



## **Audit Committee**

**Date** Monday 29 July 2013  
**Time** 9.30 am  
**Venue** Committee Room 1A, County Hall, Durham

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### **Business**

#### **Part A**

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

1. Apologies for Absence
2. Minutes of the meeting held on 27 June 2013 (Pages 1 - 8)
3. Declarations of interest, if any.
4. Strategic Risk Management  
Progress Report for the Quarter period April to June 2013  
- Report of Corporate Director, Resources (Pages 9 - 20)
5. 2012/13 Final Outturn for General Fund and Housing Revenue Account  
- Report of Corporate Director, Resources (Pages 21 - 58)
6. Action Plan 2011/12 Audit of Accounts - Update - Report of Corporate  
Director, Resources (Pages 59 - 72)
7. Statement of Accounts for the year ended 31 March 2013 - Report of  
Corporate Director, Resources (Pages 73 - 272)
8. External Audit Progress Report (Pages 273 - 280)
9. 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  
19 July 2013

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

Councillor E Bell (Chairman)  
Councillor J Rowlandson (Vice-Chairman)

Councillors L Armstrong, C Carr, S Forster, J Hillary, O Temple,  
T Smith and W Stelling

**Co-opted Members:**

K Larkin-Bramley and T Hoban

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**Contact: Jackie Graham**

**Tel: 03000269704**

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**DURHAM COUNTY COUNCIL**

At a Meeting of **Audit Committee** held in Committee Room 1B, County Hall, Durham on **Thursday 27 June 2013 at 9.30 am**

**Present:**

**Councillor E Bell (Chairman)**

**Members of the Committee:**

Councillors J Rowlandson (Vice-Chairman), L Armstrong, C Carr, S Forster, O Temple and T Smith

**Co-opted Members:**

Mr Hoban and Ms Larkin-Bramley

**1 Apologies for Absence**

Apologies for absence were received from Councillors Hillary and Stelling.

**2 Minutes of the meeting held on 31 May 2013**

The minutes of the meeting held on 31 May 2013 were confirmed 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.

With regards to the item on Assurance on Partnership Working Councillor Temple was not satisfied that it had been recorded as not applicable. As Audit Committee had raised it he asked that it be brought back to the Committee. Although it was recognised that it was a wider issue than Audit Committee business it was agreed that the outcomes of the Head of Legal and Democratic Services review would be reported back to this committee for information.

**3 Declarations of interest, if any**

Declarations of interest were provided by Members of the Committee. A generic declaration of interest would be recorded given that Members were school governors, members of various Committees of the Council, former District Councillor's and bodies such as the Probation Board and Fire Authority.

#### **4 Disposal of Asset Procedures - Report of Head of Planning and Assets**

The Committee received a report from the Head of Planning and Assets giving an update on the disposal of assets procedure (for copy see file of Minutes).

The Asset Services Manager informed the Committee that actions had been taken to improve the disposal process following the sale of Windlestone Hall. Although some improvements were already being addressed prior to the Committee's recommendations in February, further changes have been made. He referred members to the attached Action Plan that would go to Cabinet in July for formal approval, and the Disposals Strategy guidance note. He assured that the Committee that the process would continue to be monitored and informed that Internal Audit would carry out a further review in 6 months.

The External Auditor commented that the key issue would be to follow best practice and evidence how the process has been followed.

The Chairman asked that new members of the Committee be sent copies of previous reports on Windlestone Hall.

On answering a question from Councillor Carr about the decision regarding Whinney Hill School, the Asset Services Manager confirmed that the decision was delegated to the Head of Planning and Assets. He assured members that if assets were being considered for sale at under current value, the Corporate Director, Resources would be involved in the process. Councillor Carr asked how many chartered surveyors were employed by Durham County Council and the Asset Services Manager confirmed that there were 10 chartered surveyors.

**Resolved:**

- (i) That the Committee were assured that the disposal process had been improved and enhanced.
- (ii) That the updated Disposal Strategy and Process Map be noted.
- (iii) That the outcomes of the planned internal audit follow up review be reported back to committee when complete.

#### **5 Draft Annual Governance Statement for the year April 2012 - March 2013 - Report of Corporate Director, Resources**

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

The Risk, Insurance and Governance Manager highlighted how the Council complied with providing assurances on corporate governance and the key actions in place to help deliver the Annual Governance Statement.

The Committee raised concerns that impact of austerity measures and strategic risk of not delivering the MTFP had not been given enough emphasis in the Annual

Governance Strategy. It was suggested that the wording of action 2 on page 58 be amended to incorporate something on this.

Mr Waddell, Mazars, suggested that a conclusion would help to strengthen the statement.

The Risk, Insurance and Governance Manager asked that action 3 from the Action Plan relating to localities be removed.

**Resolved:**

- (i) That the first draft of the Annual Governance Statement for 2012/13 be agreed subject to;
  - The deletion of Action Plan Ref 3 and corresponding relevant text from the statement
  - The addition of a conclusion
  - The inclusion of some reference to the strategic risk of not delivering the MTFP and the rewording of Action 2 relating to VFM to reflect this
- (ii) That the revised draft Annual Governance Statement be presented to County Council for information.

**6 Annual Internal Audit Report 2012-13 - Report of Manager of Internal Audit and Risk**

The Committee noted a report of the Corporate Director, Resources which presented the Annual Internal Audit Report for 2012/13 which provided a 'moderate' opinion on the adequacy and effectiveness of Council's control environment for 2012/13 (for copy see file of Minutes).

The Committee were informed that the overall opinion given for the 2012/13 was that of a moderate assurance, which had been given in the previous year. The Committee, although disappointed with the overall opinion, acknowledged that a lot of improvements had been made during the year and others had been agreed but were yet to be implemented. The sustainment of this level of control despite the reduction in resources was however accepted as a positive outcome and the Committee will continue to challenge any delays by management in implementing agreed actions.

**Resolved:-**

That the report be noted.

**7 Annual Review of the Effectiveness of Internal Audit - 2012/13 - Report of Corporate Director, Resources**

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

The Corporate Director, Resources informed the Committee that it was very important that the Council had an effective Internal Audit Service in operation. The last review of the service was undertaken in June 2012 and the improvements had been identified were the Development of Assurance Maps and the improvement of the in-house teams Skills Mix.

Members expressed strong concerns about the poor response from senior management to a feedback questionnaire issued as part of this year's review as only 15 of 28 questionnaires were returned. The Committee requested that those that had not responded be asked to reply as the reliability of the outcomes was questionable given the poor response.

**Resolved:**

That the evidence provided within the report gave assurance on the effectiveness of internal audit.

**8 Internal Audit Plan 2013-14 (July 2013 to June 2014) - Report of Manager of Internal Audit and Risk**

The Committee considered a report of the Corporate Director, Resources which outlined the Internal Audit Plan for the period July 2013 to June 2014 (for copy see file of Minutes).

**Resolved:**

- (i) That the audit strategy previously agreed be noted.
- (ii) That the proposed audit plan for 2013/14 detailed in Appendix 2 of the report be approved.

**9 Forward Plan of Audit Committee Business - Report of Manager of Internal Audit and Risk**

The Committee considered a report of the Corporate Director, Resources that presented a forward plan of Audit Committee business for the next 12 months (for copy see file of Minutes).

**Resolved:**

- (i) That the proposed forward plan for Committee business be approved
- (ii) That any amendments to the plan are reported as a standard item on the agenda of each meeting of the Committee for approval.

## **10 Any Other Business**

The Chairman agreed that the following item of business could be considered of sufficient urgency to warrant consideration.

Mr Waddell, Mazars, informed the Committee that the following would be added as a significant audit risk :

### **Revenue and expenditure recognition**

Auditing standards include a rebuttable presumption that there is a significant risk in relation to the timing of income recognition, and in relation to judgements made by management as to when income has been earned. For public sector organisations the same risk also applies to the recognition of expenditure and contractual obligations.

The pressure to manage income and expenditure to deliver forecast performance in a challenging economic environment increases the risk of fraudulent financial reporting leading to material misstatement and means that we are unable to rebut the presumption.

This does not imply that we suspect actual or intended manipulation but that we approach the audit with due professional scepticism.

We will evaluate the design and implementation of any controls which mitigate the risk. In addition we will undertake a range of substantive procedures including:

- testing of income and expenditure including tests to ensure transactions are recognised in the correct year;
- testing year end receivables, payables, accruals and provisions;
- review of management oversight of material accounting estimates and any changes to accounting policies;
- review judgements about whether the criteria for recognising provisions are satisfied; and
- testing of journals.

Mr Waddell informed the Committee that the Audit Completion Report would be presented in September.

## **11 Exclusion of the Public**

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

## **12 Direct Payment Internal Audit Report - Report of Manager of Internal Audit and Risk**

The Committee received a report of the Corporate Director, Resources relating to Direct Payments (for copy see file of Minutes).

The Manager of Internal Audit and Risk informed the Committee about progress made in response to audit findings.

**Resolved:**

That the report be noted.

**13 Social Care and Direct Payments - Report of Head of Commissioning**

In response to the issue of the Internal Audit Report, the Committee considered a report of the Head of Commissioning providing an update on Social Care and Direct Payments (for copy see file of Minutes).

The Head of Commissioning and the Personalisation Development Manager of Children and Adult Services gave assurances that following suggestions by Audit a number of improvements had been made and a delegated decision process was now in place and timescales for carrying out audits were reducing.

Following a suggestion from Ms Larkin-Bramley it was agreed that as this was a high risk area a follow up audit would be carried in 6 months time.

**Resolved:-**

- (i) That the recommendations contained within the report be approved.
- (ii) That a follow up audit be carried out in 6 months.

**14 Annual Fraud Report 2012/13 - Report of Manager of Internal Audit and Risk**

The Committee noted a report of the Manager of Internal Audit and Risk which informed action taken by Internal Audit during 2012/13 and further action planned to raise awareness of the risk of fraud and corruption (for copy see file of Minutes).

Members enquired about any awareness training in schools. The Manager of Internal Audit & Risk advised that this would be considered as part of the next planned awareness campaign, "Spot it Stop it" or possibly via an update on governing bodies' agenda.

**Resolved:-**

That the recommendations contained within the report be approved.



Action Plan - Work of Audit Committee - Part A – 29 July 2013

Ref No.	Date of Meeting	Item No.	Title of Report	Action Required	By Whom	Report to Committee (date)/ implemented
1	27.6.13	4	Update on Disposal of Land and Buildings by Head of Planning and Asset Management	Internal Audit to review effectiveness of new procedures as part of next year's audit plan ( approximately 6 months' time ) and outcomes to be reported back to Committee when complete	Manager of Internal Audit and Risk	TBA
2	27.6.13	12,13	Direct Payments	Internal Audit to carry out follow up audit to review effectiveness of revised controls as part of next year's audit plan ( approximately 6 months' time ) and outcomes to be reported back to Committee when complete	Manager of Internal Audit and Risk	TBA
3	27.6.13	N/A	Verbal update on review of guidance re Members role on Partner bodies when representing DCC	Outcomes of findings from Head of Legal & Democratic Services be reported back to Committee	Head of Legal and Democratic Services	TBA
4	4.4.13	15	Grants and Loans Paid to Third Parties	The outcomes of planned internal audit work in this area to be reported to committee on completion	Manager of Internal Audit and Risk	TBA
5	31.5.13	8	External Audit Progress Report	Clarification on why £1m had been selected as threshold for Journals requiring authorisation and any plans to reduce the limit in future.	Strategic Finance Manager – Corporate Finance	29/7/13  Verbal update

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**Audit Committee**

29 July 2013

**Strategic Risk Management  
Progress Report for the Quarter period  
April to June 2013**



**Report of Corporate Management Team**

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**Don McLure, Corporate Director Resources**

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**Purpose of the Report**

1. The purpose of this report is to highlight the strategic risks facing the Council and to give an insight into the work carried out by the Corporate Risk Management Group during the period April to June 2013.

**Background**

2. Each Corporate Director has a designated Service Risk Manager to lead on risk management at a Service Grouping level. In addition, the Council has designated the Cabinet Portfolio Holder for Corporate Services and the Corporate Director, Resources as Member and Officer Risk Champions respectively. Collectively, they meet together with the Risk and Governance Manager as a Corporate Risk Management Group (CRMG). A summary setting out how the Council deals with the risk management framework is detailed in Appendix 2.
3. Throughout this report, both in the summary and the Appendices, all risks are reported as 'Net Risk' (after putting in place mitigating controls to gross risk), which is based on an assessment of the impact and likelihood of the risk occurring with existing controls in place.

**Current status of the risks to the Council**

4. As at 30<sup>th</sup> June 2013, there were 38 strategic risks, which is a decrease of one from the previous period on 31<sup>st</sup> March 2013. In summary, the key risks to the Council are:
  - Government ongoing funding cuts which now extend to at least 2017/ 18 will continue to have an increasing major impact on all Council services;
  - Slippage in delivery of the MTFP will require further savings, which may result in further service reductions/ job losses;
  - Failure to identify and effectively regulate Contaminated Land;
  - Potential claw-back from MMI (former insurers) under the Scheme of Arrangement (SOA);
  - Potential restitution of search fees going back to 2005;
  - School funding reforms & LACSEG reductions threaten viability of some centrally managed services for children and young people;
  - If proposed funding reforms are implemented, the Council may have a major funding shortfall for Post 16 High Needs Placements.

Progress on addressing these key risks is detailed in Appendix 3.

5. Appendix 4 of this report lists all of the Council's strategic risks as at 30<sup>th</sup> June 2013.
6. Management has identified and assessed these risks using a structured and systematic approach, and is taking proactive measures to mitigate these risks to a manageable level. This effective management of our risks is contributing to improved performance, decision-making and governance across the Council.
7. The following, ongoing projects have been supported in various ways, including risk analysis through workshops and meetings and giving critical feedback on risk management documentation and procedures.
  - Council Website
  - Customer First Strategy

#### **Recommendations and reasons**

8. Audit Committee is requested to confirm that this report provides assurance that strategic risks are being effectively managed within the risk management framework across the Council.

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**Contact: David Marshall Tel: 03000 269648**

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## **Appendix 1: Implications**

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**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.

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## **Appendix 2: Background**

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A large amount of work is being carried out across the Council in shaping and developing our approach to risk management where the Cabinet and the Corporate Management Team have designated the Cabinet Portfolio Holder for Corporate Services and the Corporate Director, Resources as Member and Officer Risk Champions respectively.

Together they jointly take responsibility for embedding risk management throughout the Council, and are supported by the Manager of Internal Audit and Risk, the lead officer responsible for risk management, as well as the Risk and Governance Manager. Each Service Grouping also has a designated Service Risk Manager to lead on risk management at a Service Grouping level, and act as a first point of contact for staff who require any advice or guidance on risk management. Collectively, the Risk Champions, Service Risk Managers and the Risk and Governance Manager meet together as a Corporate Risk Management Group. This group monitor the progress of risk management across the Council, advise on strategic risk issues, identify and monitor corporate cross-cutting risks, and agree arrangements for reporting and awareness training.

An Audit Committee is in place, and one of its key roles is to monitor the effective development and operation of risk management and overall corporate governance in the Authority.

