses from fair value adjustments	-1,481
	Transfers:	
-	To/from Property, Plant and Equipment	1,072
6,426	**Balance at end of the year**	6,017

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

15. Intangible assets

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

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

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

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

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

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

16. Financial instruments

Categories of Financial Instruments

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

1 April 2009 Long-term £000	1 April 2009 Current £000	2009-10 Long-term £000	2009-10 Current £000		2010-11 Long-term £000	2010-11 Current £000
				Investments		
2,106	180,681	6,014	130,762	Loans and receivables	1,348	76,284
2,789	-	2,210	-	Available-for-sale financial assets	1,962	-
-	-	-	-	Unquoted equity investment at cost	-	-
-	-	-	-	Financial assets at fair value through profit and Loss	-	-
4,895	180,681	8,224	130,762	**Total Investments**	3,310	76,284
				Debtors:		
7,676	86,218	7,616	79,385	Loans and receivables	6,010	85,750
-	-	-	-	Financial assets carried at contract amounts	-	-
7,676	86,218	7,616	79,385	**Total Debtors**	6,010	85,750
				Borrowings:		
-316,751	-9,948	-306,832	-13,448	Financial Liabilities at amoritsed cost	-315,631	-5,344
-	-	-	-	Financial Liabilities at fair value through profit and loss	-	-
-316,751	-9,948	-306,832	-13,448	**Total Borrowings**	-315,631	-5,344
				Other Long term Liabilities:		
2,524	2,128	-2,998	-1,936	PFI and finance lease liabilities	-47,576	-2,519
2,524	2,128	-2,998	-1,936	**Total other long term liabilities:**	-47,576	-2,519
				Creditors:		
-	-159,999	-	-127,758	Financial liabilities at amortised cost	-	-135,084
-	-	-	-	Financial liabilities carried at contract amount	-	-
-	-159,999	-	-127,758	**Total Creditors**	-	-135,084

Reclassifications

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

Soft Loans

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

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

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

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

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

Income, expense, gains and losses

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

17. Fair Values of Assets and Liabilities

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

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

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

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

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

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

The fair values calculated are as follows:

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

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

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

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

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

18. Inventories

Year to 31 March 2011	Balance outstanding at start of year £000	Purchases £000	Recognised as an expense in the year £000	Written off balances £000	Reversals of write-offs in previous years £000	Balance outstanding at year-end £000
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
Year to 31 March 2010						
Consumable Stores	-285	18,135	-16,010	-301		1,539
Maintenance Materials	456	-	-58			398
Client Services Work in Progress	2,027	3,668	-3,011	-1,870		814
Rechargeable Works	1,745	1,348	-1,601			1,492
Total	3,943	23,151	-20,680	-2,171	-	4,243

19. Debtors

2009-10 £000		**2010-11 £000**
31,811	Central government bodies	27,477
4,235	Other local authorities	1,342
4,304	NHS bodies	4,256
-	Public corporations and trading funds	-
47,628	Other entities and individuals	62,141
-10,901	Less: Bad debt provision	-12,067
77,077		83,149
3,873	Payments in advance	2,600
80,950	**Total**	85,749

20. Cash and cash equivalents

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

21. Creditors

2009-10 £000		**2010-11 £000**
-30,223	Central government bodies	-31,695
-390	Other local authorities	-342
-1,891	NHS bodies	-1,173
-	Public corporations and trading funds	-
-77,948	Other entities and individuals	-89,647
-110,452		-122,857
-17,306	Receipts in Advance	-12,228
-127,758	**Total creditors**	-135,085

22. Provisions

The provisions at 31 March 2011 were as follows:

S117 Refunds Provision

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

Insurance Provision

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

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

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

Equal Pay and Job Evaluation

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

Accumulated Absences

A provision required for compensated absences earned but not taken in year, for example annual leave entitlement carried forward at 31 March.

Other

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

	S117 Refunds £000	Insurance £000	Equal Pay £000	Accumulated Absences £000	Other Provisions £000	Total £000
Balance at 1 April 2010	101	9,025	8,701	18,174	261	36,262
Additional provisions made in 2010-11	-	4,100	8645	-	412	13,157
Amounts used in 2010-11	-	-2,413	-3,316	-8,239	-	-13,968
Unused amounts reversed in 2010-11	-	-1,892	-	-	-	-1,892
Unwinding of discounting in 2010-11	-	-	-	-	-	-
Balance at 31 March 2011	101	8,820	14,030	9,935	673	33,559

23. Usable reserves

Movements in the County Council’s usable Statement and Notes [] and [].

31 March 2009 £000	31 March 2010 £000		31 March 2011 £000
37,349	23,613	Usable Capital Receipts Reserve	1,206
1,888	1,200	Major Repairs Reserve	0
6,997	8,511	Housing Revenue Account	7,674
42,372	26,977	General Fund Balance	17,301
89,615	95,140	Earmarked reserves	94,969
0	0	Earmarked reserves - HRA	3,202
178,221	155,441	**Total**	124,352

24. Unusable reserves

31 March 2009 £000	31 March 2010 £000		31 March 2011 £000
468,767	476,304	Revaluation Reserve	494,453
1,237,919	1,220,076	Capital Adjustment Account	1,150,563
-3,861	-3,557	Financial Instruments Adjustment Account	-2,687
3,287	2,806	Deferred Capital Receipt	1,944
-16,609	-18,174	Short Term Accumulating Absences Account	-9,934
-670,970	-975,648	FRS 17 Pension Reserve	-728,212
1,632	1,053	Available for Sale financial Reserve	804
2,068	1,505	Collection Fund	546
1,022,233	704,365	**Total**	907,477

Revaluation reserve

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

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

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

2009-10 £000		2010-11 £000
468,767	**Balance at 1 April (restated)**	476,304
84,875	Upward revaluation of assets	97,296
-56,813	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	-44,897
28,062	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	52,399
-15,473	Difference between fair value depreciation and historical cost depreciation	-12,214
-5,052	Accumulated gains on assets sold or scrapped	-22,036
-20,525	Amount written off to the Capital Adjustment Account	-34,250
476,304	**Balance at 31 March (restated)**	494,453

Available for sale financial instruments reserve

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

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

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

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 and gains recognised on donated assets that have yet to be consumed by the County Council.

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.

2009-10 £000		2010-11 £000
1,237,919	**Balance at 1 April (restated)**	1,220,076
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
-75,124	- Charges for depreciation and impairment of non-current assets	-69,906
-44,748	- Revaluation losses on Property, Plant and Equipment	-80,985
-1,288	- Amortisation of intangible assets	-1,025
-5,701	- Revenue expenditure funded from capital under statute	-16,891
-3,275	- Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	-62,735
-130,136		-231,542
20,525	Adjusting amounts written out of the Revaluation Reserve	34,250
-109,611	Net written out amount of the cost of non-current assets consumed in the year	-197,292
	Capital financing applied in the year:	
19,414	- Use of Capital Receipts Reserve to finance new capital expenditure	27,525
12,450	- Use of the Major Repairs Reserve to finance new capital expenditure	13,144
37,186	- Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	59,354
13,896	- Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	13,854
8,822	- Capital expenditure charged against the General Fund and HRA balances	17,920
91,768		131,797
0	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	-4,018
1,220,076	**Balance at 31 March (restated)**	1,150,563

Financial instruments adjustment account

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

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

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

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

Pensions reserve

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

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

Deferred capital receipts reserve

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

2009-10 £000		2010-11 £000
3,287	**Balance at 1 April**	2,806
-	Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	-
480	Transfer to the Capital Receipts Reserve upon receipt of cash	862
2,806	**Balance at 31 March**	1,944

Collection fund adjustment account

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

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

Accumulated absences account

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

2009-10 £000		2010-11 £000
16,609	**Balance at 1 April**	18,174
-	Settlement or cancellation of accrual made at the end of the preceding year	-
1,565	Amounts accrued at the end of the current year	-8,240
-	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	-
18,174	**Balance at 31 March**	9,934

25. Cash flow statement – operating activities

The cash flows for operating activities include the following items:

2009-10 £000		2010-11 £000
624,622	Employee costs	642,025
209,269	Rent allowances and council tax benefit	218,013
-207,005	Council Tax income	-211,819
-279,925	Dedicated Schools Grant	-287,682
-196,366	Benefit Grants	-210,091
-182,127	Redistributed NNDR	-202,008
-248,820	Other Government Grants	-242,123
17,262	Interest paid	16,342
-5,105	Interest receivable	-2,394
-	Dividends received	-

26. Cash flow statement – investing activities

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

27. Cash flow statement – financing activities

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

28. Cash flow statement – cash and cash equivalents

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

29. Amounts reported for resource allocation decisions

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Best Value Accounting Code of Practice.

However, decisions about resource allocation are taken by the County Council's [Cabinet] on the basis of budget reports analysed across [directorates]. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- no charges are made in relation to capital expenditure (whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisations are charged to services in the Comprehensive Income and Expenditure Statement)
- the cost of retirement benefits is based on cash flows (payment of employer's pensions contributions) rather than current service cost of benefits accrued in the year
- expenditure on some support services is budgeted for centrally and not charged to [directorates].

The income and expenditure of the County Council's principal [directorates] recorded in the budget reports for the year is as follows:

[Table – Dependant upon Segmental Analysis]

Reconciliation of [Directorate] Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement

This reconciliation shows how the figures in the analysis of [directorate] income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement.

[Table – Dependant upon Segmental Analysis]

Reconciliation to Subjective Analysis

This reconciliation shows how the figures in the analysis of [directorate] income and expenditure relate to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement.

[Table – Dependant upon Segmental Analysis]

30. Trading operations

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

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

31. Road charging schemes under the Transport Act 2000

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

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

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

32. Members allowances

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

2009-10 £000		2010-11 £000
1,657,490	Salaries	1,673,963
289,694	Allowances	292,208
130,741	Expenses	125,203
2,077,925	**Total**	2,091,373

33. Officers' remuneration

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

Name	Period	Salary, Fees and Allowances £	Bonuses £	Expenses Allowances £	Compensation for Loss of Office £	Pensions Contribution £	Total £
Chief Executive - George Garlick	2010-11	200,000		828		42,900	243,728
	2009-10	200,000		685		41,800	242,485
Corporate Director - Resources	2010-11	68,871		56		14,807	83,734
Note 1	2009-10	0		0		0	0
Corporate Director - Adults,Wellbeing and Health	2010-11	126,000		54		27,027	153,081
	2009-10	123,238		134		25,757	149,129
Corporate Director - Children and Young People's Service	2010-11	140,000		676		30,030	170,706
	2009-10	140,000		903		29,260	170,163
Corporate Director - Neighbourhood Services	2010-11	140,000		159		30,030	170,189
	2009-10	140,000				29,260	169,260
Corporate Director - Regeneration and Economic Development	2010-11	140,000				30,030	170,030
	2009-10	140,000		364		29,260	169,624
Assistant Chief Executive	2010-11	120,000		151		25,740	145,891
	2009-10	120,000		171		25,080	145,251
							0
Monitoring Officer	2010-11	110,000				23,595	133,595
Note 2	2009-10	94,762				19,805	114,567

Note 1 : The Corporate Director retired during the year and was replaced. The retired Corporate Director - Resources, received salary to the value of £37,634 and pension contributions of £8,021 in 2010/2011.

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

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

Remuneration band			2010-11 Number of Employees	2009-10 Number of Employees
£50,000	-	£54,999	208	238
£55,000	-	£59,999	134	126
£60,000	-	£64,999	52	43
£65,000	-	£69,999	29	32
£70,000	-	£74,999	11	15
£75,000	-	£79,999	19	30
£80,000	-	£84,999	13	5
£85,000	-	£89,999	5	6
£90,000	-	£94,999	5	6
£95,000	-	£99,999	13	14
£100,000	-	£104,999	1	5
£105,000		£109,999		0
£110,000		£114,999	7	6
£115,000		£119,999		0
£120,000		£124,999	2	4
£125,000		£129,999	1	1
£130,000		£134,999	1	0
£135,000		£139,999	3	0
£140,000		£144,999	0	4
£145,000		£149,999	0	1
£150,000		£154,999	0	0
£155,000		£159,999	1	0
£160,000		£164,999	0	0
£165,000		£169,999	0	1
£170,000		£174,999	0	0
£175,000		£179,999	0	0
£180,000		£184,999	0	0
£185,000		£189,999	0	0
£190,000		£194,999	0	0
£195,000		£199,999	0	0
£200,000		£204,999	1	1
			506	538

34. External audit costs

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

2009-10 £000		2010-11 £000
689	Fees payable to the Audit Commission with regard to external audit services carried out by the appointed auditor for the year	687
47	Fees payable to the Audit Commission in respect of statutory inspections	1
12	Fees payable to the Audit Commission for the certification of grant claims and returns for the year	167
6	Fees payable in respect of other services provided by the Audit commission during the year	15
754	**Net cash flows from investing activities**	870

The total fees paid to the Audit Commission of £689,000 include the annual fee of £617,000 and additional fees of £70,000 relating to audit work carried out in 2009/10.

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

Other services in 2010/110 provided by the auditor relate to the Improvement Planning Review of Durham City Housing.

35. 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 2010/11			287,682,000
B	Plus			
	Brought forward from 2009/10			2,476,113
C	Less			
	Carry forward to 2011/12 agreed in advance			2,481,076
D	Agreed budgeted distribution in 2010/11	23,919,990	263,757,047	287,677,037
E	Less			
	Actual central expenditure	21,439,284		
F	Less			
	Actual ISB deployed to schools		265,111,484	
G	Plus			
	Local authority contribution for 2010/11			
H	Carry forward to 2011/12	2,480,706	-1,354,437	3,607,345

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

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

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

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

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

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

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

H: Carry forward to 2011/12: -

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

For ISB, the over deployment on the ISB relates to transfers from central expenditure during the year on contingencies and 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 2010/11 already agreed (C)

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

36. Grant income

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

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

Grant and Contribution Income Credited to Services

2009-10 £000		2010-11 £000
	Credited to Services:	
-116	Arts Projects	-344
-170	Asylum seekers grant	-75
-186	Campus closure grant	-306
-85	CDENT grant	-138
-247	Contact Point Implementation grant	-134
-362	Darlington Borough Council	-378
-1,546	DCSF grant	-2,052
-279,925	Dedicated schools grant (DSG)	-287,682
-181	DEFRA Grant	-110
-1,558	Department for Business Innovation & Skills grant	-50
-660	Department for Transport grant	-1,499
-1,505	DFTC Concessionary Fares grant	-1,546
-477	Education Authorities-other	-485
-337	Educational visits	-366
-53	English heritage grants	-151
-1,090	ERDF grant	-2,275
-308	Health commercial placements	-402
-618	Heritage lottery fund grant	-985
-139	Home Office-positive futures grant	-129
-5,808	Housing Benefit - Admin Grant	-5,473
-51,565	Housing Benefit Grant - Council tax	-54,064
-113,300	Housing Benefit Grant - Rent Allowance	-123,914
-36,285	Housing Benefit Grant - Rent Rebate	-37,168
-24,592	Learning and skills Council grant	-38,525
-191	Learning Skills Council	-27
-617	Natural England	-569
-350	NHS Trusts	-308
-618	NNDR Cost of Collection Allowance	-615
-7,305	ODPM grant	-17
-1,304	ONE-single capital pot	-950
-720	Other local authorities	-4,769
-11,502	PCT's	-14,612
-7,310	PCT's-other	-8,217
-	PFI Grants	-1,635
-156	Police Authority	-165
-	Preventative technology grant	-303
-100	Probation Service	-60
-16,266	School standards grant	-16,511
-561	Social care reform grant	-
-650	Sports Council Grant	-449
-41,331	Standards Fund grant	-43,210
-492	Supporting People 18 to 21	-416
-15,580	Supporting people programme grant	-4,904
-18,077	Sure start grant	-19,608
-1,234	Teacher Development Agency grant	-1,252
-415	Train to Gain	-71
-108	TSI	-95
-328	YJB - ISSP grant	-325
-411	Youth justice grant	-322
-523	Youth offending teams grant	-611
-589	Youth opportunities fund grant	-193
-29,921	Other grants and contributions	-25,827
-677,772		-704,292

Capital Grants and Contributions Receipt in Advance

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

2009-10 £000		2010-11 £000
	Capital Grants and Contributions Receipts in Advance	
-230	Local Enterprise Growth Initiative (LEGI)	-412
-	Growth Point	-1,495
-430	Single Housing Investment Programme (SHIP)	-430
-4,614	Transit 15	-4,015
-	Durham City Vision	-45
-	Bowburn Development	-263
-204	Netpark Phase 2 Infrastructure	-
-	Home and Community Agency	-110
-626	Single Programme	-83
-1,511	Home and Community Agency	-1,511
-	Durham City Vision	-417
-	English Heritage	-15
-	PCT	-16
-82	DCSF	-
-194	DEFRA	-314
-6,278	DFT	-5,934
-10	Dti	-10
-101	Heritage Lottery Fund	-480
-20,317	Standards Fund	-35,519
-2,765	Sure Start	-21
-1,704	Aycliffe Young People's Centre	-31
-42	ICS Capital Grant	-
-20	ISPP Capital Grant	-
-21	Sport England	-
-114	PCT	-789
-623	IT Improvements	-730
-78	LD Shared Living	-48
-29	Improving Care Home Environment	-29
-2,113	Improvement to Traveller's Site	-
-187	SSCF	-
-199	SCP Mental Health	-246
-34	Community Safety Grant	-34
-	English Heritage	-21
-	Social Care Reform Grant	-353
-840	PCT	-
-150	REIP Community Safety Grant	-68
-7,570	Other	-4,423
-51,085	**Total Capital Grants and Contributions Receipts in Advance**	-57,861

37. Related parties

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

Central Government

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

Members

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

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

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

Officers

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

Entities Controlled or Significantly Influenced by the County Council

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

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

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

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

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

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

It should be noted:

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

Durham County Waste Management Company Limited

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

County Durham Development Company Limited

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

Dale & Valley Homes Limited

Dale & Valley Homes Limited was established as an Arms Length Management Organisation by Wear Valley District Council on 1 April 2006 to carry out the management and maintenance of council houses. The Board of Dale & Valley Homes has a total of 15 members of which 5 are members from the Council. The net liability of the company at 31 March 2011 is £1.867m (31 March 2010 £1.308m) and surplus for the year to 31 March 2011 was £661k (31 March 2010: deficit £80k).

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

East Durham Homes Limited

East Durham Homes Limited was created as an Arms Length Management Organisation in April 2004 to carry out the housing management and maintenance functions on behalf of the authority. The Board of East Durham Homes Limited has a total of 15 members of which 5 are also members of the Durham County Council. The net liability of the company at 31 March 2011 is £11.479m (31 March 2010: £17.549m) and the surplus for the year to 31 March 2011 was £2,880k (31 March 2010: deficit £210k).

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 1183 shares representing a 11.84% interest in the company.

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

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

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

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

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

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

The most recent figures available are detailed below:

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

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

Durham Tees Valley Airport Limited

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

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

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

Central Durham Crematorium

The Central Durham Crematorium was built in 1960 and is overseen by the Central Durham Crematorium Joint Committee, comprising Durham County Council and Spennymoor Town Council. The net assets of the crematorium at 31 March 2011 are £1,957k (31 March 2010: £1,673k). Durham County Council are the administrative body and employing authority for the crematorium.

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

Mountsett Crematorium

The Mountsett Crematorium was built in 1964 and is overseen by the Mountsett Crematorium Joint Committee, comprising Durham County Council and Gateshead Council. The net assets of the crematorium at 31 March 2011 are £293k (31 March 2010: £256k). Durham County Council are the administrative body and employing authority for the crematorium.

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

The Pension Fund

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

A summary of the declarations is shown below:

Member	Board Member/Member of the following Town/Parish Councils, Action Groups School Governing Body, Action Groups etc
Bob Alderson	Derwentside Homes
Joseph Armstrong	DRCC, Derwentside Homes
Bob Arthur	Brandon Community Centre
Brian Avery	Four Together, AAP
John Bailey	Howden-le Wear Comm. Partnership & Community Centre
Allan Bainbridge	Cestria Housing, CLS Youth Centre
Beaty Bainbridge	North End Residents Group, CLS Youth Centre, St Cuthbert’s RC School

Member	Board Member/Member of the following Town/Parish Councils, Action Groups School Governing Body, Action Groups etc
Alan Bell	Great Lumley Parish Council, Cestria Housing, Great Lumley Community Centre
Edward Bell	Seaham Town Council Trustee NED RC (Sunderland)
Jennifer Ann Bell	Seaham TC
Richard Bell	Durham Diocesan Board of Finance
Jan Blakey	Cassop-cum-Quarrington P.C. AAP, Bowburn Parkhill Partnership, Durham Crematorium
Geraldine Bleasdale	Seaham T.C. East Durham Homes
Dorothy Bowman	Great Aycliffe Town Council, GAMP (Great Aycliffe & Middridge Partnership)
Peter Brooks	Regional Groundwork Trust, Trimdon PC, East Durham Rural AAP
David Brown	Sedgefield Town Council
David Boyes	Easington Colliery PC, Director East Durham Homes
Becky Brunskill	Greater Willington TC,DISC
Dorothy Burn	Dene Valley PC
Colin Carr	Association of Labour Councillor, Institute of Waste Management, Beamish, Durham & Darlington Fire Authority, Ouston, Pelton, Roseberry Sports Community College
Pauline Charlton	Cockfield PC, Teesdale CAB, Teesdale Village Halls,Groundwork,2D Blind & Partially Sighted
Robert Crute	Vice-Chair of Monk Heselden PC, Blackhall Community Assoc.
Jean Chaplow	Save Deerness Sports Centre
James Sands Corden	Roseberry Comm. Sports College, Regional Flood & Coastal Defence, Committee, Armed Cadet Forces NE
Redvers Frederick Crooks	DERIC bus ,Witton Gilbert, Framwellgate Moor, Bearark PC, Bearpark Primary, AAP (CoD), CVS
Neil Crowther Foster	LA7 Newcastle Airport, East Durham Business Services, Tudhoe and Spennymoor Federation, Labour Party, CDDC, VISIT County Durham, Durham Crematorium, North Park and King Street School
David Freeman	St Nicholas Community farm, City of Durham Trust, Durham and Darlington Fire Authority
Barbara Graham	Tudhoe Community Association, Spennymoor Youth & Community Centre, Durham & Darlington Fire Authority
Joan Gray	Aycliffe TC, Labour Party, GAMP (Great Aycliffe & Middridge Partnership), Woodham Village Association
David M. Hancock	Shildon PC, AAP for B. Auckland, Sunnydale School
Barbara Harrison	Witham Trust, Montalbo School Governor, Trustee Teesdale, Development Co.
Neil A.Harrison	Bishop Auckland Partnership, Bishop Auckland Town Centre Forum

Member	Board Member/Member of the following Town/Parish Councils, Action Groups School Governing Body, Action Groups etc
Simon Henig	Pelton Fell Community Centre, CDDC, Newcastle International Airport
Michele Hodgson	Stanley TC, Lab. Party, Durham & Darlington Fire Authority, Annfield & District Community Association Groundwork NE, Mountsett Crematorium, Catchgate Childcare, Catchgate & Annfield Plain School.
Kenneth Holroyd	Belmont PC, Belmont Community Association Belmont Infant School
Amanda J Hopgood	Newton Hall Community Association
Lucy Hovvels	Trimdon PC, Durham & Darlington Fire Authority, East Durham Play & Community Network, Family Works for Charity East
Stehen Hugill	Evenwood & Barony PC
John C Hunter	The Den, Tanfield Lea, Mountsett Crematorium,
Eunice Huntington	Shotton PC
James G Huntington	Shildon TC
Sarah J Iveson	Great Aycliffe TC, Aycliffe Village Hall Assocn. Labour Party
Ossie Johnson	Lanchester PC
Patricia A Jopling	Howden-le Wear Community Partnership, AAP, Dale & Valley Homes
Audrey Laing	Peterlee TC
June E Lee	Bishop Auckland TC
John Lethbridge	Bishop Auckland TC,BA& Shildon AAP, CAB, King James1 School, Aclet Nursery ,Woodhouse Comm School
Carl Marshall	Derwentside Trust for Sports & the Arts, employed by DRCC
David Marshall	Stanley Town Council, Quaking Houses Action Group, Oxhill Residents, South Moor Partnership, Graghead Village Hall, President of Pelton Fell Bowling Club, Graphic Print
Linda Marshall	CLS AAP, DRCC, Pelton fell Partnership,
Nigel Martin	Charter Trust of Durham, Sherburn Hospital, CDDC
Peter H May	Beamish, Conservative Party, North Lodge Residents Association, North Lodge Property Owners Association.
Dennis Morgan	Cassop-cum-Quarrington PC, Durham Johnston, City of Durham Charter Trust, Bowburn Community Centre, East Durham AAP, Durham Villages Regeneration Company, DTVA, Friend of Beamish, Weardale Railway Trust
Edward Murphy	Crook TC Steering Group, 3 Towns Action Partnership
Brian Myers	Greater Willington TC, Wear Valley CAB
Alan Napier	Murton Youth Association Industrial Communities Alliance, Glebe Centre Management Committee
Joan Nicholson	Stanley TC
Morris Nicholson	Wheatley Hill PC, Thornley Regeneration, Deaf Hill PC, Thornley PC, Deaf Hill & Wheatley Primary school
Leonard O'Donnell	Labour Party

Member	**Board Member/Member of the following Town/Parish Councils, Action Groups School Governing Body, Action Groups etc**
Benjamin M Ord	Spennymoor TC
Maria Plews	Coxhoe Partnership, East Durham Rural Partnership
Maureen Potts	Ouston PC. Handen Hold Miners' Banner Group, Teesdale CAB, Affordable Housing Group, Barnard Castle School
George Richardson	S.Bedburn PC
Jon Robinson	Sedgefield TC, DRCC, Tees Esk Wear Valley Trust, JP, Sedgefield Arts Recreation Community Association
Clive Robson	YMCA Board member, St Patrick's School
James Rowlandson	Stainton & Streatlam PC, Teesdale AAP
Anita Savory	Chair- Weardale Action Partnership, Hartwell Trust, Weardale Community Hospital Stanhope, Weardale MS Society
Alan Shield	Labour Party, Cestria Housing
John Shuttleworth	Stanhope PC, Village Halls in Weardale
Dennis J Southwell	Belmont PC, Director Durham Villages Regeneration Company
Watts Stelling	Derwentside Homes, AAP
David Stoker	Durham AAP
Paul Straddling	Durham Aged Miners Assocn. Horden Youth & Community Association Horden Regeneration Partnership
Paul Taylor	Brandon & Byshottles PC
Owen Temple	Consett Methodist Church, Consett Youth Project
Alexander L Thomson	Member Belmont PC, Trustee of St. Cuthbert's Hospice & Gilesgate Youth & Community Association, Durham & Darlington Fire Authority, Charter Trust City of Durham, Beamish
Robin J Todd	South Hetton PC & South Hetton Community Association, Beamish
Edward W Tomlinson	Crook Community Partnership, CDDC, Dale & Valley Homes
John Turnbull	Brandon & Byshottles PC, Mid Durham AAP
Alan Turner	Sacriston PC, Sacriston Junior School, Cestria Housing, Sacriston Community and Sports
Andy Turner	West Auckland PC, St Helens School
John Wilkinson	Brandon & Byshottles PC
Audrey Willis	Great Lumley PC, Chester-le Street AAP, Great Lumley Resident's Association
Maureen Wood	Sherburn PC, Attlee Square Luncheon Club & Communal Hall
Carol Woods	Pittington PC, Sherburn Village PC, Sherburn SOS
Linda A Wright	Sacriston PC, Durham & Darlington Fire Authority, Sacriston Community & Sports Trust, Sacriston Comm. Assoc. Fyndoune Comm. Assoc. Plawsworth & Kimblesworth Community Association, Nettlesworth Primary School, Beamish Committee

Member	Board Member/Member of the following Town/Parish Councils, Action Groups School Governing Body, Action Groups etc
Sam Zair	Bishop Auckland TC

38. Capital expenditure and capital financing

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

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

39. Leases

County Council as lessee

Finance leases

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

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

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

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

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

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

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

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

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

Operating Leases

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

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

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

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

31 March 2010 £000		31 March 2011 £000
259	Minimum lease payments	259
-	Contingent rents	-
-264	[Sublease payments receivable]	-264
-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 2010 £000		31 March 2011 £000
2,423	Not later than one year	2,247
7,212	Later than one year and not later than five years	6,123
8,792	Later than five years	7,630
18,427		16,000

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

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

40. Private finance initiatives and similar contracts

Schools

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

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

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

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

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

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

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

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

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

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

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

Value of assets at 31 March 2011

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

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

Value of liabilities at 31 March 2011

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

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

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

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

Estimates of future payments due

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

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

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

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

41. Impairment losses

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

42. Pension schemes accounted for as defined contribution schemes

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

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

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

43. Defined benefit pension schemes

Participation in Pension Schemes

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

The County Council participates in two post employment schemes:

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

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

Transactions Relating to Post-employment Benefits

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

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

2009-10			2010-11	
Local Government Pension Scheme £000	Discretionary Benefits Arrangements £000		Local Government Pension Scheme £000	Discretionary Benefits Arrangements £000
		Comprehensive Income and Expenditure Statment		
		Cost of services:		
30,058	-	- Current service cost	43,829	-
14,510	-	- Past service cost	-205,720	-6,550
-	-	- settlements and curtailments	-	-
		Net operating expenditure		
2,342	-	- Current service cost	3,551	-
		Financing and Investment Income and Expenditure:		
98,870	4,940	- Interest cost	103,500	4,200
-46,840	-	- Expected return on scheme assets	-77,490	-
98,940	4,940	Total Post Employment Benefit Charged to the Surplus and Deficit on the Provision of Services	-132,330	-2,350
		Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement:		
-252,750	-8,630	- Actuarial gains and (losses)	42,370	240
-153,810	-3,690	Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	-89,960	-2,110
		Movement in Reserves Statement		
-98,940	-4,940	Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the code	132,330	2,350
		Actual amount charged against the General Fund Balance for pensions in the year:		
54,698		Employer's contributions payable to scheme	63,688	
	6,084	Retirement beneftis payable to pensioners		5,870

Assets and Liabilities in Relation to Post-employment Benefits

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

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

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

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

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

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

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

Scheme History

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

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

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

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

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

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

Basis for Estimating Assets and Liabilities

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

The principal assumptions used by the actuary have been:

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

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

31 March 2010 Long-term expected rate of return % pa	31 March 2010 Asset split %		31 March 2011 Long-term expected rate of return % pa	31 March 2011 Asset split %
8.0	57.1	Equity investments	8.4	55.9
8.5	4.9	Property	7.9	5.6
4.5	25.4	Government bonds	4.4	25.4
5.5	9.6	Corporate bonds	5.1	10.2
0.7	3.0	Cash	1.5	2.9
8.0	0.0	Other	8.4	0.0
6.7	100.0	**Total**	6.4	100.0

History of Experience Gains and Losses

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

	2006-07		2007-08		2008-09		2009-10		2010-11	
	£000	%	£000	%	£000	%	£000	%	£000	%
Difference between the expected and actual return on assets										
- Funded	5320	0.8%	-61,450	-9.1%	-154,050	-26.5%	243,240	20.8%	-470	0.0%
Experience gains and losses on liabilities										
- Funded and Unfunded #	1161	0.2%								
- Funded #			4,591	0.5%	3,685	0.4%	20,620	1.0%	16,248	0.9%
- Unfunded #			534	-1.3%	467	-1.2%	2,550	-3.0%	744	-1.0%

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

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

44. Contingent liabilities

a) The Spectrum Centre

Wear Valley District Council (WVDC) established the Spectrum Centre as a charitable trust in 1982, with the trustees consisting of 9 WVDC members and 2 members of the public. The centre was run as a normal leisure centre, benefiting from charitable status, but in 2006 the Council transferred the Spectrum Trust to a community group SLAM Community Development Trust on a long term lease. However, the Council had to remain as the Corporate Trustee of the Spectrum Centre. This was as a condition given by CISWO (Coal Industry Social Welfare Organisation) who it is believed 'gifted' the land to the Council many years ago.

Durham County Council is currently in discussions with SLAM Community Development Trust regarding the alleged failure of WVDC to discharge properly its duties as Trustee of the Spectrum Leisure Centre, financial irregularities, misappropriation of assets and conflicts of interest. It is also alleged that Durham County Council has failed to grasp its new responsibilities since Local Government Re-organisation and SLAM Community Development Trust are seeking compensation for these alleged grievances. All interested parties are now engaged in the process and the potential liability (if any) is, at this stage, unknown.

b) Housing Benefit and Council Tax Benefit

A contingent liability has been recognised in respect of a possible recovery of amounts reclaimed in error from the Department for Work and Pensions (DWP). Overpayments of Housing Benefit and Council Tax were identified in one area of the County Council prior to LGR and provision has been made for repayments of amounts due for 2008/09. As a result of LGR, the errors persisted in 2009/10 and there is a possibility that a repayment may be due. Representations have been made by the County Council to the Secretary of State to use his discretion not to recover the amount of overpaid Housing Benefit and Council Tax; there is uncertainty as to whether a claim will be made by DWP. There is also uncertainty over the amount that may be reclaimed.

45. Contingent assets

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed by only by 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.

46. Trust Funds (Not included in the balance sheet)

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

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

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

47. Nature and extent of risks arising from financial instruments

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

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

Overall procedures for managing risk

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

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

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

- The Authorised Limit for 2010/11 was set at £583.858m. This is the maximum limit of external borrowings or other long term liabilities.
- The Operational Boundary was expected to be £468.012m. This is the expected level of debt and other long term liabilities during the year.
- The maximum amounts of fixed and variable interest rate exposure were set at 100% and 30% based on the County Council's net debt.

These policies are implemented by a central treasury team. The County Council maintains written principles for overall risk management, as well as written policies (Treasury Management Practices – TMPs) covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash. These TMPs are a requirement of the Code of Practice and are reviewed periodically.

Credit Risk

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

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

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

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

The County Council does not generally allow credit for customers, such that £29.071m of the £67.245m balance is past its due date for payment. The past due but not impaired amount can be analysed by age as follows:

31 March 2009 £000	31 March 2010 £000		31 March 2011 £000
37,349	23,613		1,206
1,888	1,200		0
6,997	8,511	Less than three months	7,674
42,372	26,977	Three to six months	17,301
89,615	95,140	Six months to one year	94,969
0	0	More than one year	3,202

Credit Risk – Icelandic Investments Disclosure

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

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

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

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

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

Kaupthing Singer and Friedlander Ltd

For Kaupthing Singer & Friedlander Ltd a total repayment of £530,000 was received (53%) to the end of 2010/11 and the revised impairment is based on the assumption that a further 29% will be received by the end of 2012/13, taking total dividends expected to be paid to 82%.

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

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

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

Landsbanki

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

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

Recovery is subject to the following uncertainties and risks:

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

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

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

Glitnir Bank hf

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

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

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

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

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

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

Accounting for Impairment

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

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

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

Bank	Balance on FIAA at 31 March 2010 (£)	Interest credited during 10/11 (£)	Change in Impairment 10/11 (£)	Charged to General Fund 10/11 (£)	Balance on FIAA at 31 March 11 (£)
KSF	336,542	-18,504	-170,267	147,771	Nil
Landsbanki	417,954	-97,992	16,685	336,647	Nil
Glitnir Bank	-265,678	-248,864	126,230	-338,312	Nil
Total	**488,818**	**-365,360**	**-27,352**	**146,106**	**Nil**

Liquidity Risk

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

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

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

Refinancing and Maturity Risk

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

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

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

The maturity analysis of financial liabilities is shown above.

Market Risk

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

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

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus 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 County Council's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. From this Strategy a treasury indicator is set which provides maximum limits for fixed and variable interest rate exposure. The central treasury team monitor market and forecast interest rates within the year to adjust exposures appropriately. For instance during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns, similarly the drawing of longer term fixed rates borrowing would be postponed.

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

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

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

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

Price Risk

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

Foreign exchange Risk

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

Durham County Council Group Financial Statements

The financial statements and notes to those financial statements on pages 107 to 111 inclusive consider the Council only as a single entity, accounting for its interests in other organisations as investments on its Balance Sheet and any dividends received from those investments reported within its Income and Expenditure Account.

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

The following pages include:

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

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

Durham County Council Group

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

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

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

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

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

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

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

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

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

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

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

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

Subsidiaries:

Durham County Waste Management Company Limited

The County Council's waste disposal assets and liabilities were formally vested in Durham County Waste Management Company Limited in 1993. The Company is a 'Local Authority Waste Disposal Company' and was created under the Environmental Protection Act 1990. The principal activity of the Company is that of waste disposal. The County Council owns 84% of the issued share capital with Darlington Borough Council owning the remaining 16%. The Company's net assets at 31 March 2011 were £2.52m (31 March 2010: 5.59m) and the loss for the year amounted to £5,079k (31 March 2010: profit £219k).

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

County Durham Development Company Limited

The Company was established in 1986 to promote, encourage and secure the economic development of the County. It is wholly owned by the County Council and limited by guarantee. The County Council will continue to support the Company in order that its liabilities will be met as they fall due. The Company's net assets at 31 March 2011 were £1.494m (31 March 2010: £1.482m) and the profit for the year amounted to £12k (31 March 2010: £268k).

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

East Durham Homes Limited

East Durham Homes Limited was created as an Arms Length Management Organisation in April 2004 to carry out the housing management and maintenance functions on behalf of the authority. The Board of East Durham Homes Limited has a total of 15 members of which 5 are also members of the Durham County Council. The net liability of the company at 31 March 2011 is £11.479m (31 March 2010: £17.549m) and surplus for the year to 31 March 2011 was £2,880k (31 March 2010: £210k).

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

Dale & Valley Homes Limited

Dale & Valley Homes Limited was established as an Arms Length Management Organisation by Wear Valley District Council on 1st April 2006 to carry out the management and maintenance of council houses. The Board of Dale & Valley Homes Limited has a total of 15 members of which 5 are members from the Council. The net liability of the company at 31 March 2011 is £1.867m (31 March 2010: £1.308m) and surplus for the year to 31 March 2011 was £661k (31 March 2010: deficit £80k).

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

County Durham Crematorium

Durham Crematorium was built in 1960 and is run by the Central Durham Crematorium Joint Committee. The Central Durham Crematorium Joint Committee is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. It also has a responsibility under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy efficiency and effectiveness. This Committee was jointly established by the City of Durham Council and Spennymoor Town Council. Following Local Government Reorganisation, as successor to the City of Durham Council, Durham County Council acts as the lead authority. In discharging this overall responsibility, the Central Durham Crematorium Joint Committee is also responsible for putting in place proper arrangements for the governance of its affairs and for ensuring that there is a sound system of internal control which facilitates the effective exercise of its functions and which includes arrangements for the management of risk. The net assets of the Crematorium at 31 March 2011 are £1,957k (31 March 2010: £1,673k).

Movement in Reserves Statement

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

2010-11:

	General Fund Balance £000	Earmarked General Fund Reserves £000	Housing Revenue Account £000	Earmarked HRA Reserves £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Unusable Reserves £000	**Total Authority Reserves £000**	Authority's Share of Reserves of Subsidiaries £000	**Total Reserves attributable to Council £000**
Balance at 1 April 2010 carried forward	26,977	95,140	8,511	-	23,613	1,200	704,365	**859,806**	-12,498	**847,308**
Movement in Reserves during 2010-11										
Surplus or deficit on provision of services	103,774	-	1,163	-	-	-	-	**104,937**	-28,749	**76,188**
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	95,348	**95,348**	3,657	**99,005**
Total Comprehensive Income and Expenditure	**103,774**	**-**	**1,163**	**-**	**-**	**-**	**95,348**	**200,285**	**-25,092**	**175,193**
Adjustments between Group Accounts and authority accounts	-28,263	-	-	-	-	-	-	**-28,263**	28,263	**-**
Net Increase/Decrease before Transfers	**75,511**	**-**	**1,163**	**-**	**-**	**-**	**95,348**	**172,022**	**3,171**	**175,193**
Adjustments between accounting basis and funding basis under regulations	-85,358	-	1,202	-	-22,407	-1,200	107,763	**-**	-	**-**
Net Increase/Decrease before Transfers to Earmarked Reserves	**-9,847**	**-**	**2,365**	**-**	**-22,407**	**-1,200**	**203,111**	**172,022**	**3,171**	**175,193**
Transfers to/from Earmarked Reserves	171	-171	-3,202	3,202	-	-	-	**-**	-	**-**
Increase/Decrease in Year	**-9,676**	**-171**	**-837**	**3,202**	**-22,407**	**-1,200**	**203,111**	**172,022**	**3,171**	**175,193**
Balance at 31 March 2011 carried forward	17,301	94,969	7,674	3,202	1,206	-	907,476	1,031,828	-9,327	1,022,501

2009-10:

	General Fund Balance £000	Earmarked General Fund Reserves £000	Housing Revenue Account £000	Earmarked HRA Reserves £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Unusable Reserves £000	**Total Authority Reserves £000**	Authority's Share of Reserves of Subsidiaries £000	**Total Reserves attributable to Council £000**
Balance at 1 April 2009 carried forward	42,372	89,615	6,997	-	37,349	1,888	1,022,233	**1,200,454**	-7,209	**1,193,245**
Movement in Reserves during 2009-10										
Surplus or deficit on provision of services	-65,675	-	-5,797	-	-	-	-	**-71,472**	-33,700	**-105,172**
Other Comprehensive Income and Expenditure	-1,033	-	-	-	-	-	-234,097	**-235,130**	-5,634	**-240,764**
Total Comprehensive Income and Expenditure	**-66,708**	**-**	**-5,797**	**-**	**-**	**-**	**-234,097**	**-306,602**	**-39,334**	**-345,936**
Adjustments between Group Accounts and authority accounts	-34,044	-	-	-	-	-	-	**-34,044**	34,044	**-**
Net Increase/Decrease before Transfers	**-100,752**	**-**	**-5,797**	**-**	**-**	**-**	**-234,097**	**-340,646**	**-5,290**	**-345,936**
Adjustments between accounting basis and funding basis under regulations	90,881	-	7,311	-	-13,735	-688	-83,769	**-**	-	**-**
Net Increase/Decrease before Transfers to Earmarked Reserves	**-9,871**	**-**	**1,514**	**-**	**-13,735**	**-688**	**-317,866**	**-340,646**	**-5,290**	**-345,936**
Transfers to/from Earmarked Reserves	-5,524	5,524	-	-	-	-	-	**-**	-	**-**
Increase/Decrease in Year	**-15,395**	**5,524**	**1,514**	**-**	**-13,735**	**-688**	**-317,866**	**-340,646**	**-5,290**	**-345,936**
Balance at 31 March 2010 carried forward	26,977	95,139	8,511	-	23,614	1,200	704,367	859,808	-12,499	847,309

Reconciliation of Movement in Reserves Statement to Balance Sheet

31 March 2009 £000	31 March 2010 £000		31 March 2011 £000
1,193,245	847,309	Total Reserves in the Movement in Reserves Statement	1,022,501
1,363	1,229	Minority interests' share of reserves of subsidiaries	794
1,194,608	**848,538**	**Total Reserves in the Balance Sheet**	**1,023,295**

Adjustments between Group Accounts and Authority Accounts in the Group Movement in Reserves Statement

2010-11:

	General Fund Balance £000	Earmarked General Fund Reserves £000	Housing Revenue Account £000	Earmarked HRA Reserves £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Unusable Reserves £000	**Total Authority Reserves £000**	Authoriy's Share of Reserves of Subsidiaries £000	**Total Reserves £000**
Purchase of goods and services from subsidiaries	-32,639	-		-	-	-	-	**-32,639**	32,639	**-**
Sale of goods and services from subsidiaries	4,376	-	-	-	-	-		**4,376**	-4,376	**-**
Total adjustments between Group Accounts and authority accounts	-28,263	-	-	-	-	-	-	-28,263	28,263	-

2009-10:

	General Fund Balance £000	Earmarked General Fund Reserves £000	Housing Revenue Account £000	Earmarked HRA Reserves £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Unusable Reserves £000	**Total Authority Reserves £000**	Authoriy's Share of Reserves of Subsidiaries £000	**Total Reserves £000**
Purchase of goods and services from subsidiaries	-39,196	-		-	-	-	-	**-39,196**	39,196	**-**
Sale of goods and services from subsidiaries	5,152	-	-	-	-	-		**5,152**	-5,152	**-**
Total adjustments between Group Accounts and authority accounts	-34,044	-	-	-	-	-	-	-34,044	34,044	-

Group Comprehensive Income and Expenditure Statement

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

2009-10				2010-11		
Gross Expenditure £000	Gross Income £000	Net Expenditure £000		Gross Expenditure £000	Gross Income £000	Net Expenditure £000
572,238	431,861	140,377	Children's and Education Services	600,482	460,269	140,213
213,705	51,176	162,529	Adult Social Care	222,542	54,737	167,805
63,822	2,857	60,965	Highways and Transportation	59,801	10,918	48,883
59,971	21,323	38,648	Planning and Development	80,924	22,040	58,884
63,548	18,938	44,610	Cultural and Related Services	79,220	17,085	62,135
82,047	29,347	52,700	Environmental Services	93,067	34,051	59,016
836	-	836	Courts and Probation	1,334	361	973
		-	Central Services			-
10,168	2,429	7,739	Corporate and Democratic Core	10,897	1,029	9,868
61,234	54,544	6,690	Central Services to the Public	69,526	56,544	12,982
14,510	-	14,510	Non Distributed Costs	-211,120	-	-211,120
60,518	59,662	856	Local Authority Housing (HRA)	50,578	54,876	-4,298
182,290	175,268	7,022	Other Housing Services (including Supporting People)	199,942	178,450	21,492
15,628	18,484	-2,856	Other Services	30	-	30
7,452	-	7,452	Local Government Reorganisation	655	-	655
1,407,967	**865,889**	**542,078**	**Cost of Services**	**1,257,878**	**890,360**	**367,518**
10,187	18	10,169	Other Operating Expenditure	71,270	-	71,270
89,129	16,472	72,657	Financing and Investment Income and Expenditure	56,152	10,267	45,885
688	520,500	-519,812	Taxation and Non Specific Grant Income	966	561,071	-560,105
		105,092	**Surplus or Deficit on Provision of Services**			-75,432
		-28,254	Surplus or deficit on revaluation of PPE assets			-52,399
		579	Surplus or deficit on revaluation of available for sale financial assets			249
		267,420	Actuarial gains/losses on pension assets/liabilities			-46,588
		200	Difference between actuary's estimate and actual employer's pension contibutions			-588
		1,033	Movement in General Fund Balance due to harmonisation as a result of LGR			-
		240,978	**Other Comprehensive Income and Expenditure**			-99,326
		346,070	**Total Comprehensive Income and Expenditure**			**-174,758**

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

2009-10				2010-11		
Authority £000	Minority Interest £000	Total £000		Authority £000	Minority Interest £000	Total £000
105,172	-80	105,092	Surplus or Deficit on the Provision of Services	-76,188	756	-75,432
240,764	214	240,978	Other Comprehensive Income and Expnediture	-99,005	-321	-99,326
345,936	**134**	**346,070**	**Total Comprehensive Income and Expenditure**	**-175,193**	**435**	**-174,758**

Group Balance Sheet

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

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

1 April 2009 £000	31 March 2010 £000		Notes	31 March 2011 £000
2,110,911	2,125,215	Property, Plant & Equipment		2,133,381
6,427	6,426	Investment Property		6,017
4,859	3,682	Intangible Assets		2,972
-	-	Assets Held for Sale		-
3,737	7,066	Long Term Investments		2,152
6,597	6,676	Long Term Debtors		5,210
2,132,531	**2,149,065**	**Long Term Assets**		**2,149,732**
182,259	133,471	Short Term Investments		79,009
-	-	Assets Held for Sale		-
4,368	4,413	Inventories		3,900
72,440	58,289	Short Term Debtors		90,355
37,794	136,018	Cash and Cash Equivalents		74,304
296,861	**332,191**	**Current Assets**		**247,568**
-8,387	-101,225	Cash and Cash Equivalent		-14,006
-9,948	-13,448	Short Term Borrowing		-5,344
-148,337	-109,946	Short Term Creditors		-143,917
-	-	Provisions		-
-	-	Liabilities in Disposal Groups		-
-166,672	**-224,619**	**Current Liabilities**		**-163,267**
-29	-	Long Term Creditors		-148
-44,758	-44,950	Provisions		-41,850
-316,750	-306,832	Long Term Borrowing		-315,631
-693,031	-1,005,233	Other Long Term Liabilities		-795,250
-	-	Donated Assets Account		-
-13,544	-51,085	Capital Grants Receipts in Advance		-57,861
-1,068,112	**-1,408,100**	**Long Term Liabilities**		**-1,210,740**
1,194,608	**848,537**	**Net Assets**		**1,023,293**
186,047	163,945	Usable Reserves		130,719
1,008,561	684,592	Unusable Reserves		892,574
1,194,608	**848,537**	**Total Reserves**		**1,023,293**

Group Cash Flow Statement

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

2009-10 £000		2010-11 £000
105,092	Net (surplus) or deficit on the provision of services	-75,432
-95,766	Adjustments to net surplus or deficit on the provisions of services for non-cash movements	43,128
6,836	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	6,372
16,162	Net Cash flows from Operating Activates (Note 9)	-25,932
-22,983	Investing Activities (Note 10)	-269
1,406	Financing Activities (Note 11)	260
31	Taxation	422
-5,384	Net increase or decrease in cash and cash equivalents	-25,519
29,407	Cash and cash equivalents at the beginning of the reporting period	34,793
34,791	Cash and cash equivalents at the end of the reporting period	60,312

Notes to the Group Financial Statements

1. Accounting policies

General Principles

The Group Financial Statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 and the Best Value Accounting Code of Practice 2010/11, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 Act.

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

Where group entities have not yet adopted IFRS, an exercise has been performed to assess whether the adoption of IFRS would have resulted in a material change to the financial statements. In all cases, no material changes were found and therefore no changes have been made to the Group Financial Statements as a result of IFRS.

Disclosure notes have not been included in the group accounts where they are not materially different from those included within the single entity accounts.

Basis of consolidation

The Group Financial Statements include the accounts of the authority and its subsidiary undertakings. All intercompany transactions are eliminated, as are any intercompany profits or losses.

The accounting policies applied by each of the entities within their respective Financial Statements are consistent with those applied by the Council in preparing its entity Statement of Accounts. Consequently the accounting polices applied by the Council detailed on pages 40 to 52 inclusive apply to the Group Financial Statements.

The following sets out policies applied by entities within the Group which are not covered by the accounting polices detailed in the Council's entity Statement of Accounts:

1. Intangible fixed assets

Goodwill has been capitalised and is amortised so as to write off the cost to the profit and loss account in equal annual instalments over a period of 20 years.

2. Tangible fixed assets

Durham County Council land and buildings are valued on the basis recommended by CIPFA and in accordance with the Statements of Asset Valuation Principles and Guidance Notes issued by the Royal Institute of Chartered Surveyors. The land and buildings of the subsidiary, Durham County Waste Management Company Limited are stated at historic cost less accumulated depreciation.

The subsidiary, Durham County Waste Management Company Limited, has site development costs which are written off over the expected useful life of the site or, in the case of landfill sites, in proportion to the void space used.

3. Site restoration and aftercare

Provision has been made in for site restoration and aftercare costs likely to be incurred in the foreseeable future on sites filled or partially filled at the year end. Full provision is made for the costs, discounted at an appropriate cost of capital. The unwinding of the discount is charged on an annual basis to interest payable in the Income and Expenditure Account. The asset arising, representing part of the cost of the sites, has been included in fixed assets and is being amortised as the site volumes are depleted.

4. Pension costs

The subsidiary, County Durham Development Company Limited, pension contributions are payable at a defined contribution rate into a scheme of the employee's choice. The company charges pension contributions to the profit and loss account in the period in respect of which they become payable.

5. Deferred taxation

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred taxation is measured on a non-discounted basis at the tax rates that are expected to apply in the period in which timing differences reverse, based on taxation rates and laws enacted at the balance sheet date.

2. Minority Interest

The minority interest relates to the 16% shareholding in Durham County Waste Management Company Limited held by Darlington Borough Council and the 20% holding in Central Durham Crematorium held by Spennymoor Town Council.

3. Financing and investment income

2009-10 £000		2010-11 £000
18,004	Interest payable and similar charges	16,439
58,140	Pensions interest cost and expected return on pensions assets	31,050
-5,144	Interest receivable and similar income	-2,443
45	Income and expenditure in relation to investment properties and changes in their fair value	-27
1,918	Other investment income	866
72,963	**Total**	45,885

4. Intangible Assets

2009-10 £000		2010-11 £000
	Balance at start of year:	
10,596	Gross carrying amounts	10864
-5,718	Accumulated amortisation	-7183
4,878	**Net carrying amount at start of year**	**3681**
	Additions:	
269	Purchases	800
-	Disposals	-1505
-	Impairment losses recognised in the Surplus/Deficit on the Provision of Services	-93
-1,465	Amortisation for the period	-1230
-	Amortisation written out on disposal	1319
3,682	**Net carrying amount at end of year**	**2972**
	Comprising	
10865	Gross carrying amounts	10066
-7183	Accumulated amortisation	-7094
3682		**2972**

5. Tangible Assets

Fixed Assets 09-10 Rev

	Operational								Non Operational			
	Council Dwellings	Land & Buildings at valuation	Land & Buildings at Historic Cost	Site Development	Vehicles, Plant, Furniture and Equipment	Infrastructure Assets	Community Assets	Restoration & aftercare costs	Surplus assets held for disposal	Assets under construction	Investment Properties	Total Operational & Non Operational Assets
Cost or Valuation	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
At 1 April 2009 (restated)	629,053	1,120,841	5,702	9,314	91,046	323,713	2,965	13,237	98,112	38,075	6,860	2,338,918
Additions	27,027	35,173	1,424	1,633	15,347	16,525	379	0	0	15,479	13	113,000
Revaluation increases/(decreases)	17,179	-115,744	0	0	0	0	2	0	273	0	0	-98,290
Derecognition - disposals	-1,061	-7,816	0	0	-3,297	0	-5	0	-1,703	0	0	-13,882
Derecognition - other	0	-483	0	0	0	0	0	0	0	0	0	-483
Other movements in cost or valuation	-1,605	36,483	0	0	649	0	2,474	-1,306	313	-38,314	0	-1,306
At 31 March 2010	**670,593**	**1,068,454**	**7,126**	**10,947**	**103,745**	**340,238**	**5,815**	**11,931**	**96,995**	**15,240**	**6,873**	**2,337,957**
Accumulated Depreciation and Impairment												
At 1 April 2009 (restated)	-6,899	-78,581	-2,484	-4,978	-57,452	-49,718	-236	-8,746	-12,068	0	-434	-221,596
Depreciation charge	-11,802	-34,408	-98	-1,657	-10,331	-8,308	-1	-368	-162	0	0	-67,135
Depreciation written out	18,397	59,066	0	0	0	0	0	1,013	6	0	0	78,482
Impairment written out	-827	-13,891	0	0	0	0	0	0	0	0	-13	-14,731
Derecognition - disposals	783	14,942	0	0	2,933	0	0	0	6	0	0	18,664
Other movements in depreciation and impairment	107	-132	0	0	0	0	35	0	-10	0	0	0
At 31 March 2010	**-241**	**-53,004**	**-2,582**	**-6,635**	**-64,850**	**-58,026**	**-202**	**-8,101**	**-12,228**	**0**	**-447**	**-206,316**
Net Book Value												
At 31 March 2010 (restated)	**670,352**	**1,015,450**	**4,544**	**4,312**	**38,895**	**282,212**	**5,613**	**3,830**	**84,767**	**15,240**	**6,426**	**2,131,641**
At 31 March 2009 (restated)	**622,154**	**1,042,260**	**3,218**	**4,336**	**33,594**	**273,995**	**2,729**	**4,491**	**86,044**	**38,075**	**6,426**	**2,117,322**

Fixed Assets 10-11

	Operational								Non Operational			
	Council Dwellings	Land & Buildings at valuation	Land & Buildings at Historic Cost	Site Development	Vehicles, Plant, Furniture and Equipment	Infrastructure Assets	Community Assets	Restoration & aftercare costs	Surplus assets held for disposal	Assets under construction	Investment Properties	Total Operational & Non Operational Assets
Cost or Valuation	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
At 1 April 2010 (restated)	670,593	1,068,454	7,126	10,948	103,745	340,238	5,815	11,931	96,995	15,240	6,873	2,337,958
Additions	31,647	79,284	0	808	16,216	23,733	86	0	0	30,599	0	182,373
Revaluation increases/(decreases)	-19,495	2,916	0	0	0	0	0	0	-15,639	-7	-1,634	-33,859
Derecognition - disposals	-3,387	-79,746	0	0	-7,481	0	0	0	-2,339	0	0	-92,953
Derecognition - other	0	-5,673	0	0	0	0	0	0	0	0	0	-5,673
Other movements in cost or valuation	1,616	14,831	0	0	-278	1,130	-1,284	46	329	-17,807	1,072	-345
At 31 March 2011	**680,974**	**1,080,066**	**7,126**	**11,756**	**112,202**	**365,101**	**4,617**	**11,977**	**79,346**	**28,025**	**6,311**	**2,387,501**
Accumulated Depreciation and Impairment												
At 1 April 2010 (restated)	-241	-53,004	-2,582	-6,635	-64,851	-58,026	-202	-8,102	-12,228	0	-447	-206,318
Depreciation charge	-11,944	-28,569	-136	-557	-12,007	-8,833	-4	-180	-194	0	0	-62,424
Depreciation written out	0	12,548	0	0	0	0	0	0	50	0	153	12,751
Impairment written out	-758	-20,907	0	-679	-1,525	0	0	0	971	0	0	-22,898
Derecognition - disposals	48	23,760	0	0	6,239	0	0	0	354	0	0	30,401
Other movements in depreciation and impairment	-107	106	0	0	385	0	1	0	0	0	0	385
At 31 March 2011	**-13,002**	**-66,066**	**-2,718**	**-7,871**	**-71,759**	**-66,859**	**-205**	**-8,282**	**-11,047**	**0**	**-294**	**-248,103**
Net Book Value												
At 31 March 2011	**667,972**	**1,014,000**	**4,408**	**3,885**	**40,443**	**298,242**	**4,412**	**3,695**	**68,299**	**28,025**	**6,017**	**2,139,398**
At 31 March 2010 (restated)	**670,352**	**1,015,450**	**4,544**	**4,313**	**38,894**	**282,212**	**5,613**	**3,829**	**84,767**	**15,240**	**6,426**	**2,131,640**

6. Long-term Investments

The following amounts have been taken out of the Council's long-term investments as they relate to companies within the group:

2009-10 £000		2010-11 £000
-	County Durham Development Company	-
1,158	Durham County Waste Management Company	1,158
-	Central Durham Crematorium	-
-	East Durham Homes	-
-	Dale & Valley Homes	-
1,158		**1,158**

7. Long-term debtors

The following amounts have been taken out of the Council's long term debtors as they relate to companies within the group:

2009-10 £000		2010-11 £000
-	County Durham Development Company	-
940	Durham County Waste Management Company	905
-	Central Durham Crematorium	-
-	East Durham Homes	-
-	Dale & Valley Homes	-
940		**905**

8. Contingent Liabilities

Note 45 to the Durham County Council entity Statement of Accounts gives details of contingent liabilities relating to the single entity. Additional contingent liabilities relating to the group are included below:

[There will be some contingent liabilities relating to DCWMC, but as we have not received the final accounts we do not know what these are].

9. Cash Flow – Operating Activities

2009-10 £000		2010-11 £000
624,835	Employee Costs	642,025
209,269	Rent allowances and council tax benefit	218,013
-207,005	Council Tax income	-211,819
-279,925	Dedicated Schools Grant	-287,682
-196,366	Benefits Grants	-210,091
-182,127	Redistributed NNDR	-202,008
-248,820	Other Government Grants	-242,123
18,784	Interest paid	16,394
-5,182	Interest receivable	-8,610
-	Dividends received	-

10. Cash Flow – Investing Activities

2009-10 £000		2010-11 £000
123,223	Purchase of property, plant and equipment, investment property and intangible assets	156,237
1,355,659	Purchase of short-term and long-term investments	789,881
-	Other payments for investing activities	-
-6,861	Proceeds from the sale of property, plant and equipment, investment property and intangible	-6,381
-1,399,927	Proceeds from short-term and long-term investments	-849,024
-95,077	Other receipts from investing activities	-90,982
-22,983	**Net cash flows from investing activities**	-269

11. Cash Flow – Financing Activities

2009-10 £000		2010-11 £000
-	Cash receipts of short-term and long-term borrowing	-11,156
-8,003	Other receipts from financing activities	-1,244
751	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-	2,552
8,598	Repayments of short-term adn long-term borrowing	10,108
60	Other payments for financing activities	-
1,406	**Net cash flows from financing activities**	260

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. Statement on Movement on the HRA Balance.

Notes to the HRA follow these two statements.

HRA Income and Expenditure Account

2009-10 £000		2010-11 Notes	2010-11 £000
	Income		
-52,476	Dwelling Rents (Net of voids)	6	-53,425
-818	Non Dwelling Rents (Net of voids)		-851
-1,240	Charges for Services and Facilities		-101
-43	Contributions towards Expenditure		-344
-54,577	Total Income		-54,721
	Expenditure		
15,664	Repairs and maintenance	8	12,819
12,730	Supervision and Management	8	9,846
12	Rent, Rates, Taxes and Other Charges	9	65
2,765	Negative HRA Subsidy Payable	5	3,216
163	Debt Management Costs		113
7,032	Depreciation and Impairment of Non-Current Assets	10 & 11	22,574
911	Movement in the Allowance for Bad Debts	7	303
39,277	Total Expenditure		48,936
-15,300	Net Cost of HRA Services per Authority Income and Expenditure Statement		-5,785
1,590	HRA Services Share of Corporate and Democratic Core		1,085
713	HRA Share of Other Amounts Included in the Whole Authority Net Cost of Services but Not Allocated to Specific Services		402
-12,997	Net Cost of HRA Services		-4,298
-1,205	(Gain) or Loss on Sale of HRA Non-Current Assets		1,029
5,653	Interest Payable and Similar Charges		5,826
-79	Interest and Investment Income		-69
-	Capital Grants & Contributions Receivable		-3,652
-8,628	(Surplus)/Deficit for the Year on HRA Services		-1,164

Statement of Movement on the HRA Balance

This statement takes the surplus or deficit on the HRA Income and Expenditure Statement and reconciles it to the surplus or deficit on the HRA Balance, calculated in accordance with the Local Government and Housing Act 1989.

2009-10 £000		**2010-11 £000**
7,114	(Surplus) or deficit for the year on the HRA Income and Expenditure Statement	-1,202
7,114	Net additional amount required by statute to be debited or (credited) to the HRA Balance for the Year	2,000
14,228	(Increase) or Decrease in the Housing Revenue Account Balance	798
-6,997	Housing Revenue Account surplus brought forward	-8,511
7,231	**HRA Surplus carried forward**	-7,713

The surplus on the HRA Income and Expenditure Statement shown above is measured on a basis that is consistent with UK GAAP. However, local authorities operate under specific statutory rules, which specify what income and expenditure must be taken into account when determining the impact on its HRA. In order to give a full presentation of the financial performance of the County Council on its HRA for the year, the HRA Income and Expenditure Statement is reconciled to the movement on HRA balance.

Note to the Statement of Movement on the HRA Balance

2009-10 £000		2010-11 £000
	Items included in the HRA Income and Expenditure Account but excluded from the movement on HRA Balance for the Year	
4,730	Difference between any other item of income and expenditure determined in accordance with the SORP and determined in accordance with statutory HRA requirements (if any)	-6,978
1,205	Gain or (loss) on sale of HRA Non-Current Assets	-1,029
-633	Net charges made for retirement benefits in accordance with FRS17	4,925
-	Sums directed by the Secretary of State to be debited or credited to the HRA that are not income or expenditure in accordance with UK GAAP	-
5,302	Sub Total	-3,082
	Items not included in the HRA Income and Expenditure Account but included in the movement on HRA Balance for the Year	
-	Transfers to/(from) the Major repairs reserve	-
-	Transfers to/(from) the Housing Account	-
419	Employer's contributions payable to the Pension Fund and retirement benefits payable direct to pensioners	539
-	Voluntary set aside for debt repayment	-
1,393	Capital expenditure funded by the HRA	1,341
1,812	Sub Total	1,880
	Transfers to or from Housing Revenue Account Balance required to be taken into account when determining the movement on the Housing Revenue Account Balance	
-	Transfers to / (from) Earmarked Reserve	3,202
7,114	**Net additional amount required by statute to be debited or (credited to the HRA Balance for the Year**	-1,202

Notes to HRA Income and Expenditure Account

1. Acquired Operations

On 1st April 2009 Durham County Council acquired the housing stock of the former district authorities of Durham City, Easington and Wear Valley.

2. Housing Stock

The County Council was responsible for managing an average of 18,891 dwellings during 2010/2011. 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, 2010	11,490	1,968	5,471	18,929
Additions	28	1	1	30
Sales	(34)	(1)	(1)	(36)
Demolitions	(33)	(25)	-	(58)
Other Disposals	(10)	-	(1)	(11)
Stock at 31 March, 2011	11,441	1,943	5,470	18,854

The housing stock is managed on a day to day basis by three separate providers consisting of two Arms Length Management Companies (ALMO's) – Dale and Valley Homes (4,245 dwellings) and East Durham Homes (8,503 dwellings), and one in-house provider – Durham City Homes (6,106 dwellings). This reflects the management arrangements that were in place in the former district authorities of Wear Valley, Easington and Durham City prior to local government reorganisation which the new Unitary Authority has now inherited.

3. Housing Assets Valuation

The total balance sheet value of the land, houses and other property within the Housing Revenue Account was as follows:

Valutaion at 01/04/2010		Valuation at 31/03/2011
	Asset type	
	Operational Assets	
665,420	Dwellings	663,090
4,933	Garages	4,882
670,353	Total Dwellings including Garages	667,972
25,803	**Other Land and Buildings**	34,111
5,878	**Non-Operational Assets**	6,472
702,034	**Balance Sheet Valuation**	708,555

The Vacant Possession value of the dwellings held in the Housing Revenue Account as at 1st April 2010 was £1,326,230,172. 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.

4. Capital Expenditure and Financing

The County Council spent £37.862m during 2010/2011 on its HRA Assets as shown below: -

2009/2010 £000		2010/2011 £000
	Expenditure	
27,328	Improvements to Council Housing	37,862
27,328	**Total Expenditure**	37,862

This expenditure was financed as follows:

2009/2010 £000		2010/2011 £000
	Financing	
11,762	Majors repairs Allowance	11,944
-	Capital Receipts	1,375
13,471	Supported Borrowing	16,548
-	Prudential Borrowing HCA New Build	1,802
15	Capital Grants	3,652
1,393	Revenue Contributions	1,341
687	Reserves and Balances	1,200
27,328	**Total Financing**	37,862

5. Capital Receipts

During 2010/2011 the County Council generated £2.663m gross capital receipts from the sale of its Housing assets as shown in the following table:

	2010/2011 £000
So	
Council House Sales (RTB Legislation)	1,610
Qualifying Council House Disposals	706
Council House Mortgage Repayments	40
Housing Land & Other Sales	307
Total Capital Receipts	2,663

Under the Capital Receipts Pooling Arrangements the County Council had to pay over to the Government £1.2m of the above sale proceeds in 2010/2011. This is shown in the following table:

	Capital Receipts £000	Usable Element £000	Poolable Element £000
Source of Receipt			
Council House Sales (RTB Legislation)	1,610	441	1,169
Qualifying Council House Disposals	706	706	-
Council House Mortgage Repayments	40	10	30
Housing Land & Other Sales	307	307	-
Total	2,663	1,464	1,199

6. HRA Subsidy

The Housing Revenue Account subsidy is based on a notional account representing the Government's assessment of what the County Council should be collecting and spending. Below is a breakdown of that assessment:

2009/2010 £000		2010/2011 £000
29,353	Management and Maintenance	29,589
11,762	Major Repairs Allowance	11,944
6,660	Charges for Capital	6,677
467	Rent Contraint Allowance	-
48,242	**Subsidy Allowances**	48,210
	Less:	
-6	Mortage Interest	-6
-51,001	Assumed rent Income	-51,046
-51,007	**Subsidy Reductions**	-51,052
-	Prior Years Adjustments	-374
-2,765	**Total Subsidy (Payable) / Due**	-3,216

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.

7. Dwelling Rents

This sum represents the gross rental income due for the year after allowance is made for empty properties. During the year 1.4% of properties available for rent were vacant, which is less than the Government's target of 2% for empty properties. The average rent in 2010/2011 was £55.41 a week on a 52 week basis.

8. Rent Arrears and Provision for Bad and Doubtful Debts

The amount of rent arrears at 31 March 2011 was £3.362m (£3.251m at 1 April 2010).

The County Council, in accordance with SORP Guidance, annually reassesses the potential losses that could arise from defaulting debtors. The charge to the HRA reflects the change in the provision required after taking into account sums recovered from former tenants.

The aggregate balance sheet provision in respect of uncollectable debts at 31 March 2011 is £2.527m (£2.428m at 1 April 2010).

The actual charge to the HRA in respect of bad debts provision and debts written off in 2010/2011 was £0.303m. This charge relates to write-offs of uncollectable rent of £0.204m and an increase in provision of £0.099m to ensure the provision reflects the estimated doubtful debt based on an age profile of value of rent arrears.

9. Supervision and Management (General and Special)

Supervision and management expenditure on functions relating to all HRA properties are charged under this item. General Services includes expenditure on HRA policy and management, tenancy management, and rent collection and accounting. Special Services are the running costs of those services that benefit specific groups of tenants, these include communal heating and lighting, lifts, caretaking and cleaning, grounds maintenance and non-essential care welfare services. Sheltered Housing provision comes under the heading of Special Services.

The HRA includes management fee payments to the two ALMO's – Dale and Valley Homes and East Durham Homes of £5.911m and £12.355m respectively. This is broken down as follows:

	East Durham Homes £000	Dale & Valley Homes £000	Total £000
Repairs and Maintenance	6,348	2,448	8,796
Supervision and Management	6,007	3,463	9,470
Total Management Fee	12,355	5,911	18,266

10. 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.