It is the responsibility of the Corporate Directors to develop and maintain the internal control framework and to ensure that their Service resources are properly applied in the manner and to the activities intended. Therefore, in this context, Heads of Service are responsible for identifying and managing the key risks which may impact on their respective Service, and providing assurance that adequate controls are in place, and working effectively to manage these risks where appropriate. In addition, independent assurance of the risk management process, and of the risks and controls of specific areas, is provided by Internal Audit. Reviews by external bodies, such as the Audit Commission, Ofsted and Care Quality Commission, may also provide some independent assurance of the controls in place.

Risks are assessed in a logical and straightforward process, which involves the Risk Owner (within the Service) assessing both the impact on finance, service delivery or stakeholders if the risk materialises, and also the likelihood that the risk will occur over a given period. The assessment is confirmed by the Service Management Team, and Chief Officers agree their Risk Register with the Cabinet Member responsible for their Portfolio Service.

An assurance mapping framework is being developed to demonstrate where and how the Council receives assurance that its business is run efficiently and effectively, highlighting any gaps or duplication that may indicate where further assurance is required or could be achieved more effectively.

## Appendix 3: Strategic Risks

Risks are assessed at two levels:

- Gross Impact and Likelihood are based on an assessment of the risk without any controls in place;
- Net Impact and Likelihood are based on the assessment of the current level of risk, taking account of the existing controls/ mitigation in place.

As at 30<sup>th</sup> June 2013, there were 38 strategic risks, a decrease of one from the number of risks at the end of the previous period at 31<sup>st</sup> March 2013.

The following matrix summarises the total number of strategic risks based on their Net risk assessment as at 30<sup>th</sup> June 2013. Where there have been changes to the number of risks from the last quarter period end, the risk total as at 31<sup>st</sup> March 2013 is highlighted in brackets.

### Overall number of Strategic Risks as at 30<sup>th</sup> June 2013

Impact					
Critical	2 (1)	2 (2)	2 (3)	0 (1)	
Major		3 (3)	3 (4)	1 (1)	1 (2)
Moderate		2 (2)	11 (11)	5 (4)	3 (3)
Minor			1 (0)	2 (2)	
Insignificant					
Likelihood	Remote	Unlikely	Possible	Probable	Highly Probable

In summary, key points to draw to your attention are:

#### 1 Significant New and Increased Risks

No new risks have been identified this quarter.

#### 3 Removed and Reduced Risks

Now that the transition period is complete, the risk of '*Failure to develop the proposed Waste Management Solution*' is considered by Neighbourhoods Management Team to have been reduced to an acceptable level, and has therefore been removed from the strategic risk register.

Two significant risks which have reduced during the quarter are:

- *‘Coastal erosion and improved environment may be adversely impacted if a programme of repairs to Seaham North Pier is not undertaken’.* Although this would still have a critical impact if it occurred, the likelihood of it occurring is now considered remote;
- The impact of the risk of *‘Damage to Highways assets as a result of a severe weather event’* has been reduced to moderate, and management now consider it possible that this risk will occur.

#### 4 Key Risks

The risks shown in the tables below are considered the key risks to the Council. Where there have been changes to the risk assessment from the last quarter period end, these are highlighted in the column headed ‘Direction of Travel’. The target for when the risk will be at an acceptable level, or where further improvements in mitigation are not possible, is highlighted in the column headed ‘Anticipated date when risk will be at an acceptable level’.

<b>Impact</b>					
Critical			<b>Risks 1 and 3</b>		
Major				<b>Risk 2</b>	<b>Risk 4</b>
Moderate					<b>Risks 5, 6 and 7</b>
Minor					
Insignificant					
<b>Likelihood</b>	Remote	Unlikely	Possible	Probable	Highly Probable



Ref	Service owning the risk	Corporate Theme	Risk	Net Impact	Net Likelihood	Proposed Key Actions	Direction of Travel	Anticipated date when risk will be at an acceptable level
1	RES Risk Owner: Don McLure	Altogether Better Council	Slippage in delivery of the MTFP will require further savings, which may result in further service reductions/ job losses	Critical	Possible	The Delivery plan implementation will be monitored by CMT and Cabinet.		This will be a significant risk for at least the next 4 years. No further mitigation is planned at the current stage.
2	RES Risk Owner: Don McLure	Altogether Better Council	Government ongoing funding cuts which now extend to at least 2017/ 18 will continue to have an increasing major impact on all Council services.	Major	Probable	Sound financial forecasting based on a thorough examination of the Government's "red book" plans is in place.  Early engagement with Cabinet and a timetable of key milestone dates will be agreed, so that this risk will be managed and mitigated to best effect.		This is related to key risk 1 above.
3	NS Risk Owner: Joanne Waller	Altogether Greener	Failure to identify and effectively regulate Contaminated Land	Critical	Possible	All sites inspected in two phases by 31/10/2012 and 31/3/2013 respectively will be confirmed by a more detailed external review by July 2013.		Two phases of inspection now complete. Budget allocated to fund 2013/14 inspection programme.
4	RES Risk Owner: Don McLure	Altogether Better Council	Potential claw-back from MMI (former insurers) under the Scheme of Arrangement (SOA)	Major	Highly Probable	The cost of any clawback will be met from the Insurance Reserve.		A levy of 15% will be charged on all claims previously paid by MMI, meaning that at some point during 2013/14, we will be expected to pay approximately £815,000 to MMI. As this is not a solvent run-off of MMI, we are likely to be required to pay additional levy contributions in future years

Ref	Service owning the risk	Corporate Theme	Risk	Net Impact	Net Likelihood	Proposed Key Actions	Direction of Travel	Anticipated date when risk will be at an acceptable level
5	RES Risk Owner: Colette Longbottom	Altogether Better Council	Potential restitution of search fees going back to 2005	Moderate	Highly Probable	The Council has signed up to a class action defence by LGA appointed solicitors		Dependent upon the outcome of the negotiations/litigation currently being defended by lawyers instructed in group litigation
6	CAS Risk Owner Caroline O'Neill	Altogether Better for Children and Young People	School funding reforms & LACSEG reductions threaten viability of some centrally managed services for children and young people	Moderate	Highly Probable	Reviews of major areas of the service are underway.		Staffing structures reviewed to take account of reductions in 2013/14. However, this risk will persist for 2014/15, depending upon school spending decisions on SLA offers.
7	CAS Risk Owner Caroline O'Neill	Altogether Better for Children and Young People	If proposed funding reforms are implemented, the Council may have a major funding shortfall for Post 16 High Needs Placements	Moderate	Highly Probable	The Education Funding Agency (EFA) has agreed some additional funding but has been unable to quantify the amount. The eligibility threshold for Post-16 High Needs Learners will be reviewed.		The EFA has provided details of additional funding but there remains a substantial shortfall, equivalent to 75 students. Project Group established to review eligibility thresholds.

## **Appendix 4: List of all Strategic Risks (per Corporate Theme)**

Based on the **Net** risk assessment as at 30<sup>th</sup> June 2013, the following tables highlight the risks for each Corporate Theme.

### **Corporate Theme – Altogether Better Council**

<b>Ref</b>	<b>Service</b>	<b>Risk</b>
1	ACE	Risk that the Council does not respond to the Government's changes to Welfare Reform
2	ACE	Failure to substantially deliver the Community Buildings Strategy by March 2014, leading to continuation of current issues
3	Resources	Government ongoing funding cuts which now extend to at least 2017/ 18 will continue to have an increasing major impact on all Council services.
4	RED	Increased demand for Housing Solution Service beyond current staffing capacity due to changes in Government Welfare legislation.
5	RED	Adverse impact on Durham City Homes revenue, capacity and resources and tenants due to changes in Government legislation.
6	Resources	Medium Term Financial Plan forecasts relating to the impact of the Local Council Tax Support Scheme and the Business Rate Retention on the Council's budget prove to be detrimentally inaccurate.
7	Resources	Major Interruption to IT Service Delivery
8	NS	If Local Authority schools choose not to take our services, Building Services could see a loss of business if the academies do not use Council services and/or opt out of the SLA to procure outside agencies to carry out compliance, building and maintenance/ grounds maintenance works.
9	Resources	Industrial Action will adversely impact service delivery
10	Resources	Due to the amount of change occurring across the Council, the potential for fraud and error is increasing.
11	NS	Consistent health and safety policies, practices and procedures across the Neighbourhoods Service are not embedded across NS
12	ACE	Failure to consult with communities on major service & policy changes leading to legal challenge & delays in implementation
13	ACE	Failure to consider equality implications of decisions on communities leading to legal challenge and delays in implementation

Ref	Service	Risk
14	ACE	Serious breach of law regarding management of data/information, including an unauthorised release requiring notification to ICO
15	Resources	Potential claw-back from MMI (former insurers) under the Scheme of Arrangement (SOA)
16	Resources	Potential restitution of search fees going back to 2005
17	Resources	Slippage in delivery of the MTFP will require further savings, which may result in further service reductions/ job losses
18	NS	Contamination of material collected from kerbside from Alternate Weekly Collection scheme is having a negative impact on income (MTFP implications) and may reduce availability of recycling outlets.
19	Resources	National Non-Domestic Rates and Council Tax collection rates do not reach target set for 2013/ 14
20	Resources	Inconsistent approach to managing funding bids by Services could expose the Council to financial losses and reputational damage.

#### Altogether Better for Children and Young People

	Service	Risk
21	CAS	If proposed funding reforms are implemented, the Council may have a major funding shortfall for Post 16 High Needs Placements
22	CAS	School funding reforms & LACSEG reductions threaten viability of some centrally managed services for children and young people
23	CAS	Failure to meet escalating costs of external and high-cost placements effectively where highly-specialised provision is required
24	CAS	Children/families experience a lack of interface between services for children & adults as a result of failure to work together
25	RED	Employment Services for young people (18-24 year olds) are under resourced and unco-ordinated between service groups.

### Altogether Safer

	Service	Risk
26	CAS	Unauthorised encampment
27	CAS	A service failure of Adult Safeguarding leads to death or serious harm to a service user.
28	CAS	Failure to protect child from death or serious harm (where service failure is a factor or issue)
29	RED	Serious injury or loss of life due to Safeguarding failure (Transport Service)
30	NS	Lack of asbestos management plans in the former District Council Buildings.
31	RED	Disused unmaintained Coal Authority mine workings on DCC land may result in serious injury/financial claims against the Council
32	ACE	Failure to prepare for, respond to and recover from a major incident or interruption, and to provide essential services.
33	NS	Damage to Highways assets as a result of a severe weather event.
34	CAS	Violence and Aggression Staff

### Altogether Wealthier

	Service	Risk
35	NS	Coastal erosion and improved environment may be adversely impacted if a programme of repairs to Seaham North Pier isn't undertaken
36	RED	Private housing stock condition worsens with adverse implications for local economy, health & neighbourhood sustainability.
37	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.

### Altogether Greener

	Service	Risk
38	NS	Failure to identify and effectively regulate Contaminated Land

### Altogether Healthier

There are no strategic risks to achieving the objectives of the Altogether Healthier corporate theme.

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**Audit Committee**

**29 July 2013**



**2012/13 Final Outturn for General Fund  
and Housing Revenue Account**

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**Report of Don McLure, Corporate Director Resources**

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**Purpose of the Report**

- 1 The purpose of this report is to provide Audit Committee with details of the final outturn for both the General Fund and the Housing Revenue Account (HRA) for 2012/13 including the Annual Treasury Management Review.

**Background**

- 2 The 2012/13 draft Statement of Accounts includes a summary of the 2012/13 final outturn. The attached report presented to Cabinet on 17 July 2013 provides a more detailed review of the final outturn position for both revenue and capital.

**Recommendation and reasons**

- 3 Members are asked to note the 2012/13 final outturn position on the General Fund and HRA.

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**Contact: Hilary Appleton Tel: 03000 266239**

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**Appendix 1: Implications**

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**Finance –**

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

**Staffing -**

None

**Risk -**

None

**Equality and Diversity -**

None

**Accommodation -**

None

**Crime and Disorder -**

None

**Human Rights -**

None

**Consultation -**

None

**Procurement -**

None

**Disability Discrimination Act -**

None

**Legal Implications -**

None



## Cabinet

17 July 2013

### 2012/13 Final Outturn for General Fund and Housing Revenue Account



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#### Report of Corporate Management Team

**Don McLure, Corporate Director Resources**

**Councillor Alan Napier, Portfolio Holder for Finance**

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#### Purpose of the Report

- 1 To provide Cabinet with details of the Final Outturn for both the General Fund and the Housing Revenue Account (HRA) for 2012/13 including an Annual Treasury Management Review. The report will consider both Revenue and Capital.

#### Background

- 2 In setting the 2012/13 budget, the Council continued to face unprecedented levels of reductions in Government grants over the current Comprehensive Spending Review (CSR) period to 31 March 2015. The Council's Formula Grant for 2012/13 was £223.2m – a reduction of £17.1m when compared to 2011/12.
- 3 The Council agreed a net revenue budget of £432.58m for 2012/13. Factoring in inflation and other budget pressures required the delivery of £26.6m of savings in 2012/13 in order to deliver a balanced budget.
- 4 Forecast outturn figures based upon information as at 31 December 2012 were reported to Cabinet on 13 March 2013 and at that time it was forecast that there would be an increase in Cash Limit Reserves of £2.130m and an addition to the General Reserve of £2.779m.
- 5 The final outturn for 2012/13 is being determined as part of the production of the Statement of Accounts. During the process of finalising the Statement of Accounts, the Corporate Director Resources will be required to make a number of technical decisions in the best financial interests of the Council. Such decisions will be fully disclosed in the Statement of Accounts.

#### General Fund Outturn

- 6 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

7 The overall outturn for the Council is shown in Appendix 2 and that shows details of how the cash limit outturn for each Service Grouping is calculated. Two key elements have been excluded from the Service Grouping outturn to calculate the cash limit outturn as detailed below:

(i) Sums Outside the Cash Limit

Some expenditure and Income should 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).
- Exceptional expenditure pressures which were not accounted for in the service grouping base budget build and which are covered by contingencies or earmarked reserves held corporately e.g. Flooding and additional Winter Maintenance due to exceptional long periods of ice or snow and redundancy costs linked to MTFP savings proposals.

(ii) Use of or Contribution to Earmarked Reserves

Sums that Service Groupings have utilised or contributed to Earmarked Reserves, have been excluded from their outturn position in order to calculate cash limit position.

8 After taking into account the above exclusions, all Service Groupings have generated a cash limit underspend in 2012/13. The 2012/13 cash limit underspend for each Service Grouping is detailed below:

Service Grouping	Opening Balance as at 1 April 2012	Movement during 2012/13			Closing Balance as at 31 March 2013
		Use of reserve	Contribution to reserve	Transfer to / from Earmarked Reserves	
	£m	£m	£m	£m	£m
Assistant Chief Executive	-1.133	0.456	-0.488	0.000	-1.165
Children and Adults Services	-8.092	2.320	-3.960	0.000	-9.732
Neighbourhoods	-2.205	0.166	-0.419	0.147	-2.311
Regeneration and Economic Development Resources	-2.960	0.100	-0.556	0.000	-3.416
	-1.496	0.000	-1.625	-0.159	-3.280
<b>Total Cash Limit Reserve</b>	<b>-15.886</b>	<b>3.042</b>	<b>-7.048</b>	<b>-0.012</b>	<b>-19.904</b>

## Revenue Outturn

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

	£m	£m
Gross Expenditure		1,380.281
Less:		
Gross Income		-953.690
Net Expenditure		426.591
Financed by:		
Council Tax	201.788	
Council Tax Freeze Grant	5.045	
Revenue Support Grant	4.245	
Redistributed Non-Domestic Rates	219.007	
New Homes Bonus	2.344	
LACSEG (Academy Schools Adjustment)	2.145	
Net Contribution to Cash Limit Reserves	-4.018	
Net Contribution from / to (-) Earmarked Reserves:		
Schools and DSG	1.059	
Non-Schools	-2.486	
Net Contribution to the General Reserve	-2.538	
<b>Total Financing</b>		426.591

- 10 The final outturn position for the General Reserve is detailed below:

	£m
Opening Balance as at 1 April 2012	-21.874
Add:	
Net Contribution to the General Reserve in 2012/13	-2.538
<b>Closing General Reserve Balance as at 31 March 2013</b>	<b>-24.412</b>

- 11 The General Reserve balance carried forward is within the Council's General Reserves policy of retaining up to 7.5% of Net Revenue Expenditure (£35m). The position at 31 March 2013 represents 5.2% of 2013/14 Net Revenue Expenditure Budget.

- 12 The key reasons why the General Reserve has increased are detailed below:
- Local Authority Central Spend Equivalent Grant (LACSEG) income – a £2.145m refund was received from the Department for Education in respect of 2010/11 and 2011/12 LACSEG reductions;
  - Interest and Investment income - £2.668m more than budgeted;
  - Capital Receipt income from de-minimis asset sales - £0.324m more than budgeted, offset by:
    - Interest payable and similar charges - £2.828m more than budgeted
- 13 Appendix 4 details the use of Earmarked Reserves in 2012/13. The position at the end of the year is as follows:

	<b>Non-Schools</b>	<b>Schools and DSG</b>	<b>Cash Limits</b>	<b>TOTAL</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Opening Earmarked Reserve Balances as at 1 April 2012	-59.439	-25.100	-15.886	-100.425
Less/Plus Use of / contribution to Earmarked Reserves	-2.486	1.059	-4.018	-5.445
<b>Earmarked Reserve Balance as at 31 March 2013</b>	<b>-61.925</b>	<b>-24.041</b>	<b>-19.904</b>	<b>-105.870</b>

### Service Grouping Commentary

- 14 A summary from each Service Grouping Outturn follows. Detailed outturn reports will be provided to the relevant Overview and Scrutiny Committees.

### Assistant Chief Executive (ACE)

- 15 The 2012/13 outturn is a cash limit underspend of £0.488m. This takes into account adjustments for sums outside the cash limit such as redundancy costs which are met from the strategic reserves, year end capital entries and the use of / contributions to earmarked reserves.
- 16 The cash limit outturn position compares to the previously forecast position of a cash limit underspend of £0.348m.
- 17 The underspend is a managed position, reflecting the proactive management of activity by Heads of Service across ACE to remain within the cash limit. The main reasons for the outturn position are as follows:
- In line with corporate policy employees are budgeted at 97%. As a result of low vacancy levels within the service following restructures (driven by the requirement to meet MTFP savings targets) employee costs overspent by £21k representing 0.3% of the employees' budget.

The overspend in employees has been managed within the service by adjusting planned activity elsewhere within ACE to ensure this overspend is offset.

- The Premises, Transport and Supplies and Services areas of activity are under constant review by managers to minimise spending while still delivering a high level of service and as a result they delivered a £0.315m underspend.
- The Transfer Payments budget underspent by £65k as a result of effectively managing the allocation process of making grants to qualifying bodies.
- Income over recovered by £0.154m. This is primarily related to activity within Partnership and Community Engagement where managers have been able to identify and access additional funding to support additional activity within the AAP areas. Additionally support of the 'Police and Crime Panel' co-ordinated by the Overview and Scrutiny function and additional income achieved by the County Records Office also contributed to the over recovery.
- Each of the 14 area action partnerships (AAP) have an 'Area' budget to contribute to local projects of £0.120m in 2012/13. Combined with revenue budgets carried forward from previous years (related to committed expenditure on agreed projects) the total revenue budget across all 14 AAP's was £2.370m. £1.413m was expended in 2012/13, with the remaining £0.957m committed to projects in 2013/14 by 31 March 2013.
- Each elected member manages a 'Member's Neighbourhood budget' of £25k for priorities in their local AAP areas made up of £15k revenue budget and £10k capital. The revenue funding element has been reduced by £5k per member in 2013/14. Prior to 2012/13 all underspends on these budgets have been carried forward, however due to the Local Elections on 2 May 2013, only committed budgets have been carried forward into 2013/14.
- In 2012/13, the Members' Neighbourhood revenue budget, including sums carried forward from the previous year, totalled £3.495m. Expenditure in 2012/13 was £1.096m however, £2.393m was committed to schemes and members initiatives prior to 31 March 2013 and has therefore been carried forward.
- The Members Initiative Fund outturn was £0.316m which comprises the £0.252m budget for 2012/13 together with £64k of budget carried forward from 2011/12.

18 Further to the quarter 3 forecast of outturn report, the following items have been excluded from the outturn in arriving at the cash limit outturn position:

- £1.233m of capital charges over and above the budget;

- £17k in respect of repairs and maintenance which is managed centrally;
  - £0.422m in respect of central admin recharges;
  - £36k in respect of design service recharges which is managed centrally;
  - £45k in respect of customer services recharges.
  - £40k in respect of unfunded pensions costs;
  - £2k in respect of staff pay accrued for holidays.
- 19 A range of transfers to and from earmarked reserves held corporately and within ACE have been excluded in arriving at the cash limit outturn:
- £45k use of the MTFP Redundancy and Early Retirement Reserve connected with MTFP linked restructuring exercises;
  - £17k use of the Insurance Reserve to meet corporate insurance costs in excess of the budget;
  - £64k use of the Members Initiative Fund Reserve
  - £0.644m contribution to the AAP Members Reserve.
  - £1.348m contribution to the Members Neighbourhoods Reserve.
- 20 Taking the final outturn position into account, including items proposed to be treated as outside the cash limit, transfers to and from earmarked reserves, the Cash Limit Reserve to be carried forward for ACE is £1.165m.

### **Children and Adults Services (CAS)**

- 21 The 2012/13 outturn for Children and Adults Services (CAS) is a cash limit underspend of £3.960m. This takes into account adjustments for sums outside the cash limit such as redundancy costs which are met from strategic reserves, year-end capital accounting entries and use of / contributions to earmarked reserves.
- 22 The cash limit outturn position compares to the previously forecast position of a cash limit underspend of £2.890m.
- 23 The underspend is a managed position, reflecting the proactive management of activity by Heads of Service across CAS to remain within the cash limit. The main reasons accounting for the outturn position are as follows:
- Early achievement of a number of future year MTFP management and support service proposals, together with the careful management and control of vacancies and general budgets across the service has created a net underspend for the year from former Adults, Wellbeing and Health services of £2.92m.
  - Net spend on adult care packages was £3.2m below budget. This area of spend is closely monitored to assess the impact of demographic

changes. Savings have arisen from consistent and effective application of the existing eligibility criteria, reducing the level of care packages subsequently commissioned. The service is reviewing its approach to current savings in order to consider increasing the saving associated with consistent application of eligibility criteria. This will need to be carefully considered in light of transition cases, potential for ordinary residence claims and the potential for increased care package costs linked to older carers and general increases in demand.

- CAS managers have reviewed plans in respect of available one-off additional funding, which has created an in-year contribution to the cash limit of £1.12m. It is anticipated that this funding will be utilised in part to resource the work associated with the outcomes of the LGA efficiency review work linked to the transformation agenda in social care for children and adults.
- To assist in the management of the demographic pressures facing the service over the MTFP period, the service targeted a planned underspend for 2012/13, repeating the approach applied in previous years, and a further contribution of £4.5m to the reserve for demographic pressures/hyperinflation has been actioned during the year.
- Children's Care overspent by a net £1.24m. This service experienced an overspend on independent foster agency and fostering related allowances (£1.74m), which reflects the higher than budgeted number of referrals and caseloads, particularly in the first half of 2012/13, and overspends due to transport costs (£0.41m) to fund contact visits ordered by the courts, together with excess school travel costs and car allowances. Managed underspends on employees (£0.78m) and additional income from Health to fund placements (£0.25m) have helped to partially mitigate the position in year. A Looked After Children (LAC) Strategy is now in place and, together with base budget realignment within CAS and falling numbers of LAC in quarter 4, the 2013/14 budget position is considered more sustainable.
- Home to School and college transport has overspent by £0.62m in 2012/13. This is a timing issue linked to the rollout of the policy changes implemented from September 2012. Whilst the policy changes will deliver the MTFP requirements in totality, the profiling of the savings will not be in line with the original MTFP assumptions and base budget adjustments have been actioned in 2013/14.
- A number of savings across Achievement, Countywide and Early Intervention and Partnership Services (£2.35m) mainly relating to employee related spend through vacancies and the early achievement of MTFP savings and reduced supplies and services expenditure.
- There is also an improved position on bad debts of £0.7m mainly due to the clearing of outstanding debts relating to local Primary Care Trusts.

- 24 Further to the quarter 3 forecast outturn report, the following items have been excluded from the outturn in arriving at the cash limit at year end:
- £96k transfer to the Continuous Professional Development Reserve, relating to the trading account surplus at the year end.
  - a reserve of £0.942m has been created for Tackling Troubled Families which reflects the unspent grant in 2012/13 to fund planned commitments in 2013/14.
  - an amount of £1.589m has been added to the Social Care Reserve from available one-off balances to help support the transformation agenda
  - a number of reserves totaling £0.904m which were planned to be used in 2012/13 but which spend will now be incurred in 2013/14 have been carried forward at year end; and
  - MTFP related redundancy costs of £0.562m have been funded through the use of the corporate reserve set up for this purpose.
- 25 Taking the outturn position into account, the Cash Limit Reserve to be carried forward for Children and Adults Services is £9.732m. There is pre-committed planned use of this reserve of £5.041m across the MTFP 3 period.

### **Dedicated Schools Grant**

- 26 The Dedicated Schools Grant (DSG) allocation for 2012/13 was £342.05m, however due to schools converting to academies the budget was reduced by £64.107m in year to £277.943m. This includes both the delegated schools budget and the centrally retained DSG budget.
- 27 The total revised delegated budget for maintained schools was £257.7m and net expenditure for the year was £257.6m.
- 28 Where schools spent more than their delegated budgets, the overspend reduces their accumulated balance. Schools related balances were £19.418m at 31 March 2013, a reduction of £1.472m from the previous year. There has been a reluctance to commit funds due to the freeze on inflation within school budgets and until the impact of the School Funding Reforms, particularly the National Funding Formula from April 2015, becomes clearer.
- 29 The level of school balances is being closely monitored and managed, particularly those schools with a deficit balance and robust arrangements have been put in to place to monitor these in parallel with budget plans given the additional risks from schools that could potentially become a sponsored academy.
- 30 In 2013/14 and beyond there will be greater scrutiny and challenge being put to schools budget plans to identify and address areas of concern and risk to the Council. Whilst the vast majority of schools are well managed and financially sound, termly updates will now be required from all maintained schools on their projections for the year, with reports also provided to School Governors. The Council will work constructively with schools to address any



concerns and where appropriate take action to ensure the risk to the School and the Council is mitigated.

- 31 At 31 March 2013 there are 15 schools with a deficit balance carried forward totalling £0.46m, 25 schools holding a balance less than 2.5% of their overall funding and 220 schools with balances of more than 2.5% of their overall funding.
- 32 The pressure areas for the centrally controlled element of the DSG in 2012/13 have been within Education Other than at School, placements in independent special schools and school redundancy costs. This has been offset by underspends within the Access and Inclusion, Learning Support Service and capitalised repair and maintenance.
- 33 The overall outturn position for the centrally retained element of the DSG shows an underspend of £0.413m, which has been carried forward to support spend and budget pressures in 2013/14.

### **Neighbourhood Services**

- 34 The 2012/13 outturn for Neighbourhood Services is a cash limit underspend of £0.419m. This takes into account adjustments for sums outside the cash limit such as redundancy costs which are met from an earmarked reserve, year-end capital accounting entries and use of / contributions to earmarked reserves.
- 35 The cash limit outturn position compares to the previously forecast position of a cash limit overspend of £0.142m.
- 36 The underspend is a managed position, reflecting the proactive management of activity by Heads of Service across Neighbourhoods to bring spend within the cash limit, having previously forecast an overspend position. The main reasons accounting for the outturn position are as follows:
  - There was a shortfall of £1.4m in the surplus generated within Highways Services. This was primarily due to reduced levels of workload across the year. Progress is currently being made to downsize the workforce in order to align it with a more sustainable level of income for 2013/14.
  - There was an overspend of £0.3m within Direct Services due a fall in the projected income from the sale of dry recyclates due to falling market prices.
  - In order to mitigate against previously identified overspends Neighbourhoods Management Team instigated an exercise to further identify areas of the budget where costs could be saved on a one-off basis within the service, and as a result an underspend of approximately £0.700m was achieved on supplies and services across all areas of Neighbourhood Services.
  - There was also an underspend of £1.0m within Strategic Waste, associated with savings from reduced levels of waste being generated,

principally due to the economic climate, and the introduction of Alternate Weekly Collections, which increased diversion from landfill by more than was forecast.

- Finally, there was an underspend of approximately £0.400m within the service associated with both the Environment, Health and Consumer Protection service and Projects and Business Services where a number of planned MTFP savings from 2013/14 have been achieved early.

37 Further to the quarter 3 forecast outturn report, the following items have been excluded from the outturn in arriving at the cash limit:

- An additional overspend on Winter Maintenance activities of £0.311m
- Other sums outside the cash limit include costs in respect of capital accounting entries, and central administration recharges.

38 In addition, the Service is making a net contribution to earmarked reserves of £0.545m:

- £0.424m relates to a contribution to earmarked reserves in respect of Culture and Sport,
- £0.698m relates to a contribution to earmarked reserves in respect of Highways and Waste Disposal,
- £1.609m relates to a contribution to earmarked reserves in respect of Buildings and Grounds Maintenance, and Street Cleaning,
- £0.294m relates to a contribution to earmarked reserves for Environmental Health, and
- £0.110m relates to a contribution to earmarked reserves for Customer Services.
- Neighbourhoods have utilised £0.404m in respect of additional ER/VR costs, and £2.186m for additional Insurance charges. Both these sums are funded corporately from earmarked reserves held centrally

39 Taking the outturn position into account, the Cash Limit Reserve to be carried forward for Neighbourhood Services is £2.311m.

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

40 The 2012/13 outturn for Regeneration and Economic Development is a cash limit underspend of £0.556m. This takes into account adjustments for sums outside the cash limit such as redundancy costs which are met from an earmarked reserve, year end capital accounting entries and use of contributions to earmarked reserves.