11. Depreciation of Fixed Assets

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 County Council's mix of dwelling archetypes, and it is accepted that the MRA is likely to constitute a reasonable estimate of depreciation for HRA dwellings.

During 2010/2011 the total charge made for depreciation of HRA assets was £12.773m as shown below: -

2009/2010 £000		2010/2011 £000
	Asset type	
11,762	Operational Assets: Dwellings	11,944
2,821	Operational Assets: Other Buildings e.g. Garages	829
185	Operational Assets: Vehicles, Plant & Equipment	-
61	Non-operational Assets: Shops etc	-
-181	Government Grants Written Down	-
14,648	**Total Depreciation Charge**	12,773

12. Impairment of Fixed Assets

There were revaluations in 2010-11 in respect of impairment on HRA assets. The net result in the current year of impairment charges £9.801m.

13. Movement on Major repairs Reserve (MRR)

The County Council is required to maintain a Major Repairs Reserve (MRR). The items to be credited to the reserve are an amount equal to HRA dwelling depreciation for the year, and transfers from the HRA required by statutory provision. Movements in the Major Repairs Reserve during the year were as follows:

2009/2010 £000		2010/2011 £000
	Movement on Reserve	
-1,888	**Balance as at 1st April**	-1,201
-11,762	Depreciation on HRA Assets	-11,944
12,449	HRA Capital Expenditure funded from MRR	13,145
-1,201	**Balance as at 31st March**	-

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, Durham and Darlington Fire and Rescue Authority and to Durham County Council General Fund. Notes to the statements follow.

2009-10 £000		2010-11 Notes	2010-11 £000
	Income		
-193,041	Council Tax due from Taxpayers	2	-197,184
-51,181	Council Tax Benefit		-53,520
-98,773	Non Domestic Rates due from Ratepayers	3	-92,458
-342,995	Total Income		-343,162
	Expenditure		
	Precepts and Demands	4	
205,167	Durham County Council (including 123 Parishes of £12.04m)		210,854
22,683	Durham Police Authority		23,775
13,134	County Durham & Darlington Fire & Rescue Authority		13,613
	Business Rates		
98,155	Payment to National Pool		91,843
618	Costs of Collection		615
	Bad & Doubtful Debts		
867	Write Offs - Council Tax		883
161	Change in Provision for Bad &Doubtful Debts	5	433
2,816	Distribution of Previous Years Estimated Surplus	6	2,313
343,601	Total Expenditure		344,329
606	Movement on Fund Balance		1,167
-2,422	Surplus on Fund Brought Forward		-1,816
-1,816	**Fund Balance Carried Forward**	**7**	**-649**

Notes to the Collection Fund Accounts

1. The Collection Fund Income and Expenditure Account

This statement represents the transactions of the Collection Fund, a statutory fund separate from the General Fund of the County Council. The Collection Fund accounts independently for income relating to Council Tax and Non Domestic Rates on behalf of those bodies (including the County Council's own General Fund) for which the income has been raised. The costs of administering the Collection Fund are accounted for in the General Fund.

2. Council Tax

Council Tax was introduced by the Government to replace the Community Charge with effect from 1st April 1993. It is a tax based on property values, which are grouped into eight bands ranging from A to H.

Durham County Council is the billing authority for its administrative area and collects Council Tax to cover its own requirements and those of Durham Police Authority, County Durham and Darlington Fire and Rescue Authority and, where applicable, Town and Parish Councils.

Based on information on the Valuation Lists (held on a District basis for 2010/11) the properties in each area are categorised into Bands A to H, as in the table overleaf. An agreed proportion is applied to properties in each band to convert them into Band D equivalents. Further adjustments to the number of properties are made in respect of those occupied by a single Council taxpayer (25% discount), second homes, 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	142,874	6/9ths	95,249
Over £ 40,000 up to £ 52,000	Band B	28,288	7/9ths	22,002
Over £ 52,000 up to £ 68,000	Band C	27,797	8/9ths	24,708
Over £ 68,000 up to £ 88,000	Band D	18,663	1	18,663
Over £ 88,000 up to £120,000	Band E	9,244	11/9ths	11,298
Over £120,000 up to £160,000	Band F	3,509	13/9ths	5,069
Over £160,000 up to £320,000	Band G	1,964	15/9ths	3,273
Over £320,000	Band H	248	2	496
		232,587		180,758
Chargeable Properties (after single person discounts etc) (Taxbase):				**154,976.2**

The Council Tax base for 2009/10 was 153,774.7

The average Band D Council Tax for the year was made up as follows:

Authority	2009-10 £000	2010-11 £000
Durham County Council	1,258.92	1,282.86
Durham Police authority	147.51	153.41
County Durham & Darlington Fire & Rescue Authority	85.41	87.84
Band D Tax (Plus Town/ Parish precept as applicable)	1,491.84	1,524.11

3. Business Rates (Non Domestic)

Business Rates are determined on a national basis by Central Government, which sets an annual non-domestic rating multiplier each year.

A new valuation list was applied from 1st April 2010 that re-valued all non-domestic properties and rebased the annual multiplier. The Small Business Relief was continued for properties with lower rateable values. For 2010/11 the general multiplier amounted to £0.414 (£0.485 in 2009/10) and the Small Business Relief was set at £0.407 (£0.481 in 2009/10).

Subject to the effects of transitional arrangements, local businesses pay rates calculated by multiplying their rateable value by this multiplier. The Council is responsible for collecting rates due from the ratepayers in its area but pays the proceeds, after various exemptions and reliefs (e.g. empty premises, charitable organisations, etc) into a national non-domestic rate pool, administered by the Government. The total non-domestic rateable value for Durham County Council at 31 March 2011 was £294,288,559 (£247,562,015 at 31 March 2010).

4. Precepts and Demands

The following authorities made a Precept or demand on the Fund in 2010/11:

Authority	2009-10 £000	2010-11 £000
Durham County Council	205,167	210,854
Durham Police authority	22,683	23,775
County Durham & Darlington Fire & Rescue Authority	13,134	13,613
Total	240,984	248,242

In 2009/10, the District Demands include Town and Parish precepts totalling £11,576,797. In 2010/11, the County Demand includes Town and Parish precepts of £12,041,489

A total of 123 Town and Parish Council levied a Precept in 2010/11. In addition, the newly formed Charter Trust for the City of Durham raised a charge of £5 for each residential dwelling in the former City of Durham.

The Band D Town or Parish precept ranged from £nil to £245.65. There are also areas for which there is no Town or Parish Council.

Regulations require that those Town or Parish Councils levying a precept of £140,000 or more are separately identified in Council Tax literature. Details of those Councils are detailed in the table below:

Authority	2009-10 £000	2010-11 £000
Barnard Castle	122,520	151,143
Brandon & Byshottles	140,635	141,365
Chilton	191,758	198,694
Easington Colliery	345,000	345,000
Ferryhill	594,030	614,120
Great Aycliffe	1,625,500	1,623,000
Horden	448,489	470,299
Monk Hesleden	246,788	254,191
Murton	304,500	305,000
Peterlee	1,325,498	1,407,621
Seaham	1,068,935	1,109,555
Sedgefield	229,000	232,435
Shildon	628,210	651,370
Spennymoor	1,170,181	1,208,240
Stanley	800,000	800,000
Trimdon	125,000	145,000
Sub Total	9,366,044	9,657,033
Other Town and Parish Precepts	2,210,753	2,384,456
Total	11,576,797	12,041,489

5. Provision for Bad Debts

Each year the provision made for uncollectable amounts on both Council Tax and NNDR is revised by examining the aged debt analysis and applying the basis agreed in the County Council's detailed accounting policies.

In 2010/11 the bases applied are as follows:

Council Tax: Flat rate provision of 30% of arrears. This is temporary arrangement to allow time for the development of an appropriate policy without needing to substantially alter the reserves.

NNDR: The provision is based upon the aged debtors listing, in line with percentages adopted for Sundry debtors .The agreed percentages were amended in line with the analysis available for the differing Business Rates systems:

Age of Debt	Provision Applied
Up to 1 Year	20%
1 to 2 Years	40%
Over 2 Years	100%

6. Previous Year's Surplus

Any surplus or deficit on the Collection Fund at the end of the year must be taken into account in setting future years Council Taxes by those authorities precepting upon the fund.

The Council Tax surplus distributed during 2010/11 was shared between principal authorities as follows: -

Authority	Total Surplus distributed in 2009-10 £000	Total Surplus distributed in 2010-11 £000
Durham County Council	2,400	1,924
Durham Police Authority	265	246
County Durham & Darlington Fire & Rescue Authority	151	143
Total Distributed	2,816	2,313

7. Collection Fund Balance

The Collection Fund balance at the end of the 2010/11 financial year amounted to a surplus of £649,263 which is due to be shared between principal authorities as shown below:

Authority	2009-10 £000	2010-11 £000
Durham County Council	1,505	547
Durham Police Authority	196	65
County Durham & Darlington Fire & Rescue Authority	115	37
Total Distributed	1,816	649

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 Surplus £000	Provision for Bad debts- Council Tax Arrears £000	Council Tax Arrears £000	Council Tax Overpayments and Prepayments £000
Durham County Council	547	3,827	-11,854	2,989
Durham Police Authority	65	458	-1,418	357
County Durham & Darlington Fire & Rescue Authority	37	262	-811	205
Total Distributed	649	4,547	-14,083	3,551

Fund Account

2009-10			2010-11	
£000	£000		£000	£000
		DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED IN THE SCHEME		
118,041		Contributions receivable (see note 13)	101,633	
11,186		Transfers in from other pension funds	9,057	
-		Other income	4	
	129,227			110,694
(85,473)		Benefits (see note 14)	(86,533)	
(13,121)		Payments to and on account of leavers (see note 15)	(11,164)	
(1,132)		Administrative expenses	(1,247)	
-		Other payments	(1,545)	
	(99,726)			(100,489)
	29,501	**Net additions from dealings with members**		**10,205**
		RETURN ON INVESTMENTS		
31,378		Investment income (see note 16)	36,238	
375,300		Change in market value of investments (see note 6)	74,340	
		Taxation (see note 8)		
(3,959)		Investment management fees (see note 12)	(6,510)	
	402,719	**Net returns on investments**		**104,068**
	432,220	**NET INCREASE IN THE NET ASSETS AVAILABLE FOR BENEFITS**		**114,273**
	1,249,749	**NET ASSETS OF THE FUND AT 1ST APRIL**		1,681,969
	1,681,969	**NET ASSETS OF THE FUND AT 31ST MARCH**		1,796,242

Net Assets Statement

2009-10			2010-11	
£000	£000		£000	£000
		Investment assets		
43,820		Fixed interest securities (see note 5 & 6)	39,513	
879,152		Equities (see note 5 & 6)	899,460	
313,638		Index linked securities (see note 5 & 6)	354,037	
395,887		Pooled investment vehicles (see note 5 & 6)	444,589	
20,956		Other cash deposits (see note 5 & 6)	42,745	
5,383		Derivative contracts (see note 9)	6,515	
		Other investment balances		
6,619		Dividend accruals	4,849	
593		Tax recovery	566	
1,265		Other investment balances	2,637	
	1,667,313			1,794,911
		Investment liabilities		
(6,400)		Derivative contracts (see note 9)	(8,097)	
(3,730)		Other investment balances	(6,112)	
	(10,130)			(14,209)
		Current assets		
27,313		Contributions due from employers	18,718	
2,598		Other current assets	2,438	
	29,911			21,156
		Current liabilities		
(465)		Unpaid benefits	(694)	
(4,660)		Other current liabilities	(4,922)	
	(5,125)			(5,616)
	1,681,969	**NET ASSETS OF THE SCHEME AVAILABLE TO FUND BENEFITS**		**1,796,242**

The accounts summarise the transactions of the scheme and deal with the net assets at the disposal of the trustees. They do not take account of obligations to pay pensions and benefits which fall due after the end of the period.

The actuarial position of the scheme, which does take account of such obligations, is disclosed in Note 3 along with the actuarial statement. These accounts should be read in conjunction with them.

1. Fund Operation and Membership

Durham County Council is the Administering Authority for the Durham County Council Pension Fund. The County Council administers the Scheme on behalf of 68 contributing employers including Borough, Parish and Town Councils, Statutory Bodies and Colleges. Contributing bodies include:

Local Authorities -

Durham County Council

Darlington Borough Council

Parish Councils -

Brandon and Byshottles

Chilton

Easington Colliery

Easington Village

Esh

Fishburn

Framwellgate Moor

Horden

Hutton Henry

Lanchester

Monk Hesleden

Murton

North Lodge

Shotton

South Hetton

Thornley

Trimdon

Trimdon Foundry

Wheatley Hill

Wingate

Statutory Bodies -

Durham Police Authority

Valuation Tribunal Service

Central Durham Joint Crematorium Committee

County Durham and Darlington Fire and Rescue Authority

St Aidan’s Academy

North East Fire Control

Sedgefield Borough Homes

Colleges -

Bishop Auckland College

Darlington College

Queen Elizabeth Sixth Form College

Derwentside College

New College, Durham

East Durham & Houghall Community College

Admitted Bodies -

Cestria Community Housing Association

Dale and Valley Homes

Derwentside Homes

East Durham Homes

North Star Housing

Three Rivers Housing

Barnard Castle School

Bowes Museum

Leisureworks

Murton Welfare Association

Hobson Golf Club

Peterlee Fire Company

Compass Group UK

The Forge

Town Councils -	Mitie Cleaning
Ferryhill	Mitie PFI Ltd
Great Aycliffe	Mears Limited
Peterlee	Kier East Durham
Seaham	Creative Management Services
Sedgefield	Morrisons Facility Services Ltd
Shildon	Taylor Shaw (Longfield)
Spennymoor	Taylor Shaw (Primaries)
Stanley	KGB Cleaning and Support Services
Barnard Castle	Shotton Hall Academy

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

The Fund provides benefits for employees of the bodies listed above. On retirement, contributors receive payments of lump sums and annual pensions. Entitlement to these benefits arises mainly on the grounds of reaching retirement age and retirement through ill health, through early retirement schemes or being made redundant. Contributors who leave and who are not immediately entitled to these benefits may have their pension rights transferred or preserved until reaching retirement age. In a minority of cases refunds of contributions can be made.

In 2010/11, the number of pensionable employees in the Fund was 18,449 (19,405 in 2009/10), and the number of pensioners was 15,334 (14,922 in 2009/10).

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

2009-10			2010-11	
Benefits	Contributions		Benefits	Contributions
£000	£000		£000	£000
70,854	79,405	Administering Authority	77,989	83,925
13,873	28,151	Scheduled Bodies	6,602	11,650
746	10,485	Admitted Bodies	1,942	6,058
85,473	**118,041**		**86,533**	**101,633**

The Corporate Director Resources is responsible for the administration of the Pension Fund and is assisted by the Pensions Division and Strategic Finance in his statutory duty to ensure the Pension Fund remains solvent and is administered effectively. The Pension Fund Committee meet quarterly to assess investment performance and annually to consider wider matters. The Committee is comprised of Durham County Council and Darlington Borough Council members. Durham County Council officers, staff observers and other stakeholders are also present.

Further information about the Fund can be obtained from its separately published Annual Report, available from the Corporate Director Resources, County Hall, Durham, DH1 5UE and is available on the County Council's website: www.durham.gov.uk.

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
- 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 with the exception of Transfer Values. These have been accounted for on a cash basis as the amount payable or receivable is not determined until payment is made and accepted by the recipient.

The accounts were authorised for issue by the Corporate Director Resources on 30 June 2011.

USE OF ESTIMATION AND JUDGEMENTS

The preparation of the statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these 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.

In his budget on 22 June 2010, the Chancellor announced the following:

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

The switch to CPI as the basis for future revaluation and pension increases has a significant impact on the actuarial present value of the promised retirement benefits as disclosed in Note 3.

This is because all pensions, once they come into payment, and the deferred pensions of former employees, will now be increased in line with an index that is expected, over the long term, to be lower than the RPI index it replaces. This, in turn, will reduce the value of the benefits and hence the value placed on those benefits.

The Fund's actuary has estimated that, had the switch to CPI been implemented on 31 March 2010, the actuarial present value of the promised retirement benefits would have reduced by £292m. i.e. the actuarial present value of promised retirement benefits would have been £2,541m.

SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these accounts and have been applied.

Plan Assets

Valuation of Investments

Investments are included in the accounts at their fair value, in the case of marketable securities fair value is equal to market value. Market value is the bid price quoted in an active market for securities and unitised investments. Fair value is the price that a buyer and seller may reasonably exchange an asset in an arm's length transaction. The accounting policies used for specific material types of investment follow:

Quoted equity securities that are traded on an exchange are accounted for on a mid-market basis as a basis of fair value, where fund managers provide valuations in this manner. Where fund managers provide both bid and offer prices, the bid price is used for market value.

Unquoted equity investments are included based on an estimated price of the investments held. Valuation techniques are used to establish a price at the year end date based on an arm’s length exchange given normal business considerations.

Unitised securities are valued at the closing bid price if bid and offer prices are reported by the relevant exchange and in the fund manager’s valuation report; otherwise the mid-market, or average price as reported is used. For single priced unitised securities these are valued at the reported price.

Fixed interest securities that are traded on an exchange are accounted for on a mid-market basis as a basis of fair value where fund managers provide valuations in this manner. Where fund managers provide both bid and offer prices, the bid price is used for market value.

All prices in foreign currency are translated into sterling at the prevailing rate on the 31 March.

Derivatives are included in the Net Assets Statement at fair value and gains and losses arising are recognised in the Fund Account as at 31 March. Fair value on forward foreign currency contracts are determined by the gain or loss that would arise at the 31 March from entering into an equal and opposite contract at that date.

Investment income

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

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

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

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

Investment transactions

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

Investment Management Expenses

The fees relating to the managers are described in Note 12.

Acquisitions costs of investments

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

Interest on property development

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

Administrative expenses

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

Independent advisers’ fees are based on a retainer for attendance at Pension Fund Committee and Annual Meetings and the provision of advice to the Pension Fund Committee. Fees for any additional work are based on a daily or hourly rate, as provided for by agreement or by separate arrangement.

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

Contribution income

Contribution income is categorised and recognised accordingly:

Member contributions are recognised in the period they are deducted from salary.

Employers' normal contributions are also recognised in the period the deduction is made from salary.

Employers' augmentation contributions are accounted for in accordance with the agreement under which they are being paid. Where no agreement exists they are accounted for on a receipts basis.

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 20.

However when these AVCs are used to purchase extra years' service from the Pension Fund, this is recognised as contribution income in the Accounts on an accruals basis. Amounts received in this way can be found in Note 13 as additional contributions from members.

Pension benefits

Pension benefits are recognised and recorded in the accounting records and reported in the financial statements as an expense in the period to which the benefit relates. [PF SORP 2.187]

3. Actuarial Position of the Fund

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

The Scheme Regulations require that a full actuarial valuation is carried out every third year. The purpose of this is to establish that the Durham County Council Pension Fund (the Fund) is able to meet its liabilities to past and present contributors and to review employer contribution rates.

The last full actuarial investigation into the financial position of the Fund was completed as at 31 March 2010 by Aon Hewitt Limited, in accordance with Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008.

Actuarial Position

- Rates of contributions paid by the participating Employers during 2010/11 were based on the actuarial valuation carried out as at 31 March 2007.
- The valuation as at 31 March 2010 showed that the funding ratio of the Fund had increased since the previous valuation with the market value of the Fund's assets at that date (of £1,682m) covering 80% of the liabilities allowing, in the case of current contributors to the Fund, for future increases in pensionable remuneration.
- The valuation also showed that the required level of contributions to be paid to the Fund by participating Employers (in aggregate) with effect from 1 April 2011 was as set out below:
    - 13.1% of pensionable pay to meet the liabilities arising in respect of service after the valuation date.

  Plus

    - Monetary amounts to restore the assets to 100% of the liabilities in respect of service prior to the valuation date over a recovery period of up to 19 years from 1st April 2011. The estimated monetary amounts to be paid as set out in the valuation report are £29.1m in 2011/12 and £28.4m in 2012/13, increasing broadly by 5.3% p.a. thereafter.

- ❖ The majority of Employers participating in the Fund pay different rates of contributions depending on their past experience, their current staff profile, and the recovery period agreed with the Administering Authority.
- ❖ The rates of contributions payable by each participating Employer over the period 1 April 2011 to 31 March 2014 are set out in a certificate dated 30 March 2011.
- ❖ The contribution rates were calculated taking account of the Fund’s funding strategy as described in the Funding Strategy Statement, and for the majority of Employers using the projected unit actuarial method.
- ❖ The main actuarial assumptions were as follows:

Discount rate	
Scheduled Bodies	6.80% a year
Admission Bodies	
In service:	6.25% a year
Left service:	4.75% a year
Rate of general pay increases	5.30% a year
Rate of increases to pensions in payment (in excess of GMP)	3.30% a year
Valuation of assets	market value

Assumptions for some Admission Bodies were based on the assumptions used for Scheduled Bodies if sufficient guarantees were provided by another body in the Fund. Further details of the assumptions adopted for the valuation were set out in the actuarial valuation report.

- ❖ Contribution rates for all employers will be reviewed at the next actuarial valuation of the Fund as at 31 March 2013.
- ❖ This statement has been prepared by the Actuary to the Fund, Aon Hewitt Limited, for inclusion in the accounts of Durham County Council. It provides a summary of the results of the actuarial valuation which was carried out as at 31 March 2010. The valuation provides a snapshot of the funding position at the valuation date and is used to assess the future level of contributions required.

This statement must not be considered without reference to the formal actuarial valuation report which details fully the context and limitations of the actuarial valuation.

Aon Hewitt Limited does not accept any responsibility or liability to any party other than our client, Durham County Council, in respect of this statement.

4. Actuarial Present Value of Promised Retirement Benefits

The Code of Practice indicates that the Fund accounts for the year ending 31 March should disclose the "actuarial present value of the promised retirement benefits" as set out in IAS 26 and that the actuarial present value should be calculated on assumptions set in accordance with IAS 19 rather than on the funding assumptions.

CIPFA put forward three options for disclosing the actuarial present value of promised retirement benefits:

- ❖ Option A – disclosure in the Net Assets Statement
- ❖ Option B – disclosure in the Notes to the Pension Fund Accounts
- ❖ Option C – disclosure in an accompanying Actuarial Report

The Administering Authority has chosen "Option B". Option B requires the actuarial valuation of the liabilities on an IAS 19 basis to be prepared at formal triennial valuations only, the most recent being as at 31 March 2010. CIPFA have indicated that comparator figures are also required from the previous valuation date, 31 March 2007.

IAS 26 requires the "actuarial present value of the promised retirement benefits" to be disclosed, which is the IAS 26 terminology for what IAS 19 refers to as the "defined benefit obligation".

The information set out below relates to actuarial present value of the promised retirement benefits in the Fund which is part of the Local Government Pension Scheme. The Fund provides defined benefits, based on members’ Final Pensionable Pay.

Paragraph 6.5.2.8 of CIPFA's Code of Practice on local authority accounting for 2010/11 sets out that the actuarial present value of promised retirement benefits based on projected salaries should be disclosed. CIPFA has also indicated that comparator values at the 2007 valuation should also be provided.

The results at both dates are shown in the table below. The corresponding fair value of Fund assets is also shown in order to show the level of surplus or deficit within the Fund when the liabilities are valued using IAS 19 assumptions.

	Value as at 31 March 2010 £m	**Value as at 31 March 2007 £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 March 2010 (% p.a.)	**31 March 2007 (% p.a.)**
Discount rate	5.5	5.3
RPI Inflation	3.9	3.2
CPI Inflation	3.0	N/A
Rate of increase to pensions in payment*	3.9	3.2
Rate of increase to deferred pensions*	3.9	3.2
Rate of general increase in salaries **	5.4	4.7

** In excess of Guaranteed Minimum Pension increases in payment where appropriate*
*** In addition, we have allowed for the same age related promotional salary scales as set out in the 2010 Valuation Report for 31 March 2010 measurement date and as set out in the 2007 Valuation Report for 31 March 2007 measurement date.*

Principal demographic assumptions

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. Valuation of Investments

The Pension Fund has six investment managers: Edinburgh Partners Limited (‘Edinburgh Partners’), BlackRock Investment Management (UK) Limited ('BlackRock'), AllianceBernstein Limited ('AllianceBernstein'), Royal London Asset Management ('RLAM'), CB Richard Ellis Collective Investors Limited (‘CBRE’) and Baring Asset Management Limited ('Barings') to manage its assets.

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

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

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

2009-10 £000	2009-10 %		2010-11 £000	2010-11 %
492,935	30.19	Edinburgh Partners	496,286	28.56
346,118	21.20	Blackrock	362,841	20.88
265,212	16.25	Alliance Bernstein	287,435	16.54
325,628	19.95	RLAM	354,070	20.38
75,019	4.60	CBRE	94,551	5.44
127,388	7.80	Baring Asset Management	142,263	8.19
197	0.01	Other	152	0.01
1,632,497	**100.00**		**1,737,598**	**100.00**

6. Analysis of Investments

Investment category	**Value at 31/03/10 £000**	**Purchases at cost £000**	**Sales proceeds £000**	**Change in market value £000**	**Value at 31/03/11 £000**
Fixed interest securities	43,820	134,462	144,057	5,288	39,513
Equities	879,152	257,295	246,652	9,665	899,460
Index linked securities	313,638	1,136,538	1,112,928	16,789	354,037
Managed and unitised funds	395,887	146,840	140,130	41,992	444,589
Cash and short term investments	20,956	20,618		1,171	42,745
Derivative contracts	(1,017)			(565)	(1,582)
	1,652,436	1,695,753	1,643,767	74,340	1,778,762

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investment during the year.

2009-10 £000		2010-11 £000
	Fixed interest securities	
11,751	UK - Public sector	32
10,540	UK - other	14,629
21,529	Overseas - Public sector	24,852
43,820		**39,513**
	Equities	
438,211	UK quoted	485,868
197	UK unquoted	151
440,744	Overseas quoted	413,441
879,152		**899,460**
	Index linked securities	
309,975	UK quoted - Public sector	342,944
3,663	Overseas quoted -Public sector	11,093
313,638		**354,037**
	Managed and unitised funds	
265,213	Managed funds - non property - UK - quoted	287,435
52,174	Managed funds - non property - Overseas - quoted	55,323
-	Unit Trusts - non property - UK	-
30,462	Unit Trusts - property - UK	33,646
48,038	Unit Trusts - property - Overseas	68,185
395,887		**444,589**
	Futures and options	
-	Forward foreign exchange contracts	-
-		-
	Cash and Short Term Investments	
466	Loans - long term - local authorities	441
5,441	Loans - short term - money market	25,220
15,049	Managers' cash	17,084
-	Cash in Hand	-
20,956		**42,745**
	Derivative Contracts	
5,383	Forward foreign exchange contracts - assets	6,515
(6,400)	Forward foreign exchange contracts - liabilities	(8,097)
(1,017)		**(1,582)**

7. Currency Hedging

All investment managers have agreement to enter into foreign exchange contracts in order to hedge against adverse movements in foreign exchange rates. Several forward foreign currency contracts were open at the period end as shown in Note 9. This agreement was subject to prior consultation with the Corporate Director Resources.

8. Taxation

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

- United Kingdom Tax

  The Fund is an exempt approved Fund under the Finance Act 1970 and is therefore not liable to UK income tax on interest, dividends and property income, or to capital gains tax.

- Value Added Tax

  As Durham County Council is the administering authority for the Fund, VAT input tax is recoverable on most fund activities.

- Foreign Withholding Tax

Income earned from investments in stocks and securities in the United States, Australia and Belgium is exempt from tax. In all other countries dividends are taxed at source and, where the tax paid at source is greater than the rate of tax under the 'Double Taxation Agreement', the excess tax is reclaimable except in the case of Malaysia.

9. Derivatives

2009/10 £000		2010/11 £000
5,383	Forward foreign exchange contracts - assets	6,515
(6,400)	Forward foreign exchange contracts - liabilties	(8,097)
(1,017)	**Market value of derivative contracts**	**(1,582)**

Currency is bought and sold by fund managers for future settlement at a pre determined exchange rate. Fund managers use these contracts to hedge against the risk of adverse currency movement on the Fund's investments. Contracts are by their nature over the counter and are primarily in US dollars, Euros and Sterling.

10. Investments Exceeding 5% of the Market Value of The Fund

The Pension Fund invests in a pooled fund of Broad Bonds through AllianceBernstein, the Diversified Yield Plus fund. The value of this investment at 31 March 2011 is £261.827m (£251.123m at 31 March 2010) and exceeds 5% of the Fund's total investments.

11. Disclosure of Nature and Extent of Risk Arising From Financial Instruments

Key risks

The Pension Fund's activities expose it to a variety of financial risks. The key risks are:

- **Credit risk** the possibility that other parties might fail to pay amounts due to the Pension Fund;
- **Liquidity risk** the possibility that the Pension Fund might not have funds available to meet its commitments to make payments;
- **Market risk** the possibility that financial loss might arise for the Pension Fund as a result of changes in such measures as interest rates movements.

Overall procedures for managing risk

The investment policy of the Pension Fund has been set with the objective of controlling the risk that the assets will not be sufficient to meet the liabilities of the Pension Fund while achieving a good return on investment.

The Pension Fund's assets are managed by six Investment Managers. The division of the management of the assets between six investment managers, further controls risk. Asset allocation benchmarks have been set and performance is monitored relative to the benchmarks. This is to ensure the investment manager does not deviate from the Pension Fund Committee's investment strategy.

The setting of specific control ranges and other investment guidelines within which the investment managers must operate also controls risk.

The Local Government Pension Fund Regulations (Management and Investment of Funds) 2009 require the Pension Fund to describe how it measures and manages risk.

Having considered advice from the Independent Advisers, and also having due regard for the objectives, the liabilities of the Pension Fund and the risks facing the Pension Fund, the Pension Fund Committee have decided upon the following strategic target asset allocation:

Asset Class	Permitted Assets	Benchmark & 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%	28%
Dynamic Asset Allocation	All major asset classes with derivative overlay	UK 3-month LIBOR +4.0%	8%
Global Property	Global property	UK Retail Price Inflation +5.0%	8%

* Excluding in-house managed funds

Risk is measured, in part, by the administering authority's risk management section as part of its assessment of the County Council's risks, and is reviewed as part of the independent Governance review undertaken by the Pension Fund.

The Pension Fund has appointed a Global Custodian that performs a range of services including collection of dividends and interest from the Investment Managers, administering corporate actions that the Pension Fund may join, dealing with taxation issues and proxy voting when requested. It also ensures that the settlement of purchases and sales of the Pension Fund assets are completed. The Custodian has stringent risk management processes and controls. They have strictly segregated client accounts that ensure that the Pension Fund assets are separately identifiable. They have customised guidelines and for those instances where they may invest cash collateral; conservative investment practices are ensured by them.

The Pension Fund also employs a specialised service as an independent check to ensure that all dividends that are published as being due are compared against those collected by the Custodian and that they were received on the due date. If there are any discrepancies, they are investigated.

Durham County Council will invest the short term cash balances on behalf of the Pension Fund. This will be done in line with the administering authority's Treasury Management Policy and interest will be paid quarterly to the Pension Fund.

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

- by formally adopting the requirements of the CIPFA Treasury Management Code of Practice;
- by the adoption of a Treasury Policy Statement and treasury management clauses within its financial regulations/standing orders/constitution;
- by approving annually in advance prudential and treasury indicators for the following three years limiting:
    - The County Council's overall borrowing;
    - Its maximum and minimum exposures to fixed and variable rates;
    - Its maximum and minimum exposures to the maturity structure of its debt;

- Its maximum annual exposures to investments maturing beyond a year.

- by approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investment counterparties in compliance with Government guidance;

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

These policies are implemented by the Strategic Finance Treasury Management team. The County Council maintains written principles for overall risk management, as well as written policies (Treasury Management Practices – TMPs) covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash. These TMPs are a requirement of the Code of Practice and are reviewed periodically.

i) Credit risk

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

a) Conventional Bonds

The Fund will be exposed to credit risk on parties with whom it trades and will also bear the risk of settlement default. The Investment Manager minimises concentration of credit risk by undertaking transactions with a large number of counterparties.

The credit risk of the Fund's investments is summarised as follows:

Portfolio by rating category	**2011**
Rating	**%**
Investment grade	99.3
Below investment grade	0.7
Not rated	0.0
Total	100.0

Credit risk arising on transactions with brokers relates to transactions awaiting settlement. Risk relating to unsettled transactions is considered low due to the short settlement period involved and the high credit quality of the brokers used. The Manager monitors the credit rating and financial positions of the brokers used to further mitigate this risk.

b) Broad Bonds

The Pension Fund invests in a pooled fund which has the following proportions of investments:

Portfolio by rating category	**2011**
Rating	**%**
AAA	46.8
AA	7.0
A	13.3
BBB	27.1
BB	3.4
B	1.8
CCC	0.5
CC	0.2
C	0.0
>C	0.4
Non Credit	-0.7
Total	**100.0**

Bonds are ranked on the basis of the degree of risk associated with timely payment of their interest and principle. Bond rating agencies (such as Standard & Poor's) use a grading system as follows

AAA: highest quality (called 'gilt edged').

AA: high quality.

A: upper medium grade.

BBB: medium grade.

BB: has speculative elements.

B: speculative.

CCC: speculative with possibility of default.

CC: most speculative.

C: lowest gradable quality.

DDD: in default with possibility of recovery.

DD: in default and arrears.

D: in default, with little or no value.

Bonds rated 'BBB' or higher are considered investment grade suitable for financial institutions with fiduciary responsibilities. Bonds rated below 'B' are considered speculative grade and are called high yield or junk bonds which, due to greater likelihood of their default, must pay higher interest rates to attract investors.

Government bonds, or Treasuries, are not subject to credit quality ratings. These securities are considered to be of the very highest credit quality. In the case of municipal and corporate bond funds, fund company literature, such as the fund prospectus and independent investment research reports will report an "average credit quality" for the fund's portfolio as a whole.

c) UK Equity

Equities are affected by many risk factors, but the credit risk associated with this portfolio is not generally quantifiable.

As at 31 March 2011, the total absolute risk of the portfolio was measured as 19.2%. This is a standard deviation measure of risk, and suggests broadly that in two years out of three, the portfolio return could be expected to be in a range from -19.2% to +19.2%. For comparison, the absolute risk of the benchmark, the FTSE All-Share Index, on that day was 19.0%.

The Fund is actively managed, and the estimated tracking error of the portfolio at 31 March was 5.3%. This suggests that in two years out of three, the portfolio return could be expected to be within a range of -5.3% to +5.3% around the index return. This therefore quantifies the risk of this active management process.

d) Global Equities

In the period under review and as at 31 March 2011 this part of the fund was solely invested by one manager in equity instruments listed in regulated exchanges or markets. As a result, the fund is not exposed to any direct credit risk other than the custodian of the assets of the fund and to those in relation to transactions with counterparties that the manager enters into on behalf of the fund.