41 The cash limit outturn position compares to the previously forecast position of a cash limit underspend of £0.615m.

- 42 The underspend is a managed position, reflecting the proactive management of activity by Heads of Service across RED to remain within the cash limit. The main reasons accounting for the outturn position is as follows:
- Strategy Programmes and Performance - £0.121m saving due to the freezing of vacant posts and other general efficiency savings on Supplies and Services.
  - Economic Development and Housing - £0.117m underspend primarily due to savings on employee costs resulting from vacant posts, maternity leave and other general efficiency savings.
  - Planning and Assets - £0.490m underspend which is broken down into a £0.526m underspend in the Planning service and a £0.036m overspend on Assets. Building control income was lower than budget by £0.295m although planning fee income was higher and is offsetting this budget pressure. The underspend in the Planning Service results from vacant posts and other efficiency savings on Transport, Supplies and Services.
  - There were income pressures within the Assets Service, mainly from Newgate Street in Bishop Auckland, the Brackenhill Centre, Peterlee and Millenium Square in Durham City where rental income targets were not achieved.
  - Transport - £0.201m overspend which is primarily due to the non-realisation of budgeted vacancy savings and additional costs incurred for agency staff to cover for sickness on statutory duties. In addition there was a shortfall in anticipated income resulting from a delay in the implementation of Civil Parking in the South and loss of car parking income due to bad weather in the latter part of the financial year.
  - Central Costs - £29k underspend due to a rebate from Commensura, who manage our agency recruitment process, plus other general efficiency savings
- 43 Further to the quarter 3 forecast outturn report, the following items have been excluded from the outturn in arriving at the cash limit:
- £1.295m – relates to contributions to and from earmarked reserves and cash limits to support specific projects in 2013/14
  - -£3.113m – relates to a range of adjustments associated with capital charges, centralised repairs and maintenance, central administration and concessionary fares.
- 44 Taking the outturn position into account, the Cash Limit Reserve to be carried forward for Regeneration and Economic Development is £3.416m.

## **Resources**

- 45 The 2012/13 outturn for Resources is a cash limit underspend of £1.625m. This takes into account adjustments for sums outside the cash limit such as

redundancy costs which are met from the strategic reserves, year end capital accounting entries and use of / contributions to earmarked reserves.

46 The cash limit outturn position compares to the previously forecast position of a cash limit underspend of £1.361m.

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

- Employee costs underspent by £1.639m, which is primarily as a result of the planned early achievement of 2013/14 MTFP saving requirements linked to the unitisation of Finance and Human Resources. Proactive management of vacancies within Legal and Democratic Services, Internal Audit and ICT is intended to minimise the cost and disruption of restructures planned for 2013/14. The restructures linked to unitisation achieved the 2013/14 MTFP savings requirements and after accounting for transition contributed significantly to the underspend in 2012/13.
- Premises costs are marginally underspent by £0.027m. The underspend is due mainly to reduced spend on general repairs and maintenance.
- Transport costs underspent by £0.267m. This is due to lower than anticipated spend on car allowances across the Service.
- Supplies and Services costs overspent by £0.920m. Contributing to the overspend are costs in Finance associated with the introduction of Hyperion and Business Intelligence budgeting tools and the cost of outsourced work packages in respect of the Housing Benefits Service.
- Central Support and Capital is overspent by £0.209m. This is as a result of funding capital expenditure on ICT data centres, vehicles and printing equipment.
- Income is over recovered by £0.808m. This is primarily due to an increase in court fee income within the Council Tax and Business Rates Service of £0.427m. There was also an over recovery of income in Legal Services, Corporate Finance and Financial Services.

48 Further to the quarter 3 forecast of outturn report, the following items have been excluded from the the outturn in arriving at cash limit:

- £1.242m of capital charges over and above the budget;
- £5k in respect of repairs and maintenance which is managed centrally;
- £1.569m in respect of central admin recharges;
- £5k in respect of corporate and democratic core recharges;
- £9k in respect of customer services recharges;
- £0.202m of costs in respect of the Coroners Service;
- £5k in respect of the single persons discount review in Revenues and Benefits;

- £0.204m of the bad debt provision charge relating to expenditure incurred on the building in Newgate Street Bishop Auckland (the “Mothercare Building”);
  - £2k for the provision of backdating successful job evaluation appeals.
  - £0.324m for capital receipts less than £10k;
  - £18k in respect of staff pay for accrued holidays.
  - £22k in respect of unfunded pensions.
  - £6k in respect of equal pay provision.
- 49 A range of transfers to and from earmarked reserves held corporately and within Resources have been excluded the outturn in arriving at the cash limit position:
- £31k use of the MTFP Redundancy and Early Retirement Reserve connected with MTFP linked restructuring exercises;
  - £54k use of the Equal Pay Reserve to fund the implementation of the Job Evaluation exercise;
  - £1.654m use of the Insurance Reserve to meet the costs of insurance;
  - £0.100m contribution to the Revenues and Benefits CIVICA Development Reserve;
  - A further contribution of £0.321m to the Corporate Procurement Reserve;
  - A contribution of £0.479m to the Housing Benefit Subsidy Reserve;
  - £91k contribution to the Discretionary Housing Payments Reserve;
  - £0.350m contribution to the Oracle Development Reserve to pay for the implementation of Oracle Release 12;
  - £80k to the ICT Mobile Infrastructure Reserve;
  - £0.400m to the ICT Trading Account Reserve.
  - £16k contribution to the DWP Welfare Assistance Reserve.
- 50 Taking the final outturn position into account, the Cash Limit Reserve to be carried forward for Resources is £3.280m.

### **Resources - Centrally Allocated Costs**

- 51 The 2012/13 outturn for Resources – Centrally Allocated Costs is an underspend of £80k. The outturn has been adjusted to take into account the removal of sums outside the cash limit in respect of Central Administration recharges.
- 52 The outturn position compares to the previously forecast position of an underspend of £64k.
- 53 The main reasons accounting for the final outturn position are as follows:

- Supplies and Services underspent by £0.106m primarily due to an underspend on audit fees.
  - Income is under recovered by £26k from the VAT sharing arrangement with North Star Housing Group.
- 54 Further to the quarter 3 forecast of outturn report, the following items have been excluded from the cash limit:
- £1.561m in respect of central admin recharges.

## **Central Budgets**

### **Interest Payable and Similar Charges**

- 55 The Revenue Summary at Appendix 2 shows a £2.828m overspend at year end against this heading. In-year savings of £9.385m, due to lower than forecast interest rates on loans and delayed borrowing decisions due to higher levels of cash balances than forecast, have been used to offset the cost of borrowing utilised to support the capital programme.

### **Interest and Investment Income**

- 56 There has been an overachievement of investment income of £2.668m which is due to the higher than anticipated levels of cash balances held during 2012/13. This is due in the main to lower than expected use of reserves and re-profiling of capital expenditure originally anticipated to be expended in 2012/13. In addition, £0.299m in respect of the interest has been accounted for on the loan to Newcastle International Airport Limited (NIAL) and £0.230m received for granting permission to Copenhagen Airport for the sale of their shares in the Airport.

### **Local Authority Central Spend Equivalent Grant (LACSEG) Fund**

- 57 Following a successful legal challenge, the Council received an amount of £0.646m in 2012/13 in respect of the Government's top slice of the LACSEG grant to fund new academy schools in 2011/12 which was proven to have been 'illegal'. This payment will be used to offset any redundancy costs associated with downsizing of 'centrally managed' Behavioural Support Services, following the decision by the Schools Forum on 15 October 2012 not to 'de-delegate' Dedicated School Grant to fund these pan-county strategic services from 1 April 2013. At present the payment has been added to the Council's general reserves and future reports will detail the redundancy costs as they become known.
- 58 In addition, a further £1.499m was received in May 2013 relating to the year ended 31 March 2013 in respect of the Government's top slice of the LACSEG grant in 2012/13.

## **Durham County Waste Management Company**

- 59 The Durham County Waste Management Company (and its subsidiary Premier Waste Management) entered into a Company Voluntary Arrangement (CVA) on 12 February 2013 as part of a managed liquidation of the company from 1 June 2013. This follows the Council's decision to re-let its Waste Disposal and Treatment contracts from that date.
- 60 The company was unable to submit a bid for the new contract and, having explored a range of options, resolved that it was in the best interest of its creditors to wind up the company.
- 61 As part of agreeing the CVA, the Council made a number of financial concessions, which were necessary to ensure continuity of service provision (access to Transfer Stations; Household Waste Recycling Centres etc.) to 31 May 2013. As part of these concessions, the Council has waived its right to a claim against the liquidator for a dividend distribution linked to an outstanding loan obligation for the funding of one of the now demolished anaerobic digesters. The balance on the loan that has been written off is £0.797m.
- 62 The Council's concession was fundamental to the successful delivery of the CVA and continuity of service was maintained. The new waste Contract commenced 1 June 2013 and will deliver significant savings for the Council going forward.

## **2012/13 Capital Outturn**

### **Capital**

#### **Background**

- 63 The General Fund (GF) capital budget for 2012/13 approved by Council in February 2012 was £197.436m. Spend originally planned in the 2011/12 capital programme was re-profiled into 2012/13. This amounted to £32.214m and was approved by Cabinet on 11 July 2012.
- 64 During the year, the Capital Member Officer Working Group (MOWG) has continually reviewed progress in delivering the capital programme to take into account changes in planning and delivery timescales and analysis of changes in demands on resources. This included consideration of requests for re-profiling at year end once the outturn position was known. The recommendations following the MOWG review are included in this report.
- 65 The following table summarises the original budget and revisions reported through and agreed by MOWG, which were approved by Cabinet on 6 February 2013 as well as the outturn position for each service. The table also details the request for budget to be carried forward, which was approved at the Member Officers Working Group held on 14 May 2013.

## General Fund Capital Programme 2012/13

Service	Revised 2012/13 Budget	2012/13 Outturn	Structural Maintenance outturn adjustment	Other amendments to Service Outturn	Total Revised outturn	Variance		Budget carried forward
	£m	£m	£m	£m	£m	£m	%	£m
Assistant Chief Executives	1.867	1.422	-0.043	0.122	1.501	-0.366	-19.6	0.367
Children and Adults Services	70.041	57.248	-1.559	-	55.689	-14.352	-20.5	14.989
Neighbourhoods	26.403	24.572	-3.666	-0.080	20.826	-5.577	-21.1	5.673
Regeneration and Economic Development	40.521	30.997	5.272	-0.042	36.227	-4.294	-10.6	4.996
Resources	4.582	2.847	-0.004	-	2.843	-1.739	-38.0	1.916
Other	9.540	-	-	-	-	-9.540	-	-
<b>Total</b>	<b>152.954</b>	<b>117.086</b>	<b>0.000</b>	<b>0.000</b>	<b>117.086</b>	<b>-35.868</b>	<b>-23.5</b>	<b>27.941</b>

- 66 In addition to underspends against schemes that are being requested to carry forward into 2013/14, the variances in the table above also include overspends that are due to accelerated spending, where 2013/14 budgets will be adjusted accordingly, and also overspends that are being financed from additional funding that was received after the revised capital budget was approved by the Council in February 2012.
- 67 The Capital Programme is financed via various funding sources including grants, capital receipts; revenue contributions; contributions from reserves and borrowing. The financing of the 2012/13 Outturn is detailed in the table below.

### Financing – General Fund Capital Programme 2012/13

Financed by	2012/13 Outturn
	£m
Grants	63.354
Reserves	2.743
Direct Revenue Financing	
DSG	1.992
Other	11.150
Capital Receipts	8.154
Borrowing	29.693
<b>Total</b>	<b>117.086</b>

### Service Grouping Commentary

- 68 The Capital Member Officer Working Group has approved the outturn against the agreed programme on a scheme by scheme basis for each service grouping. Reasons for any slippage and necessary reprofiling have been thoroughly challenged. A summary of the Capital Outturn for each Service Grouping is shown below:



### **Assistant Chief Executive (ACE)**

- 69 The 2012/13 outturn capital spend for ACE was £1.501m, against the revised budget of £1.867m, a £0.366m underspend for the year.
- 70 Included in the capital outturn position is overspending resulting from the accelerated delivery of schemes that span the 2012/13 - 2013/14 financial years. A £0.010m overspend on Community Buildings in 2012/13 is a profiling issue and has been managed by reducing the 2013/14 budget.
- 71 Planned and budgeted capital expenditure of £0.377m will be reprofiled into 2013/14 and budgets adjusted in year accordingly.

### **Children and Adults Services (CAS)**

- 72 The 2012/13 outturn capital spend for Children and Adults Services was £55.689m, against a revised budget of £70.041m, a £14.352m underspend for the year.
- 73 Included in the capital outturn position is overspending on schemes financed by additional capital grants and contributions that were not included in the budget of £2.213m and accelerated spend on 2013/14 schemes that have been brought forward and commenced in quarter 4 of £1.482m. The 2013/14 capital budgets will be adjusted in quarter 1 2013/14 to reflect this.
- 74 Planned and budgeted capital expenditure of £16.470m will be reprofiled into 2013/14 and budgets adjusted accordingly.

### **Neighbourhood Services**

- 75 The 2012/13 outturn capital spend for Neighbourhood Services was £20.826m, against a revised budget of £26.403m, a £5.577m underspend for the year.
- 76 Included in the capital outturn position is overspending on schemes financed by additional capital grants and contributions that were not included in the budget of £0.670m and accelerated spend of £79k that have been financed by reducing 2013/14 budget.
- 77 Planned and budgeted capital expenditure of £5.752m will be re-profiled into 2013/14 and budgets adjusted in year accordingly.
- 78 In addition, unspent Neighbourhood's capital budgets of £0.925m were released back to capital contingencies.

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

- 79 The 2012/13 outturn capital spend for Regeneration and Economic Development was £36.227m, against a quarter 3 revised budget of £40.522m a £4.295m underspend for the year.
- 80 The RED capital budget was revised at quarter 3 to include £9.385m for the refinancing of the Newcastle International Airport Limited loan which was

approved by Cabinet on 13 March 2013. Further information has recently been received and following a review of accounting regulations, the refinancing of the loan is no longer to be classified as capital expenditure and is now being accounted for as a long term debtor, which means the revised budget is no longer required. For presentation purposes this budget is shown in 'Other' on the table under paragraph 65.

- 81 Included in the capital outturn position is overspending on schemes financed by additional capital grants and contributions that were not included in the budget of £0.700m and accelerated spend on 2013/14 schemes that have been brought forward and commenced in quarter 4 of £0.954m. The 2013/14 capital budgets will be adjusted in quarter 1 2013/14 to reflect this.
- 82 Planned and budgeted capital expenditure of £5.949m will be re-profiled into 2013/14 and budgets adjusted in year accordingly.

### **Resources**

- 83 The 2012/13 outturn capital spend for Resources was £2.843m, against a revised budget of £4.582m, a £1.739m underspend for the year.
- 84 Included in the capital outturn position is overspending on schemes financed by additional capital grants and contributions that were not included in the budget of £0.178m and accelerated spend on 2013/14 schemes that have been brought forward and commenced in quarter 4 of £76k. The 2013/14 capital budgets will be adjusted in quarter 1 2013/14 to reflect this.
- 85 Planned and budgeted capital expenditure of £1.992m will be reprofiled into 2013/14 and budgets adjusted in year accordingly.

### **Housing Revenue Account (HRA) – 2012/13 Revenue and Capital Outturn**

#### **Revenue Outturn**

- 86 Appendix 5 details the outturn position on the HRA showing the actual position compared with the original budget. In summary it identifies a surplus outturn position on the revenue account of £24k alongside a balance on the general HRA reserve of £7.155m. The following table summarises the position:

Housing Revenue Account	2012/13 Budget	2012/13 Outturn	Variance
	£m	£m	£m
<b>Income</b>			
Dwelling Rents	-60.115	-60.173	-0.058
Other Income	-1.350	-1.546	-0.196
Interest and Investment Income	-0.114	-0.266	-0.152
<b>Total Income</b>	<b>-61.579</b>	<b>-61.985</b>	<b>-0.406</b>
<b>Expenditure</b>			
ALMO Fees	17.266	17.266	0
Repairs, Supervision and Management Costs	11.975	11.964	-0.011
Negative Subsidy Payment to CLG	0	-0.094	-0.094
Depreciation	15.510	7.851	-7.659
Interest Payable	12.234	11.303	-0.931
Revenue Contribution to Capital Programme	4.570	13.671	9.101
<b>Total Expenditure</b>	<b>61.555</b>	<b>61.961</b>	<b>0.406</b>
<b>2012/13 Surplus transferred to balances</b>	<b>-0.024</b>	<b>-0.024</b>	<b>0</b>

87 The HRA outturn showed a surplus position on the revenue account alongside a balance on the general HRA reserve of **£7.155m**. The main variances detailed in Appendix 5, are explained below:

- a) **Dwelling Rents £58k additional income** – overall rental income was in line with the budget with a slightly lower than anticipated void rate;
- b) **Charges for Services and Facilities £22k additional income** – primarily resulting from the enhanced management of Communal Halls within the Durham City area;
- c) **Contributions towards Expenditure £0.163m additional income** – resulting from additional water rates collection commission, furniture pack administration service charge and right to buy administration allowance;
- d) **Repairs and Maintenance £0.536m overspend** – arising from an improved increased cost per void as a result of the implementation of the lettable standard scheme. An overspend is being incurred as a result of problems encountered with specific gas boilers purchased prior to LGR, which are now out of warranty. Adverse weather conditions also resulted in additional repairs being carried out in 2012/13;
- e) **Supervision and Management £36k underspend** – a small underspend in overall terms. This is partly off-set by an overspend on customer services recharges of £100k and additional expenditure on the housing stock options process;

- f) **HRA Subsidy £94k underspend** – relates to a refund due to the Council resulting from Housing Subsidy payments made to the CLG in 2011/12;
- g) **Depreciation £7.659m underspend** – under HRA Self Financing Local Authorities can no longer use the Major Repairs Allowance as proxy for depreciation. Underspends on depreciation reduce the finance available to finance the HRA Capital Programme and as such an increased revenue contribution is required;
- h) **Bad Debt Provision £0.514m underspend** – this is due to lower than anticipated rent arrears at the year end;
- i) **Interest Payments £0.931m underspend** – this results from a lower interest rate achieved and lower overall level of debt;
- j) **Revenue Support to Capital £9.101m overspend** – this is the balancing item on the HRA, which identifies the potential resources available to support the capital programme and reduce reliance on borrowing.
- k) **Interest and Investment Income £0.152m additional income** – this results from an increase in the value of Investment Properties held in the HRA (such as shops).

88 The final position on HRA general and earmarked reserves as at 31 March 2013 is as follows:

- Stock Options Reserve - £0.500m
- Durham City Homes Improvement Plan - £0.650m
- HRA Reserve - £7.154m

### Capital Outturn

89 The Housing Revenue Account (HRA) capital budget was set at £44.854m with re-profiling of £1.465m from 2011/12 to 2012/13 agreed by Cabinet on 11 July 2012.

90 The following table summarises the original budget and revisions reported through and agreed by MOWG, which were approved by Cabinet on 6 February 2013, as well as the outturn position for the HRA Capital Programme. The table also details the request for budget to be carried forward which was approved at the Member Officers Working Group held on 14 May 2013.

## Housing Revenue Account Capital Programme 2012/13

Service	Revised 2012/13 Budget	2012/13 Outturn	Variance		Budget carried forward
	£m	£m	£m	%	£m
HRA	45.474	43.919	-1.555	-3.4	0.958
<b>Total</b>	<b>45.474</b>	<b>43.919</b>	<b>-1.555</b>	<b>-3.4</b>	<b>0.958</b>

- 91 The following table summarises the recommended financing of the HRA capital programme spend in 2012/13:

### Financing – Housing Revenue Account Capital Programme 2012/13

Financed by	2012/13 Outturn
Grants	13.088
Reserves	2.000
Direct Revenue Financing	13.671
Capital Receipts	0.960
Major Repairs Allowance	7.692
Borrowing	6.508
<b>Total</b>	<b>43.919</b>

- 92 The 2012/13 outturn capital expenditure was £43.919m against a revised budget of £45.474m, a £1.555m underspend for the year.
- 93 The majority of the underspend (£0.930m) relates to underspending in Durham City Homes, which has achieved significant procurement efficiencies in year. This underspend has been re-profiled into 2013/14, to enable the improvement of dwellings in the Durham City area to be continued.
- 94 The HRA programme has been enhanced by £13m of Homes and Communities Agency Decent Homes Backlog Grant funding, with £12m being used in the East Durham Homes area.
- 95 During the year, 3,439 properties were brought up to the Decent Homes standard.

## Annual Treasury Management Review

### Executive Summary

- 96 Treasury Management is the management of the Council's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities, and the pursuit of optimum performance consistent with those risks. It is concerned with how the Council manages its cash resources and its scope covers borrowing, investment and hedging instruments and techniques. Risk is inherent in all treasury management activities and it is necessary to balance risk against return on investment.
- 97 2012/13 continued the challenging investment environment of previous years, namely low investment returns and continuing heightened levels of counterparty risk. The original expectation for 2012/13 was that Bank Rate would not rise until quarter 4 of 2014. However, economic growth in the UK was disappointing during the year due to the UK austerity programme, weak consumer confidence and spending, a lack of rebalancing of the UK economy to exporting and weak growth in our biggest export market - the European Union (EU).
- 98 The UK Coalition Government maintained its tight fiscal policy stance against a background of warnings from two credit rating agencies that the UK could lose its AAA credit rating. Moody's followed up this warning by actually downgrading the rating to AA+ in February 2013 and Fitch then placed their rating on negative watch, after the Budget statement in March 2013. Key to retaining the AAA rating from Fitch and Standard and Poors will be a return to strong economic growth in order to reduce the national debt burden to a sustainable level, within a reasonable timeframe. Weak UK growth resulted in the Monetary Policy Committee increasing quantitative easing by £50bn in July to a total of £375bn. Bank Rate therefore ended the year unchanged at 0.5% while CPI inflation fell from 3% at the start of the year to end at 2.8% in March, with a fall back to below 2% pushed back to quarter 1 of 2016.
- 99 The EU sovereign debt crisis was an ongoing saga during the year with first Greece and then Cyprus experiencing crises which were met with EU 'bailouts' after difficult and fraught negotiations.
- 100 Gilt yields oscillated during the year as events in the ongoing Eurozone debt crisis ebbed and flowed, causing corresponding fluctuations in safe haven flows into / out of UK gilts. This, together with a further £50bn of quantitative easing (QE) in July and widely expected further QE still to come, combined to keep Public Works Loan Board (PWL) rates depressed for much of the year at historically very low levels.
- 101 The Government's 'Funding for Lending' Scheme, announced in July 2012, resulted in a flood of cheap credit being made available to banks and this has resulted in money market investment rates falling sharply in the second half of the year. However, perceptions of counterparty risk have improved after the European Central Bank (ECB) statement in July that it would do "whatever it takes" to support struggling Eurozone countries. This has resulted in some return of confidence to move away from only very short term investing.

## Treasury Position

102 The Treasury position at the beginning and end of 2012/13 is shown in the table below:

	31-Mar-12	Rate/ Return	Average Life	31-Mar-13	Rate/ Return	Average Life
	£m	%	yrs	£m	%	yrs
<b>Total Debt</b>	418	5.03		440	4.61	
<b>Capital Financing Requirement (CFR)</b>	579			605		
<b>Over / (-) Under Borrowing</b>	-161			-165		
<b>Total Investments</b>	144	1.1	0.3	112	1.72	0.3
<b>Net Debt</b>	274			328		

103 Investments decreased by £32m across the period, reflecting an outflow of cash from the Council, however by identifying core cash levels that could be invested in longer dated deposits it was possible to improve the average rate earned on those balances by 0.62%.

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

105 In addition, another £30m of loans was taken from the Public Works Loans Board (PWLB) during the year. This enabled the Council to take advantage of historically low interest rates and to maintain its under-borrowed position at a manageable level.

## Capital Expenditure and Financing

106 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.

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

	2011/12 Actual	2012/13 Estimate	2012/13 Actual
	£m	£m	£m
Non-HRA Capital Expenditure	143.77	152.96	111.99
Non-HRA PFI and Finance Lease	2.75	-	5.09
HRA Capital Expenditure	41.73	45.47	43.92
HRA Self-Financing	52.89	-	-
<b>Total capital expenditure</b>	<b>241.14</b>	<b>198.43</b>	<b>161.00</b>
Resourced by:			
Capital receipts	9.46	20.34	9.11
Capital grants	95.42	78.19	76.44
Capital reserves	11.70	18.04	7.69
Revenue	15.63	18.68	31.56
<b>Unfinanced capital expenditure</b>	<b>108.93</b>	<b>63.18</b>	<b>36.20</b>

### Overall Borrowing Need

- 108 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 2012/13 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.
- 109 Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the Corporate Director Resources' treasury management group organises the Council's cash position to ensure sufficient cash is available to meet the capital plans and cash flow requirements.
- 110 This may be sourced through borrowing from external bodies (such as the Government, through the PWLB or the money markets), or utilising temporary cash resources within the Council.
- 111 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).
- 112 The Council's 2012/13 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 2012/13 on 22 February 2012.



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

<b>CFR</b>	<b>31-Mar-12 Actual</b>	<b>31-Mar-13 Estimate</b>	<b>31-Mar-13 Actual</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Opening balance	484.646	579.135	579.135
Add unfinanced capital	108.943	64.504	41.293
expenditure (as above)			
Less MRP/VRP	-14.454	-14.995	-15.600
<b>Closing balance</b>	<b>579.135</b>	<b>628.645</b>	<b>604.828</b>

- 114 The borrowing activity is constrained by prudential indicators for net borrowing and the CFR, and by the authorised limit. In order to ensure that borrowing levels are prudent over the medium term the Council's external borrowing, net of investments, must only be for a capital purpose. This essentially means that the Council is not borrowing to support revenue expenditure.
- 115 The authorised limit is the "affordable borrowing limit" required by section 3 of the Local Government Act 2003. The Council does not have the power to borrow above this level.
- 116 The table below demonstrates that during 2012/13 the Council has maintained gross borrowing within its authorised limit.
- 117 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.

	<b>2012/13 £m</b>
Authorised limit	682.000
Operational boundary	629.000
Average gross borrowing position	435.703

### **Investment Strategy**

- 118 The prime objective of the Council's Investment Strategy is to ensure prudent investment of surplus funds. The Council's investment priorities are therefore the security of capital, liquidity of investments and, within those objectives, to secure optimum performance. The Council has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code").
- 119 Therefore the primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration.

## Selection Criteria

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

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

	<b>Fitch</b>	<b>Moody’s</b>	<b>Standard &amp; Poors</b>
Short Term	F1	P1	A-1
Long Term	A	A2	A
Viability/Financial Strength	bb-	C1	-
Support	3	-	-

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

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

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

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

6. Money Market Funds.

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

8. Local authorities and parish councils.

## Time and Monetary Limits applying to Investments

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

	Long Term Rating	Money Limit	Time Limit
Banks 1 category high quality	AA	£50m	1 year
Banks 1 category medium quality	A	£25m	3 months
Banks 2 category – part-nationalised	n/a	£60m	1 year
Banks 3 category – Council's banker	A-	£25m	3 months
DMADF/Treasury Bills	AAA	unlimited	6 months
Local Authorities	n/a	£10m each	1 year
Money Market Funds	AAA	£10m each (overall £50m)	liquid

### Amendments to Limits

- 122 In June 2012 the Corporate Director Resources, in consultation with the Cabinet Portfolio Holder for Resources, has increased the monetary limit for the 'Banks 2' category from £50m to £60m.
- 123 With widespread and multiple downgrades of the ratings of many banks and sovereigns, continued Eurozone concerns, and the significant funding issues still faced by many financial institutions access to high quality counterparties is becoming restricted and this change will enable the Council to place additional funds with part-nationalised UK banks.
- 124 In order to provide more flexibility to act in such circumstances, the power to amend counterparty monetary and time limits has been delegated to the Corporate Director Resources. Any changes to the Annual Strategy made during the financial year are reported to County Council in either the Mid-Year Review or the Final Outturn Report.

## Icelandic Deposits Update

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

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

- 126 All monies within these institutions are currently subject to the respective administration and receivership processes. The amounts and timing of payments to depositors such as the authority will be determined by the administrators / receivers.
- 127 The current situation with regards to recovery of the sums deposited varies between each institution.

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

- 128 The current position on actual payments received and estimated future payments is as shown in the table. The Council has decided to recognise an impairment based on it recovering 85.25p in the £ compared to 83.5p in the £ at 31 March 2012.

<b>Date</b>	<b>Repayment</b>
	<b>%</b>
Received to 31 March 2013	76.00
Received in June 2013	3.00
January 2014	3.25
January 2015	3.00

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

### **Landsbanki**

- 130 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.
- 131 The Icelandic Supreme Court's decision to grant UK local authorities priority status was followed by the winding up board making a distribution to creditors

in a basket of currencies in February 2012. Further distributions were made in May and October 2012.

- 132 An element of the distribution is in Icelandic Kroner which has been placed in an escrow account in Iceland and is earning interest of 4.17% as at 31 March 2013. This element of the distribution has been retained in Iceland due to currency controls currently operating in Iceland and as a result is subject to exchange rate risk, over which the Council has no control.
- 133 The current position on estimated future payouts is as shown in the table below and the Council has used these estimates to calculate the impairment based on recovering 100p in the £.

<b>Date</b>	<b>Repayment</b>
	%
Received to 31 March 2013	49.65
December 2013	7.5
December 2014	7.5
December 2015	7.5
December 2016	7.5
December 2017	7.5
December 2018	7.5
December 2019	5.35

- 134 Recoveries are expressed as a percentage of the authority's claim in the administration, which it is expected may validly include interest accrued up to the deposit maturity date.

#### **Glitnir Bank hf**

- 135 Glitnir Bank hf is an Icelandic entity. Following steps taken by the Icelandic Government in early October 2008 its domestic assets and liabilities were transferred to a new bank (new Glitnir) with the management of the affairs of Old Glitnir being placed in the hands of a resolution committee.
- 136 The Icelandic Supreme Court's decision to grant UK local authorities priority status was followed by the winding up board made a distribution to creditors in a basket of currencies in March 2012.
- 137 An element of the distribution is in Icelandic Kroner which has been placed in an escrow account in Iceland and is earning interest of 3.4% up to 22 June 2012 and 4.2% thereafter. This element of the distribution has been retained in Iceland due to currency controls currently operating in Iceland and as a result is subject to exchange rate risk, over which the Council has no control.
- 138 The distribution has been made in full settlement, representing 100% of the claim.

## Recommendations and reasons

139 It is recommended that Cabinet note:

- (i) the addition to the Cash Limit Reserves of £4.018m in the year. These sums will be held as Earmarked Reserves and be available for Service Groupings to utilise to manage budgets effectively.
- (ii) the closing General Reserve balance of £24.412m.
- (iii) the closing balance on Earmarked Reserves (excluding Cash Limit Reserves) is £85.966m of which £19.418m relate to schools balances.
- (iv) the closing HRA balance of £7.155m.
- (v) the closing balance on HRA Earmarked Reserves of £1.150m.