The Manager has adopted procedures to reduce credit risk related to its dealings with counterparties on behalf of its clients. Before transacting with any counterparty, the Investment Manager, or its affiliates, evaluates both credit-worthiness and reputation by conducting a credit analysis of the party, their business and reputation. The credit risk of approved counterparties is then monitored on an ongoing basis, including periodic reviews of financial statements and interim financial reports as required.

Investment transactions currently take place “on-exchange” rather than over the counter (OTC) and are also on a delivery-versus-payment (DVP) basis; both these factors contribute to limiting the counterparty exposure.

The actual amount of exposure to counterparties is generally limited to unsettled investment transactions and varies in line with the pattern of investment transactions within the fund. No stock lending programmes are operated by the Manager. As at 31 March 2011, there were no unsettled investment transactions.

The Pension Fund has sole responsibility for the initial and ongoing appointment of custodians. Un-invested cash held with the custodian is a direct exposure to the balance sheet of the custodian. Arrangements for investments held by the custodian vary from market to market but the assets of the Pension Fund are held in a strictly segregated client account. As at 31 March 2011 the level of exposure to the custodian is 1.2% of the total value of the portfolio.

The recent IFRS 7 update published in November 2010 has clarified that credit risk disclosures are only required in relation to instruments where the maximum credit exposure is not the carrying value, and so only apply to certain derivatives. If this update is adopted, the Manager believes that there are no positions in the portfolio for the Pension Fund that would require such disclosures.

e) Dynamic Asset Allocation

The part of this portfolio invested in UK Corporate Bonds at 31 March 2011 was £9.5m. All the exposure was to investment grade rated corporate bonds (AAA to BBB- ratings). The largest holding was rated AAA, at 4.2%. The top 10 holdings accounted for 31% of the UK credit portion of the Pension Fund.

In the region of 39% of the holdings were issued by financial institutions (excluding supranational banks) as opposed to corporate issuers. The modified duration of the UK credit portion of the portfolio was 7.4. About 24% of the holdings had a maturity of less than 5 years and about 16% greater than 20 years.

f) Global Property

This portfolio consists of unlisted property funds and 28.4% is invested in listed securities. The Manager is compliant with all restrictions applied to this portfolio by the Pension Fund.

The closing Net Asset Value of these unlisted property funds are the best evidence of fair value. The funds have been categorised as Level 2 within the Fair Value Hierarchy, given that pricing sources are supported by observable inputs.

The credit risk associated with this portfolio is the cash accounts amounting to £1.519m and the unrealised hedging position of -£0.619m, both of which are held by the Pension Fund's custodian. The risk is that a counterparty or issuer is unable to pay the amounts in full when they are due.

g) Cash

Cash is invested by Durham County Council and the credit risk associated with this is minimised by the County Council's Treasury Management procedures, including the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, in accordance with the Fitch, Moody's and Standard & Poors Credit Ratings Services. The Annual Investment Strategy also considers maximum amounts and time limits in respect of each financial institution. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined above. Additional selection criteria are also applied after this initial criterion is applied. Details of the Investment Strategy can be found on the County Council's website: www.durham.gov.uk

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

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

ii) Liquidity risk

Liquidity risk arises from the possibility that the Pension Fund will be unable to raise funds to meet its commitments associated with financial instruments.

The vast majority of the Pension Fund's investments are readily marketable and may be easily realised if required. Some investments may be less easy to realise in a timely manner but the total value of these types of investments is not considered to have any adverse consequences for the Pension Fund.

a) Conventional Bonds

The liquidity risk is minimised through holding cash and readily realisable securities which can meet the usual requirements of the Pension Fund.

b) Broad Bonds

The Manager monitors liquidity in the fixed income portfolios regularly in a variety of ways and for different purposes:

i) **Trading** – the Manager's Fixed Income Trading Desks regularly monitor market liquidity using their extensive market networks, and provide feedback to the Portfolio Management teams. This is particularly important in the fixed income markets where trading markets in certain specialized or structured instruments trade with significantly less frequency than in the equity markets.

ii) **Portfolio Management** - the Manager's Portfolio Management teams monitor liquidity within portfolios, taking into account factors such as the type of instrument, maturity of the instrument, trading volume, the total amount outstanding and the portion of the outstanding amount that is held. Liquidity is also discussed within the fixed income investment policy group and related internal management process. Liquidity is evaluated based upon a variety of relevant factors, including investable market capitalization; the breadth, depth and number of investable issuers; trading volumes; transaction costs; settlement costs, and bid/ask spreads. There are internal concentration limits at the issue and issuer level that are adhered to. If it is difficult and expensive to invest due to constrained liquidity, the Portfolio Management teams will require extra expected return to compensate for additional costs arising from limited liquidity. Product capacity is regularly assessed and access to products will be closed or restricted as deemed appropriate to ensure that the Manager has confidence it can achieve the relevant investment objectives and liquidity expectations of the Pension Fund.

iii) **Risk Management** - the Manager's Risk Management team monitors liquidity on a macro level, looking at liquidity of all holdings in the aggregate. Where particular positions start to approach internal limits, the risk management team discuss these with the affected portfolio managers. Liquidity is a prominent theme which is discussed and reviewed at the Manager's senior risk governance committee.

c) UK Equity

Equities are affected by many risk factors, but the liquidity risk associated with this portfolio is not generally quantifiable.

d) Global Equities

i) **Maturity analysis of financial liabilities** - there are no financial liabilities within the portfolio other than those that arise from the trading of investments. Such liabilities follow the standard settlement cycle of the local market which varies between 2 and 3 days.

ii) **Maturity analysis of derivatives liabilities** – there are no such instruments held within the portfolio.

Overall liquidity is managed in line with parameters set out in the Investment Management Agreement (cash to remain between 0 and 5% of fund).

Within the portfolio, prior to any purchase, each stock is analysed on a free float basis and discussed in detail at the Manager's research meeting. Assuming approval, the purchase order would normally be placed in the market with a limit on the maximum daily volume permitted. The liquidity of each stock, in terms of the number of days taken to trade to both the benchmark and cash, is subsequently measured monthly at a stock and aggregate portfolio level.

Portfolio liquidity provisions are monitored and controlled as part of the Manager's normal portfolio review process, which includes a monthly meeting that is attended by the entire investment team. The Manager's Style Research system is used to generate monthly reports that include details of liquidity, as well as portfolio volatility and other risk characteristics.

e) Dynamic Asset Allocation

Liquidity analysis of the current holdings in the portfolio is shown in the following table:

Timescale	**% of Fund Liquidated**
1 day	78.99
2 days	79.78
3 days	81.29
4 days	81.59
5 days	85.33
5 to 10 days	92.94
10 to 30 days	97.82
30 to 53 days	100

The table shows that in the region of 85% of the holdings can be liquidated in 5 days and that in the region of 93% can be liquidated within 10 days. There are some funds held in the portfolio which only deal on a weekly or monthly basis, taking these into account about 98% of the portfolio can be liquidated in 30 days. The remaining 2% of the portfolio represents a holding where available volume data shows that 53 days are required to liquidate the position. However, it should be noted that the Manager is confident that, if necessary, the holding could be placed with other existing investors in a much shorter timeframe.

In terms of derivatives positions in the portfolio, the futures and foreign exchange positions can be liquidated in one day.

Liquidity risk is monitored at an overall Manager level where all holdings in the same stock are consolidated. The % of the company held is monitored together with analysis on the days required to liquidate the position.

f) Global Property

There are no financial liabilities within this portfolio at 31 March 2011. The derivatives liabilities relate to unrealised hedging of -£0.619m and have a maturity profile of less than one year.

Certain securities held by the Manager may be difficult to sell at the time and at the price that the manager would like. The Manager may have to lower the price to affect a secondary marker sale, sell other securities instead or forego an investment opportunity. The manager monitors the underlying funds' liquidity risk on a daily basis and also any material events. There have been no changes to the policies and processes for managing liquidity risk and the methods used to measure risk during 2010/11.

g) Cash

Durham County Council, as administering authority, invests the cash balances of the Pension Fund in line with its Treasury Management Policy and as agreed by the Pension Fund Committee.

The County Council manages its liquidity position through the risk management procedures as set out in the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports, as well as through a comprehensive cash flow management system, as required by the CIPFA Code of Practice. This seeks to ensure that cash is available when needed.

Regulation 5 of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 gives Durham County Council as administering authority a limited power to borrow on behalf of the Pension Fund for up to 90 days. The power is for cash flow management in specified circumstances, which in practice should be exceptional. Occasionally, unexpected pressures can occur and, in these circumstances, the power would enable administering authorities to avoid becoming forced sellers of fund assets at the wrong time in the market cycle because of a need for cash flow.

The County Council has ready access to borrowings from the money markets to cover any day to day cash flow need.

iii) Market risk

This is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk embodies potential for both loss and gains and includes market price risk, currency risk and interest rate risk.

a) Conventional Bonds

i) **Market price risk** - market price risk is the risk that value of the instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market.

The Investment Manager considers the asset allocation of the portfolio in order to manage the risk associated with particular countries or industry sectors, whilst continuing to follow the investment objective and criteria. As the portfolio is composed entirely of bonds and cash, market price risk for the fund is represented by interest rate and currency risk, both of which are dealt with below.

The Investment Manager does not use derivative instruments to hedge the investment portfolio against market price risk as in their opinion the cost of such a process would result in an unacceptable reduction in the potential for capital growth.

ii) **Currency risk** - a substantial portion of the assets of the Durham County Council Pension Fund are denominated in Sterling (which is the functional currency), and therefore has relatively low level exposure to currency risk. The currency exposure that would exist through the Pension Fund's holdings of non-UK denominated securities is all hedged back into Sterling through currency forwards. The Fund therefore has no unhedged currency risk at the year end.

(iii) **Interest rate risk** - the financial assets of the Pension Fund are all interest-bearing. The Fund is subject to significant exposure to fair value interest rate risk due to fluctuations in the prevailing levels of market interest rates.

Interest rate sensitivity: At 31 March 2011, the average duration of the fund was 16.8 years. If a 25 basis point parallel shift in interest rates had occurred, with all other variables remaining constant, this would have had a monetary impact of £14,878,008 on the net assets of the fund, based on a valuation of £354,238,281.

b) Broad Bonds

The table below details the maturity analysis of this portfolio.

Type of Investment	Years to Maturity	% of Portfolio
Non-derivatives	3	45.80
	3 to 5	9.80
	5 to 7	17.37
	7 to 10	10.66
	10	16.22
Derivatives	3	0.24
	7 to 10	-0.09
Total		**100.00**

c) UK Equity

The portfolio is invested 100% in UK equities, with a small proportion of frictional cash from time to time. Equities are affected by many risk factors, but the principal ones would typically be economic risk, inflation risk, interest rate risk, and credit risk, although these risks are not generally quantifiable for practical purposes.

d) Global Equities

This portfolio is exposed to the following types of market risk; equity risk, interest rate risk and currency risk.

The portfolio is not hedged and so the impact of any movement in relevant market prices and currency rates directly correlates to changes in the value of the portfolio. In relation to currency movements, the table below reflects the sensitivity of the fund value to changes in the exchange rate of the primary currencies to which it is exposed.

1% Change in Currency	% of Portfolio	% change in Market Value
		£
USD	28.76	0.29
JPY	23.17	0.23
EUR	20.24	0.20
GBP	18.31	0.18

In the period under review and as at 31 March 2011 this portion of the Pension Fund was solely invested in equity instruments. Therefore, the Pension Fund's only direct exposure to interest rate risk is on the uninvested cash. As at 31 March 2011 uninvested cash stood at £3,478,782. If interest rates had moved by 0.25% from those prevailing as at 31 March 2011, it would have the effect, with all other variables held constant, of either increasing deposit interest (in the case of an increase in rates) or decreasing deposit interest (in the case of a decrease in rates) on an annualised basis by £8,697.

e) Dynamic Asset Allocation

The monitoring of market risk is undertaken using volatility. The volatility of the fund is monitored to ensure that it does not exceed 70% of the volatility on the MSCI World index. For the Manager's internal purposes Value at Risk (VaR) is also monitored.

f) Global Property

The market allocation (risk exposures) of the portfolio is calculated on a quarterly basis using the latest available reporting provided by both the listed securities and private property funds. These are combined on an overall portfolio basis using the most recent valuations. Market exposures are calculated on a 'look-through' gross basis i.e. the impact of financial leverage to estimate the gross asset values are included and thus exposures of the underlying direct property portfolios.

The market exposures are managed in a number of ways; firstly, the portfolio is well diversified by geography, sector and holdings. The investment restrictions imposed ensure that the portfolio is not over concentrated, limiting exposure to a single geographic region and property type i.e. office, retail etc. The Manager's Investment Committee, which comprises members external to the investment team, meet on a quarterly basis and review the portfolio's performance and adherence to investment restrictions.

The Model Portfolio of the portfolio is reviewed every quarter and this reflects the Manager's preferred market exposures. It incorporates the latest views on countries and sectors and takes into account any changes in market conditions. The quarterly reviews of this may result in changes in allocations to both countries and sectors.

The key tool utilized by the investment team for measuring risk and managing portfolios is the Target Portfolio spreadsheet. This incorporates the Manager's latest House Views of expected returns, the risk and inter-correlations of underlying markets, and the impact upon overall portfolio risk of the individual holdings' property strategies and leverage levels. The Target Portfolio shows the planned final shape of the portfolio, in terms of allocations to individual holdings, and the consequential structure of the portfolio on a look-through basis, showing allocations to market segments. This is constructed using current valuations and available capital to commit.

The Target Portfolio is modelled in a Target Portfolio Spreadsheet, which shows the current and planned portfolio by fund, and tracks the projected geographic and sector allocations, average leverage and position versus the Model Portfolio and investment restrictions. This is used as a basis for portfolio investment plan detailing any new acquisitions and/or dispositions and the consequential impact upon the portfolio's future market exposures. This plan is reviewed by both the Chief Investment Officer and Regional Heads of the Manager, together with the designated portfolio manager.

Acquisitions of property related assets by way of trade can be difficult to realise and, as there may not be an available market for them, it may not be possible to establish their current value at any particular time. The portfolio's investments in property related assets are subject to the general risks incidental to the ownership of real or heritable property, including changes in general economic or local conditions, changes in supply of, or demand for, competing properties in an area, changes in interest rates and the availability of mortgage funds, changes in property tax rates and zoning or planning laws and credit risks of tenants and borrowers and environmental factors.

g) Cash

Interest rate risk - The Pension Fund is exposed to interest rate movements on its investments and any borrowings it may undertake.

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

Public-Private Investment Plan

The Pension Fund has a £25.6m investment in a Public-Private Investment Plan (PPIP) Fund through its Broad Bonds Investment Manager. This was a plan designed to value and remove troubled assets from the balance sheet of troubled financial institutions in the United States. Essentially, the PPIP's goal was to create partnerships with private investors to buy toxic assets. The programme is designed to increase liquidity in the market and to serve as a price-discovery tool for valuing troubled assets. The Investment Manager competed with more than 90 other managers to work with the US Treasury in the PPIP.

Commercial Mortgage-Backed Securities and Non-Agency Residential Mortgage-Backed Securities in which the PPIP Fund may invest entail a number of risks, including but not limited to credit risk of both the underlying assets and the issuers, market risks from the cash flow characteristics of the security, interest rate risk from the relationship between the pricing terms on the underlying collateral and the terms of the rate paid to the holders of the securities, liquidity risks, including the lack of liquidity in the market due to real or perceived credit risk or credit quality of the underlying assets, and operational risks associated with the potential for misrepresentation of the underlying asset quality or terms of the issuance or inadequate servicing of the securities.

12. Investment Management Fees

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

Included as 'Other advisory fees', are Independent Advisers' fees. These are based on a retainer for attendance at Pension Fund Committee and Annual Meetings and the provision of advice to the Pension Fund Committee. Fees for any additional work are based on a daily or hourly rate, as provided for by agreement or by separate arrangement.

2009/10 £000		2010/11 £000
3,923	Administration, management and custody	6,370
36	Other advisory fees	140
3,959		**6,510**

Page 160

13. Contributions Receivable

2009/10 £000		2010/11 £000
	Employer's contributions	
75,191	normal	75,304
11,532	augmentation	2,379
7,060	deficit funding	-
	Members contributions	
24,053	normal	23,773
205	additional contributions	177
118,041		**101,633**
79,405	Durham County Council	83,925
28,151	Scheduled Bodies	11,650
10,485	Admitted Bodies	6,058
118,041		**101,633**

14. Benefits Payable

2009/10 £000		2010/11 £000
68,734	Pensions	70,793
19,772	Commutations and lump sum retirement benefits	19,393
1,938	Lump sum death benefits	1,340
(4,971)	Recharged benefits	(4,993)
	Purchased annuities	
85,473		**86,533**
70,854	Durham County Council	77,989
13,873	Scheduled Bodies	6,602
746	Admitted Bodies	1,942
85,473		**86,533**

15. Payments To And On Account Of Leavers

2009/10 £000		2010/11 £000
12	Refunds to members leaving service	6
-	Payments for members joining state scheme	1
	Purchase of annuities	
13,109	Individual transfers to other schemes	11,157
	Group transfers to other schemes	
13,121		**11,164**

16. Investment Income

2009/10 £000		2010/11 £000
1,804	Interest from fixed interest securities	1,627
4,801	Income from index-linked securities	4,435
21,250	Dividends from equities	24,405
555	Interest on cash deposits	123
2,968	Income from pooled investment vehicles	5,648
31,378		**36,238**

17. Related Party Transactions

Related party disclosures are required under IAS 24 to ‘ensure that accounts contain the disclosures necessary to draw attention to the possibility that the reported financial position and results may have been affected by the existence of related parties and by material transactions with them’.

Related parties are therefore bodies or individuals that have the potential to control or influence the Pension Fund or to be controlled or influenced by the Pension Fund. Influence in this context is expressed in terms of a party either:

- ❖ Being potentially inhibited from pursuing at all times its own separate interests by virtue of the influence over its financial and operating policies: or
- ❖ Actually subordinating its separate interests in relation to a particular transaction.

Pension Fund related parties fall into three categories:

a) Employer related
b) Member related or
c) Officers and managers.

a) Employer Related

There is a close relationship between an employer and the Pension Fund set up for its employees. Each participating employer is therefore considered a related party. The table below details the nature of related party relationships.

<table>
<tr><th>Transaction</th><th>Description of the Financial Effect</th></tr>
<tr><td>Contributions receivable (Note 13) - £101.633m</td><td>Amounts received from employers in respect of contributions to the Pension Fund.</td></tr>
<tr><td>Debtors - £18.718m</td><td>Amounts due in respect of employers and employee contributions</td></tr>
<tr><td>Creditors - £1.024m</td><td>Amounts due to the Administering Authority in respect of administration expenses.</td></tr>
<tr><td>Administration Expenses</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. The Council charged the fund £1.238m in 2010/11 (£1.132m in 2009/10) for expenses incurred in administering the Fund.</td></tr>
<tr><td>Long term loans</td><td>The Long-Term Loans referred to in note 6 are loans made to a number of the current and former participating employers of the Fund. The loans outstanding were made between March 1964 and May 1967, this being common practice at the time. No further loans have been granted since January 1974. The Pension Fund receives interest of between 5.75% and 9.875% of the outstanding balance per annum in addition to capital repayments. The maximum amount outstanding on these loans at any time during the year was the opening balance. The balance outstanding on these loans as at 31 March 2011 is £0.441m (£0.466m 2009/10).
<table>
<tr><th>Amount outstanding 31st March 2010 £000</th><th>Employer</th><th>Amount outstanding 31st March 2011 £000</th></tr>
<tr><td>310</td><td>Durham County Council</td><td>292</td></tr>
<tr><td>156</td><td>Sunderland City Council</td><td>149</td></tr>
<tr><td>466</td><td></td><td>441</td></tr>
</table>
</td></tr>
<tr><td>Durham County Council – Administering Authority</td><td>Durham County Council administers the Durham County Council Pension Fund on behalf of 68 bodies, including borough, parish and town councils, colleges, statutory bodies and admitted bodies. During 2010/11, the Pension Fund had an average balance of £18.005m (£66.793m in 2009/10) of surplus cash deposited with the County Council. In 2010/11 the County Council paid the fund a total of £0.105m (£0.536m in 2009/10) in interest on these deposits.</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.

Due to being the administering authority Durham County Council has a number of members who are on the Pension Fund Committee. These members are subjected to a declaration of interest circulation as with all Durham County Council members. A table of their declarations along with non-Durham County Council Pension fund Committee members are detailed in the following table:

Member	**Board Member/Member of the following Town/Parish Councils,Action Groups School Governing Body, Action Groups etc**
John Bailey	Howden-le Wear Community Partnership and Community Centre
Colin Carr	Association of Labour Councillors, Institute of Waste Management, Beamish, County Durham and Darlington Fire and Rescue Authority, Ouston, Pelton, Roseberry Sports Community College
Jean Chaplow	Save Deerness Sports Centre
Amanda J Hopgood	Newton Hall Community Association
John Lethbridge	Bishop Auckland Town Council, Bishop Auckland and Shildon AAP, Citizens Advice Bureau, King James I School, Aclet Nursery, Woodhouse Community School
Nigel Martin	City of Durham Charter Trust, Sherburn Hospital, County Durham Development Company
Peter H May	Beamish, Conservative Party, North Lodge Residents Association, North Lodge Property Owners Association.
Dennis Morgan	Cassop-cum-Quarrington Parish Council, Durham Johnston, City of Durham Charter Trust, Bowburn Community Centre, East Durham AAP, Durham Villages Regeneration Company, DTVA, Friends of Beamish, Weardale Railway Trust
Reginald Ord	Nil Return
Robin J Todd	South Hetton Parish Council and South Hetton Community Association, Beamish
Andy Turner	West Auckland Parish Council, St Helens School
Keith Tallentire	Nil return
Dave Sanders	Nil return
Chris McEwan	Nil return

There were no material related party transactions between any Members or their families and the Pension Fund.

c) Officers and Managers

Related parties in this category include:

- ❖ Key management - Senior officers and their close families
- ❖ Companies and businesses controlled by the key management of the Pension Fund, or their close families.

Senior Officer	Related Party Disclosure
Chief Executive	Nil
Corporate Director Resources (retired in 2010/11)	Nil
Corporate Director Resources (appointed in 2010/11)	Nil

There were no transactions between officers and managers of the Pension Fund and the Pension Fund.

18. Contingent Asset – Claims for Foreign Income Dividends And Withholding Tax

The Pension Fund is involved in claims for tax reclaims due to EC legislation. There is a likelihood that the Pension Fund will receive income in the region of £5m should these claims be successful. However, as the outcome of Court cases will determine the reclaim of taxes, neither the amount of income, nor the timing of the income is certain.

Foreign Income Dividends (FIDs)

Up until 1 July 1997 UK Pension Funds were entitled under UK tax law to reclaim tax credits attaching to dividends received from UK resident companies. Pension Funds which received dividends designated by UK companies as FIDs or dividends received from overseas companies however were not entitled to a refundable tax credit.

Since UK sourced dividends came with a 20 percent tax credit, the net investment income return from UK companies paying such dividends was significantly higher than UK companies paying FIDs or from overseas companies for which no credit was available. As a result there was a disincentive for Pension Funds to invest in such companies.

The UK tax law which gave rise to these consequences was arguably contrary to EU law, notably Article 56EC, in that it treated less favourably UK Pension Funds which invested directly into overseas companies or UK companies paying FIDs as opposed to UK companies paying ordinary dividends.

The legal arguments to support the strongest element of the FID and Manninen type claims (for EU sourced dividends and FIDs) are considered to be very good. The points in issue are currently being considered at the High Court via a Group Litigation Order containing over 65 UK Pension Funds, including Durham County Council Pension Fund.

Withholding Tax (WHT) Claims

Pension funds, investment funds and other tax exempt bodies across Europe have in recent years been pursuing claims against a number of EU Member States, for the recovery of withholding taxes suffered on EU sourced dividend income. These claims were made in the light of the Fokus Bank (Case E-1/04) ruling in December 2004 on the grounds that the WHT rules of those Member States are in breach of the free movement of capital principle of the EC Treaty.

The legal arguments used to support Fokus claims are strong and rely on existing case law. The EU Commission announced that it is taking action against a number of member states which operate discriminatory rules regarding the taxation of outbound dividends.

A test case in the Netherlands on behalf of a number of UK pension funds was successful and in January 2009 notification from the Dutch Tax Authorities was received that the claims brought by the test claimant for the recovery of withholding taxes going back to 2003 had been accepted and would be repaid in the near future.

Following the ruling in the Netherlands which essentially states that the Dutch tax authorities should not have levied a “withholding tax” (WHT) on dividend payments to tax exempt bodies (such as UK pension funds) located within the European Union but outside the Netherlands, a similar process for reclaiming WHT in other EU Member States is now on-going.

It is likely that now a precedent for the change in WHT has been set by the Netherlands, and that other states have reduced the level of WHT of non-residents, recovery is probable.

19. Statement of Investment Principles

The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 1999 require the County Council to prepare and review a written statement of the investment policy of the Pension Fund. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 specifies additional content for the Statement and requires first publication of this revised document by 1 July 2010. Such a Statement has been adopted by the Pension Fund Committee and is published in the Annual Report.

A copy of the Annual Report can be obtained from the Corporate Director Resources, County Hall, Durham DH1 5UE and is available on the County Council's website: www.durham.gov.uk

20. Funding Strategy Statement

The Local Government Pension Scheme (England and Wales) (Amendment) Regulations 2004 require Administering Authorities to prepare a Funding Strategy Statement. The Funding Strategy Statement was published in March 2005. It is to be revised whenever there is a material change in policy in matters set out in the Funding Strategy Statement or the Statement of Investment Principles. Such a Statement has been adopted by the Pension Fund Committee and is published in the Annual Report. The Funding Strategy Statement is available on the County Council's website: www.durham.gov.uk

21. Additional Voluntary Contributions (AVC)

The Pension Fund offers two types of AVC arrangement:

- Purchase of additional pension, which is invested as an integral part of the Fund's assets; and
- Money purchase scheme, managed separately by HECM, Standard Life and Prudential. AVCs may be invested in a range of different funds.

The table below refers only to the money purchase AVCs:

	Value at 31/03/10 £000	Purchases £000	Sales £000	Change in Market Value £000	Value at 31/03/11 £000
HECM	2,410	58	205	111	2,374
Prudential	2,770	790	844	(33)	2,683
Standard Life	1,401	65	192	99	1,373
Total	**6,581**	**913**	**1,241**	**177**	**6,430**

The financial statement above, relating to money purchase AVCs, are not audited by the Audit Commission as they do not form part of the Pension Fund's Net Asset Statement or Fund Account in accordance with regulation 5(2) c of the Local Government Pension Scheme (Management and Investment of Funds) Regulation 1998.

22. Transition to International Financial Reporting Standards (IFRS)

As of the 1 April 2010 the Pension Fund has accounted under International Financial Reporting Standards (IFRS), as opposed to UK Generally Excepted Accounting Practices (UK GAAP). This was mandatory for all local authority entities and brings local authority accounting in line with that of other government bodies such as government departments and the NHS.

On assessment of transition there were no material changes to the way transactions and balances were accounted for. This assessment was initially conducted on the financial year ended 31 March 2010 as it was necessary to have IFRS compliant comparatives.

The following table shows the initial IFRS compliant Net Asset Statement for 1 April 2009 and shows the opening position for the 2009 to 2010 financial year that forms the comparatives for these annual accounts. It is identical to the closing Net Asset Statement for the year ended 31 March 2009.

	As at 1 April 2009	
	£000	**£000**
Investments		
Fixed interest securities	25,431	
Equities	529,019	
Index linked securities	284,293	
Managed and unitised funds	289,903	
Cash and short term investments	115,510	
		1,244,156
Current assets and liabilities		
Investment related	1,724	
Other	-510	
		1,214
NET ASSETS OF THE FUND AT 1 APRIL		**1,245,370**

The IFRS compliant Net Asset Statement for the years ended 31 March 2011 with comparatives for the year ended 31 March 2010 are shown as one of the primary financial statements at the beginning of these annual accounts.

The Council's Responsibilities

The County Council is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. For the County Council that officer is the Corporate Director Resources.
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- approve the Statement of Accounts.

The Corporate Director Resources' Responsibilities

The Corporate Director Resources is responsible for the preparation of the County Council's Statement of Accounts which is in accordance with proper practices as set out in the Chartered Institute of Public Finance and Accountancy (CIPFA) and Local Authority (Scotland) Accounts Advisory Committee (LASAAC) Code of Practice on Local Authority Accounting in the United Kingdom ('the Code').

In preparing this Statement of Accounts, the Corporate Director Resources has:

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

The Corporate Director Resources has also: -

- kept proper accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

Certificate of the Corporate Director Resources

I certify that the Statement of Accounts presents a true and fair view of the financial position of the County Council as at 31 March 2011 and its expenditure and income for the year ended 31 March 2011.

Jeff Garfoot

Head of Finance

30 June 2011

Annual Governance Statement 2010/ 11

1. SCOPE OF RESPONSIBILITY

Durham County Council (the County Council) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

The County Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

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

The County Council has approved, adopted and published on its website, a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework – "Delivering Good Governance in Local Government". This statement explains how the County Council has complied with the code and also meets the requirements of Regulation 4 (3) of the Accounts and Audit (England) Regulations 2011 in relation to the publication of a Statement on Internal Control.

THE PURPOSE OF THE GOVERNANCE FRAMEWORK

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

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

The governance framework has been in place at the County Council for the year ended 31 March 2011 and up to the date of approval of the statement of accounts.

THE GOVERNANCE FRAMEWORK

This sets out the key documents and processes that determine the way the County Council is directed and controlled to meet the six core principles of the CIPFA/ SOLACE Framework. The key elements of the systems and processes that comprise the County Council's governance arrangements include:

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

The County Durham Partnership (CDP) is the strategic partnership for the County. The Sustainable Community Strategy 2010-2030 (SCS) produced by the County Council in conjunction with its partners on the CDP demonstrates its shared long-term vision for the future of County Durham. This vision for County Durham, namely 'Altogether Better Durham' outlines two areas of focus – **Altogether Better Place** and **Altogether Better for People** and five priority themes, which represent the major issues identified by residents in the Place Survey:

- Altogether wealthier;
- Altogether better for children and young people;
- Altogether healthier;
- Altogether greener;
- Altogether safer.

A comprehensive timetable of consultation was in place to develop the SCS and the accompanying three year action plan, and progress is monitored quarterly by the Cabinet and the CDP to ensure that the vision becomes a reality. It is based on consideration of a broad range of information and evidence and consultation with a wide range of stakeholders. Since the abolition of the National Indicator set of performance measures due to changes in national policy, work has progressed on developing a locally led performance framework for the CDP to monitor progress. This will be the key framework for measuring performance following the abolition of the Local Area Agreement.

The County Council Plan contains the County Council's corporate priorities and the key actions to take in support of delivering the longer term goals in the SCS and the County Council's own improvement agenda. The County Council Plan is supported by a series of Service Plans at a Service Grouping level which details the planned actions to deliver the County Council's vision. Priorities within the County Council Plan are based on:

- ❖ The SCS;
- ❖ Current performance;
- ❖ External inspection findings including Annual Audit and Inspection Letter, Care Quality Commission annual performance assessment of social care for adults, and a number of countywide inspections carried out by the Audit Commission.

Other governance processes and procedures, such as the Asset Management Plan and Partnership Governance Framework, also make clear links to the County Council priorities, to ensure that the impact on achieving them is considered when decisions are made.

3.2 Reviewing the County Council's vision and its implications for the County Council's governance arrangements

The CDP annually review the SCS to ensure that it remains informative and valuable, and renew it every three years to ensure that our plans remain realistic, achievable within our current resources and soundly based, taking account of national and international developments and other changes. Over 6,500 residents participated in the Countywide resident survey undertaken during the year and provided the County Council with excellent feedback on their views on County Council services.

The County Council considers the governance implications of its actions, and annually reviews its Code of Corporate Governance to ensure that it remains consistent with the principles of the CIPFA/SOLACE Framework – "Delivering Good Governance in Local Government".

The County Council has also implemented a system of Extended Management Team meetings consisting of Chief Executive, Directors and Heads of Service which included a programme of activity linked to the strategic management of the County Council.

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

The County Council Plan, the SCS, Area Action Partnerships, and the Medium Term Financial Plan (MTFP) contribute into the corporate performance management arrangements, and the County Council has a framework of quarterly reporting to Cabinet and Overview and Scrutiny on corporate performance. A Performance Management Report is produced quarterly by all Service Groupings and has been improved significantly during the year. It includes a summary of achievements and identifies areas with significant performance challenges where a more in depth analysis of performance and improvement work should be carried out.

Reports on the budgetary control statement are also considered quarterly by Cabinet. Supporting this, improvements to service delivery are identified and monitored through service improvement plans. The Improvement and Planning Group (IPG) meets fortnightly to discuss County Council performance management issues. The County Council continually reviews its performance management frameworks, both corporately and across service groupings, and reviews the corporate basket of indicators following the adoption of the County Council Plan and Service Plans. It has adopted a new corporate basket of indicators which will present a balanced scorecard of performance across five types of indicator. Similarly, the Delivery & Improvement Group, which reports to the CDP has been transformed into two groups, namely a performance group that will meet quarterly to consider performance, and a strategic group made up of high level officers from the County Council, Police, Fire and Health which meets monthly. This latter group considers how key public sector plans for change align, and where efficiencies and greater value for money can be achieved through strategic integration, shared services and joint commissioning.

Significant work has taken place in 2010/11 to update the County Council's Medium Term Financial Plan 2011-15 (MTFP) to take account of the large reductions in government grant funding. Savings targets have been developed for each service grouping after taking account of grant reductions and other significant cost pressures. Savings of £66m need to be delivered in 2011/12 and a comprehensive schedule of reviews has been programmed which are designed to achieve the necessary savings to enable us to deliver a balanced budget and MTFP. Detailed and frequent monitoring of this programme is being undertaken by the Change Co-ordination Group, CMT and Cabinet.

All complaints are logged and recorded on the customer relationship management system. The Standards Committee review a quarterly report indicating the number and type of complaints (not relating to the members code of conduct), response times and outcomes. It also states how services have changed practices, procedures or policies as a result of complaints received. These reports can be found on the County Council's intranet and website.

The County Council's employee performance appraisal arrangements, which are designed around a series of competencies, are a key method of assessing the individual performance of officers, and addressing areas where performance can be improved There is a commitment to introduce 360^{o} appraisals for senior management (Heads of Service and above).

To enable greater local participation in determining the priorities for service delivery, the County Council has fourteen Area Action Partnerships (AAPs) covering the whole County. Working via a series of Task and Finish Groups, multi- agency AAPs are fully engaged with identifying and resolving local priorities, and utilise locality budgets allocated to each AAP to drive improvements to service quality. Progress on achieving these improvements is monitored by the AAP Boards.

A Single Equality Scheme has been implemented during the year, and actions from this plan are included in Service Plans.

The performance and quality of service delivery of the Community and Voluntary sectors is measured against a standard Service Level Agreement that they all work to.