140 It is recommended that Cabinet approve:

- (i) that capital budget carried forward of £26.820m for the General Fund and £0.958m for the HRA is moved into 2013/14 and that Service Groupings regularly review capital profiles throughout 2013/14 reporting revisions to MOWG and Cabinet as necessary.

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## **Appendix 1: Implications**

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### **Finance**

The report details the financial outturn for the Council for 2012/13 for Revenue and Capital. The report covers General Fund and Housing Revenue Account for both Revenue and Capital.

### **Staffing**

None.

### **Risk**

None.

### **Equality and Diversity / Public Sector Duty**

None.

### **Accommodation**

None.

### **Crime and Disorder**

None.

### **Human Rights**

None.

### **Consultation**

None.

### **Procurement**

None.

### **Disability Issues**

None.

### **Legal Implications**

None.

## Appendix 2: Revenue Summary 2012/13

	Cash Limit Adjustments								
	Original Budget	Revised Budget	Service Groupings Final Outturn	Variance	Sums outside the Cash Limit	Cash Limit Reserve	Contribution to / Use of Earmarked Reserves	Cash Limit Position	Cash Limit Carry Forward
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Assistant Chief Executive	11,369	12,628	12,070	-558	-1,795	-1	1,866	-488	488
Children and Adults Services	273,278	264,213	248,576	-15,637	5,486	0	6,191	-3,960	3,960
Neighbourhood Services	98,176	114,088	101,247	-12,841	11,877	-47	592	-419	419
Regeneration and Economic Development	42,513	53,186	54,448	1,262	-3,113	-38	1,333	-556	556
Resources	20,369	22,446	20,001	-2,445	201	0	619	-1,625	1,625
<b>Cash Limit Position</b>	<b>445,705</b>	<b>466,561</b>	<b>436,342</b>	<b>-30,219</b>	<b>12,656</b>	<b>-86</b>	<b>10,601</b>	<b>-7,048</b>	<b>7,048</b>
Contingencies	11,248	6,497		-6,497		0	0	-6,497	6,497
Centrally Held Budgets	0	0	3,540	3,540	0	0	-2,743	797	-797
Corporate Costs	0	1,641	0	-1,641	1,561	0	0	-80	80
<b>NET COST OF SERVICES</b>	<b>456,953</b>	<b>474,699</b>	<b>439,882</b>	<b>-34,817</b>	<b>14,217</b>	<b>-86</b>	<b>7,858</b>	<b>-12,828</b>	<b>12,828</b>
Capital charges	-49,115	-51,722	-70,353	-18,631				-18,631	18,631
Gain/Loss on disposal of fixed assets	0	0	35,122	35,122				35,122	-35,122
Interest and Investment income	-577	-577	-3,245	-2,668				-2,668	2,668
Interest payable and similar charges	30,715	21,582	24,410	2,828				2,828	-2,828
HR Accrual - reversal	0	0	775	775	-775			0	0
<b>Net Expenditure</b>	<b>437,976</b>	<b>443,982</b>	<b>426,591</b>	<b>-17,391</b>	<b>13,442</b>	<b>-86</b>	<b>7,858</b>	<b>3,823</b>	<b>-3,823</b>
<b>Funded By:</b>									
Council tax	-201,788	-201,788	-201,788	0				0	0
Council tax freeze grant	-4,989	-4,989	-5,045	-56				-56	56
Use of (-) / Contribution to earmarked reserves	-2,633	-8,459	1,427	9,886				9,886	-9,886
Revenue Support Grant	-4,245	-4,245	-4,245	0				0	0
Re-distributed Non Domestic Rates	-219,006	-219,006	-219,007	-1				-1	1
New Homes Bonus	-2,551	-2,551	-2,344	207			-206	1	-1
LACSEG Grant	0	0	-2,145	-2,145				-2,145	2,145
Contribution to Cash Limit Reserve	-2,764	-2,944	4,018	6,962				6,962	-6,962
Contribution to the General Reserve	0	0	2,538	2,538				2,538	-2,538
<b>TOTAL</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>13,442</b>	<b>-86</b>	<b>7,652</b>	<b>21,008</b>	<b>-21,008</b>



**Appendix 3: Revenue Summary by Expenditure / Income for 2012/13**

	Original Budget	Revised Budget	Service Groupings Final Outturn	Corporate Costs	Variance	Cash Limit Adjustments			Cash Limit Position	Cash Limit Carry Forward (including Corporate Costs)	Variance - Corporate Costs
						Sums Outside the Cash Limit	Cash Limit Reserve	Contribution to / Use of Earmarked Reserves			
						£'000	£'000	£'000			
<b>Employees</b>	516,389	524,165	517,661	0	-6,505	-1,775	-1	-1,962	-10,243	10,243	0
<b>Premises</b>	55,144	51,377	52,489	0	1,112	-74	0	15	1,053	-1,053	0
<b>Transport</b>	52,620	52,966	49,504	0	-3,462	564	0	43	-2,855	2,855	0
<b>Supplies and Services</b>	120,541	127,891	144,424	1,693	18,226	12	-38	1,459	19,659	-19,659	-106
<b>Agency and Contracted</b>	228,398	230,854	226,218	56	-4,580	-1,232	0	5,501	-311	311	0
<b>Transfer Payments</b>	258,751	257,299	261,423	0	4,124	0	0	1,130	5,254	-5,254	0
<b>Central Costs</b>	85,038	92,052	84,477	0	-7,575	-4,930	0	-1,286	-13,791	13,791	0
<b>Other</b>	1,131	-1,059	2,999	0	4,058	-428	0	2,460	6,090	-6,090	0
<b>DRF</b>	0	9,385	15,900	0	6,515	0	0	-2,743	3,772	-3,772	0
<b>Capital Charges</b>	49,115	51,722	35,231	0	-16,491	16,491	0	0	-0	0	0
<b>GROSS EXPENDITURE</b>	<b>1,367,127</b>	<b>1,396,653</b>	<b>1,390,326</b>	<b>1,749</b>	<b>-4,578</b>	<b>8,628</b>	<b>-39</b>	<b>4,617</b>	<b>8,628</b>	<b>-8,628</b>	<b>-106</b>
<b>Income</b>											
- Specific Grants	597,299	605,499	605,436	14	-49	0	0	-578	-627	627	0
- Other Grants and contribs	25,984	28,709	35,889	0	7,180	-34	0	-11	7,135	-7,135	0
- Sales	8,397	8,597	9,978	0	1,381	-324	0	-400	657	-657	0
- Fees and charges	102,147	106,618	106,235	0	-383	0	47	-149	-485	485	0
- Recharges	172,201	165,046	174,719	1,577	11,250	-5,231	0	-172	5,847	-5,847	0
- Other	15,394	13,982	18,187	158	4,363	0	0	-1,931	2,432	-2,432	26
<b>Total Income</b>	<b>921,422</b>	<b>928,451</b>	<b>950,444</b>	<b>1,749</b>	<b>23,742</b>	<b>-5,589</b>	<b>47</b>	<b>-3,241</b>	<b>14,959</b>	<b>-14,959</b>	<b>26</b>
<b>NET EXPENDITURE</b>	<b>445,705</b>	<b>468,202</b>	<b>439,882</b>	<b>0</b>	<b>-28,320</b>	<b>14,217</b>	<b>-86</b>	<b>7,858</b>	<b>-6,331</b>	<b>6,331</b>	<b>-80</b>

## Appendix 4: Earmarked Reserves as at 31 March 2013

EARMARKED RESERVES AND CASH LIMIT RESERVES	SERVICE GROUPING	2011/12 CLOSING BALANCE	USE OF RESERVES	CONTRIBUTION TO RESERVES	TRANSFERS BETWEEN RESERVES	TOTAL MOVEMENT ON RESERVES	2012/13 CLOSING BALANCE
ACE AAP/Members Reserve	ACE	-2,364	1,571	-1,061	0	510	-1,854
ACE Grant Reserve	ACE	-233	0	0	0	0	-233
ACE Operational Reserve	ACE	-140	0	0	0	0	-140
Heritage and Culture Reserve	CAS	-209	0	0	209	209	0
Social Care Reserve	CAS	-9,368	3,652	-7,778	9,441	5,315	-4,053
Health and Wellbeing Reserve	CAS	-1,347	847	0	0	847	-500
Community Safety Reserve	CAS	-75	53	0	0	53	-22
Aycliffe Young People's Centre Reserve	CAS	-475	47	0	0	47	-428
Continuing Professional Development Reserve	CAS	-373	0	-96	0	-96	-469
Education Reserve	CAS	207	167	-6	-751	-590	-383
Tackling Troubled Families	CAS	0	0	-942	0	-942	-942
CYPS Leisure Reserve	CAS	-52	17	0	0	17	-35
Special Projects Reserve	CAS	-60	0	0	0	0	-60
Neighbourhoods AAP Reserve	NS	-504	477	-39	0	438	-66
Customer Services Reserve	NS	-360	300	-50	0	250	-110
Direct Services Reserve	NS	-1,406	96	-1,284	0	-1,188	-2,594
Env. Health and Consumer Protection Reserve	NS	-141	0	-289	0	-289	-430
Culture and Sport Reserve	NS	-1,765	695	-790	-396	-491	-2,256
Strategic Waste Reserve	NS	-104	0	-272	0	-272	-376
Technical Services Reserve	NS	0	0	-445	0	-445	-445
Transport Asset Management Programme Reserve	NS	-365	47	0	0	47	-318
Economic Development Reserve	RED	-1,666	470	-531	709	648	-1,018
Planning Reserve	RED	-1,774	86	0	0	86	-1,688
North Pennines AONB Partnership Reserve	RED	0	0	-919	0	-919	-919
Employability and Training Reserve	RED	-855	130	-121	0	9	-846
RED Regeneration Reserve	RED	-990	163	0	-224	-61	-1,051
Housing Regeneration Reserve	RED	-95	79	-61	0	18	-77
Housing Solutions Reserve	RED	-1,321	444	-110	0	334	-987
Restructure Reserve	RED	-500	271	0	-500	-229	-729
LSVT Reserve	RED	-122	11	0	0	11	-111
Transport Reserve	RED	-364	0	0	0	0	-364
Funding and Programmes Management Reserve	RED	-193	63	0	-45	18	-175
Resources Corporate Reserve	Resources	-1,164	0	-739	60	-679	-1,843
Resources DWP Grant Reserve	Resources	-159	0	-107	159	52	-107
Resources System Development Reserve	Resources	-700	300	-450	0	-150	-850
Resources Housing Benefit Subsidy Reserve	Resources	-1,200	0	-1,379	0	-1,379	-2,579
Resources Land Search Fees Reserve	Resources	-1,000	0	0	0	0	-1,000
Resources Legal Expenses	Resources	0	0	-200	0	-200	-200
Resources Elections Reserve	Resources	-800	0	0	0	0	-800
Resources ICT Reserves	Resources	0	0	-480	0	-480	-480
Corporate Regeneration Reserve	Corporate Fin	-578	0	0	578	578	0
Cabinet Reserve	Corporate Fin	-498	278	0	0	278	-220
Corporate Reserve - Demographic Pressures	Corporate Fin	0	0	0	-8,650	-8,650	-8,650
Equal Pay Reserve	Corporate Fin	-3,408	131	-3,834	0	-3,703	-7,111
Insurance Reserve	Corporate Fin	-11,841	4,154	-145	0	4,009	-7,832
Performance Reward Grant Reserve	Corporate Fin	-1,319	162	0	-578	-416	-1,735
MTFP Redundancy and Early Retirement Reserve	Corporate Fin	-9,552	4,713	0	0	4,713	-4,839
New Homes Bonus Reserve	Corporate Fin	-206	206	0	0	206	0
<b>Total Non-Schools Reserve</b>		<b>-59,439</b>	<b>19,630</b>	<b>-22,128</b>	<b>12</b>	<b>-2,486</b>	<b>-61,925</b>
<b>Schools' Balances</b>							
Schools' Revenue Balance	CAS	-20,890	5,663	-4,191	0	1,472	-19,418
DSG Reserve	CAS	-4,210	0	-413	0	-413	-4,623
<b>Total Schools and DSG Reserve</b>		<b>-25,100</b>	<b>5,663</b>	<b>-4,604</b>	<b>0</b>	<b>1,059</b>	<b>-24,041</b>
<b>Cash Limit Reserves</b>							
Assistant Chief Executive		-1,133	456	-488	0	-32	-1,165
Children and Adults Services		-8,092	2,320	-3,960	0	-1,640	-9,732
Neighbourhood Services		-2,205	166	-419	147	-106	-2,311
Regeneration and Economic Dev		-2,960	100	-556	0	-456	-3,416
Resources		-1,496	0	-1,625	-159	-1,784	-3,280
<b>Total Cash Limit Reserves</b>		<b>-15,886</b>	<b>3,042</b>	<b>-7,048</b>	<b>-12</b>	<b>-4,018</b>	<b>-19,904</b>
<b>Total Earmarked Reserves</b>		<b>-100,425</b>	<b>28,335</b>	<b>-33,780</b>	<b>0</b>	<b>-5,445</b>	<b>-105,870</b>

## Appendix 5: 2012/13 Housing Revenue Account Outturn Position

	Annual Budget	Outturn	Variance	
	£000	£000	£000	
<b>Income</b>				
Dwelling Rents	-60,115	-60,173	-58	a)
Non Dwelling Rents	-995	-1,005	-10	
Charges for Services and Facilities	-105	-127	-22	b)
Contributions towards Expenditure	-250	-413	-163	c)
<b>Total Income</b>	<b>-61,465</b>	<b>-61,718</b>	<b>-253</b>	
<b>Expenditure</b>				
ALMO Management Fee and Outsourced Contract	17,266	17,266	0	
Repairs and Maintenance	4,187	4,723	536	d)
Supervision and Management - General	4,550	4,514	-36	e)
Supervision and Management - Special	549	555	6	
Rents, Rates, Taxes and other Charges	100	111	11	
Negative HRA Subsidy		-94	-94	f)
Depreciation and Impairment of fixed assets [Net MRA Adj]	15,510	7,851	-7,659	g)
Increase/Decrease in bad debt provision	916	402	-514	h)
Debt Management Costs	186	186	0	
<b>Total Expenditure</b>	<b>43,264</b>	<b>35,514</b>	<b>-7,750</b>	
<b>Net cost of HRA services per Authority I&amp;E Account</b>	<b>-18,201</b>	<b>-26,204</b>	<b>-8,003</b>	
HRA services share of Corporate and Democratic Core	1,085	1,085	0	
HRA share of other amounts included in the whole authority				
Net Cost of services but not allocated to specific services	402	387	-15	
<b>Net cost of HRA Services</b>	<b>-16,714</b>	<b>-24,732</b>	<b>-8,018</b>	
Interest Payable and Similar Charges	12,234	11,303	-931	i)
Direct Revenue Financing [Balancing Item on HRA]	4,570	13,671	9,101	j)
Interest and Investment Income	-114	-266	-152	k)
<b>[Surplus] / Deficit for the year on HRA services</b>	<b>-24</b>	<b>-24</b>	<b>0</b>	

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**Audit Committee**

**29 July 2013**



**Action Plan  
2011/12 Audit of Accounts - Update**

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**Report of Don McLure, Corporate Director Resources**

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**Purpose of the Report**

- 1 The purpose of this report is to update Members on the progress on implementation of the Action Plan from the agreed recommendations for improving control weaknesses incorporated in the External Auditor's 2011/12 Interim and Final Governance Reports.
- 2 The action plan, which was reported to Members in November, has been used by management for monitoring purposes and as agreed at that Committee, this report forms part of regular reporting leading to the approval of the Statement of Accounts for 2012/13.
- 3 The report is presented in accordance with paragraph 4.1.26 of the Committee's Operational Terms of Reference, "to monitor progress made by management in response to both internal and external audit findings and recommendations".