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

The key document which clearly describes roles and responsibilities is the County Council Constitution. This includes the individual roles and responsibilities of the:

- Leader of the Council;
- Deputy Leader of the Council;
- Executive Member;
- Executive Support Member;
- Chairman of the Council;
- Vice Chairman of the Council;
- Chairman of a Committee;
- Vice Chairman of a Committee;
- Opposition Group Leader;
- Frontline Councillor (Community Leadership and Corporate Roles);
- Corporate Parenting Panel Member;
- Non-Elected Members (for Audit Committee, Overview & Scrutiny Committee, Pensions Committee and the Standards Committee);
- Officers of the Council, including the Chief Executive and other statutory senior management appointments.

Together with the responsibilities for functions such as the:

- ❖ Responsibility for Council Functions (which sets out those matters specifically reserved for collective decision of the Council);
- ❖ Responsibilities for Executive Functions;
- ❖ Officer Scheme of Delegation;
- ❖ Joint Committee Arrangements;
- ❖ Overview and Scrutiny arrangements;
- ❖ The Standards Committee;
- ❖ Budget Framework procedures.

To provide clarity for new councillors regarding their role, responsibilities and how to perform their duties, a Councillor Compact is in place. Specifically it covers:

- ❖ The role of the Elected Member;
- ❖ Frontline Councillor Roles;
- ❖ Executive Roles;
- ❖ Non-Executive Roles;
- ❖ Membership of Regulatory Committees;
- ❖ Partnership Working.

The Corporate Management Framework sets out the collective role and management arrangements for the Corporate Management Team and Extended Management Team.

Members and Officers work together on the workload of the Cabinet which is managed through a system of Cabinet pre-agenda meetings. To support this, Corporate Directors hold regular briefing sessions with Cabinet Portfolio Members and their support Members, and there are clear principles of how media relations work with elected Members.

When working in partnership, the County Council ensures that Members are clear about their roles and responsibilities both individually and collectively in relation to the partnership and to the authority. It also ensures that there is clarity about the legal status of the partnership and ensures that representatives of the organisations both understand and make clear to all other parties the extent of their authority to bind their organisation to partner decisions. Formal guidance is provided for Members when representing the County Council on outside bodies and partnerships.

3.5 Developing, communicating and embedding codes of conduct, defining the standards of behaviour for Members and staff

The key elements of the County Council's approach are detailed in the Constitution and include:

- ❖ The Code of Conduct for Elected Members, Voting Co-opted Members and Independent Members of the Standards Committee;
- ❖ The Code of Conduct for Employees;
- ❖ The Code of Practice for Members and Officers dealing with planning matters;
- ❖ The Statutory Declaration of Acceptance of Office, which all Members are required to sign. This includes an undertaking to observe the requirements of the Code of Conduct in operation at the time. Similar arrangements exist for independent members of the Standards Committee and Voting Co-opted members of the Scrutiny Committee.

The County Council's partnership governance framework also makes clear reference to Codes of Conduct applying to any partnership working.

Any breach of the employee code is investigated in accordance with the County Council's disciplinary procedures and any breach of the Member code is dealt with under Standards Committee Procedures. All complaints under the Members code of conduct are maintained and monitored by the Monitoring Officer and her staff. Quarterly statistics containing information about the effectiveness of local standards arrangements are submitted to the Standards Committee by the Monitoring Officer, returns to Standards for England no longer being required.

The Register of Gifts, Interests and Hospitality for Members is available online. The Code of Conduct for Members requires Members (including Co-opted Members with voting rights):

- to register in the Authority's Register of Interests details of their personal interests;
- who become aware of any changes to his/her interests to provide details of that change to the Monitoring Officer within 28 days;
- to review their declarations of standing interests on an annual basis.

Gifts and hospitality and conflicts of interest are registered as and when required throughout the year. In terms of disclosure of gifts, hospitality and interests, Member declarations/ registrations are maintained and monitored by the Monitoring Officer and her staff.

The Monitoring Officer issues advice and guidance (usually on an annual basis) reminding Corporate Directors of their responsibilities under the Code in relation to gifts and hospitality. Staff declarations are maintained and monitored by their Head of Service.

The County Council's Standards Committee has an independent Chair and has been given a deliberately broad remit, including all complaints handling and oversight of other relevant codes and protocols, so as to reinforce the County Council's commitment to these issues. In accordance with the Standards Committee (England) Regulations 2008, the role of the Committee has been extended to include the local assessment of Member Conduct complaints.

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

The County Council's Constitution sets out how the County Council operates, how decisions are made and the procedures which are followed to ensure that these are effective, transparent and accountable to local people. The Constitution is reviewed and amended on an annual basis as required. A Committee Management System has been implemented to streamline the process of managing formal reporting.

The Officer Scheme of Delegation is also reviewed annually in line with the review of the County Council's Constitution.

The County Council operates a risk management approach that aids the achievement of its strategic objectives, supports its decision making processes, protects the County Council's reputation and other assets and is compliant with statutory and regulatory obligations. The County Council annually reviews its risk management strategy and policy, which outlines the formal approach to identifying and managing risk.

Policy Framework Rules are in place which ensure that policies are developed in line with the values of the County Council.

3.7 Ensure the Authority's financial management arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010)

The County Council has appointed the Corporate Director Resources as Chief Financial Officer (CFO) and Section 151 Officer. The CFO, who is a member of the Corporate Management Team and reports directly to the Chief Executive, is professionally qualified, and has the skills, knowledge, experience and resources to perform effectively in both a financial and non-financial role. The CFO is also the designated lead officer for the Audit Committee, the Corporate Risk Management Group and External Audit. To support these roles, the finance function is adequately resourced to fulfil its duties, and a structure is in place which provides a line of professional accountability for finance staff throughout the County Council.

Key CIPFA codes, such as the Code on a Prudential Framework for Local Authority Capital Finance, and the Treasury Management Code, are complied with. Reports on the budgetary control statement, and quarterly outturn reports, are regularly presented to Cabinet and Corporate Management Team.

The CFO is involved in all Corporate Management Team discussions, and reviews all reports to Cabinet which have financial implications. The CFO also provides an opinion under section 25 of the Local Government Act 2003 on the reserves for the County Council, which Members consider when setting the budget.

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

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

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

The Constitution takes into account all relevant legislation including the Local Government Act 1972, the Local Government Act 2000, the Local Authorities (Functions and Responsibilities) (England) Regulations 2000 and the Local Government and Public Involvement in Health Act 2007. The Constitution is reviewed annually by the Constitution Working Group (CWG). This group consists of the lead Members from each political party and is chaired by the Leader of the Council. It is supported by the Chief Executive and the Head of Legal and Democratic Services as the Council's monitoring officer, and other officers as required, and makes recommendations to full Council on changes required to the Constitution. Externally audited accounts are published in the Annual Statement of Accounts.

All reports written by officers include the financial and legal implications in the decisions they are asking Cabinet or Committees to make, and the Constitution states that the Chief Financial Officer can bring influence to bear on all material decisions.

The Constitution states that the Head of Legal and Democratic Services is the senior officer responsible to the authority for ensuring that agreed procedures are followed and that all applicable statutes and regulations are complied with. This is supported by the independent assurance work of Internal Audit. Information is provided for senior officers to understand what they can or cannot do under the Scheme of Delegation.

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

The Confidential Reporting Code (Whistle blowing policy) is part of the County Council's Constitution. Together with the County Council's complaints procedures, they provide mechanisms for the public to raise concerns about potential breaches of conduct. They are accessible on the County Council's website, are communicated to all staff and Members, and have been brought to the attention of School Governing Bodies. These procedures also form part of the County Council's approach to counter-fraud and are linked to the County Councils' Counter Fraud and Corruption Strategy. An awareness campaign, "combating fraud through awareness" has been developed and encourages the public, staff, Members, contractors and the County Council's partners to speak up and report any suspected irregularity.

The Standards Committee regularly monitors complaints handling by Services, including dip-sampling of completed investigations. It reports annually to the Full Council on its business which includes details of Member conduct complaints and Local Government Ombudsman investigations.

3.11 Identifying the development needs of Members and senior officers in relation to their strategic roles, supported by appropriate training

The County Council has established systems and processes for identifying the development needs of Members and senior officers. It does this generally by:

- ❖ Operating robust recruitment and selection processes;
- ❖ Implementing a Member Development Strategy;
- ❖ Maintaining the Investor in People Standard;
- ❖ Consistent application of the People and Organisational Strategy;;
- ❖ Cascading regular information to Members and Staff;
- ❖ Investing in Member and Officer Leadership Training;

- ❖ Providing resources that support Member and Officer Development;
- ❖ Promoting schemes and supporting ongoing professional development;
- ❖ Personal Development Plans;
- ❖ Providing training to help Members understand their role on committees;
- ❖ Assessing personal development needs as part of the induction process for both Members and officers;
- ❖ Introducing an Employee Support Programme to support employees through the restructuring process associated with the MTFP outcomes

A Member Training and Development Strategy and Member Learning and Development Programme is in place. To support this, the Member Development Group has been established to oversee and co-ordinate Members training needs. This meets six times a year to discuss training and development initiatives for elected Members.

A training programme, based on needs analysis, has been developed, “Building Resilient Organisations Programme”, for Corporate Management Team (CMT) and extended management team members, and other senior managers have the opportunity to undertake the North East Excellent Managers programme. Individual personal development of senior officers is addressed as part of the County Council’s employee performance appraisal arrangements developed with staff and is designed around a series of competencies. There is also a commitment to introduce 360^{o} appraisals for senior management (Heads of Service and above).

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

A full programme of communication is in place involving presentations, press releases, articles in local magazines and partners publications. The County Council itself publishes Durham County News, a community magazine which is provided to all households across the County four times per year. This is used to raise public awareness and promote consultation and engagement with the Community. To make information more accessible for people who have difficulty reading, the County Council website is speech enabled via 'Browsealoud'.

As part of its commitment to greater transparency, the County Council publishes details of specific expenditure on the Internet.

A climate of openness has been encouraged by holding regular Cabinet meetings at various locations throughout County Durham including former district council offices. The County Council responds to the views of stakeholders and the community in a number of ways including:

- ❖ Publishing a forward plan of key decisions;
- ❖ During the MTFP process, more than 8,000 people either participated or responded to the consultation.
- ❖ Encouraging and supporting the public in submitting requests for aspects of the County Council services to be scrutinised;
- ❖ Providing to the public the opportunity to ask questions or make representations at full Council and regulatory committees;
- ❖ Implementing a protocol for managing e-petitions.
- ❖ Undertaking a Countywide resident survey in which over 6,500 residents participated;
- ❖ Designing AAPs in consultation with the public to ensure that they are recognised as representing our natural communities. Each AAP has its own Plan, Board, budget and officer support structure, and are used to identify priorities for each area. They are consulted on the development of our MTFP to identify local priorities for action, test strategic priorities at a local level and seek innovative ideas from local people on how to realise efficiencies by working more closely with our partners. Community development officers attached to AAPs work closely with communities;

- ❖ Consulting effectively with children and young people, service users and carers and key client groups to help plan and be involved in the design, delivery and evaluation of local services;
- ❖ Consulting with staff and Trade Unions;
- ❖ Reviewing and improving ‘Open Doors’, a responsive staff engagement mechanism which captures and quickly responds to questions, compliments, suggestions and complaints raised by staff.
- ❖ The Engagement and Third Sector team, who support the County Council’s approach to community engagement and support Members in their community leadership role.

The CDP has developed a County Durham Partnership Community Engagement and Empowerment framework to shape and support a common vision and approach for community engagement by partners in County Durham, so that people feel able to influence decision making.

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

As the strategic partnership for the County, the CDP is the lead umbrella partnership for most other partnerships in County Durham, and the Leader of the Council is the chair of the CDP.

The County Council has a strong commitment to working with partners to meet the needs of its communities, and involves partners when developing the County Council’s own three year MTFP, working with key agencies to develop complementary proposals and consulting on a joint basis with the Police and County Durham & Darlington NHS Foundation Trust. The County Council has developed a partnership governance framework (PGF) to enable partnerships to be identified, recorded and reported upon corporately and to provide a mechanism for their effectiveness to be assessed. The County Council is establishing joint assurance functions with our partners to improve accountability and data quality. A report is presented bi-monthly to Cabinet on the work of the CDP, including input from each of the AAP’s.

To strengthen community governance, the AAP boards comprise seven Members of the public selected through open recruitment; seven Members chosen from partner agencies working in the area and seven selected from local elected Members - including town and parish councillors - on a politically balanced basis for that area. They have a rotating chair, so that they are not indefinitely controlled by the Unitary administration.

The County Durham Compact provides a framework for partnership and engagement with the voluntary and community sector.

The County Council’s Codes of Conduct also apply to its partnership working.

REVIEW OF EFFECTIVENESS

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

The process for maintaining and reviewing the effectiveness of the corporate governance framework is outlined below:

The Executive

The County Council is responsible for appointing the Leader of the Council for the remainder of the term of the Council, and the Cabinet, who are appointed annually, which together, are known as the Executive. As a group, the Executive is responsible for most decisions. Where a decision is identified as key, these are published in advance in the Executive’s Forward Plan.

Chief Financial Officer

The principles outlined in the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010) are complied with by the County Council.

Overview and Scrutiny Committee

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

Standards Committee

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

The Audit Committee

The Audit Committee contributes to this review by seeking assurance that the County Council's governance arrangements are effective. It does this by:

- ❖ Reviewing the Annual Governance Statement and how it has been prepared;
- ❖ Reviewing the County Council's Statements of Accounts and how they have been prepared;
- ❖ Monitoring progress made on improvements identified from the previous year's Annual Governance Statement;
- ❖ Reviewing the effectiveness of the system of internal audit;
- ❖ Reviewing regular risk management and internal audit progress reports;
- ❖ Reviewing the Annual Internal Audit Report and Risk Management Report;
- ❖ Reviewing reports from the external auditor;
- ❖ Maintaining an awareness of the key processes and policies in place, and how they are reviewed, that underpin the corporate governance framework.

Change Co-ordination Group

The Change Co-ordination Group (CCG) which is chaired by the Corporate Director Resources, co-ordinates and oversees the County Council's corporate assurance arrangements. It does this by:

- ❖ Preparing and maintaining the County Council's Code of Corporate Governance as a formal framework for the County Council's governance arrangements;
- ❖ Reviewing the systems, processes and documentation to determine whether they meet the requirements of this Code, reporting any breaches and recommending improvements;
- ❖ Preparing an Annual Governance Statement to demonstrate how far the County Council complies with the principles of good governance and recommending improvements, to be published in the County Council's Annual Statement of Accounts.

Internal and External Audit

Internal and External Audit provide independent assurance on the effectiveness of the corporate governance framework.

The review was also informed by a statement provided by each Corporate Director and the Assistant Chief Executive commenting on the effectiveness of the County Council's governance arrangements generally and how they impacted on their service areas. These included consideration of the effectiveness of internal controls.

Significant issues arising from the review of the effectiveness, where improvements are needed, are outlined in section 5 below. These will be included in an action plan and will be regularly reviewed and monitored.

SIGNIFICANT GOVERNANCE ISSUES

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit Committee. The County Council is fully committed to the principles of corporate governance, and has made further progress during the past twelve months in developing its arrangements.

Following the production of the Annual Governance Statement (AGS) for 2009/10, an action plan, containing the following recommendations was produced. Progress made in implementing each recommendation, as outlined below, was confirmed by CCG and formed the starting point of the work to produce the 2010/11 AGS.

- **Continue the positive direction of travel by implementing the planned control improvements to financial systems.** In addition to improvements tracked through the Service Improvement Planning process, an Action Plan was developed which looked to address a range of issues identified during the annual external audit in relation to internal control, and this Action Plan is monitored via the Audit Committee. In identifying these issues, the extent of change following local government re-organisation across the County Council in the last year should not be under estimated. It has been particularly challenging for the County Council to maintain effective controls over financial systems in the period of migrating to a single financial system (Oracle) for the new County Council. One disappointing outcome of this has been delays in consolidating financial information together to provide a single set of final accounts, which has resulted in the final Statement of Accounts being agreed later than the statutory deadline. A further programme of work and actions is ongoing in order to ensure continuous improvements are made in this area in order to ensure the County Council meet all of our statutory responsibilities by the due dates for the closure of our 2010/11 Statement of Accounts.

- **Improve the County Council's approach to tackling fraud**. The Counter Fraud and Corruption Strategy and Policy, and the Fraud Response Plan, were reviewed and approved by the Audit Committee in November 2010. Fraud awareness among Officers, Members and the wider community has been raised through a number of channels. Reporting arrangements have been improved, and will be further improved after the new Revenues and Benefits system is implemented in 2011.

- **Improve awareness of, and accessibility to, key policies and documents**. Policy information has been communicated throughout the year. However, as priority has focused on the development of the County Council website, the target implementation dates for the remaining actions were revised and have been carried forward into the action plan for 2011/ 12.

- **Improve awareness of senior officers of the parts of the constitution relevant to their role, including the scheme of delegated powers, and the legal implications of their decisions**. Improvements to deal with gaps in the scheme of delegated powers that had come to light have been incorporated into the County Council Constitution. Delegated decisions are now recorded on the new modern.gov system.

- **Implement policies for Records Management and Information Management and Governance.** During the year, a Records Management policy and a Data Protection policy have been implemented. As planned, further policies will be implemented in this area during 2011, following which the County Council will develop a draft Information Management and Governance strategy by June 2012. This action has been carried forward into the action plan for 2011/ 12.

- **Implement a Single Equalities Scheme.** The Single Equalities Scheme was approved by Cabinet in July 2010, and actions from the Scheme have been built into relevant Service Plans and are monitored through corporate quarterly reporting.

- **Improve the management by the Services of their contract and supplier relationships.** The Contract Procedure Rules have undergone an internal review, and guidance has been issued from Corporate Procurement to service managers drawing attention to the County's procurement procedures. A draft Corporate Supplier Engagement Strategy, to be implemented in both service areas and the corporate centre, has been drafted, but will not be finalised until the impact of the Localism Bill and central government policy on social enterprises have been taken into account.

- **Implement revised Financial Management Standards.** Work has continued during the year to develop the standards. However, these remain in draft, and will not be finalised until the Unitisation structure of the County Council's finance function is completed during 2011. This action has been carried forward into the action plan for 2011/ 12.

- **Further embed Officer and Member Codes of Conduct.** Awareness of the Officer Code of Conduct was raised through a number of channels, such as articles in the staff magazine. Member seminars were held in October 2010 to explain the Member Code of Conduct. However, further work is on hold until central government confirms what it intends to do with the Code in the future, and this will be addressed when the County Council reviews the ethical framework in 2011/ 12.

Based on internal audit work undertaken during 2010/11, the Manager of Internal Audit and Risk has issued a moderate overall assurance opinion on the adequacy and effectiveness of internal control operating across the County Council in 2010/11. This moderate opinion ranking provides assurance that there is basically a sound system of control in place, but there are weaknesses and evidence of non-compliance. Control objectives are often achieved.

CCG also sought assurance on the effectiveness of the County Council's governance arrangements from each of the County Council's Corporate Directors and the Assistant Chief Executive. As a result of this exercise, and the work of both Internal and External audit, a number of issues have been identified where improvement in the County Council's governance arrangements are required. The most significant issues, agreed by the Corporate Management Team (CMT) at its meeting on 22 June 2011, and as reported to the Audit Committee on 30 June 2011, together with a summary of action taken or being taken to address each issue, are detailed below.

Continue the positive direction of travel by implementing the planned control improvements to financial systems.

A number of key actions to address the financial systems weaknesses have been incorporated into the Resources Service Improvement Plan or the Corporate Improvement Plan, and progress on these improvement plans will be monitored by Corporate Management Team throughout the year. This action has been carried forward from the 2010/ 11 Annual Governance Statement.

2. Pay Harmonisation and Single Status.

A project is in place to develop and implement a pay structure for the County Council and resolve outstanding pay harmonisation and single status issues, which have been complex given the implications of TUPE following Local Government Reorganisation.

3. Implement an Information Management and Governance Strategy

The County Council will develop a draft Information Management and Governance strategy by June 2012. This action has been carried forward from the 2010/ 11 Annual Governance Statement.

4. Implement revised Financial Management Standards.

The County Council is developing Financial Management Standards to supplement the very high level roles and responsibilities defined in the financial procedures rules contained in the Constitution. Financial management standards set out in more detail how the procedure rules will be implemented to help embed sound financial management across the County Council. This action has been carried forward from the 2010/11 Annual Governance Statement.

5. Business Continuity.

The County Council will develop a robust ICT architecture without single points of failure, and with data stored securely by implementing a new backup strategy across two physically segregated server environments.

6. Changing Government Policy on the Ethical Framework.

Following the abolition of the current Standards regime, the County Council will review the ethical framework and implement a new compliant, fit for purpose and workable ethical structure for the County Council. Supporting this, advice and guidance will be provided to Members and Officers on the new ethical structure.

7. Improve accessibility to key policies.

The County Council will develop a framework for ensuring that the latest versions of all key policies are accessible and are up-to-date. This action has been carried forward from the 2010/ 11 Annual Governance Statement.

8. Performance Management of Integrated Teams.

The Children's Trust intends to transform services for children and young people by developing services in local communities, for local communities. These services will be easy to access, effective and integrated where appropriate and will deliver improved outcomes for children and families in County Durham. To support this, a Performance Management Framework for Integrated teams will be implemented.

9. Succession Planning.

Following year one MTFP workforce changes, policies will need to be implemented to ensure effective succession planning in the future. This is a long-term goal, but after the completion of the Unitisation of Human Resources function, plans will be developed by April 2012 to take this forward.

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

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Signed:

Simon Henig

Leader of Durham County Council

George Garlick

Chief Executive

Don McLure

Corporate Director Resources

Page 180 of 178

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 a accommodation-related service.

Appropriation

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

Assets

An item having a monetary value to the County Council, e.g. property, investments or cash.

Area Based Grant

A general grant, allocated by Central Government. There is no restriction on how the grant is spent.

Assets Held for Sale

Long term assets that are surplus to the County Council's operational needs that are being actively marketed for sale with the expectation that disposal will occur within a 12 month period.

Assets Under Construction

Capital expenditure on assets, where the work is incomplete.

Associate

An associate is an organisation over which the County Council has significant influence, but not control. An associate cannot be a subsidiary or an interest in a joint venture.

Audit of Accounts

An independent examination of the County Council's financial affairs.

Available for Sale Financial Instruments Reserve

The reserve carries the valuation surplus on those investments with a quoted market price or otherwise do not have fixed or determinable payments, which under the Code, are classified as available for sale. The surplus is the amount by which fair value exceeds historical cost.

AWH

Adult, Wellbeing and Health Service

Balance Sheet

This is a financial statement that shows the financial position of the County Council at a point in time, the balance sheet date, which for the County Council is 31 March. It shows the value of the fixed and net current assets and long term liabilities, as well as the reserves and balances.

Best Value Accounting Code of Practice (BVACOP)

The Code of Practice provides guidance to Local Authorities on financial reporting. It details standard definitions of services and total cost, which allows direct comparisons of financial information to be made with other local authorities.

Bid Price

In the context of stock trading on a stock exchange, the bid price is the highest price a buyer of a stock is willing to pay for a share of that given stock.

Billing Authority

Durham County Council is the billing authority responsible for the collection of Council tax and non-domestic rates. The Council tax includes amounts for precepting authorities.

Bonds

A type of investment in certificates of debt issued by the government of a company. These certificates represent loans which are repayable at a future specified date with interest.

Borrowing

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

Budget

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

Building Schools for the Future (BSF)

Government investment programme with the aim of rebuilding or renewing every secondary school in England over a 10-15 year period.

CLG

Department for Communities and Local Government

Capital Adjustment Account (CAA)

This account accumulates the write down of the historical cost of fixed assets as they are consumed by depreciation and impairments or written off on disposal. It also accumulates the resources that have been set aside to finance capital expenditure. The balance on the account represents timing differences between the amount of the historical cost of fixed assets that has been consumed and the amount that has been financed in accordance with statutory requirements.

Capital Charge

Charges made to local authority services to reflect the 'cost' of using fixed assets in the provision of services. The charge comprises the annual provision for depreciation. To ensure that these notional charges do not impact on local taxation they are reversed out in the Statement of Movement on the General Fund.

Capital Expenditure

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

Capital Financing 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. fixed assets, financing leases, government grants deferred etc. The CFR will be different to the actual borrowing of the authority. This figure is then used in the calculation of the County Council's Minimum Revenue Provision.

Capital Grants Unapplied Account

Grants that have been recognised as income in the Comprehensive Income and Expenditure Account (CIES) but where expenditure has not yet been incurred

Capital Receipts

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

Cash Flow Statement

This Statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.

Chartered Institute of Public Finance and Accountancy (CIPFA)

The principal accountancy body dealing with local government finance.

Code

The Code of Practice on Local Authority Accounting. A publication produced by CIPFA constituting proper accounting practice for Local Authorities.

Collection Fund

An account kept by the Council into which Council tax is paid and through which national non-domestic rates pass, and which pays out money to fund expenditure from the General Fund and the precept made by the Police and Fire Authority.

Community Assets

Assets held that are planned to be held forever, that have no set useful life and may have restrictions on how they can be sold or otherwise disposed of. e.g. parks, historic buildings.

Componentisation

The process by which assets are analysed into various components that have significantly different estimated lives. The County Council's accounting policy is detailed in paragraph 19 of the Accounting Policies.

Comprehensive Income and Expenditure Account (CIES)

This statements reports the net cost of services for which the County Council is responsible and demonstrates how that cost has been financed.

Constitution

The document that sets out how the County Council operates, how decisions are made and the procedures that are followed.

Contingent Asset

Potential benefits that the County Council may reap in the future due to an event that has happened in the past.

Contingent Liabilities

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

Corporate Democratic Core

The corporate and democratic management costs are the costs of activities that local authorities undertake specifically because they are elected multi-purpose authorities. They cover corporate policy making, representing local interests, services to elected members as local representatives and duties arising from public accountability.

Corporate Governance

The promotion of corporate fairness, transparency, and accountability. The structure specifies the responsibilities of all stakeholders involved and the rules and procedures for making decisions.

Council Tax

This is a tax which is levied on the broad capital value of domestic properties, and charged to the resident or owner of the property.

Creditors

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

CSR

Comprehensive Spending Review.

CYPS

Children and Young Peoples' Service

Debtors

Persons or bodies who owe sums to the County Council.

Dedicated Schools Grant (DSG)

A specific grant paid to Local Authorities to fund the cost of running their schools.

Deficit

A deficit arises when expenditure exceeds income or when expenditure exceeds available budget.

Defined Benefit Scheme

Also known as a final salary scheme. Defined benefit pension schemes prescribe the amounts members will receive as a pension regardless of contributions and investment performance. Employers are obliged to fund any shortfalls.

Delegated Budgets

Budgets for which schools or other services have complete autonomy in spending decisions.

DfE

Department for Education

Depreciation

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

Direct Revenue Financing

The cost of capital projects that is financed directly from the annual revenue budget.

Direct Service Organisations (DSOs)

Workforces employed directly by local authorities to carry out works of repair, maintenance, construction etc. of buildings, grounds and roads and to provide catering and cleaning services and repairs and maintenance of vehicles.

Equities

Ordinary shares in UK and overseas companies traded on a stock exchange. Shareholders have an interest in the profits of the company and are entitled to vote at shareholder's meetings.

Fair Value

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

FIDs and Manninen

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

Finance Lease

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

Financial Instrument

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

Financial Instruments Adjustment Account (FIAA)

This account is an unusable reserve which absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. Transfers are made to ensure that the General Fund records the amount required by the applicable regulations or statutory guidance, the FIAA carries the excluded surplus or deficit.

Financial Reporting Standards (FRS)

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

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

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

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 Assets

Tangible or intangible assets that yield benefits to the authority and the services it provides for a period of more than one year. Tangible fixed assets have physical substance, for example land, buildings and vehicles. Intangible fixed assets do not have physical substance but are identifiable and controlled by the authority through custody or legal rights, for example software licences.

Fixed 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.

Government Grants Deferred

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

Group Accounts

Many local authorities now provide services through partner organisations. Where an authority has material financial interests or a significant level of control over one or more entities it should prepare Group Accounts.

Historical Cost

The original purchase cost of an asset.

Housing Benefit

A system of financial assistance to individuals towards certain housing costs administered by Local Authorities and subsidised by central Government.

Housing Revenue Account (HRA)

This is a separate account to the General Fund, which includes the expenditure and income arising from the provision of housing accommodation by the Authority. The HRA is ring-fenced: no cross subsidy is allowed between the HRA and General Fund.

IAS

International Accounting Standard – regulations outlining the method of accounting for activities, currently being replaced by International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

ICT

Information and Communications Technology

IFRIC

Interpretations originated from the International Financial Reporting Interpretations Committee.

IFRS

International Financial Reporting Standards – issued and set by the International Accounting Standards Board (IASB). These are standards that companies and organisations follow when compiling their financial statements. They have been adapted to apply to local authorities and are consolidated in the Code of Practice on Local Authority Accounting (the Code). The Code applies to the County Council's Statement of Accounts for the first time in 2010/11.

Impairment

Impairment of an asset is caused either by a consumption of economic benefits e.g. physical damage (e.g. fire at a building) or deterioration in the quality of the service provided by the asset (e.g. a school closing and becoming a storage facility). A general fall in prices of a particular asset or type of asset is treated as a revaluation.

Index Linked Securities

Investments in government stock that guarantee a rate of interest linked to the rate of inflation. These securities represent loans to government which can be traded on recognised stock exchanges.

Infrastructure Assets

A fixed asset that cannot be taken away or transferred, and which can only continue to benefit from it being used. Infrastructure includes roads and bridges.

Intangible Assets

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

Inventory

Items of raw materials, work in progress or finished goods held at the financial year end, valued at the lower of cost or net realisable value.

Investment

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

Investment Properties

Interest in land and/or buildings in respect of which construction work and development have been completed and which are held for their investment potential rather than for operational purposes, any rental income being negotiated at arms length.

IPSAS

International Public Sector Accounting Standards Board.

Joint Venture

An entity in which the reporting authority has an interest on a long term basis and is jointly controlled by the reporting authority and one or more entities under a contractual or other binding arrangement.

LAAP Bulletin

CIPFA's Local Authority Accounting Panel (LAAP) periodically issues bulletins to local authority practitioners, providing guidance on topical issues and accounting developments and, when appropriate, clarification on the detailed accounting requirements.

Leasing

A method of funding expenditure by payment over a defined period of time. An operating lease is similar to renting; the ownership of the asset remains with the lessor and the transaction does not fall within the capital system. A finance lease transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee and do fall within the capital system.

Levy

A levy is a charge made by one statutory body to another in order to meet the net cost of its services, e.g. payments to the Environment Agency for flood defence and land drainage purposes.

Liabilities

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

LGR

Local Government Re-organisation.

Local Authority Business Growth Incentive Grant (LABGI)

A reward for promoting growth in local businesses.

Local Public Service Agreement Performance Reward Grant (LPSA)

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

Long-Term Investments

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

Major Repairs Allowance (MRA)

The MRA is an element of housing subsidy, and represents the capital cost of keeping HRA dwellings stock in its current condition. It largely replaces credit approvals as a means of financing HRA capital expenditure.

Managed Funds

A type of investment where a number of investors pool their money into a fund, which is then invested by a fund manager.

Materiality

An expression of the relative significance of a particular issue in the context of the organisation as a whole.

Market Value

The monetary value of an asset as determined by current market conditions.

Mid-market price

The mid-point between the bid price and the offer price for a security based on quotations for transactions of normal market size by recognised market-makers or recognised trading exchanges.

Minimum Revenue Provision (MRP)

The minimum amount, which must be charged to revenue in the year, for the repayment of debt (credit liabilities and credit arrangements). The formula for calculating this amount is specified in legislation and requires authorities to make an annual provision of 4% of its underlying need to borrow. In addition, authorities can choose to make additional provision, known as a voluntary set-aside.

Minority Interest

The interest in a subsidiary entity that is attributable to the share held by, or on behalf of persons other than the reporting authority.

Moody's

Moody's Investor Service is a rating agency, providing credit ratings, research, and risk analysis of financial institutions across the world. Credit ratings are used by investors as indications of the likelihood of receiving the money owed to them in accordance with the terms on which they invested.

Movement in Reserves Statement

This statement is a summary of the changes that have taken place in the bottom half of the balance sheet over the financial year. It shows the movement in reserves held by the County Council analysed into 'usable reserves and 'unusable' reserves.

MTFP

Medium Term Financial Plan.

Myners' Principles

A set of ten principles issued by Government which Pension Schemes are required to consider and to which they must publish their degree of compliance.

National Non-Domestic Rates (NNDR)

The means by which local businesses contribute, to the cost of providing local authority services. The rates are paid into a central pool which is divided between all authorities as part of Formula Grant.

Net Book Value

The amount at which fixed assets are included in the Balance Sheet. It represents historical cost or current value less the cumulative amounts provided for depreciation or impairment.

Net Cost of Service

The actual cost of a service to the County Council after taking account of all income charged for services provided. The net cost of service reflects capital charges and credits for government grants deferred made to services to reflect the cost of employing fixed assets.

Net Expenditure

The actual cost of a service to the County Council after taking account of all income charged for services provided.

Net Realisable Value

The expected sale price of stock, in the condition in which it is expected to be sold. This may be less than cost due to deterioration, obsolescence or changes in demand.

Non Current Assets

Assets that yield benefits to the County Council and the services it provides for a period of more than one year.

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

Fixed assets held and occupied, used or consumed by the authority in the direct delivery of those services for which it has either a statutory or discretionary responsibility.

Outturn

Actual expenditure within a particular year.

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 Year Adjustments

Those material adjustments relating to prior years accounts, that are reported in subsequent years arising from changes in accounting policies or from the correction of fundamental errors. They do not include minor corrections or adjustments of accounting estimates made in prior years.

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 fixed assets held by the Council arising from increases in value, as a result of inflation or other factors (to the extent that these gains have not been consumed by subsequent downward movements in value). The overall balance on the Reserve represents the amount by which the current value of fixed assets carried in the Balance Sheet is greater because they are carried at revalued amounts rather than depreciated historical cost.

Revenue Contributions

See 'Direct Revenue Financing'

Revenue Expenditure and Income

Expenditure and income arising from the day-to-day operation of the County Council's services, such as salaries, wages, utility costs, repairs, and maintenance.

Revenue 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.

This accounting treatment, as defined in the CIPFA Statement of Recommended Practice (SORP) 2008, replaces the concept of deferred charges.

Revenue Support Grant (RSG)

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

RICS

Royal Institution of Chartered Surveyors

Section 137

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

Section 151 Officer

The officer designated under Section 151 of the Local Government Act 1972 to have overall responsibility for the administration of the financial affairs of the County Council and the preparation of the County Council's Statement of Accounts.

SIP

The Statement of Investment Principles details the policy which controls how a pension fund invests.

Specific Grant

A revenue government grant distributed outside of the main Local Government Finance Settlement. Some specific grants are ring-fenced to control local authority spending. Others are unfenced and there are no restrictions as to how they are spent.

Statement of Recommended Practice (SORP)

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

Statement of Total Recognised Gains and Losses (STRGL)

This statement brings together all of the gains and losses of the Council for the year and shows the aggregate change in its net worth.

Statements of Standard Accounting Practice (SSAP)

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

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 Assets

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

Transfer Values

Amounts paid to or received from other local and public authorities, private occupational or personal pension schemes in respect of pension rights already accumulated by employees transferring from or to the participating authorities.

Treasury Management Policy and Strategy

A plan outlining the County Council's approach to treasury management activities. This includes setting borrowing and investment limits to be followed for the following year and is published annually in the Medium Term Financial Plan document.

Trust Funds

Funds established from donations or bequests usually for the purpose of providing educational prizes and scholarships.

Unit Trusts

A pooled fund in which small investors can buy, and sell units. The pooled Fund then purchases investments, the returns on which are passed on to the unit holders. It enables a broader spread of investments than investors could achieve individually.

Usable Capital Receipts Reserve

Represents the resources held by the County Council from the sale of fixed assets that are yet to be spent on other capital projects.

Unusable Reserves

Unusable reserves are reserves that the County Council are not able to use to provide services, such as the revaluation reserve that arise from accounting requirements.

Usable Reserves

Usable reserves are reserves that the County Council may use to provide services subject to the need to retain prudent levels of reserves and any statutory limitations to their use. Usable reserves include Earmarked Reserves and the General Reserve.

Useful Life

The period in which an asset is expected to be useful to the County Council.

Variance

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

Work-in-Progress

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

Audit Committee

28 July 2011

2010/11 Final Outturn for General Fund and Housing Revenue Account

Don McLure, Corporate Director Resources

1 The attached report is to provide Members with details of the Final Outturn for both the General Fund and the Housing Revenue Account (HRA) for 2010/11 including an Annual Treasury Management Report. The report considers both Revenue and Capital.

2 Members are asked to note the contents of the report.

Contact: Hilary Appleton Tel: (0191) 383 3544

p/r/ha04-11
19 July 2011

Cabinet

13 July 2011

2010/11 Final Outturn for General Fund and Housing Revenue Account

Durham County Council

Report of Corporate Management Team

Don McLure, Corporate Director Resources

Purpose of the Report

2 To provide Cabinet with details of the Final Outturn for both the General Fund and the Housing Revenue Account (HRA) for 2010/11 including an Annual Treasury Management Report. The report will consider both Revenue and Capital.

Background

3 The County Council faced a major challenge with our 2010/11 budget when on 10 June 2010 'in year' Government Grant reductions of £18m for Durham were announced in the Government's 'Emergency' Budget.

4 2010/11 also saw the introduction of Cash Limits for Service Groupings. This report provides detail of the outturn for Service Grouping Cash Limits.

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

(i) Sums Outside the Cash Limit

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

- Items not controlled by the Service Groupings e.g. Capital Charges, Central Administration Recharges and items relating to International Financial Reporting Standards (IFRS) .

- Expenditure pressures which were not accounted for in base budget build e.g. exceptional winter maintenance costs in Neighbourhoods and Building Schools for the Future (BSF) abortive costs in Children's and Young People Service Grouping.

- LGR Pension Augmentation Costs – originally these costs were to be spread over a five-year period. The 2011/12 County Council Budget Report to County Council on 23 February 2011 identified that it could be prudent if all of these costs were paid in 2010/11.

(ii) LGR Transition Costs

The 20010/11 budget identified a range of continuing LGR Transition costs which would be met from General Reserve.

(iii) Use of or Contribution to Earmarked Reserves

Service Groupings will have either utilised or contributed to Earmarked Reserves throughout the year, 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 underspend in 2010/11. It should be noted that the Adults, Wellbeing and Health figure is inflated by the receipt of PCT income in February 2011 of £1.92m. This sum is fully committed against activity in 2011/12 and onwards.

8 The Cash Limit underspend for each Service Grouping is detailed below:

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

Revenue Outturn

9 Appendix 2 provides a detailed Outturn position for the County Council 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
Net Operating Expenditure		441.93
Financed by:		
Redistributed Non-Domestic Rates	202.01	
Revenue Support Grant	29.33	
Council Tax	198.81	
Net Surplus on Collection Fund	1.93	
Net Use of Earmarked Reserves	0.17	
Use of General Reserves	9.68	
TOTAL FINANCING		441.93

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

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

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

12 The Original Budget identified that General Reserves of £3.7m would be utilised during 2010/11 as follows:

	£m
LGR Pension Augmentation	2.5
LGR Transition Costs	1.2
Total Use of General Reserve	**3.7**

13 Examples of why the Use of General Reserve has increased are detailed overleaf:

- Paying all LGR Pension Augmentation costs in 2010/11 – an additional £6.8m.

- Additional costs of winter maintenance over the base budget provision – an additional £1.5m.

- Abortive costs relating to the withdrawal of the BSF Programme - £0.3m.

- LGR Transition costs were higher than originally budgeted - £0.5m.

- Housing Benefit Subsidy Repayment – a sum of £1.2m is estimated to have to be repaid to the Department for Works and Pensions relating to errors identified in the Housing Benefit Subsidy claim for some of the former District Councils in 2008/09.

14 The final outturn for Earmarked Reserves is detailed below with fuller detail provided at Appendix 4. School Balances are shown separately. The net use of earmarked reserves detailed below differs from the sum in the table at paragraph 8 as the table below excludes the creation of an Earmarked Reserve for the 2010/11 Cash Limit underspends detailed at paragraph 7;

	Non-Schools	**Schools**	**TOTAL**
	£m	**£m**	**£m**
Opening Earmarked Balance as at 1 April 2010	81.30	13.84	95.14
Less			
Net (use of) / contribution to Earmarked Reserve	(18.75)	6.45	(12.30)
Closing Earmarked Reserve Balance as at 31 March 2011	**62.55**	**20.29**	**82.84**

Service Grouping Commentary

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

Assistant Chief Executive Service Grouping (ACE)

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

- £0.14m Repair and Maintenance and Design Service Recharge costs incurred.

- £0.79m Additional Pension Augmentation and Adjustment for IFRS accumulated Balance Adjustment.

- £2.72m Additional charge relating to Central Admin Charges.
- £1.21m Over recovery relating to Central Services – Income.
- £0.12m Additional Capital Charges.

Transfer to Earmarked Reserves

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

17 The Cash Limit underspend of £0.85m is mainly due to the conscious decision to maintain vacancies (to allow for flexibility going forward) and to actively seek additional external funding. The key reasons contributing to the Cash Limit underspend are as follows:

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

Partially offset by:

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

Adults Wellbeing and Health Service Grouping (AWH)

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

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

19 Key variations against budget are as follows:

- Through the careful management and control of vacant posts and general budgets across the service, an underspend of £2.6m has been achieved. This approach has ensured that the planned underspend for the service was achieved as targeted and also created opportunities for achieving restructures and service rationalisation required whilst minimising the impact of such changes on existing employees and services.
- The proactive approach to the management of the approved closure of the seven residential care homes and the introduction of the new reablement service, created additional employee savings of £1.5m. In addition to generating savings in 2010/11, this proactive approach also

ensured that the 2011/12 MTFP savings in relation to these services will also be fully achieved.

- Additional committed spend in relation to the Supporting People programme of £2.2m has been undertaken as a result of the carry forward of unspent grant from 2009/10 and additional contributions from partners.

- Additional initiatives and projects in Social Inclusion (£0.68m), in respect of Preventative Technology (£0.21m), in Libraries and Learning (£0.15m) and in Museums and Arts (£0.53m) have been possible due to the successful sourcing of additional grants and contributions. Additional grant and contributions of £0.47m has also been received in respect of the Carers Service.

- The net spend on adult services care packages, after taking into account partner contributions and contributions from service users, was largely on budget. It should be noted however that this has been achieved through a closely managed process through carefully managed care packages in relation to the consistent application of the existing eligibility criteria.

- Ringfenced Social Care Reform Grant of £2.79m and related budget underspends of £1.3m have been identified to be carried forward into 2011/12 to meet delivery requirements and double-running costs associated with the full implementation of Adult Care personalisation.

- The government allocated additional funding to PCT's late in 2010/11 financial year to support winter pressures and improve reablement services. Following negotiation with the PCT, it was agreed that the additional winter pressures allocation of £1.92m be fully transferred to the Council and be utilised to fund existing spend and pressures within 2010/11. This has allowed equivalent resources to be carried forward in the service cash limit to cover demographic pressures and develop further preventative services in 2011/12 and 2012/13. Funding of £0.19m was also successfully bid for in respect of developing reablement services.

- A provision for the potential loss of income had been created in the previous financial year in relation to a legal action against a specific adult care charging policy. Through a successful legal defence against the case it was possible to return the earmarked cost provision of £0.5m to the revenue account.

Children and Young Peoples Service Grouping (CYPS)

20 The final 2010/11 Revenue Outturn position for CYPS is an underspend against Cash Limit of £1.25m.

21 Throughout the year, reference was made to the need for CYPS to manage an in year cut to Area Based Grant of £2.76m, additional specific grant reductions and the continuing pressures on Safeguarding and Specialist

Services. Budgets were reduced at Quarter Two and future budget monitoring reports reflected the grant loss.

22 By 31 March 2011, the anticipated outturn position is largely as predicted. Spending on transport budgets was around £0.4m above budget and pressures on foster placements, legal fees and contact visits exceeded budget by over £2m. To counter these overspends, Service Managers continued to limit spend on all aspects of their budgets, staff slippage in some areas was significant and the service also made use of 'one off' reserves and deployed grant funding to best effect.

23 Abortive preparation and development costs in relation to Wave 6 of the BSF programme that had been planned for County Durham, impacted on the Council's revenue budget, as some of the BSF capital projects will not be proceeding. The revenue pressure outside the CYPS cash limit for 2010/2011 was £0.28m.

24 From January 2011, Private Finance Initiative (PFI) unitary charges were due for 3 new schools. This has increased expenditure and income by around £2m, but will have a net nil effect on the 2010/2011 revenue budget, as the cost is covered by a mix of grants and school contributions. However, as part of this expenditure relates to capital financing, then £40k appears in the accounts as an underspend (outside the cash limit) and has been balanced as part of the Council's final year end accounts process.

25 By 31 March 2011, a high volume of redundancy payments were actioned, linked to either savings or grant loss referred to in the Medium Term Financial Plan. £1.05m was set against Corporate contingencies as part of the year end accounting process.

26 School balances have increased during 2010/11 from £13.84m to £20.29m which includes £0.64m of unspent grants. Schools make their own spending decisions against their delegated budget and in this uncertain climate as to future school funding levels, schools quite naturally are taking the opportunity to carry forward a buffer against future commitments. In 2010/11, the authority also released the balance of equal pay/job evaluation monies being held up to the initial settlement date of 31 December 2008 (£2.8m) and many schools are still carrying forward such monies in case of potential disproportionate effects on their budgets when Job Evaluation is eventually settled.

27 The DfE introduced a scheme for the 'Capping of Balances' in 2007/08 which was agreed by the Schools Forum. This agreed a scheme for monitoring balances at the end of the Financial Year which allows schools to carry forward the greater of 8% of their budget or £30,000 for Primary Schools and 5% of their budget or £30,000 for Secondary Schools. Any sums in excess of this require a Capping of Balances Return to be completed by schools with a case for this to be carried forward (an allowable commitment) - this is monitored by the School Funding Team in the following financial year. The Schools Forum has the power to claw back any excess balance where the commitment does not materialise.

Neighbourhood Services Service Grouping

28 The final 2010/11 Revenue Outturn position for Neighbourhood Services was an underspend against Cash Limit of £1.29m. The main reasons for this net underspend are as follows:

- An underspend on Employees across the service of £3.1m after adjusting for MTFP related redundancy costs of £1.1m that were met from the Strategic Reserve. This saving is the result of the management of vacant posts, along with savings on the budgeted pay award that did not materialise. Many of these posts have subsequently been deleted from the budgets in 2011/12.

- Additional income of £0.5m from the Dry Waste recycling Contract

- A saving on Training & Supplies and Services budgets across the service amounting to £0.5m

- An increase of £0.15m in the provision for Bad Debts

- An income shortfall of approximately £1.2m mainly due to reduced income associated with licensing, markets, car parks, and highways related income from developers

- A deficit on Building Services Construction and Repairs of £1.2m, due to reduced workload income.

- An overspend on Winter Maintenance of £1.5m following the period of severe weather towards the end of 2010. This was agreed by Cabinet as being outside of the cash limit.

Regeneration and Economic Development (RED)

29 The final 2010/11 Revenue Outturn position for RED was an underspend against Cash Limit of £2.39m. The major variations are as follows:

- A £1.1m underspend in Economic Development relating in the main to a £0.23m underspend on staffing, a £0.43m underspend on economic and regeneration initiatives and a £0.17m underspend on supplies and services budgets.

- A £0.41m underspend in Planning relating in the main to £0.12m underspend in staffing, a £0.17m underspend in grant expenditure and a £0.21m underspend on transport / running expenses budgets.

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

Resources Service Grouping

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

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

31 The following budgets are held centrally.

Interest Payable and Similar Charges

32 The Revenue Summary at Appendix 2 highlights a £7.56m overspend against this budget due to the decision to fund £7.3m of capital expenditure direct from revenue budgets. There is also a £2.3m accounting adjustment due to the revised accounting treatment of leases. Excluding these two items, the remaining budget is £2.1m underspent resulting from the reprofliing of the Capital programme and prudent decisions to delay borrowing.

Interest and Investment Income

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

2010/11 Capital Outturn

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

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

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

37 The table overleaf provides a Service Grouping breakdown of Capital Outturn with full detail included at Appendix 5. The table also details the request for slippage.

	Revised 2010/11 Budget	2010/11 Outturn	Variance		Slippage Request
	£m	£m	£m	%	£m
ACE	1.46	0.01	(1.45)	(100.0)	1.18
AWH	1.75	1.74	(0.01)	0	0.64
CYPS	64.10	52.67	(11.44)	(17.8)	11.70
NS	29.66	23.63	(6.03)	(20.3)	7.25
RED	49.22	36.38	(12.83)	(26.1)	12.88
Resources	9.41	5.79	(3.62)	(38.5)	3.64
TOTAL	**155.60**	**120.22**	**(35.38)**	**(22.7)**	**37.29**

38 The Capital Programme is financed via grants, capital receipts, revenue contributions, reserves and borrowing. The financing of the 2010/11 Outturn is detailed at Appendix 6.

Service Grouping Commentary

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

ACE

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

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

AWH

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

43 The key variations relate to:

- Re-profiling of ICT developments into later years - £0.06m
- Delays in applications for mental health grants - £0.17m
- Slippage in spend on maintenance in residential homes - £0.09m

- Delays in the undertaking of maintenance works at Killhope largely due to adverse weather conditions - £0.21m

- Re-profiling of externally funded Community Safety works into 2012/13 - £0.07m.

CYPS

44 The revised CYPS Capital budget for 2010/11 is £64.11m with Outturn of £52.67m.

45 The CYPS Capital budget has a number of significant components that are available for different purposes. From the previous financial year there has been £40.6m of slippage, largely on new primary schools and Aycliffe Secure Unit building projects. (School Devolved Capital is included in this total.) Total spend in 2010/2011 was £52.67m.

46 Most of the activity was funded via Government grant and as a consequence, budget monitoring is undertaken against specific project areas e.g.:-

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

47 The key areas of investment during 20/11 are detailed in Appendix 7.

NEIGHBOURHOOD SERVICES

48 The revised budget for Neighbourhood Services at 31 March 2011 was £29.66m. Actual expenditure incurred was £23.63m, resulting in an underspend of £6.03m.

49 The reasons for the underspends shown by service area are as follows;

Sport & Leisure (underspend of £3.53m)

50 In total £2.47m relating to Consett Sport Centre was slipped into 2011/12. This will be added to the £12.238m budget already in 2011/12 and will in future be the responsibility of CYPS. Other reasons for the underspend are that £0.643m for Playbuilder schemes will now be completed within the first quarter of 2011/12, and £0.296m for Assets Capitalised Maintenance of Leisure facilities had not been completed by 31 March 2011.

Technical Services (£0.23m underspend)

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

Direct Services (underspend of £2.64m)

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

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

53 This underspend relates mainly to the ICT equipment project which was financed from the LGR Transition funding available. This equipment was not received prior to the year end however it has since been received and will be funded from LGR transition costs in 2011/12.

54 Although the year end underspend described above, amounts to £6.03m, additional grants, contributions and transfers from other services were highlighted after the Q3 report to Corporate Management Team (CMT), and when these were taken into account, the result was an amended slippage figure of £8.28m. £5.64m of this slippage was approved by MOWG on 8 March 2011.

RED

55 The revised RED Capital budget for 2010/11 is £49.22m with Outturn of £36.39m. Investment in this area is key to Economic Regeneration of the County. Key areas of investment during 2010/11 are shown at Appendix 8.

RESOURCES

56 The revised Capital budget for Resources for 2010/11 was £9.41m. Actual expenditure incurred was £3.79m. The reasons for the variances shown by Service area are as follows:

Asset Management (underspend of £4.69m)

57 Due to the uncertainty of the future of many buildings due to the rationalisation of property, has meant the commitment to major expenditure has been deferred. Some orders were placed later in the year and these commitments will be realised in 2011/12. Also, the total underspend relating to Disability Discrimination Act / Fire Safety and Structural Maintenance, Capitalised Repairs and Maintenance and Periodic Electrical Inspections was £2.61m. However, after including expenditure by other Service Groupings relating to these schemes only £1.5m has been slipped into 2011/12.

58 The budget for the Accommodation Strategy was partially reprofiled into future years, and works were funded from other capital budgets which requires £1.79m to be slipped into 2011/12.

59 A further £0.23m is requested to be slipped into 2011/12 due to delays in identifying projects for Energy Efficiency (£0.1m) and minor works (£0.1m).

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

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

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

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

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

62 The Authority is responsible for managing the HRA which is concerned solely with the management and maintenance of the Council's housing stock of around 19,000 dwellings. The HRA comprises the housing stock inherited from former Easington, Wear Valley and Durham City councils. Two arms length management organisations (ALMOs) have been established to manage Easington and Wear Valley housing stock (East Durham Homes and Dale and Valley Homes respectively) whilst Durham City is managed in-house. The responsibility for managing the HRA lies solely with the Authority and this is not delegated or devolved to the ALMOs.

63 Council approved the HRA budget on 26 February 2010. The 2010/11 HRA set a balanced budget which included rental income of £54.16m, direct expenditure on ALMO fees, repairs, maintenance, management and supervision of £31m and a revenue contribution to the capital programme of £2.78m. Also included as a 'negative subsidy' payment of £0.77m, depreciation of £11.94m and interest payments on housing debt of £7.71m. The rent increase approved by Council was an average of 2.1% which equated to an average rent of £55.50 per week – an increase of £1.15 per week from 2009/10.

64 Appendix 9 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 alongside a healthy level of reserves of £7.67m. The following table summarises the position:

	Budget £m	Actual £m	Variance £m
Income			
Dwelling Rents	(53.32)	(53.42)	- 0.10
Other Income	(0.84)	(1.30)	- 0.46
Interest and Investment Income	(0.07)	(0.07)	0
TOTAL INCOME	**(54.23)**	**(54.79)**	**- 0.56**
Expenditure			
ALMO Fees	18.29	18.26	- 0.03
Repairs, Supervision and Management Costs	12.73	11.83	- 0.90
Negative Subsidy Payment to CLG	0.77	3.22	2.44
Depreciation	11.94	11.94	0
Interest Payable	7.71	5.83	- 1.88
Revenue contribution to Capital Programme	2.78	1.34	- 1.44
TOTAL EXPENDITURE	**54.23**	**52.43**	**- 1.81**
Net Position	**0**	**- 2.36**	**- 2.36**

65 The actual position is a surplus of £0.87m after adjusting for the underspend on the revenue contribution to capital of £1.44m, plus £0.20m from East Durham Homes and £0.15m of expenditure incurred in connection with the stock options process which is to be met out of reserves.

66 The surplus of £0.87m generated during 2010/11 has been allocated as follows:

- £0.40m to support Durham City Homes Improvement Plan;
- £0.47m to support the Capital Programme in future years.

67 In summary, the main variances are explained below:

- Income - additional income of £0.17m arising from a furnished tenancy scheme in Durham City area £0.07m, de-minimus capital receipts and residual rents from Sedgefield £0.09m;
- Income - contribution from East Durham Homes of £0.20m received to support the capital programme;
- Repairs - £0.12m overspend due to fire damage £0.03m in Wear Valley and additional repairs in Durham City £0.1m;
- General Management - savings in management of £0.78m arising from insurance £0.24m, Durham City Homes cancelled inspection £0.07m and delay in implementing service improvement plan £0.48m;
- Special Management - £0.17m saving includes reduced contribution towards supported housing £0.07m, savings from closure of communal rooms/sheltered accommodation £0.08m, and efficiencies in garden maintenance service £0.02m;

- Subsidy - additional negative subsidy payment £2.44m which includes settlement of prior claims totalling £0.38m;

- Interest payments - reduced interest payable on housing debt resulting from lower interest charges of £1.89m;

- Revenue support to Capital - reduced requirement to use revenue contributions to finance the capital programme £1.44m in 2010-11, although resources have been earmarked to support the slippage carried forward into 2011/12.

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

Service	Gross Budget 2010/11	Re-profiled into future years	Revised 2010/11 Budget	Actual Spend	Variance	Slippage into 2011/12
	£m	£m	£m	£m	£m	£m
HRA	46.24	- 7.26	38.98	37.86	- 1.12	0.65

69 The key areas of HRA investment are detailed below:

HRA - Decent Homes Programmes – Actual Spend £31.83m

70 The Council's core housing programme is geared around modernising and refurbishing the Council's housing stock. The 2010/2011 budget is supported with £14.5m of ALMO funding and it is currently forecast that this funding will be fully utilised within year. Our three housing management providers have made good progress on refurbishing our dwelling stock and it is estimated that some 2,000 properties will have been brought up to decent homes standard.

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

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

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

<u>Round 1 - £3.36m</u>

72 The Round One Schemes located at Bearpark, High Pittington, Croxdale and Bowburn are now at a practical completion. The projected costs as identified through the bid to the Homes and Communities Agency (HCA) are in line with projections and the HCA grant has been drawn down. The spend is approximately £100k above budget. HCA funding has been secured to the value of £1.59m for the Round 1 Schemes and the balance will be funded via prudential borrowing.

<u>Round 2 - £1.75m</u>

73 The Round Two Schemes located at Park Avenue Close and Greenside Place in Crook are underway, and the first tranche of grant has been drawn

down from the HCA. The projected completion date is March 2012 and grant of £3.45m has been secured through HCA funding for the Round 2 Schemes.

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

2010/11 Treasury Management Report

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

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

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

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

Capital Expenditure and Financing

79 The 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.

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

	2009/10 Actual £m	2010/11 Estimate £m	2010/11 Actual £m
Non-HRA capital expenditure	92.59	155.60	120.22
HRA capital expenditure	27.33	38.99	37.86
Total capital expenditure	**119.92**	**194.59**	**158.08**
Resourced by:			
Capital receipts	19.41	24.94	27.53
Capital grants	45.71	86.35	72.26
Capital reserves	12.45	12.97	18.26
Revenue	8.82	12.36	12.80
Unfinanced capital expenditure	**33.51**	**57.97**	**27.23**

Overall Borrowing Need

81 The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's debt position. 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.

82 Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the 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 Council.

83 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). This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

84 The total CFR can also be reduced by:

- the application of additional capital financing resources (such as unapplied capital receipts); or

- charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

85 The Council's 2010/11 MRP Policy,as required by the Department of Communities and Local Government (CLG) guidance was approved as part of the Treasury Management Strategy Report for 2010/11 on 26 February 2010.

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

CFR	31 March 2010 Actual £m	31 March 2011 Estimate £m	31 March 2011 Actual £m
Opening balance	396.898	418.524	418.524
Add unfinanced capital expenditure (as above)	33.516	62.578	27.235
Less MRP/VRP	(11.890)	(11.840)	(13.854)
Closing balance	**418.524**	**469.262**	**431.905**

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

88 Net borrowing and the CFR - in order to ensure that borrowing levels are prudent over the medium term - the 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. Net borrowing should not therefore, except in the short term, have exceeded the CFR for 2010/11 plus the expected changes to the CFR over 2011/12 and 2012/13. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs in 2010/11. The table below highlights the Council's net borrowing position against the CFR. The Council has complied with this prudential indicator.

	31 March 2010 Actual £m	31 March 2011 Estimate £m	31 March 2011 Actual £m
Net borrowing position	145.92	136.19	171.82
CFR	418.52	469.26	431.90

89 The authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. The Council does not have the power to borrow above this level. The table below demonstrates that during 2010/11 the Council has maintained gross borrowing within its authorised limit.

90 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.

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

Treasury Position as at 31 March 2011

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

	31 March 2010 £m	**£m**	**31 March 2011 £m**	**£m**
Fixed rate funding:				
-PWLB	289.43		289.48	
-Market	26.70	316.13	28.31	317.79
Variable rate funding:				
-PWLB	0		0	
-Market	0	0	0	0
Total debt		**316.13**		**317.79**
CFR		**418.52**		**431.90**
Over/(under) borrowing		**(102.39)**		**(114.11)**
Investments		**170.21**		**145.36**

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

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

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

Recommendations and reasons

94 It is recommended that Cabinet note the following:

(i) the cumulative Cash Limit underspend of £12.12m. 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 £17.3m.

(iii) the closing balance on Earmarked Reserves (excluding Cash Limit Reserves) of £82.84m of which £20.29m relates to schools.

95 It is recommended that Cabinet approve the following:

(i) that capital slippage of £37.29m for the General Fund and £0.65m for the HRA is slipped into 2011/12 and that Service Groupings regularly review capital profiles throughout 2011/12 reporting revisions to MOWG and Cabinet as necessary.

Contact: Jeff Garfoot Tel: (0191) 383 3551

Appendix 1: Implications

Finance

The report details the financial outturn for the Council for 2010/11 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

None.

Accommodation

None.

Crime and Disorder

None.

Human Rights

None.

Consultation

None.

Procurement

None.

Disability

None.

Legal Implications

None.

Appendix 2: Revenue Summary 2010/11

	Agreed Budget	Service Groupings Final Outturn	Variance	Cash Limit Adjustments			Cash Limit Position
				Sums Outside the Cash Limit	LGR Transtion Costs	Movement on Reserves	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Children & Young People	126,016	110,784	-15,232	7,101	0	6,879	-1,253
Adult Wellbeing and Health	194,268	197,301	3,033	-6,854	0	-1,602	-5,423
Neighbourhood Services	111,437	138,869	27,432	-28,477	-286	39	-1,292
Regeneration and Economic Dev	66,189	63,835	-2,354	-7,365	-78	7,406	-2,391
Resources	17,906	29,291	11,385	-11,057	-1,441	240	-873
Assistant Chief Executive	14,411	13,884	-527	-2,748	0	2,381	-894
	530,227	553,964	23,737	-49,400	-1,805	15,343	-12,126
Contingencies	7,674	246	-7,428		0		
LGR Transition Costs	1,260	0	-1,260		1,805		
NET COST OF SERVICES	539,161	554,210	15,049	-49,400	0	15,343	-12,126
Capital charges	-49,019	-94,550	-45,531				
Interest and Investment income	-1,577	-1,827	-250				
Interest payable and similar charges	24,527	32,088	7,561				
Reversal of HR Accrual	0	8,239	8,239				
LPSA Performance Reward Grant	0	-255	-255				
LABGI Grant	0	-436	-436				
Area Based Grant	-55,940	-55,539	401				
Net Operating Expenditure	457,152	441,930	-15,222	-49,400	0	15,343	-12,126
Amount required from council tax payers	-198,813	-198,813	0				
Use of earmarked reserves	-21,573	-171	21,402				
Estimated net surplus on Collection Fund	-1,924	-1,924	0				
Revenue Support Grant	-29,333	-29,333	0				
Re-distributed Non Domestic Rates	-202,007	-202,007	0				
Use of general reserve	-3,502	-9,682	-6,180				
TOTAL	0	0	-0	-49,400	0	15,343	-12,126

Appendix 3: Revenue Summary by Expenditure / Income for 2010/11

	Agreed Budget	Service Groupings Outturn	Variance	Cash Limit Adjustments: Sums Outside the Cash Limit	Cash Limit Adjustments: LGR Transition	Cash Limit Adjustments: Movement on Reserves	Cash Limit Position
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Employees	620,856	627,131	6,275	-6,257	-787	-6,883	-7,652
Premises	52,359	49,792	-2,567	211	-116	0	-2,472
Transport	54,849	57,179	2,330	2,182	0	0	4,512
Supplies & Services	216,146	215,960	-186	-575	-755	2,125	609
Agency & Contracted	229,216	231,814	2,598	-324	0	0	2,274
Transfer Payments	253,969	246,853	-7,116	4,873	0	1,104	-1,139
Central Costs	85,399	129,877	44,478	-39,173	0	14,625	19,930
Other	0	1,001	1,001	-2	0	0	999
RCCO	0	9,199	9,199	0	-147	0	9,052
Capital Charges	49,019	94,550	45,531	-45,531	0	0	-0
GROSS EXPENDITURE	1,561,813	1,663,357	101,544	-84,596	-1,805	10,971	26,114
Income							
- Specific Grants	655,340	653,851	-1,489	5,525	0	-2,015	2,021
- Other Grants & conts	40,658	50,433	9,775	-220	0	-254	9,301
- Sales	5,611	9,246	3,635	0	0	0	3,635
- Fees & charges	104,419	106,709	2,290	-141	0	-40	2,109
- Recharges	206,483	264,068	57,585	-40,172	0	-524	16,889
- Other	19,075	25,086	6,011	-188	0	-1,539	4,284
Total Income	1,031,586	1,109,393	77,807	-35,196	0	-4,372	38,239
NET EXPENDITURE	530,227	553,964	23,737	-49,400	-1,805	15,343	-12,126

Appendix 4: Earmarked Reserves as at 31 March 2011

	Balance at 31st March 2010	Creation of Strategic Reserve	Use of Reserves	Contribution to Reserves	Transfers between Reserves	Total movement on reserves	Reserve Balance
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
EARMARKED RESERVES							
AAP Reserve	**-1,484**		380			380	-1,104
AAP - Neighbourhoods Reserve				-824		-824	-824
ABG Reserve	**-15,218**		11,653			11,653	-3,565
Asset Management Reserve	**-141**	141				141	-
Aycliffe Young People's Centre	**-2,027**		2,027	-300		1,727	-300
Best Value	**-10**	10				10	-
Bishop Auckland Renaissance Project	**-344**	344				344	-
Book Fund Reserve				-41		-41	-41
Budget Support Fund	**-1,323**	1,323				1,323	-
Building Control	**-1**	1				1	-
Building Services Defects Liability Reserve	**-912**		300			300	-612
Burns Pit Memorial	**-4**	4				4	-
Cabinet Reserve	**-6,248**	5,750				5,750	-498
Capital Schemes	**-130**	130				130	-
Carers				-25		-25	-25
Chester-le-Street Sports Development Reserve			51	-45	-190	-184	-184
Children's Fund Returned Grant	**-127**		127			127	-
City Centre Visioning	**-22**					0	-22
Communities for Health	**-141**			-754		-754	-895
Community Fund	**-44**	44				44	-
Community Improvement	**-16**	16				16	-
Community Safety				-53		-53	-53
Community Safety Development	**-22**					0	-22
Commuted Sums	**-83**					0	-83
Connexions	**-478**		478			478	-
Continuing Professional Development	**-278**					0	-278
Corporate Finance	**-9**	9				9	-
Corporate Procurement Reserve	**-150**			-415		-415	-565
Corporate Reserve	**-48**		47			47	-1
Corporate Reserve	**-300**					0	-300
Corporate Reserve	**-116**	116				116	-
CPA Fund	**-3**	3				3	-
CPAL Reserve				-46		-46	-46
Countywide Funding Reserve				-251		-251	-251
Crime & Disorder Fund	**-20**	20				20	-
Culture and Leisure	**-240**		71	-61		10	-230
Derwentside Business Development	**-247**					0	-247
Derwentside Training				-240		-240	-240
Disability Discrimination Act	**-124**	124				124	-
DLI Bequests				-90		-90	-90
Dowry	**-485**		20			20	-465
DSO Relocation	**-50**	50				50	-
Durham City Sports Development Reserve	**-64**			-12		-12	-76
Durham City Vision				-119		-119	-119
DWP ATLAS Grant Reserve				-35		-35	-35
DWP IB(IS) Reassessment Reserve				-35		-35	-35
DWP Local Housing Allowance Grant Reserve				-16		-16	-16
Early Retirement Pensions	**-6,265**	6,265				6,265	-
Early Retirement Reserve	**-393**	393				393	-
Easington Sports Development Reserve				-6		-6	-6
East Durham Business Service Reserve	**-223**					0	-223
East Shore Village	**-300**		282			282	-18
Economic Development Fund	**-154**	154				154	-
Education Reserve	**-3,656**		1,135	-1,131		4	-3,652
E-Government/IT	**-187**		187			187	-
Empty Homes				-25		-25	-25
Equal Pay Reserve	**-2,974**			-499		-499	-3,473
Family Intervention Project				-283		-283	-283
General Housing Subsidy	**-26**	26				26	-
General Taxation	**-60**	60				60	-
Growth Point				-148		-148	-148
Health and Wellbeing				-382		-382	-382
Health Lifecheck/Initiatives	**-59**			-135		-135	-194
Heritage Development				-21		-21	-21
HMO Licensing Reserve	**-50**		50			50	-
Housing Solutions				-540		-540	-540
In-House Training	**-120**	120				120	-
Innovation				-54		-54	-54
Insurance Reserve	**-15,520**	5,000		-764		4,236	-11,284
LABGI Economic Growth Fund	**-402**					0	-402
LEGI Reserve	**-601**			-403		-403	-1,004
Leisure Reserves - CYPS	**-309**		3	-18	272	257	-52
LEP Reserve	**-80**					0	-80
Lifelong learning	**-31**	31				31	-
Lottery	**-23**					0	-23
LSVT Reserve	**-160**		27			27	-133

	Balance at 31st March 2010	Creation of Strategic Reserve	Use of Reserves	Contribution to Reserves	Transfers between Reserves	Total movement on reserves	Reserve Balance
	£000	£000	£000	£000	£000	£000	£000
Members Initiative Fund Reserve	**-44**			-7		-7	-51
Members Neighbourhood Initiative Reserve	**-1,816**		557			557	-1,259
Neighbourhoods Education and Enforcement Reserve				-45		-45	-45
Neighbourhood Fund	**-60**	60				60	-
NETSA				-28		-28	-28
North Pennines					-169	-169	-169
Other Funds	**-194**	194				194	-
Outreach Health				-40		-40	-40
Pension Strain Reserve	**-919**	919				919	-
Performance Reward Grant Reserve	**-1,559**		120	-255		-135	-1,694
Planning	**-2,189**		288			288	-1,901
Preventative Technology				-303		-303	-303
Prevention Fund				-37		-37	-37
Programme Manangement Admin Grant	**-81**	81				81	-
Reallocated underspends	**-868**	810	58			868	-
Regeneration & Communities	**-2,000**		120			120	-1,880
Regeneration Reserve	**-4,150**	951	2,621			3,572	-578
Registered Traders Reserve				-12		-12	-12
Seaside Town Reserve	**-200**					0	-200
Section 106 Agreements	**-149**		232			232	83
Sedgefield Sports Development Reserve				-160		-160	-160
Service Improvement Fund	**-133**	133				133	-
SHIP Monies	**-100**	100				100	-
Social Housing Fraud				-50		-50	-50
Social Inclusion	**-3**	3				3	-
Special Projects	**-2,940**	2,730	150			2,880	-60
Special Reserve	**-4**	4				4	-
Sports and Leisure - Big Lottery Grant Reserve				-24		-24	-24
Sports and Leisure - British Coal Dowry Reserve				-26		-26	-26
Sports and Leisure - Hawthorn to Ryhope Railway Reserve				-15		-15	-15
Sports and Leisure - Lanchester Valley Railway Reserve				-200		-200	-200
Staffing Reserve	**-577**	577				577	-
TAMP Funding Reserve	**-400**			-115		-115	-515
Teesdale Sports Development Reserve	**-70**			-8		-8	-78
Twin Bin Implementation	**-10**	10				10	-
Unallocated Revenue Reserve	**-13**	13				13	-
Use of Reserves	**-185**	185				185	-
Wear Valley DCMS (Glenholme)	**-23**					0	-23
Wear Valley IFU Reserve			12		-21	-9	-9
Wear Valley Sports Development Reserve	**-49**			-5	-61	-66	-115
Youth Forum	**-64**					0	-64
						0	-
Strategic Reserve		-26,904	7,106			-19,798	-19,798
Schools' Revenue Balance	**-13,838**		2,192	-8,088		-5,896	-19,734
Schools' Unspent Grants				-639		-639	-639
Earmarked Reserves	**-95,140**	**0**	**30,294**	**-17,828**	**-169**	**12,297**	**-82,843**

APPENDIX 5

APPENDIX 5

2010/11 GENERAL FUND BY SERVICE GROUPING AND HRA CAPITAL OUTTURN

Service	Original Budget 2010/11	Slippage from 2009/10	Original Budget 2010/11 inc slippage from 09/10	Revised Government Grant funding and budget adjustments	Reprofiling to future years	In year revisions	Total Revised Budget 2010/11	Actual outturn March 31st 2011
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
CYPS	63,719	40,609	104,329	-1,508	-41,919	3,205	64,106	52,666
AWH	436	8,536	8,972	-200	-7,739	717	1,750	1,744
NEI	23,168	26,114	49,282	-728	-19,972	1,074	29,656	23,630
RED	20,017	48,973	68,990	-978	-25,634	6,840	49,219	36,388
RES	17,580	3,543	21,123	-1,000	-9,828	-883	9,411	5,786
ACE	3,110	693	3,803	0	-2,338	0	1,465	10
Other	0	0	0	0	-2,000	2,000	0	0
Total General Fund	128,030	128,468	256,499	-4,414	-109,430	12,953	155,607	120,225
Total HRA	34,103	596	34,699	10,943	-7,255	600	38,987	37,862
General Fund and HRA Total	**162,133**	**129,064**	**291,197**	**6,529**	**-116,685**	**13,553**	**194,593**	**158,087**

APPENDIX 6

FINANCING OF 2010/11 GENERAL FUND AND HRA CAPITAL EXPENDITURE

	Original Budget 2010/11	Slippage from 2009/10	Original Budget 2010/11 inc slippage from 09/10	Revised Government Grant funding and budget adj	Reprofiling to future years	In year revisions requested	Total Revised Budget 2010/11	Actual outturn March 31st 2011
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
General Fund financing:								
Grants and Contributions	67,566	52,954	120,519	-3,414	-18,439	-16,004	82,662	68,610
Capital Receipts	3,000	20,247	23,247	-	-	500	23,747	26,150
Direct Revenue Financing / Reserves	5,443	8,408	13,851	-	-3,708	-560	9,584	16,579
Borrowing	52,022	46,859	98,881	-1,000	-87,284	29,016	39,614	8,885
	-	-	-	-	-	-	-	
Total General Fund	**128,030**	**128,468**	**256,499**	**-4,414**	**-109,430**	**12,953**	**155,607**	**120,225**
HRA financing:								
Grants and Contributions	-	-	-	10,943	-7,255	-	3,688	3,652
Capital Receipts	-	596	596	-	-	600	1,196	1,375
Direct Revenue Financing	2,781	-	2,781	-	-	-	2,781	1,341
Major Repairs Allowance	12,967	-	12,967	-	-	-	12,967	13,144
ALMO Supported Borrowing	14,500	-	14,500	-	-	-	14,500	14,500
Supported Borrowing	2,048	-	2,048	-	-	-	2,048	2,048
Unsupported Borrowing	1,807	-	1,807	-	-	-	1,807	1,802
Total HRA	34,103	596	34,699	10,943	-7,255	600	38,987	37,862
	-	-	-	-	-	-	-	
Total financing	162,133	129,064	291,197	6,529	-116,685	13,553	194,593	158,087

APPENDIX 7

CYPS 2010/11 CAPITAL PROGRAMME – MAJOR SCHEMES

Primary Capital and Modernisation – 2010/2011 Budget £14.44m

1 This part of the capital budget is predominantly focused on new build. Ongoing schemes incurred costs of £2.5m in 2010/11, most of the project spend on new schools at Esh Winning, Brandon, Finchale and Green Lane is scheduled to occur in the 2011/2012 financial year onwards. Only preliminary Design and Planning costs have been incurred in relation to new schools at Greenland and Kirk Merrington.