**Background**

- 4 In July 2012, when the Statement of Accounts for 2011/12 was reported to the Committee, it was agreed that an Action Plan based on the findings of the External Audit's Interim and Annual Governance reports which were presented to the Committee in May and September respectively, would be drawn up and reported to the Committee.
- 5 Responsibility for the actions then agreed have, where appropriate, been amended to a more appropriate officer from those recorded in the version reported to Committee in September.
- 6 The Action Plan has been incorporated into the Resources Performance Management Framework. Progress on the Plan is being monitored by the Resources Policy Performance and Planning Manager and this report gives an update on progress.

**The Action Plan**

- 7 An updated action plan incorporating progress made to date is included at Appendix 2.

- 8 All recommendations have a response to the Auditor's findings and an action plan to remedy the weakness identified. In all but two cases the weakness has now been addressed; these recommendations are marked as complete.
- 9 Actions that are complete require evidence to assure the Corporate Director Resources and External Audit that the recommendation has been implemented. This has now been identified and made available in all cases.
- 10 As the two remaining recommendations are considered by officers in more detail, there will be discussions with External Audit to ensure that the controls and procedures, either in place, or to be implemented are in line with the Auditor's expectations.
- 11 It is possible however, that not all of the recommendations will be implemented in full. Any such variations will be agreed with the Corporate Director Resources and the reasons discussed with the External Auditor.

## Summary of Progress

### Interim Governance Report (IGR)

- 12 The following table shows the progress towards implementing the External Audit recommendations from the IGR.

IGR	Total number of Actions	Actions Outstanding	Actions Completed	Evidence provided
<b>As at 22 November 2012</b>				
Actions from 2010/11	19	9	10	0
New Actions for 2011/12	33	10	23	0
	<b>52</b>	<b>19</b>	<b>33</b>	<b>0</b>
<b>As at 22 February 2013</b>				
Actions from 2010/11	19	6	13	9
New Actions for 2011/12	33	4	29	24
	<b>52</b>	<b>10</b>	<b>42</b>	<b>33</b>
<b>As at 4 April 2013</b>				
Actions from 2010/11	19	2*	17	13
New Actions for 2011/12	33	2	31	28
	<b>52</b>	<b>4</b>	<b>48</b>	<b>41</b>
<b>As at 31 May 2013</b>				
Actions from 2010/11	19	1*	18	18
New Actions for 2011/12	33	1	32	32
	<b>52</b>	<b>2</b>	<b>50</b>	<b>50</b>
<b>As at 18 July 2013</b>				
Actions from 2010/11	19	1*	18	18
New Actions for 2011/12	33	1	32	32
	<b>52</b>	<b>2</b>	<b>50</b>	<b>50</b>

\* One outstanding action has a completion date 30 September 2014.

- 13 The above table shows that no further actions have been completed since the May report, although progress has been made on Recommendation 12 – Accounts Payable: Authorised Signatory List.
- 14 Recommendation 7 – Payroll: No Authorised Signatories List has a completion date of September 2014.

### **Annual Governance Report (AGR)**

- 15 Of the 6 recommendations detailed in the AGR, all were due to be complete by 30 June 2013 and all are now complete.

### **Recommendation and reasons**

- 16 Members are asked to note the updated action plan attached at Appendix 2 and to gain assurance that control weaknesses identified through the final account audit process in 2011/12 have been appropriately addressed.

### **Background papers**

- (a) Audit Committee – 22 November 2012 – Action Plan - 2011/12 Audit of Accounts
- (b) Audit Committee – 22 February 2013 – Action Plan - 2011/12 Audit of Accounts – Update
- (c) Audit Committee – 4 April 2013 – Action Plan - 2011/12 Audit of Accounts - Update
- (d) Audit Committee – 31 May 2013 – Action Plan - 2011/12 Audit of Accounts - Update

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**Contact: Hilary Appleton Tel: 03000 266239**

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**Appendix 1: Implications**

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**Finance –**

None

**Staffing -**

None

**Risk -**

None

**Equality and Diversity -**

None

**Accommodation -**

None

**Crime and Disorder -**

None

**Human Rights -**

None

**Consultation -**

None

**Procurement -**

None

**Disability Discrimination Act -**

None

**Legal Implications -**

None



Recommendation	Finding	Responsibility	Priority	Auditor Comments	Response	Actions	Commentary	Evidence Provided	Complete By:	On target / ahead of target / behind target / complete / not due
1	Revaluations - Schools	Assets - Michael Gilbey	High	The Council Valuer will need to consider which assets are evaluated in 2012/13 to avoid any problems with part valuation of schools. The Council should ensure that changes in valuations as at April and at the year end (31 March) are fully considered by finance as well as estates before deciding whether to account for these in the financial statements. A full valuation of schools should be completed as at 1 April 2012.	Rolling Programme with External Audit for consideration.	Agree rolling programme of valuations with External Auditor. Issue instructions to Assessor. Complete agreed valuations in line with agreed programme.	The rolling programme for valuations has been agreed with the External Auditor. The Assessor has been instructed to the Valuer has been issued, requesting valuations to be completed by 28 February 2013 in line with the Final Accounts Timetable.	Complete	Complete	This Rolling Programme for assets CYPS Phase B Surplus Assets led for Sale, Investment, Housing, Ad-hoc, and Annual Impairment Review. Although Wear Valley was the only housing area requiring a full valuation, owing to significant variations in values since the previous full valuation a sample of Durham City and Eastington area houses were revalued and these were to significant extent in value with the rolling programme. The Housing Assets Register percentage impairment was deemed to be the correct valuation approach. In addition we review the Surplus and Investment properties but these are not reviewed until the year end with a valuation date of 31 March 2013.
2	Asset Register - Reconciliation to Ledger	Ian Herberson	High	Reconciliations between the fixed asset register and the general ledger should be completed as part of the close-down period and must reconcile to all figures in the PPE note in the accounts. This should be completed by officers as part of the close-down period prior to submission of the draft statements. The asset register should be updated regularly throughout the year (including additions).	Although reconciliations were provided, they did not adequately verify all the figures in the PPE note. From 2012/13 the reconciliations will be extended to include verification of all additions. The asset register should be updated regularly throughout the year (including additions), however this is a challenge as it requires the continual reconciliation of additions to capital expenditure, which it is only possible to finalise at the year end. It is a further time consuming exercise to ensure the additions for adding value to the asset.	Complete reconciliations for all entries in PPE note. Evaluate the benefit of including additions during the year.		Complete	Complete	Reconciliations have been completed. These are with External Audit for review. The benefit of including additions during the year is still under review.
3	Asset Register - Migration of Housing Dwellings	Ian Herberson	High	Eastington Council Dwellings records are held on a village basis and not on an individual asset basis. The Council should look to migrate all three housing asset registers for council dwellings into the Asset Management system as soon as is practicable to address this issue.	Separate report to Audit Committee - 22 November 2012	The project has suffered some delays due to delays at CIPFA in processing data and other information on Housing Assets will be with CIPFA by 28 February 2013. This delay should have no impact on 2012/13 closing of accounts.		Complete	Complete	Wear Valley, Eastington and City of Durham Housing Assets have now been processed by CIPFA and were available in the live Asset Register from 3 April 2013. The information has been fully reconciled.
4	Working Papers	Hilary Appleton	High	The Council needs to ensure that final accounts working papers are prepared by officers as part of the close-down arrangements and a full set available for audit trail to the figures in the statements and notes. Officers should ensure errors are identified and corrected so that the notes of the audit are clear and more importantly so will the demands on officers' time.	Strategic Finance are discussing the format and extent of working papers that the External Auditor would expect to be provided. When devising the Final Accounts timetable for 2012/13 Closure of Accounts, it is proposed to put in an action and time for completion of working papers prior to the start of the audit. A working papers repository will be established which adequately signposts the working papers provided to the Notes to the Statement of Accounts.	Add action 'working paper completion' into Final Accounts Timetable. Create a central repository for the deposit of completed working papers ready for External Auditor. Ensure the quality of the working papers is improved.		Complete	Complete	The working papers have been filed in a central repository from all services. The quality of the working papers will be assessed by External Audit during the audit of the accounts, but improvements have been made.
5	HRA Rents	Azhar Raftiq	High	Officers were unable to provide a detailed breakdown of the weekly rent income figures for the week 02/01/2012 - 03/01/2012, from the Durham City Homes rents system because only one individual who works offsite has the appropriate knowledge to allow an interrogation of the system. Officers should ensure that they have the appropriate knowledge within the council to enable them to complete this task.	Reports to provide specific evidence were not available on the Rent System - however, we are able to provide a standard system report which details all transactions over a period identified. Unfortunately, this report is a text file and does not have the facility to sort/query and the size of such files can also negate the benefits of providing the appropriate reports. The County Council will however consider how the appropriate skills and knowledge can be gained by officers. Officers will liaise with External Auditors prior to the year end to establish what evidence/information will be required for reconciliation.	Arrange for the required reports to be available as soon as possible after the year end. Investigate the possibility of providing reports in a format that allows interrogation i.e. not a text file. Consider how appropriate level of skills & knowledge can be gained to create the system can be gained.		Complete	Complete	This was a one-off report dealing with a specific rent query in 2011/12. To date all requests for evidence and/or explanations in relation to HRA rents have been provided to external Audit.
6	HRS ALMOs	Azhar Raftiq	High	Both East Durham Homes and Dale and Valley Homes should be requested to specifically show a charge for Supervision and Management and Repairs and Maintenance on their periodic rental for finance officers to be able to provide the classification needed for the accounts.	The management agreement with the ALMOs is a single agreement in return for a single management fee which is negotiated annually and we do not have separate funding agreements for repairs and management expenditure. The two ALMOs prepare income statements for the council and for their companies and requirements for their purposes a distinction is not necessary. The figures used in the final accounts process are developed following detailed and full consultation and agreement with the two ALMOs. Therefore the work required to ensure the figures are robust is already undertaken. Separate agreements for repairs and management is not necessary. The year end position and the entries on the HRA statement are discussed and agreed with ALMO colleagues.	Discuss the information requirements with External Audit prior to the year end. Provide evidence of the agreement of the split of the ALMO fee as appropriate.		Complete	Complete	We have provided the year end calculation of the management fee split to external audit, these are currently being audited as part of the HRA Final Accounts.

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2010.11	Responsibility	Priority	Auditor Comments	Response	Actions	Complete by:	Evidence
	<p><b>Recommendation 1: General Ledger: Documentation (Ex.6)</b> Supporting documentation should accompany all journals. This will allow the auditor to view the documentation to ensure its accuracy before posting.</p> <p>No supporting documentation accompanies journals when sent to the Ledger. The Ledger Management Team does not know the amounts in the journal are accurate.</p>	High	The risk is journals being input with no understanding of what is being input and that inaccurate journals are input into the General Ledger	Journals are prepared and reviewed by service accountants who retain the responsibility for the accuracy of the journals and to ensure that the journals have been correctly entered into the system. Accuracy checks on the journal entries are carried out in services.	Supporting documentation is attached to all journal entries completed	Complete	It is not practical to attach all evidence to the journals. The Ledger Management Team will ensure that where it is possible to attach relevant documentation, this will be done.
	<p><b>Recommendation 2: General Ledger: Journal authorisation (Ex.7)</b> The Council should introduce the review and authorisation of journals before posting to the General Ledger.</p> <p>A journal chosen during the walkthrough that no evidence of authorisation prior to input into the GL. There is no requirement for journal entries to be reviewed and authorised by a senior officer prior to upload.</p>	High	Without authorisation there is a risk that errors may not be identified prior to the journal being input and that inappropriate journals could be posted to the GL.	The review and authorisation of journals was discussed at the last audit. The volume of journals processed by Finance will require consideration of the process of review and authorisation to ensure that it is done efficiently. As appropriate, journals will be reviewed and approved prior to entering into the General Ledger. This recommendation was the subject of an internal audit review to establish best practice.	Process a method of journal approval supporting documentation is attached to all journal entries completed Agree with External Audit. Implement a process of journal approvals	Complete	An on-line method of journal approval was prepared and discussed at FSP - the group of senior finance managers. The outcome was that the Ledger Management Group will approve the most appropriate method of journal approval. This Group agreed that there should be a paper based system for journal approvals. This system will be implemented in 2013. The system will be consistent with existing practices for journal approvals. This will be discussed with the External Auditor.
	<p><b>Recommendation 3: General Ledger: Dataset reconciliations (Ex.8)</b> The Council should complete regular reconciliations of dataset ledger files.</p> <p>Complete regular reconciliations are uploaded into the General Ledger. However, it is possible to amend the datasets. As a result there is a risk of amendment to the datasets before posting to the General Ledger. Officers have introduced Payroll and cash receipts upload the reconciliations. However, there is no record in the Datasets when upload file to the General Ledger. The GL AMM is aware of the possibility of amendment of files before upload into General Ledger.</p>	Medium	The risk is amendment of datasets resulting in the upload of errors to the General Ledger	Partially a Ledger Management issue. There are amendments made to files to allow processing. This is to change headers, footers or periods to ensure that files are unique, particularly that they have unique headers so that they can be successfully uploaded into Oracle. The originating service can produce more than one file of data per day with the same header which is not possible to amend. However, introducing the appropriate system would be costly and unlikely to be a priority. Confirmation from ICT Services that it is possible to lock the files would need to be sought. As all amendments are processed via the Oracle system, there is no reason, subject to it being able to arrange this, that files may not be locked.	Log of errors available for the Audit inspection. This will be available from 25 March 2013.	Complete	Further consideration has been given to the processing of files of information into Oracle. As a result, it is understood that the locking datasets would cause delays in processing. Due to having to return files to the originator system, simply re-running would not remedy the problem, but would mean that information would not be available in Oracle. It has been agreed that the Ledger Management Team will retain the ability to amend datasets that include errors prior to processing into Oracle, but will keep a log of the errors amended and continue to ask the originator to amend the error in future files.
	<p><b>Recommendation 4: General Ledger: Opening Balances (Ex.9)</b> The Council should document a review of the opening balances to confirm the General Ledger has the Oracle General Ledger automatically carries forward opening balances. Officers are unaware of any procedures to check opening balances carried forward are correct.</p>	Medium	The risk is the Oracle GL does not carry forward the opening balances accurately, and officers do not identify the as no review takes place.	Oracle does not bring forward balances; it periodically calculates balances on account from the sum of the transactions. The opening balances were checked by officers after amendments were made following the audit of the Statement of Accounts to ensure that the ledger matched the Statement of Accounts.	Check the opening balances in Oracle are consistent with the Statement of Accounts. Record the verification of the balances and sign-off.	Complete	The balances in Oracle General Ledger have been checked for consistency with the Statement of Accounts. The amendments made following the audit of the Accounts are complete by 28 February 2013. Completed by 31 March 2013.
	<p><b>Recommendation 5: General Ledger: Trial Balance (Ex.10)</b> The Council should complete regular trial balances to ensure there are no major differences. Trial balances are instead only completed at the year end.</p>	Medium	The risk is that an imbalance occurs that is not identified before the year-end. Trial balances will be substantively tested at year end.	Agreed. Trial balances are being undertaken weekly, daily during the first account period and was in balance. During the year, trial balances should be run to ensure the system is in balance. On a monthly basis, there should also be a reconciliation to the Discoverer Reports. During the year, trial balances should be a reconciliation to the Discoverer Reports. On a monthly basis, there should also be a reconciliation to the Discoverer Reports.	Ensure that Trial Balances are produced on a regular basis Ensure that the Trial Balance are reviewed and corrective action taken where necessary. Ensure that the Trial Balances are filed centrally for evidence of completion and correctness.	Complete	Trial balances are produced monthly and have been reviewed and approved up to 31 January 2013. The system has been in place since September 2012.
	<p><b>Recommendation 6: General Ledger: Electronic authorisation (Ex. 11)</b> The Council should require the approving officer to email the preparer to confirm the reconciliation is accurate.</p> <p>Officers complete monthly Drive to Oracle reconciliations. A suitable officer when required to complete the reconciliation when it makes it difficult to verify the officer reviewing the reconciliations.</p>	Medium	The risk is the review of the reconciliation does not take place.	The weekly reconciliation of the files processed through the AMI interface from the Discoverer Reports to the Oracle system has been decommissioned, this reconciliation is no longer applicable.	Complete	No longer applicable	
	<p><b>Recommendation 7: Payroll: No authorised signatories list (Ex.14)</b> Either the Payroll section or the Service Departments should introduce an authorised signatories list, to help reduce the risk of submission of fraudulent time sheets.</p> <p>Neither the Payroll section nor the individual departments keep an authorised signatories list. It is not possible to confirm an approved officer has signed the manual time sheets.</p>	Medium	The risk is submission of inaccurate or fraudulent claims without the knowledge of the supervising officer	Creating, maintaining and using an authorised signatories list would be significant, labour intensive paper based task which would have doubtful benefits. A more suitable approach for confirming the validity of claims is to move where submitting authorising claims is confirmed through their logging on to the system. Online mileage claims are already being rolled out across the Authority. The payroll system allows for the facility to allow electronic submission of additional hours worked. Some departments who have requested a signatories list whether to develop the functionality is to be taken by 30 September 12.	30 September 2014	In practice the development of Resourcelink is now going forwards via a formal project plan (evidence Project Initiation Document) - Resourcelink to allow electronic submission of claims. Resourcelink will be implemented in 2013. Resourcelink will be implemented as part of the Resourcelink development project and (if agreed) implemented by 30 September 2014. Resourcelink will be implemented in 2014. Enhancements to Manager & Employees Self Service.	
	<p><b>Recommendation 8: Payroll: BACS pay run authorisation (Ex.15)</b> The Payroll section should ensure a Team Supervisor authorises all BACS submission files.</p> <p>There is no BACS submission file for the Team Supervisor authorisation. The only copy of the file. However, no Team Supervisor had authorised the BACS submission file tested during audit.</p>	Medium	The risk is that a review of the BACS submission file book place, increasing the risk of inaccurate payments.	All BACS submission files are now authorised by a Team Supervisor.	Complete	Evidence Received - File in Relevant Office in Brouard.	