Basic Need – 2010/2011 Budget of £1.1m

2 This budget is to enable primary schools to be provided with enough classroom capacity to meet demands from their locality. At present there are 12 schools where projects are in various stages of development. In some cases, projects have required detailed discussion between the Local Authority and schools to ensure that they are integrated with other building works and this has led to delays in starting the construction phase. The budget is fully committed and as anticipated £0.59m will slip into 2011/2012. The budget will be reprofiled to reflect this.

Schools Access Initiative – 2010/2011 Budget £0.95m

3 This budget is funding a range of projects in schools that allow improved pupil and visitor access and movement within the premises. Demand is high and schools are supplementing projects via their Devolved Capital budgets. As anticipated most of the revised budget has been deployed by March 2011. This is a part of the capital budget where actual spend exceeded the available budget in 2009/2010 and this reduced available funds in 2010/2011 (by £0.36m). At out-turn for 2010/2011 there was a £0.06m balance.

Structural Maintenance – DSG – 2010/2011 Budget £3.6m

4 From within Dedicated Schools Grant provided for school running costs and certain support functions, a budget was set aside for “lumpy” building repair and maintenance costs such as roof replacements, electric rewiring, boiler plant replacement and asbestos removal. A full schedule of works was drawn up and as expected the budget was fully spent by 31 March 2011, showing a small overspend of £0.02m. This will be reflected in next year’s budget via the DSG, as there is some cross financial year flexibility.

Schools Devolved Capital – Budget £9.2m

5 Amounts are delegated to schools each year to meet the cost of Capital Repair and Maintenance works and ICT purchases. Decisions on priorities and management of these funds, over a 3 year period, are matters for each school Governing Body. The 2010/2011 budget including slippage from 2009/2010 was £14.9m. During the year it was anticipated that £9.9m would

be spent in 2011/2012, and at out-turn the actual spend was £9.14m. It is of note that grant allocations from DfE have reduced by about 80% from April 2011.

Aycliffe Secure Premises – New Build Budget £13.6m

6 The original 2009/2010 capital budget for this project was established at £13.6m, but it was February 2010 before construction started. Most of the project expenditure was incurred in 2010/2011. A report to Cabinet on the 6 October 2010 finalised the financing plan for this project. £9.94m was spent in 2010/2011.

Building Schools for the Future (BSF)

7 BSF funding implications are complex, depending on whether the PFI route or traditional design and build option is being utilised. In some cases, capital expenditure is incurred, in others PFI contractor payments will feature in the revenue budget. (Applicable for 3 new schools in County Durham.)

8 The full Wave 6 Programme for County Durham will not now go ahead. The Capital Budget has been revised to reflect the reduction in the Programme. Part of development and planning costs did prove to be abortive and £0.28m needs to be managed outside the revenue cash limit.

9 During 2010/2011 the budget plan was revised to £20.86m to cover construction and ICT costs at the schools in Wave 6: Dene Community School of Technology, Easington Community Science College; Glen Dene; Peterlee St Bede's Catholic Comprehensive and Wellfield Community School. At out-turn £15.6m was spent.

10 The reasons for this are – payments to contractors were withheld due to targets not being achieved on some projects, two projects suffered from delays in finalising design and contract details. ICT spend has been affected because of changes to the original specification.

Catchgate Children's Home Replacement - £0.75m (slippage) from 2009/2010

11 Initial negotiations to purchase and develop a property fell through in late 2009 and a new building option in the west of county also hit snags. A new build on an alternative site is now being considered.

Harnessing Technology 2010/11 £2.24m Original Budget; reduced after Government 'Emergency' Budget Cuts to £1.12m

12 75% of this grant was devolved to schools and they used it to pay for Broadband and other school connectivity costs. The balance is managed by the Head of ICT to resource the Broadband infrastructure across the Council that links up with schools. The grant has been almost entirely utilised, and a balance of £42,000 will roll forward into 2011/2012.

Sure Start and Youth Capital 2010/11 £3.2m original budget; reduced after Government Cuts to £3.1m

13 A number of grants are provided to extend and construct Children's Centres, to support the work of private Early Years Providers, facilities and equipment for disabled children and for Youth projects. A range of projects have been delivered and by 31 March 2011, most of the budget was utilised. (The Youth element was affected by the Government in year budget cuts and reduced from £268,200 to £134,100). The balance on this part of the capital budget is £52,000 at 31 March 2011, which DfE is expected to reclaim.

Diploma Exemplar and Rural Capital £3.4m [+ slippage from 2009/10 £0.69m]

14 DfE has provided capital grant that will over 2 years allow the development of a manufacturing facility at Newton Aycliffe and extended diploma facilities in the west of the County. In total £2.04m was spent in 2010/2011 and the balance will allow projects to be completed in 2011/2012.

Co-Location Fund – Durham Integrated Project - £5.16m [+ slippage from 2009/10 £1.56m]

15 DfE announced £6.7m of capital grant in 2010 for developing integrated, co-located locality teams within County Durham and development of service hubs for Children and Young People aged 5 – 19. DfE has confirmed that plans in Durham will continue to be supported, allowing projects at ten locations to be taken forward. NHS County Durham has contributed £700,000 to the development of a Young Person's Lifestyle Centre (YPLC) at Chester le Street. Actual expenditure by March 2011 was £2.14m. There have been a number of site location issues, but ten projects are on target for August 2011 completion.

APPENDIX 8

Progress in Delivering the Regeneration and Economic Development (RED) 2010/11 Capital Programme – Major Schemes

Summarised below is commentary on the major elements of the RED capital programme in 2010/11, highlighting progress made during the year.

1 Barnard Castle Vision – Actual Spend £0.86m

The Barnard Castle Vision has intervened in several key areas that are essential for the future prosperity of Barnard Castle, such as retail development, landscape enhancement and development of the arts and creative sector. Successes have been achieved in creating new facilities, such as the construction of the Newgate Studio as an art gallery, hot desking for creatives, digital hub and café, as well as several improvements in the retail sector that have reduced vacancy rates to 6%. Additionally, several large projects are underway that can be expected to have a sizeable impact on the town. Among these are:

- Digital Dale, an innovative project that is making broadband available to the rural area through wireless connection;
- Landscape Partnership Scheme, a five year project that is enhancing the built up and natural environment of Barnard Castle;
- Witham Hall Redevelopment that will redevelop an iconic building in the centre of Barnard Castle and transform it into an artistic and business centre;
- North Pennines Love Food project designed to promote the production of specialised products and food within the agricultural sector.

2 North Dock, Seaham – Actual Spend £1.81m

Construction work is ongoing to provide a new marina facility at Seaham North Dock. The development will provide floating pontoons to accommodate up to 76 leisure craft, supported by business workspace for up to 12 marina related businesses, an improved slipway and the reinstatement of dock gates.

The workshop unit is almost complete with only snagging works to be undertaken. Pontoons were installed in February 2011 with only minor works remaining on this element of the project. Work is progressing on the dock gate.

3 St John's Square – Actual Spend £3.91m

This is a comprehensive redevelopment of the civic precinct in Seaham town centre incorporating the following elements.

i) Multi Use Centre : The building has been completed; users of the building will be moving into the new premises shortly. Training & familiarisation over a 4 week period with the building formally open to the public towards the end of May 21st 2011. This element of the programme has been delivered by Assets.

ii) PCT Health Centre: Construction is ongoing and this programme is scheduled for completion by Qtr 1 2012/2013.

iii) Public Ream: Public Realm development will be procured towards the end of Qtr 2 2011/2012. A finalised design awaits internal approval and comments.

iv) Residual Development Plot: The site will be coming forward for disposal in the coming months following the demolition of Caroline House and the former town library. It is identified in the Capital disposal programme for 2012/2013.

Once opened the Multi-Use “Seaham Service Centre”, will house a County Council One-Stop Shop, a library, offices for East Durham Homes, Peterlee Registrar and Mental Health & Social Services.

4 Durham City Vision – Actual Spend £3.4m

This is a flagship key investment project for Durham and comprises a number of specific initiatives to make Durham City a thriving centre for regeneration, business and tourism. A brief outline is shown below:

Heart of the City, Market Place and Vennels, Lord Londonderry Statue - Progress has continued with substantial completion by Easter 2011 and the dismantling, restoration and re-erection of the Marquess of Londonderry statue. There is a greater slippage into 2011/2012 caused by site delays due to extended cold weather and snow, additional archaeological excavations and difficult ground and traffic management requirements.

Freeman’s Reach - The de-risking process has been successful and is embedded in the competition for a development partner in support of ONE North East (OJEU Stage 2 currently). It is on timetable to achieve a selected partner by November 2011 and necessitates slippage into 2011/2012.

World Heritage Site (WHS) Visitor Centre and Revenue Support - This project was delayed at a vulnerable stage during initial strip out because of the low temperatures before Christmas 2010. The project has proceeded well otherwise and completion will be early in the first quarter of 2011/2012.

WHS Feasibility Study - The study is complete but further support is needed into 2011/2012 for detailed advice resulting from the Study and relating to achieving the Lindisfarne Gospels Book exhibition.

Milburngate House - Substantial de–risking work has been carried out and is being incorporated into the design and development brief currently underway. This will complete early first quarter 2011/2012 with funding reserved to support the process of ensuring redevelopment following relocation of National Savings and Investments.

Durham Pride (WHS Floodlighting) - The design work on this is proceeding and the original allocation is to be transferred in support of further capital allocation to the Neighbourhoods Directorate starting 2011/2012.

North Road - De risking work in support of the draft development brief is ongoing and carries forward into 2011/2012.

Claypath/Walkergate Attraction - There has been substantial work in assembling a Regional Growth Fund bid for this project and funding will be required to be slipped forward in support of this in 2011/2012 whether the bid is successful or not.

Old Shire Hall - Budget slippage is necessary as work is required in support of bringing the property to the Market in 2012 and dependent on allocation of ONE North East post closure transfers of ownership.

City Centre Environment - A programme of protected species and ecological surveys continues into 2011/2012 in support of the priority projects.

Signage Strategy - Initial phases are included in the Heart of the City project and further work to link this with key routes and venues is needed in 2011/2012.

DCV Riverbanks Gardens (Castle Walls Survey) - Work is substantially complete with final reports to be received to trigger final payment in the first quarter of 2011/2012 following minor delays on site due to surveys for the difficult access sections of the walls.

5 Durham County Cricket Club – Actual Spend £0.5m

Phase 2 of the ground development, which the Durham CC grant of £0.5m contributed towards, included an extension to the main pavilion building (South West Building) at the Club with additional spectator seating and an upgrade of the electricity supply to the site. The extension gives an additional 700 spectator seats, including a number of covered seats, a key requirement to satisfy the English Cricket Board (ECB) conditions for hosting international cricket.

6 Durhamgate – Actual Spend £1.41m

Durhamgate is a mixed use development on the site of the former Black and Decker factory in Spennymoor and comprises around 400 new homes and 440,000 sq feet of quality office space, supported by a range of leisure facilities including a hotel, a public house and a food store. The scheme is being supported by comprehensive highway infrastructure improvements by Durham County Council that are due for physical completion by the end of November. Demolition of existing premises on the site has already begun together with construction of new premises for the first occupants, Sedgefield Borough Homes which is expected to be completed by December 2011.

7 NETPark – Actual Spend £1.81m

The large project currently being undertaken at NETPark comprises a programme of three “Grow on Space” units intended to accommodate high technology companies expending out of the NETPark Incubator or other similar companies requiring expansion space. This is a £10m project funded by Durham County Council (£4m), ERDF (£5m) and Single Programme funding (£1m). The first unit was completed in 2010 and is now occupied by Kromek Ltd. The other two are now being constructed under a single contract which was awarded in December 2010 and is due for completion in November 2011.

Each unit comprises an average of 1,800 square metres and provides a mixture of office space and areas for laboratories, clean rooms and other forms of production space. Each of the three units is expected to accommodate some 50 high quality jobs in advanced technologies.

8 Town Centres – Actual Spend £0.2m

The town centres capital project seeks to support and stimulate further private sector investment across the County's main centres.

Works undertaken include targeted retail improvement grants which have supported 18 retail businesses during 2010/2011, safeguarding 31 jobs and assisting in the creation of 14 new jobs through new retail businesses. 840 square metres of retail and commercial property has been improved or brought back into use through this investment to date.

The bulk of these grants have been delivered in Spennymoor and Bishop Auckland, following previous successful schemes. Offers have now also been made for Consett (30 expressions of interest and 1 offer of grant, although this is anticipated to rise to 8 shortly) and Seaham (18 expressions of interest and 3 grant offers) with marketing in Stanley to follow the completion of the town centre master plan. The time delay between the offer of grant and the completion of improvements necessitates slippage for some of these works, while take up is also typically slow in towns where the programme has not been in recent operation.

The second strand of capital works under this programme is physical improvement to the fabric of the centres, linking in with priorities identified through master plans and opportunities afforded through recent investments. Design work is underway for schemes at both Consett and Stanley to tie in with new retail opportunities, with the physical delivery on hold to tie in with S106 funded works aligned to new food retail opportunities. The trigger points for the release of S106 have not yet been reached and works will now commence in 2011/2012.

Bishop Auckland Market Place - The public realm phase 7, (£0.54m), was not approved until February 2011 and as such there has been a delayed start. Materials have been purchased however, budget slippage will be required to complete these works in quarter 1 of 2011/2012. Targeted Building Improvement Scheme (£0.1m) which is funded by Single Programme funds will be fully utilised. Other works are focused on shop front improvements, targeting problematic premises and preventing a listed building becoming a "Building at Risk".

Bow Lane - Durham City, works to refurbish the block paving have been delayed to fit in with the University timetable. The start is now programmed for September 2011 and £0.15m will need to be carried forward to accommodate the revised schedule.

A further strand of funding has been identified for acquisitions to assist in the delivery of strategic priorities in the main centres, typically identified through Master planning activity. Initial feasibility funding for 2010/2011 has not been drawn upon during the year but acquisition opportunities have been identified and valued in both Spennymoor and Consett and significant progress in securing property is anticipated for 2011/2012 thus there is a requirement to slip this budget to meet this expenditure.

9 ***Industrial Estates – Actual Spend £0.96m***

Business Space Fund - This funding was carried forward from the 2009/10 capital programme and has been effectively employed in refurbishing and improving, to modern day standards, over 11,000 square feet of business spaces across several of the county council's business centres. This has increased lettings across the Business Space portfolio and included a major transformation of a small 17th century Grade II listed Gazebo at Castle Gardens in Stanhope to provide a unique business accommodation opportunity. This budget has been fully utilised in year.

Consett Business Park - –scheduled for completion by late summer 2012, is a development of a new 20,000 sq ft BREEAM (Building Research Establishment Environmental Assessment Method) 'Excellent' rated business incubation facility at one of the County Council's existing and very successful managed workspace facilities. The fully designed and costed scheme obtained full planning permission in December 2010 and we are awaiting approval of an additional £2m ERDF match capital funding. Subject to ERDF approval, construction will start on site mid summer this year. The scheme will deliver business accommodation for over 35 new small to medium sized enterprises (SME's) and create over 120 jobs in the Consett area.

Industrial Properties Refurbishment Programme - the County Council currently owns over 650,000 square feet of office and industrial accommodation which is let to SME's across the county and generates circa £2.2m of revenue per annum. The portfolio stretches the entire county and consists of over 300 individual units. The portfolio consists of modern office accommodation, the majority of which has been built over the past 20 years and some 200 industrial units, mainly built in the 1970's and early 1980's, located on council owned industrial estates across the county. The current overall letting rate for the industrial properties portfolio is 79%, with many areas falling significantly below this average as at 31 March 2011.

Given the age of the industrial and some of the older office portfolio, together with an apparent lack of maintenance, an investment plan has been written which highlights those properties across the portfolio requiring capital investment, tackling vacant properties in bringing them up to a lettable standard (including investment required to comply with statutory obligations), increase marketability and where appropriate, and realise a higher rental income for the authority. The capital invested in 2010/2011 has directly increased lettings and revenue (investment in over 30,000 square feet of space across the portfolio) and marks the beginning of a comprehensive capital investment programme of capital works, which will be targeted at those areas where lettings and positive impact on the local economy can be maximised, hence ensuring that Durham County Council, a major and responsible commercial landlord, boasts a very impressive property portfolio supporting County Durham SME's through growth and prosperity.

Industrial Estate Signage - The Industrial Estates Signage budget in 2010/2011 was utilised to provide much needed signage at the Peterlee North West and South West Industrial Estate, one of the county's major employment locations.

10 LEGI – Actual Spend £0.92m

This funding has been earmarked to support the following programmes:

- Coaches and ISUS Project - grants to assist in business start up
- Be Franchising - to attract appropriate Inward Investment and Franchising into disadvantaged areas of the County.
- St John's Square, Seaham (reported under a separate heading) - contribution for the provision of office space and community facilities
- St Paul's Centre, Spennymoor, improving access to workspace.
- Seaham North Dock (reported under a separate heading) - provision of workspace

11 Disabled Facilities Grants (DFG's) & Financial Assistance Policy (FAP) – Actual Spend £5.88m

DFG - This is a mandatory grant awarded under the Housing Grants, Construction and Regeneration Act 1996 to eligible applicants who have been assessed by an Occupational Therapist as having an essential need for an adaptation to make them safer and more independent in their own homes. The maximum DFG award is £0.03m and each applicant (except where the adaptation is for a child) is subject to a test of resources to determine their financial contribution (if any).

The financial position for this budget is detailed below and summarised in the subsequent table;

Around 600 Disabled Facilities Grants were complete by financial year end. Total DFG spend was £3.11m.

Levels of need continue to rise, with 704 referrals for DFGs received from Occupational Therapists to 31 March 2011 (an increase of around 100 on the same period last year). The increasing levels of need are reflected in the welcome increase in the level of supplementary capital grant (SCG) from Central Government to fund Disabled adaptations in 2011/12.

FAP - Durham County Council are a key partner in the North East Regional Loans Scheme and working together have procured the 5 Lamps organisation to administer the loans across the region.

As detailed in the contract all participating Local Authorities pay their FAP funding to the Loans Administrator who manage payments to and from the loan portfolio on behalf of the Council. The Policy provides a range of loan types for property owners who are excluded from mainstream sources of finance. Eligible works can include bringing properties up to the Decent Homes Standard, measures to make the property more energy efficient, relocation loans and measures to help qualifying owner-occupiers and landlords to bring long-term empty properties back into use. £2.77m was spent in 2010/2011.

12 *Housing Renewal Programme – Actual Spend £3.94m*

The Housing Regeneration Delivery section resources are targeted on holistic regeneration projects in areas with the worst concentrations of housing problems, each element of the overall Housing Renewal and Improvement Service therefore plays its part in co-ordinated local action focused on sustainable improvements.

The delivery of capital investment programmes for the Housing Regeneration Delivery Section include both private and social sector housing stock and include selective acquisition, demolition of housing, group repair schemes, environmental improvements, new housing development and the future refurbishment of the Council's owned Gypsy, Roma, traveller sites. In 2010/2011, properties have either, been acquired, demolished or benefited from improvements via a group repair scheme and environmental improvements on cleared land. There are ongoing schemes in Craghead, Easington, Dawdon, Ferryhill and Chilton. The Dawdon scheme will be completed this financial year and Ferryhill Station is nearing completion.

13 *Travellers' Site-East Howle –Actual Spend £1.99m*

This is a scheme that was previously the responsibility of Adult services and comprises:

- The demolition of the 23 buildings that previously existed on the site and existing infrastructure, including roads and services

- The construction of 25 new double pitches, including a community building, with improved access, space and facilities.

- The realignment of the road to improve site access.

The development is substantially completed.

APPENDIX 9: 2010/11 HOUSING REVENUE ACCOUNT OUTTURN POSITION

	2010/11 Budget £000	*2010/11 Outturn £000*	*Variance £000*
Income			
Dwelling Rents	**(53,324)**	**(53,425)**	**- 101**
Non Dwelling Rents: – Garages	(670)	(700)	- 30
– Shops/Other	(96)	(151)	- 55
Charges for Services and Facilities	(74)	(245)	- 171
Contributions towards Expenditure		(200)	- 200
Total Income	**(54,164)**	**(54,721)**	**- 557**
Expenditure			
ALMO Management Fee	18,294	18,266	- 28
Repairs and Maintenance	3,898	4,023	125
Supervision and Management - General	5,440	4,657	- 783
Supervision and Management - Special	1,360	1,185	- 176
Rent, Rates, Taxes and Other Charges	42	65	23
Negative HRA Subsidy Payable to CLG	774	3,216	2,442
Depreciation and Impairment of Fixed Assets	11,944	11,944	0
Bad Debt Provision and Debts Written Off	250	302	52
Debt Management Costs	98	113	15
Total Expenditure	**42,100**	**43,770**	**1,670**
Net Cost of HRA Services per I&E Account	**(12,064)**	**(10,951)**	**- 1,113**
Share of Corporate and Democratic Core	1,085	1,085	-
Share of Other Costs Not Allocated to Specific Services	560	402	- 158
Net Cost of HRA Services	**(10,419)**	**(9,463)**	**955**
Interest Payable and Similar Charges	7,708	5,827	- 1,882
Direct Revenue Financing (Contribution to Capital)	2,781	1,341	- 1,440
Interest and Investment Income	(70)	(69)	- 1
(Surplus)/Deficit for Year	0	**(2,365)**	**- 2,365**
Contribution (from) / to HRA Reserves	0	(615)	- 615
Contribution (from) / to Earmarked Reserves	0	2,981	2,981
HRA Reserves	8,511	7,895	- 616
Major Repairs Reserve	1,201	0	- 1,201
Stock Options Reserve	0	402	402
Durham City Service Improvement Reserve	0	200	200
Capital Reserve	0	2,379	2,379
ALMO Reserves:			
Dale and Valley Homes	***612***		
East Durham Homes	***1,965***		
Total ALMO Reserves	***2,577***		

AUDIT COMMITTEE

28th July 2011

Draft 2010/11 Annual Report to Council

Edward Bell, Chair of the Audit Committee

Purpose of the Report

1 To present a draft report of the work of the Audit Committee for 2010/11 for agreement prior to reporting to full Council at its meeting on 21st September 2011.

Background

2 In accordance with best practice, the Committee agreed to report a summary of its to Council.

3 A report covering the first 6 months of 2010/11 was reported to Council in December 2010.

4 The attached report outlines a summary of business for the whole year.

Recommendations and Reasons

11 Members agree the draft annual report as attached.

Contact: Avril Wallage, Manager of Internal Audit & Risk Tel 0191 383 3537

Appendix 1: Implications

Finance

None

Staffing

None

Risk

None

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

County Council

21st September 2011

Annual Report to Council 2010/ 11

Report of the Audit Committee

Edward Bell, Chair of Audit Committee

Purpose of the Report

1. To inform the Council of the work of the Audit Committee during 2010/11 and how this committee has been successful in improving governance across the Council.

2. The Committee has requested that bi-annual reports be made to Full Council and a separate report covering the work of the Audit Committee for the first 6 months of 2010/11 was presented to the Council on 8th December 2010.

3. This report incorporates details previously reported for the first 6 months as a full record of work carried out during the year.

Background

4. The Audit Committee of the County Council was first established in March 2007.

5. The role of the committee is set out in its terms of reference within the Constitution approved by Council.

6. Good corporate governance requires independent, effective assurance about both the adequacy of financial management and reporting and the management of other processes required to achieve the organisation's corporate and service objectives. It is the responsibility of the Council's Audit Committee to undertake these aspects of governance.

7. The specific objectives of the Audit Committee set out in the Council's Constitution are to provide independent assurance to Cabinet and Full Council over the:

    - Adequacy and effectiveness of the Council's governance arrangements, including the effectiveness of the risk management framework and the associated control environment.

- Financial Reporting of the Council's Statement of Accounts ensuring that any issues arising from the process of drawing up, auditing and certifying the Council accounts are dealt with properly.

8. The membership and terms of reference of the Committee are set out in the Council's Constitution. This had been amended in March 2010 following the decision of Full Council to delegate its responsibility for the approval of the Annul Statement of Accounts and the Annual Governance Statement to the Committee.

9. To support the Audit Committee with this additional responsibility a series of training sessions were held during June 2010 for all Committee Members but with particular attention being given to induction for new Members and improving the overall effectiveness of the Committee. These sessions included the role and objectives of the Committee and a number of technical areas relating to the approval of the accounts, e.g. accounting policies, opening balances, key financial statements and providing effective challenge to the preparation of the Statement of Accounts and the Annual Governance Statement.

10. The membership during the period was as follows:

Chair:	Cllr E Bell
Vice Chair:	Cllr R Ord
Members:	Cllr O Temple Cllr C Carr Cllr D Morgan Cllr D Southall Cllr B Harrison Cllr M Hodgson Cllr L Marshall
Co-optees:	Ms K Larkin Bramley Mr T Hoban

Summary of Meetings

<u>20th May 2010</u>

11. The Committee considered a report from the External Auditor summarising the findings from the certification of 2008/09 grant claims. The Committee noted the position and the improvements planned.

12. The Committee considered a report outlining the findings of a review of the effectiveness of the system of internal audit during 2009/10. The Committee concluded that the system was effective.

13. The Committee considered and noted the External Auditor's work programme and fee.

14. The Committee considered and endorsed a revised Risk Management Strategy and Policy prior to approval by Cabinet.

15. The Committee considered reports of the Risk and Governance Manager that highlighted the Council's corporate and service strategic risks and which provided an insight into the work carried out by the Corporate Risk Management Group (CRMG) during the period April 2009-March 2010.

16. The Committee considered and challenged the preparation of the annual internal audit plan prior to approving it.

24th June 2010.

17. Consideration was given at this meeting to some elements of the draft accounts, ahead of the formal meeting commencing in a training and information session lead by the Corporate Director Resources, to lead Members through the process of how the accounts were being prepared and to allow any queries or concerns to be raised and answered prior to formal approval of the accounts on the 30th June 2010.

18. The Committee considered a report of the Corporate Risk and Governance Manager seeking approval to the draft Annual Governance Statement (AGS) to be included in the draft Statement of Accounts.

19. Consideration was given to the Annual Internal Audit Report summarising the work of Internal Audit during 2009/10. The Committee noted the annual audit opinion that informed the draft Annual Governance Statement.

20. The Committee reviewed a report in relation to BVPI8 "the Payment of Invoices within 30 days".

21. The Committee considered a report in relation to the Comprehensive Area Assessment (CAA) and Improvement Planning.

30th June 2010

22. The draft Statement of Accounts was presented to the Committee for consideration but as these were incomplete the Committee agreed the accounts circulated would be considered in a training session outside the meeting. The Committee noted the reasons why the accounts were incomplete and would need to be considered at a later date.

23. The Committee noted the External Auditor's proposed 2009/10 Audit Opinion Plans for the accounts relating to Durham County Council and the Pension Fund.

27th July 2010

24. The Committee considered an update report from the BSF Programme Manager that provided further assurance on the management of risk associated with the programme.

25. The Committee approved the operational performance indicators for the Internal Audit Service for 2010/11.

26. The Committee considered reports summarising the work undertaken by the Corporate Risk Manager and the Corporate Risk Management Group during the period April to June 2010 and an update on the current status of the Council's corporate and strategic service risks.

27. The Committee considered a CIPFA consultation document that considered the role of the Head of Internal Audit in public service organisations.

28. The Committee considered and approved the draft Statement of Accounts. Members noted the difficulties in preparing the accounts and actions being planned to improve the financial systems that had created these difficulties. Comments made by the Committee were reported by the Chair to Full Council on the 28th July 2010.

29. The Committee considered a draft Interim Governance Report issued by the External Auditor relating to preliminary findings from a pre-statement audit carried out between January and June 2010.

30. Comments made by the Committee in relation to the accounts were reported by the Chair to Full Council on the 28th July 2010.

<u>29th September 2010</u>

31. The Committee considered a report summarising the work carried out by the Internal Audit Service during the period April to June 2010 and noted progress made in delivering the agreed 2010/11 audit plan.

32. The Committee considered a report on the development and implementation of the Council's partnership governance arrangements, including an overview of the current partnership landscape.

33. The Committee received an updated forward plan summarising the work programme of the Committee and how this linked to the Committee's operational terms of reference.

34. The Committee considered and approved the consultation response to the CIPFA Statement on the Role of the Head of Internal Audit in public service organisations.

35. The Committee noted a response provided to the External Auditor by the Chair on behalf of the Committee to fulfil the requirements of ISA620, as part of the external audit of the final accounts, relating to the

arrangements in place for preventing fraud and ensuring compliance with laws and regulations.

36. The Committee noted that the consideration of the Final Statement of Accounts had been deferred until 27th October. An update on improvements being made to the financial systems to address the difficulties experienced that had caused the delay was also noted. The Chair will present a statement to the December Council meeting relating to the difficulties in getting the accounts approved.

27th October 2010

37. At this special meeting, the Committee considered the Annual Governance Reports of the External Auditor for the County Council and Durham County Council Pension Fund and approved the final Statements of Accounts for 2009/10. Assurances provided by the new Corporate Director Resources relating to the arrangements he was putting in place in order to improve the way the accounts would be progressed next year, including the preparation and monitoring of a consolidated action plan to deliver the improvements identified in the Annual Governance Reports, were welcomed by the Committee.

18th November 2010

38. The Committee noted the Consolidated Action Plan prepared to monitor progress in response to recommendations made by the external auditor in the 2009/10 Interim and the Annual Governance Reports.

39. The Committee noted the Overview and Scrutiny Work Programme presented for information to gain a better understanding of its work.

40. The Committee considered a report covering the work of Internal Audit during the period ending September 2010 and noted progress made in delivering the 2010/11 Internal Audit Plan.

41. The Committee considered a report covering risk management during the period July to September 2010 to gain assurance on the effectiveness of arrangements in place.

42. The Committee considered a report on progress to address areas of improvement arising from the annual review of the effectiveness of corporate governance arrangements.

43. The Committee considered and approved a revised Internal Audit Charter which established the terms of reference and audit strategy for the Internal Audit Service. Members noted that the Charter reflected the need to improve the risk based approach to internal auditing which was particularly important at this time as the service was to lose resources as a result of restructuring required to achieve budget reductions.

44. The Corporate Director Resources updated the Committee with progress made in improving performance relating to the payment of invoices.

45. The Committee considered a report on progress to improve the effectiveness of Oracle E-Business Suite to gain assurance that adequate arrangements were in place to improve the control environment of the main financial systems.

46. The Committee noted the proposed key milestones and timescales for the integration of the Revenues and Benefits System.

47. The Committee considered a report relating to the effectiveness of the Council's Counter Fraud Strategy and approved a revision to the Strategy and the supporting Fraud Response Plan.

48. The Committee considered a report relating to the benchmarking data for the internal audit service to gain assurance on the effectiveness of the service.

6th January 2011

49. The Committee received a presentation from the Head of Policy and Performance outlining the Council's performance management arrangements, including the arrangements for the scrutiny of performance, to improve its understanding of arrangements in place.

50. The Committee considered and approved a revised Local Code of Corporate Governance.

51. The Committee considered a report on progress in addressing areas of improvement arising from the annual review of the effectiveness of corporate governance arrangements.

52. The Committee considered a report setting out the result of the Benefit Service Inspection to gain assurance from this external assurance source on the effectiveness of the control environment.

53. The Committee considered the Annual Audit Letter from the Audit Commission in relation to the Audit of the 2009/10 Statement of Accounts.

54. The Committee considered a report on the current position in relation to the high number of bank accounts operated by the County Council and the strategy for rationalisation.

55. The Committee considered a report on the proposals for restructuring the Internal Audit and Risk Service with effect from 1 April 2011 and noted the potential impact on the effectiveness of the service.

56. The Committee considered a report concerning the appointment of co-opted Members to the Audit Committee. Members commented on the excellent contribution the existing 2 co-opted Members had provided and

were delighted that both wished to continue serving on the Committee. The Committee resolved to recommend to the County Council that existing contracts be extended until May 2013.

57. The Committee noted a report which advised of the key provisions of the Localism Bill relating to Standards.

58. The Committee considered a report providing an overview of the Authority's contribution to the Durham and Darlington Local Resilience Forum's (LRF) Community Risk Register.

59. The Corporate Director Resources provided an update to the Committee on the position with Oracle E-Business Suite and advised that the relocation of the Oracle server from Northumberland to Tanfield had gone smoothly.

60. The Committee considered an update on the work being undertaken to improve the effectiveness of the Council's Partnership Governance Arrangements.

10th February 2011

61. The Committee considered a report on the current status of the management of risk within the BSF Programme.

62. The Committee received a verbal update from the Corporate Director, Resources relating to the payment of invoices.

63. The Committee considered a report on the management of the corporate strategic risk of not achieving all of the MTFP targets due to the programme of savings not being successfully achieved. The Corporate Director Resources advised that this major risk is being monitored by CMT fortnightly.

64. The Committee considered a report of the strategic risks facing the Council during the period October - December 2010.

65. The Committee considered a report on the work being done to identify and assess the reliability of key sources of assurance by the development of an assurance mapping framework. This report also sought approval to a change in the internal audit annual planning cycle.

66. The Committee considered a report that advised Members of the work carried out by Internal Audit during the period ending December 2010 and progress made in delivering the 2010/11 Audit Plan.

67. The Committee considered a report on the progress made on relocating the hosting of the Oracle E-business Suite to Durham and the next steps for further improvement of the effectiveness of the system.

68. The Committee considered a report providing an update on progress made on the implementation of the Consolidated Action Plan to address concerns raised by the Audit Commission following the 2009/10 audit.

<u>18th March 2011</u>

69. The Committee considered a report providing an update on progress being made to improve the assurance provided other the effectiveness of partnership governance arrangements.

70. The Committee considered a report of the External Auditor that provided an update on progress in delivering its' responsibilities as the Council's external auditor.

71. The Committee considered a report of the External Auditor that detailed the work proposed to be undertaken for the audit of financial statements and the value for money conclusion for 2010/11.

72. The Committee considered a report of the External Auditor summarising the certification of 2009/10 grant claims, including messages arising from the assessment of the Council's arrangements for preparing claims and information on claims that were amended or qualified. The Committee highlighted in particular the inadequate control environment for the Housing and Council Tax Benefit Scheme for 2009/10 and sought assurance that improvements required to establish an adequate control framework have been implemented.

73. The Committee considered an update report on investments in Icelandic Banks.

74. The Committee considered and approved the programme of work to be carried out by Internal Audit during the period April to June 2011.

75. The Committee considered an update report on action taken to improve internal audit assurance on the Pension Fund.

76. The Committee considered a report on the consultation exercise being undertaken by the Department of Communities and Local Government relating to the revision and consolidation of the Accounts and Audit Regulations 2003 (SI 2003 No 533), as amended, with effect from 31 March 2011. Members noted the proposed changes and the implications for the role of Committee. In particular it was noted that elected members will only be required to approve financial statements after the external audit process is complete and therefore the accounts need only be brought to a meeting in September each year rather than in draft by 30th June. It was noted, however, that the draft accounts together with a summary of the 2010/11 outturn position would be reported to the July meeting to allow members the opportunity to consider any further assurance or training they may require to enable them to fulfil their responsibility for approving the accounts at the September meeting.

77. The Committee considered a report on the progress being made to ensure the 2010/11 Statements of Accounts will be compliant with International Financial Reporting Standards.

78. The Committee considered a report of the proposed changes to Contract Procedure Rules following the annual review. The Committee agreed that the Chairman and Vice-Chairman should be provided with the detailed reasoning for the changes and potential consequences prior to making a recommendation for their approval to full Council as part of the revision to the Constitution in May 2011.

79. The Committee considered a report on progress in implementing the areas of improvement arising from the annual review of the effectiveness of corporate governance arrangements.

How the Audit Committee has made a difference during 2010/11

80. The Committee made a significant difference to the Council's governance, control and risk framework during the year by :

- Embracing its increased responsibility for the approval of the Statements of Accounts and the Annual Governance Statement (AGS) and providing increased scrutiny and independent assurance, following a number of timely training sessions, of the process of preparing the final accounts and the AGS
- Striving to help support the Council deliver its objectives and priorities by being a proactive and reactive body encouraging the early reporting of any control issues to ensure that appropriate and timely action is taken to address
- Challenging proposed external audit work and fees
- Continuing to raise the profile of the Internal Audit and Risk Management service through its reports to Audit Committee
- Independent questioning and contributing to the development and control of internal audit plans
- Independent questioning on the management of corporate and service strategic risks, calling individual service managers into account to gain further assurance on high risk areas eg BSF and MTFP savings.
- Seeking assurance from other assurance bodies eg external inspection, scrutiny and overview
- Improving the accountability of service managers to respond to outstanding internal audit reports and the implementation of agreed internal audit recommendations thereby helping to drive improvement in controls to manage risks effectively
- Continuing to provide regular challenge and demanding accountability on the effectiveness of the implementation of key financial systems and actions being taken in response to control issues raised by the external auditor as a result of the audit of the 2009/10 Statement of Accounts
- Ensuring recommendations made and actions requested during meetings were acted upon by ensuring the implementation and monitoring of an Audit Committee Action plan to provide a proper trail of progress at each committee meeting

- Challenging the transparency and openness of its independent assurance role by questioning any agenda items that were not in the public domain
- Challenging the level of internal audit resources available to provide an adequate annual audit opinion

Future Work

81. In accordance with best practice, the Committee has undertaken an annual review of its effectiveness. This year's review took the form of an on line anonymous survey developed by the Audit Commission.

82. The results of the survey, capturing feedback from 13 respondents, were reported and discussed in a workshop facilitated by the external auditor, drawing on his experience of the operation of audit committees elsewhere, on 13 May 2011.

83. The resultant key actions identified for improvement in the workshop have been agreed by the Committee and will be monitored during 2011/12.

Recommendations and reasons

84. Members note the report and the work undertaken by the Audit Committee during 2010/11.

Contact: Avril Wallage, Manager of Internal Audit & Risk, Tel 0191 383 3537

Appendix 1: Implications

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

Staffing - None.

Risk – Not a key decision

Equality and Diversity/ Public Sector Equality Duty - None

Accommodation - None

Crime and disorder - The Audit Committee provide independent assurance that the Council's arrangements to combat the risk of lost through fraud are effective and all reported potential fraudulent acts are appropriately investigated and reported to the police where it is appropriate to do so.

Human rights - None

Consultation - None

Procurement – None.

Disability issues – None.

Legal Implications – None.

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Audit Committee

28 July 2011

The Work of Corporate Risk Management in the Quarter period April – June 2011

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, including the status of the corporate strategic risks, and to give an insight into the work carried out by the Corporate Risk Manager and the Corporate Risk Management Group during the period April to June 2011.

Background

2. Each Corporate Director has a designated member of staff (the 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). Risks are assessed and managed at both a service and corporate level. 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 circumstances 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 30 June 2011, there were 60 corporate and service strategic risks, a decrease of 23 from the previous period end at 31 March 2011. 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;

    - The Council may be liable to legal challenge if a single status agreement is not implemented in full;

- Insufficient number of adequately skilled staff to maintain the expected level of services;

- The loss of Area Based Grant funding may result in the CDEP failing to narrow inequality and deprivation;

- Failure to identify and effectively regulate Contaminated Land;

- 'Delays in processing both new, and changes to, benefit claims'. Revenues and Benefits performance has deteriorated in recent months due to a number of factors causing delays in processing new claims and changes to existing claims. The key factors impacting upon performance are increasing caseload and the implementation of a new IT system. Although this risk is assessed lower than the other key risks, it will remain a high risk until the new IT system is fully implemented, which will not be until quarter 4 of 2011/12. Consequently, it is highlighted as a key risk for your attention.

Progress on addressing these key risks is detailed in Appendix 3.

5. Appendix 4 of this report lists all of the Council's corporate and service strategic risks as at 30 June 2011.

6. Management have identified and assessed these risks using a structured and systematic approach, and are 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.

Emerging Risks

7. The only issue highlighted during the quarter which has potential risk implications for the Council is the changes in the Agency Worker Regulations from October 2011, whereby agency workers in the UK will receive "equal treatment" compared to permanent staff after being employed for 12 weeks.

8. We have provided risk management support to major projects such as the Revenues and Benefits system implementation, Integrated Service Delivery and the Pay and Conditions project.

Recommendations and reasons

Audit Committee to confirm that this report provides assurance that strategic risks are being effectively managed within the risk management framework.

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

To date within the Council, a large amount of work is being carried out 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 Corporate Risk and Governance Manager. Each Service Grouping also has a designated member of staff (the 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 Corporate 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 corporate and 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: Corporate and Service Risks

Summary

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 2011, there were 60 corporate and service strategic risks, a decrease of 23 from the previous period end at 31 March 2011.

The following matrix summarises the total number of corporate and service strategic risks based on their Net risk assessment as at 30 June 2011. Where there have been changes to the number of risks from the last quarter period end, the risk total as at 31 March 2011 is highlighted in brackets.

Overall number of Corporate and Service Risks as at 30 June 2011

Impact					
Critical	(1)	**3** (4)	**2** (3)		
Major	(1)	**5** (5)	**9** (7)	**3** (3)	
Moderate	(1)	**10** (14)	**18** (29)	**4** (4)	
Minor		**0** (3)	**5** (8)		
Insignificant					
Likelihood	Remote	Unlikely	Possible	Probable	Highly Probable

In summary, key points to draw to your attention are:

1 Beneficial outcomes

Implementation of additional mitigation for the following risks has enabled the Council to improve performance, decision-making and governance:

- The successful transfer of Agresso systems to DeBS has mitigated the risk of '*Impact of delays in implementing the FMS Migration Project*'.
- As all Phase 3 Children's Centre Capital Build projects have now been successfully completed, the risk of a loss of funding and any residual costs falling on the Local Authority has been avoided.
- Further improvements to the Events Management process are enabling the risk of '*Failure to effectively support events organised by the Council or taking place on Council land*' to be managed at an acceptable level. In addition, draft procedures are currently out for consultation, and when approved, this will further mitigate this risk.
- The implementation of a new single ICT system and the development of training programmes has mitigated the risk of "*Failure to deliver an effective intervention regime across all regulatory functions delivered by the Environmental Health and Consumer Protection service, leading to an adverse impact on public health*" to an acceptable level.
- The risk of "*The Council's ICT being inadequate due to poor integration between ICT Services and the rest of the Council*" is no longer considered a risk. In particular, this is due to the effectiveness of the prioritisation process for ICT projects, and the ICT Liaison Group with cross-Council representation, which were established earlier in 2011.
- Continuous monitoring of the risk "*The corporate approach to managing procurement across the Council is not consistently applied*" has resulted in the risk being at an acceptable level for over a year, and is therefore no longer considered a risk.
- The introduction of a computerised committee management system has managed the risk "*Council loses challenges because of unlawful calling of meetings*" to an acceptable level.
- Negotiations between the Council and the two main bus operators (accounting for 90% of the cost to the Authority) has delivered a £0.5 million saving and has successfully mitigated the risk of "*Increases in concessionary fares*".
- Implementation of additional mitigation has enabled Service management to reduce the Net likelihood of the risk "*Failure to deliver harmonised policies and action with regards to licensing and enforcement across all areas*" from Possible to Unlikely. Further actions are due to be completed over the next quarter when it is hoped this risk will be reduced to an acceptable level.

2 Significant New and Increased Risks

Two new risks have been identified:

- "*Potential claw-back from MMI (former insurers to the Council) under the Scheme of Arrangement*". If this risk materialises, it may result in a financial cost to the Council in excess of £5 million. (Resources)
- "*Delays in processing both new, and changes to, benefit claims*". (Resources)

3 Removed Risks

Twenty-four risks have been **removed** from the register in this quarter. This is due in part to greater challenge of the risk with the Services, but also through 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.

4 Corporate Strategic Risk

CMT have agreed a number of corporate strategic risks that either cut across the Council or where they will have a significant impact on the Council if they should materialise. Of these risks, the risk of "*A service failure of Safeguarding leads to death or serious harm to a service user*" has been amended during the quarter, with the net impact score decreasing from Critical to Major and the net likelihood increasing from Unlikely to Possible. (Adults, Wellbeing and Health)

5 Key Risks

Those risks in the unshaded area of the following matrix are considered the key risks to the Council and are reported in the subsequent table. 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'.

Figure1

Impact					
Critical			***Risks 1 and 5***		
Major				***Risks 2, 3 and 4***	
Moderate				***Risk 6***	
Minor					
Insignificant					
Likelihood	Remote	Unlikely	Possible	Probable	Highly Probable

Ref	Service owning the risk	Corporate Theme	Risk	Net Impact	Net Likelihood	Proposed Actions	Direction of Travel	Anticipated date when risk will be at an acceptable level
1	Resources	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 CCG, 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	Resources	Altogether Better Council	The Council may be liable to legal challenge if a single status agreement is not implemented in full	Major	Probable	Develop the pay and reward project that considers all of the eight council arrangements and includes proposals for implementation		The project to bring this risk to an acceptable level will be completed by April 2012.
3	Resources	Altogether Better Council	Insufficient number of adequately skilled staff to maintain the expected level of services	Major	Probable	➢ Funded training and development will be considered by Service Management Teams in line with the protocol. ➢ Organisation Development design principles to be reviewed.		Plans will be in place by April 2012 outlining the policies that will be required to ensure succession planning in the long term.
4	RED	Altogether Wealthier	The loss of Area Based Grant funding results in the CDEP failing to narrow inequality and deprivation	Major	Probable	Produce an Action Plan		The action plan will be in place by July 2011. This will remain a significant risk for at least the next 4 years.
5	NS	Altogether Greener	Failure to identify and effectively regulate Contaminated Land	Critical	Possible	Out of the 140 sites identified, the top 10 sites will be assessed during 2011/ 12.		The Contaminated land strategy, which will bring this risk to an acceptable level, will not be in place until November 2011
6	Resources	Altogether Better Council	Delays in processing both new, and changes to, benefit claims.	Moderate	Probable	Additional resource is being invested to utilise external assistance to carry out detailed packages of work. This will reduce the backlog during periods when the ICT systems are unavailable.	**New Risk**	This will remain a high risk until the IT system is fully implemented, which will not be until quarter 4 of 2011/12.

Appendix 4: List of all Strategic Risks (per Corporate Theme)

Corporate Theme – Altogether Better Council

Ref	Service	Risk
1	RES	Slippage in delivery of the MTFP will require further savings, which may result in further service reductions/ job losses **(CORPORATE STRATEGIC RISK)**.
2	RES	The Council may be liable to legal challenge if a single status agreement is not implemented in full **(CORPORATE STRATEGIC RISK)**.
3	RES	Insufficient number of adequately skilled staff to maintain the expected level of services **(CORPORATE STRATEGIC RISK)**.
4	NS	Industrial Action arising from substantial change programme.
5	ACE	Serious breach of law regarding management of data and information, including an unauthorised release **(CORPORATE STRATEGIC RISK)**.
6	RES	Potential claw-back from MMI (former insurers) under the Scheme of Arrangement
7	NS	Failure to effectively support events organised by the Council or taking place on Council land **(CORPORATE STRATEGIC RISK)**.
8	RES	Major Interruption to IT Service Delivery.
9	NS	Limited knowledge of DEBS live system by some budget holders could adversely impact on service delivery and performance in NS.
10	RES	Loss of income from land charge fees.
11	RES	Delays in processing both new and changes to benefit claims.
12	RES	If contractual relationships with Suppliers are not effectively managed by Services, then the Council will not achieve the optimum outcome from these relationships **(CORPORATE STRATEGIC RISK)**.
13	NS	Failure to improve the performance of building services to make them more competitive.
14	ACE	The data used to produce performance information is of an insufficient quality to ensure reliability for decision making purposes.
15	RES	Council Services will not be operating effectively due to inadequate level of IT service delivery to end users.
16	RES	The New Revenues & Benefits & attendant Cash Management and Document flow systems will not be successfully implemented.
17	RES	Due to the amount of change occurring across the Council, the potential for fraud and error is increasing **(CORPORATE STRATEGIC RISK)**.
18	NS	Failure to embed consistent health and safety policies, practices and procedures across the Neighbourhoods Service.
19	NS	Failure to deliver harmonised policies and action with regards to licensing and enforcement across all areas.
20	ACE	Delays in dealing with the Community Buildings conditions, H&S requirements, access requirements and management practices identified as needing attention through the Community Buildings review.
21	NS	Extreme weather conditions result in inability to treat priority networks 1 & 2.
22	RED	Accommodation does not support standards identified by Services, including meeting the geographical/spatial demands of the Council.
23	ACE	AAPs do not maintain arrangements which engage and empower local people and lead to action and performance review.
24	ACE	Failure to adequately consult on or assess the equality implications of making key financial and policy decisions.
25	CYPS	Uncertain, large-scale financial demands (e.g. on Safeguarding and Specialist Services), leading to breached MTFP targets.
26	RES	Failure to comply with legislation (Data Protection Act, Freedom of Information Act, Copyright Act, H&S, etc.).

Ref	Service	Risk
27	AWH	Work Related Stress – STAFF.
28	RES	Commercial and complex litigation cases outside the capacity of Legal and Democratic Resources.
29	ACE	Working relationship with the 7 VCS infrastructure organisations becomes fragmented and this has a negative impact on the quality of support provided to front line voluntary and community organisations.

Corporate Theme – Altogether Wealthier

Ref	Service	Risk
30	RED	The loss of Area Based Grant funding results in the CDEP failing to narrow inequality and deprivation gaps.
31	RED	Private housing stock condition worsens with adverse implications for local economy, health & neighbourhood sustainability.
32	RED	Reduced future allocations of deprivation based grants to county resulting from changes to Council's new deprivation status.
33	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.
34	RED	East Durham Homes additional Government funding is not forthcoming due to Government cut backs.
35	RED	Constrained staff resources reduces the ability to identify and maximise investment opportunity.
36	RED	Government policy and the weakening regional governance arrangements could result in greater difficulty in promoting County Durham's economic interests.
37	RED	Inability to provide additional low cost affordable accommodation.

Corporate Theme – Altogether Better for Children and Young People

Ref	Service	Risk
38	CYPS	Children/families experience lack of interface between Adult/Children's Services as a result of failure to work closely together.
39	CYPS	Failure to deliver integrated services (incl NHS) by Sept 2011, resulting in breach of grant condition and missed MTFP targets.
40	CYPS	Failure to deliver the restructured BSF programme on time and with minimal service disruption. **(CORPORATE STRATEGIC RISK)**
41	RED	Failure to adequately support young people into employment or training.

Corporate Theme – Altogether Safer

Ref	Service	Risk
42	RED	Disused un-maintained Coal Authority mine workings on DCC land could result in serious injury/financial claims against the Council.
43	AWH	A service failure of Safeguarding leads to death or serious harm to a service user. – AWH **(CORPORATE STRATEGIC RISK for Safeguarding)**.
44	CYPS	Failure to protect child from death or serious harm (where service failure is a factor or issue) – CYPS. **(CORPORATE STRATEGIC RISK for Safeguarding)**.

Ref	Service	Risk
45	ACE	Failure to prepare for, respond to and recover from a major incident or interruption, and to provide essential services. **(CORPORATE STRATEGIC RISK)**
46	AWH	Unauthorised encampment.
47	NS	Damage to Highways assets as a result of a severe weather event.
48	AWH	Gypsy and Travellers Sites Health and Safety.
49	AWH	Violence and Aggression Staff.
50	AWH	Lone Working – Staff.
51	RED	Serious injury or loss of life due to Safeguarding failure (Transport Service). **(CORPORATE STRATEGIC RISK for Safeguarding)**.

Corporate Theme – Altogether Healthier

Ref	Service	Risk
52	AWH	Potential failure in the external care provider market relating to residential care homes.
53	CYPS	Failure to meet escalating costs of external and high-cost placements effectively.
54	AWH	Inability to manage markets for the delivery of Adult Social Care Services.
55	AWH	Management and administration of service users' medications.
56	AWH	Potential financial, operational, and reputational risks arising from proposed NHS Reforms.
57	AWH	Inability to transform social care infrastructure and support systems in line with personalisation/transformation requirements.

Corporate Theme – Altogether Greener

Ref	Service	Risk
58	NS	Failure to identify and effectively regulate Contaminated Land.
59	NS	Failure to effectively develop the proposed Waste Management Solution **(CORPORATE STRATEGIC RISK)**.
60	RED	The Council does not meet its internally set targets for reducing operational CO2 emissions.

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Audit Committee Update

July 2011

Durham County Council

Audit 2010/11

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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.

2 This update also seeks to highlight key emerging national issues and developments which may be of interest to members of the Committee.

3 If you require any additional information regarding the issues included within this briefing, please feel free to contact me or your Audit Manager using the contact details at the end of this update.

4 Finally, please remember that our website contains a section aimed exclusively at Local Government. This contains key information and guidance in one easily accessible location.

Cameron Waddell
District Auditor

July 2011

Progress Report

Financial Statements and the Annual Report

5 We are in the early stages of our audit of the 2010/11 financial statements, which the Council produced by the end of June 2011, albeit with the omission of group accounts and some other disclosure notes. However, most of these are now included in the revised financial statements with the exception of the segmental reporting and agency expenditure notes which we understand are nearing completion.

6 We have continued our discussions around specific and significant risks with members of the Council's finance team, including:

- preparing accounting policies and financial statements for the first time under IFRS;
- ensuring that the remaining final accounts working papers are made available to support entries in the financial statements, including those relating to property, plant and equipment, debtors and creditors;
- providing the revised entries for the change in Council stock valuations; and
- consolidating the group accounts.

7 We will include the conclusions of the audit in our annual governance report which we plan to present to the September 2011 Audit Committee.

VFM Conclusion

8 For the 2010/11 audit I am required to give my statutory value for money (VFM) conclusion based on two criteria specified by the Audit Commission, based on two criteria as follows;

- the Council has proper arrangements in place for securing financial resilience; and
- the Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

9 I continue to undertake risk based work focusing on the robustness of the Council's arrangements relating to financial governance, strategic financial planning and financial control and for prioritising resources and improving productivity and efficiency.

10 The key risks indicators based on the Audit Commission's criteria, I have considered and reviewed are currently as follows;

- progress in medium-to long-term financial planning, for example ensuring that there is an up-to-date sustainable 3-5 year medium-term financial plan (MTFP) and realistic scenario planning;
- success of delivery against previous years' efficiency savings;
- ensuring that financial risks are not managed in the short term only, with limited consideration of longer term implications; and
- ensuring that action is taken to review and challenge strategic priorities and cost-effectiveness of existing activities in the context of the medium-term financial plan (MTFP), and the impact of changing circumstances, to identify where activities do not contribute sufficient value.

11 I will keep the Audit Committee updated of my progress in this area.

Other Matters of Interest

Value for money in Adult Social Care

12 A new Commission briefing finds councils need to increase the pace and scale of change of efficiency in adult social care to release material savings and improve care for people.

13 However, councils are changing their approach and have looked at many aspects of the service in order to provide better, more efficient services.

14 Of the findings in Improving value for money in adult social care, Andy McKeon said, 'Social care services have seen an increase in demand because of an ageing population and because people with learning disabilities are living longer. We are pleased to see that councils have reacted to these pressures and started to change the way they operate, by giving more people personal budgets and spending more on prevention.

15 'But the pressures on councils are growing. They have many competing demands on their finances and, over time, more and more people will need their help. Small, tried and tested improvements will help to make savings in the short-term and there are opportunities to do this. But councils also need to look more widely to deliver greater savings and make a real difference to peoples' lives in the longer term.'

Nine areas to find efficiencies

16 The briefing identifies nine areas in which councils can make changes to deliver efficiency savings. They are procurement; staffing; back office; assessment and care management; prevention; personalisation; changing the balance of care; partnership and charging. Most councils have addressed a combination of these factors, but no one council has made changes to all nine.

17 The briefing highlights examples of councils who have made substantial savings in these areas. The West London Alliance, made up of six London boroughs, predicted a combined saving of £4 million by jointly procuring personal home care. Hertfordshire County Council has reviewed its care packages for people with learning disabilities. By introducing individual budgets and negotiating cuts in fees for high-cost placements, it expects to make substantial savings while improving outcomes for service users.

18 All of the positive examples in the briefing bring savings and improvements for service users, but they are mostly transactional. Councils are seeking to redesign services and develop different approaches to care to provide a better quality of life - so called 'transformational' change. However, the briefing points out that although transforming services will help

to deliver better quality support, it is a long and challenging process, and may not deliver savings.

19 One big opportunity for councils to do things differently in the coming years will be working more closely with the NHS. Working together they can make savings by commissioning or delivering services jointly, cutting duplication and avoiding simply transferring costs from one organisation to another.

20 Andy continues, ‘Social care is undergoing a radical change and we cannot predict what the service will look like in years to come. But we do know that like all public services, savings will need to be found in social care. This briefing presents a starting point for local authority decisions on adult social care spending over the next three years.’

21 This briefing is the first in a series looking at value for money in social care.

Services for younger people: Value for money self assessment pack

22 This free self-assessment pack is a collaboration between the Audit Commission and the Confederation of Heads of Young People's Services (CHYPS). It aims to help make sure money spent on services for young people is well used and has the right impact.

23 Already piloted in six areas, it was credited with:

- helping statutory and voluntary providers to begin longer-term reviews of provision, staffing and costs;
- increasing self-awareness among managers and staff about council youth services;
- stimulating discussion between partner organisations on improvement and how to achieve better value for money;
- identifying some 'quick wins'- for example, doing more to celebrate young people's achievements; and
- generally raising the profile of youth services.

24 The pack is organised into five modules which take users through a structured assessment of their services, drawing on their own and comparative data about spending and outcomes. It then helps them prepare an action plan to provide the best value for money services for young people, specifically tailored to their area and its resources.

25 Services for Young People: Value for Money Self-Assessment Pack is a voluntary, online, self-assessment tool aimed at elected members and senior staff with an interest in services for young people. It is relevant to all councils, fire and rescue authorities, the police, voluntary and private sectors - indeed anyone who is involved in commissioning or delivering services locally for young people.

26 In 2009 the Audit Commission report Tired of Hanging Around showed how sport and leisure activities could prevent young people being drawn into anti-social behaviour. It found that a young person caught up in the criminal justice system costs the taxpayer £200,000 by the age of 16, but one needing support to stay out of it costs less than £50,000. The report identified a need for councils and their partners to improve resources for young people. This new resource is designed to complement it.

Better value for money in schools

27 These four briefings are designed to help schools make the best use of their workforce - whether teachers, teaching assistants, or administration and finance staff - at a time when they have to find savings.

28 England's maintained schools spent £35 billion in 2009/10. School staff account for over three-quarters of this total and form one of the country's largest public sector workforces.

29 These briefings, under the heading **Better Value for Money in Schools**, examine patterns in spending in maintained schools in England. They aim to help school heads, governing bodies and councils control costs without compromising educational attainment.

- They look at four areas where schools have scope to improve efficiency:
- the deployment of classroom staff, including class sizes and allocation of teachers and teaching assistants;
- the breadth and focus of schools' curriculum offer;
- approaches to covering for staff absence, including supply teachers; and
- the size, cost and composition of the wider (non-teaching) school workforce.

30 In addition we published a summary paper, **An overview of school workforce spending**, which is targeted at chairs of governing bodies and lead members on children's services.

31 For more information about the briefings you can email schoolsworkforce@audit-commission.gov.uk.

Achieving Better Value for Money in Road maintenance

32 **England's 236,000 miles of local roads - used by 30 million drivers every day – are under attack from increasing traffic, severe winters, higher repair costs, and dwindling highways funding.**

33 However, a new Commission report shows how councils can get more for their money. Cost-saving collaborations with neighbours, asset management to show when road maintenance will be most effective, new ways of keeping residents informed, and weighing short-term repairs against long-term resilience are all recommendations from Going the Distance: Achieving better value for money in road maintenance.

Big costs and big cuts

34 Between them, council highways authorities are responsible for 98 per cent of the country's roads*, spending a total of £2.3 billion in 2009/10. Yet,

in response to increasing financial pressure on councils, highways budgets are facing significant cuts.

35 The Commission has found that the cost of maintaining roads is now 50 per cent higher than it was ten years ago, in part due to inflation in road materials and construction costs. Other pressures facing councils are:

36 Road traffic is expected to increase by more than 30 per cent by 2025;

37 In the next three years there will be a 26 per cent drop in government revenue funding and 16 per less capital funding via local transport plans;

38 Damage by utilities works costs nearly £50 million every year.**

Overall deterioration

39 Councils must also strike a difficult balance. Public perceptions of whether roads are in good shape are often only skin deep, so potholes and patchworks attract the most criticism. But dealing with these so-called ‘worst first’ surface issues must be weighed against prolonging a road’s ‘whole life’ before it is too late.

40 Chairman of the Audit Commission, Michael O’Higgins says:
‘Prevention is better than cure, but councils have to consider the safety and insurance risks of damaged surfaces. Roads costs are rising while councils’ belts are tightening. Improvement in A roads seems to have stalled, and the road network overall is starting to deteriorate.’

Asset management

41 In cash terms, a council’s road network is its single most valuable asset. Yet councils struggle to apply asset management principles to roads. They cannot be sold, they don’t generate income, indeed they consume large resources. Hardly surprising that some councils see roads as liabilities rather than assets.

42 But the report urges councils to consider asset management plans, such as Cornwall’s Transport Asset Management Plan (TAMP), which for an investment of £80,000 is driving consistent levels of service and road condition across the whole county. Such plans also indicate when best to intervene with works to extend the whole life of a road, typically a maximum of only 20 years.

Collaboration pays dividends

43 The study team found that collaboration pays real dividends. The Midlands Highway Alliance estimates it has delivered £5.1 million savings for councils and £7.8 million for the Highways Agency in its first three years, and it is looking to a further £14 million of savings between 2010 and 2014. Ten authorities in the East of England have also formed an alliance to save £6m over five years, with £3.3 million from shared back office costs alone.

44 Michael says, ‘Sadly we found collaboration between councils to be rare, with too few councils procuring in cost-saving partnerships.’

45 ‘Pick up any local newspaper and you will see that people care very much about their local roads. In the last national Place Survey, roads were a higher priority with residents than crime or affordable housing. Our report aims to help councillors maintain their local network against a backdrop of reduced funding. Roads in disrepair can put the brakes on trade, economic prosperity, even emergency services. But a well-maintained network helps people, goods and services to move freely and safely.’

* The 152 Councils designated as Highway Authorities have a statutory duty to maintain all local roads in their area. The remaining 2 per cent of the national network, comprising mainly motorways and trunk A roads (known as the Strategic Road Network) is the responsibility of the Highways Agency.

Care Quality Commission Annual Survey

46 The Care Quality Commission has recently published the results of its annual survey, which 66,000 hospital inpatients and took place between September 2010 and January 2011.

47 The survey of patients staying in acute and specialist NHS trusts showed a greater proportion describing wards, rooms and bathrooms as 'very clean' and there were also improvements regarding the use of single sex accommodation. However, the results also showed a reduction in the proportion of people rating their overall care as 'excellent'.

Increased Fraud Risks

48 As part of the 'transparency agenda', local authorities, NHS Trusts, and government departments have published details of their spending. Some organisations have reported an increase in attempted and actual fraud using details taken from this published data.

49 The identified fraud cases have usually involved the submission of false invoices or a request to change supplier bank account details so that payments might be made to bank accounts set up by the fraudsters. Other types of fraud have also involved fraudsters:

- calling telephone switchboards asking for contact names of those who process payments so that correct names can be included in letters seeking bank account changes;
- requesting supplier numbers by telephone;
- chasing requests for payment changes hoping that, by putting pressure on organisations, routine verification checks might not be carried out; and
- diverting telephone calls to supplier landlines to a mobile phone, in order to handle phone calls checking the authenticity of requested changes.

50 Councils should therefore assess whether there are adequate arrangements to manage the risk of fraud relating to the transparency

agenda. For example only accepting requests for changes to supplier standing data in writing and undertaking standard checks on invoices before making any payments.

Future of the Audit Practice

51 The Department for Communities and Local Government (DCLG) announced in August 2010 plans to abolish the Audit Commission and put in place new arrangements for auditing England's local public bodies. DCLG has consulted on its proposals for the new audit regime and plans to publish a draft Bill for further scrutiny and comment later in the year. The new regime will see the end of the Commission's responsibilities for overseeing and commissioning local audit and its other statutory functions, including those relating to studies into financial management and value for money.

52 The Commission is working with DCLG to develop an approach to transferring its existing in-house Audit Practice into the private sector. DCLG's provisional view is that its preferred route is to ask the Commission to invite bids for all existing Audit Practice audit appointments from 2012/13 onwards from private sector firms. If ministers confirm this outsourcing route, the staff of the Commission's in-house Audit Practice intend to submit a bid for the work on offer, probably as a joint venture, which could form the basis of a new employee-owned, or mutual, organisation. The aim will be to provide a distinctive and competitive choice for local public bodies.

53 We have discussed developments with chief officers and have reaffirmed the Commission's, and our own, commitment to delivering a high quality and effective audit service right through to whatever date the transfer to new arrangements takes place. We will continue to keep you up to date on developments.

Contact Details

54 If you would like further information on any items in this briefing, please feel free to contact either Cameron or Catherine.

55 Alternatively, all Audit Commission reports - and a wealth of other material - can be found on our website: www.audit-commission.gov.uk.

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