Recommendation	Priority	Responsibility	Response	Actions	Complete by:	Evidence
<p><b>Recommendation 9: Payroll: Voluntary redundancy agreement not signed and returned by leave (Ex. 18)</b> The Council should ensure all employees leaving have signed and returned the redundancy agreement.</p> <p>The Ledge Management Team completed a monthly reconciliation between the Payroll and the Accounts Payable. However, there is no independent review and authorisation of the reconciliation.</p>	Medium	HR - Lorraine Anderson	The risk is that the Council incorrectly processes voluntary redundancy payments without the individual confirmed agreement to take redundancy.	From June 2012 the process will be undertaken from one central point. The new process will be implemented by the end of the year. The process will be reviewed to ensure all cases have the appropriate signatures prior to agreement to cases.	Complete	Evidence held in relevant Office if Requested
<p><b>Recommendation 10: Payroll: Reconciliation of payroll upload files to QLT (Ex.19)</b></p> <p>The Council should ensure a senior officer reviews and authorises all reconciliations in the system.</p>	Medium	Strategic Finance - Beverley White	The risk is that the reconciliations are not accurate and because no review takes place this is not identified.	Ledge Management Team will report to Beverley White going forward. The reconciliations will be done by Joanne Wilson as the Ledger Manager's site manager.	Complete	Evidence held in relevant Office if Requested
<p><b>Recommendation 11: Accounts Payable: Payroll authorisation (Ex.3)</b> The Council should introduce an independent review of pay sheets and BACS files.</p> <p>Accounts Payable Team leaders prepare daily pay run sheets in Oracle. However, there is no review and authorisation of the pay run by an independent officer to ensure the pay sheet is accurate.</p>	Medium	Strategic Finance - Beverley White	The risk is the Council pays inappropriate invoices, and because of no formal review taking place this is not identified.	An independent officer has now been nominated.	Complete	Evidence held in relevant Office if Requested
<p><b>Recommendation 12: Accounts Payable: Authorised Signatories List (Ex.50)</b></p> <p>The Accounts Payable section should introduce an authorised signatories list. Officers could limit the size by reducing the number of individuals with the ability to certify non-purchase order invoices within each department.</p> <p>The Accounts Payable section do not keep an authorised signatories list. As a result they are unable to gain assurance that only approved officers certify non-purchase order invoices for payment.</p>	Medium	Service Finance - K Coed / Chris Jones	The risk is certification of invoices by unapproved officers resulting in payment of inappropriate invoices	The current approved signatory list is available. This list will be reviewed and updated if applicable during 2012/13.	30 November 2012 and on-going	Evidence Provided
<p><b>Recommendation 13: Accounts Payable: Non-Purchase Order Invoice entry (Ex.51)</b></p> <p>An independent officer should review all non-purchase order invoices after entry into the Accounts Payable system. This officer should then validate the invoice for payment. This would help identify errors or inappropriate invoices.</p> <p>After the manual entry of non-purchase order invoices into the Accounts Payable system there is no review by an independent officer to ensure the details entered are correct. In addition, the same officer who entered the invoice details also manually validate the invoice in the Accounts Payable system, which approves the invoice for payment.</p>	High	Service Finance - K Coed / Chris Jones	The risk is that coding or payment errors occur because there is no independent review of the information entered into the Accounts Payable System. In addition, the processing of non-purchase order invoices is not controlled. The independent officer who enters the accounts payable has the ability to include the invoice for payment, without review from another officer.	The current P2P review project has targeted this process to reduce the percentage of invoices processed this way, from 50% to 10%. On completion of the review (Jan 2013) a full quality check will be implemented.	Complete	Evidence Provided
<p><b>Recommendation 14: Accounts Payable and Receivable: Control account reconciliations</b></p> <p>Officers have completed regular Accounts Payable and Accounts Receivable control account reconciliations. However, in November 2011 the only reconciliations introduced a senior officer were the August, September and October 2011 reconciliations.</p> <p><b>Recommendation 15: Account Receivable: Periodic Invoices (Ex.12)</b> The Council should ensure the timely raising of all periodic invoices.</p>	Medium	Strategic Finance - Ian Hemerson	The risk is errors in the reconciliations are not identified as no review takes place.	This process was implemented following the AGR for 2010/11. The reconciliation is completed by Financial Systems and reviewed by Strategic Finance. The review and authorisation is now done on a regular monthly basis.	Complete	Evidence held on file in relevant Office if Requested
<p><b>Recommendation 16: Accounts Receivable: No reconciliation between Schools (SIMS) Receipts and Accounts Receivable System (Ex.19)</b></p> <p>The Council should introduce a formal reconciliation between the two systems to help ensure the upload of all receipts from the SIMS system into the Accounts Receivable system.</p> <p>No formal reconciliation between the Accounts Receivable system and Schools (SIMS) system is completed. Instead, officers rely on an error message from Oracle to identify any receipts not correctly uploaded during the upload.</p>	Medium	Asset Management Team - Grant Darby	The risk is the Council has not collected all periodical income transactions from the Schools (SIMS) system.	An Assets Billing working group has been set up meeting on a monthly basis. Processes are being reviewed and properties under separate classifications are being scrutinised and time periods billing requirement ascertained. Garage rent are currently on system with Industrial units review ongoing.	Complete	Evidence held with Assets
<p><b>Recommendation 17: Accounts Receivable: No reconciliation between Schools (SIMS) Receipts and Accounts Receivable System (Ex.19)</b></p> <p>The Council should introduce a formal reconciliation between the two systems to help ensure the upload of all receipts from the SIMS system into the Accounts Receivable system.</p> <p>No formal reconciliation between the Accounts Receivable system and Schools (SIMS) system is completed. Instead, officers rely on an error message from Oracle to identify any receipts not correctly uploaded during the upload.</p>	Medium	Service Finance - Ian Modue	The risk is the Accounts Receivable system may not include all transactions from the Schools (SIMS) system.	The income is input into SIMS manually via Receipts Advice forms. The income team match/reconcile all school bankings, i.e. bank receipts to SIMS. Checked by Oracle weekly report showing outstanding items. Quality checking process being determined. The income team run regular Oracle reports and provide to the schools for further reconciliation. A review will be undertaken by the Schools Funding team. Possible clarification needed with regards to the error message within Oracle AP. Debtor invoices not raised within Oracle	Complete	N/A

2010.11	Findings	Responsibility	Priority	Auditor Comments	Response	Actions	Complete by:	Update:	Evidence
	<b>Recommendation 17: Loans and Investments - Monthly reconciliation not authorised (Ex.17)</b> The Council should ensure a senior officer reviews and authorises the monthly and year-end reconciliations. Investments and Loans - Officers perform a monthly reconciliation of the investments held on the balance sheet and reconcile this to the General Ledger to the ledger and of all PwLB interest and principal payments in the General Ledger to the PwLB Loan Schedule. In both cases, a senior officer reviews the reconciliation. However, there is no evidence of this review taking place.	Strategic Finance - Ian Henderson	Medium	The risk is that the reconciliations are not accurate and because no review takes place this is not identified.	Following Finance Unithesion, a senior officer has now been assigned responsibility for this review.	Complete the monthly reconciliation process. Review the reconciliation, or take corrective action.  Retain evidence of the review of the reconciliation	Complete	Monthly reconciliations are complete for both investments and loans. Reconciliations are balanced to both core records and Oracle GL. Reconciliations are reviewed and approved to 31 January 2013.	Evidence is held in Strategic Finance.
*	<b>Recommendation 18: Oracle Projects - No authorised signatories list (Ex.18)</b> Service Direct should complete an authorised signatories list to provide assurance that all extraction forms and time sheets have suitable approval. No authorised signatories list is in place at the Service Direct site. This affects both extraction forms used to confirm the receipt of goods, and manual time sheets. Site Foreman sign both to confirm their accuracy. It was not possible to confirm an authorised signatories list was in place. Evidence of the extraction form and time sheet issued as no authorised signatories list is in place.	Building & Facilities - Paul Burr	Medium	All goods are ordered electronically using the Oracle system by the newly created Materials Controllers posts and the requisitioner is identified at that stage. Goods are received by the Materials Controller once they have been received. They are then processed by the requisitioner / Site Foreman / Supervisor that the goods have been received.	Once a job is completed it is approved by the clients agent (Buildings Surveyor / Architect) who issues a Practical Completion certificate with or without a snagging list which are minor items of work still to be completed. After the completion of the snagging list, the clients agent and Direct Services and any remedial works are then undertaken. On completion of these defects a 'Making Good / First Certificate' is issued by the clients agent. This system has been recently reinforced and is monitored and reported upon by B & FMS process which ensures all jobs are signed off and we improve our customer satisfaction levels.	Action completed	Complete	A signatory list is included as part of the Building and Facilities Maintenance's ISO 9001:2008 Accreditation. Signatories List as per - as required from a couple of staff who have currently been absent from work.	Signatories List to be provided to the Building and Facilities Maintenance's ISO 9001:2008 Accreditation.
*	<b>Recommendation 19: Oracle Projects - Lack of evidence of surveyor visit or authorisation (Ex.19)</b> Service Direct should ensure that Oracle Projects or a hard copy file documents at work completed by the Surveyor. Officers claimed Surveyors re-measure Service Direct jobs to identify actual changes. However, there is no evidence of this inspection taking place. As the job file does not contain details of the Surveyors visit. Evidence of the surveyors approving the job is also limited.	Building & Facilities - Paul Burr	Medium	Officers claimed Surveyors re-measure Service Direct jobs to identify actual changes. However, there is no evidence of this inspection taking place. As the job file does not contain details of the Surveyors visit. Evidence of the surveyors approving the job is also limited.	Agree with the recommendation, and this will be implemented as soon as possible	Action completed	Complete	The work undertaken by all of the Quantity Surveyors results in an estimate (briefed electronically) and a file is kept of all workings filed by the estimate reference.	Evidence is held with the Estimators Team.
	<b>Recommendation 20: Repairs and Maintenance - Delivery note filing (Ex.20)</b> Service Direct should ensure filing of all delivery notes in date or supplier order. No formal filing system is in place for the delivery notes received by the Materials Controller. As a result it was difficult to find specific delivery notes	Building & Facilities - Paul Burr	Low	The risk is that Site Foreman do not provide the Materials Controllers with delivery notes. Instead, the Materials Controller may receive the goods without the necessary paperwork, to ensure the correct delivery and payment of goods.	Agree with the recommendation, and this will be implemented as soon as possible	Ensure that the recommendation has been implemented.	Complete	This is not practical as we neither have the space to file delivery notes or the resources to do so. We can print the delivery notes in and file them. However, the Materials Controller check the delivery notes against the order and receipt this on the screen destroying the delivery note once this is done.	N/A
*	<b>Recommendation 21: Repairs and Maintenance - No authorised signatories list (Ex.21)</b> Service Direct should complete an authorised signatories list to provide assurance that all extraction forms and time sheets have suitable approval. No authorised signatories list is in place at the Service Direct site. Approved officers sign manual time sheets completed by employees to confirm their accuracy. However, as there is no authorised signatories list it was not possible to confirm that the officer signing the extraction form and time sheet was approved to do so.	Building & Facilities - Paul Burr	Medium	The risk is that an inappropriate individual approves time sheets, resulting in the processing of inaccurate information.	Agree with the recommendation, and this will be implemented as soon as possible	Ensure that the recommendation has been implemented.	Complete	A signatory list is included as part of Building and Facilities Maintenance's ISO 9001:2008 Accreditation. Signatories are as per - as a couple of staff who have currently been absent from work.	Signatories List to be provided to the Building and Facilities Maintenance's ISO 9001:2008 Accreditation.
	<b>Recommendation 22: Repairs and Maintenance - Receipting of materials in Oracle (Ex.22)</b> An independent officer should review receipts entered into Oracle to ensure the information entered is accurate, before Oracle recognises the receipts. The receipting of goods in Oracle for the transaction tested was not completed correctly. This is because the officer receipting the goods wrongly included the price column. This is because the officer received a quantity received (1) in the price column. Oracle updates any commitment already in the system, through multiplying the quantity by the unit price. This inaccurate treatment had no impact on the updated commitment; however officers stated that large errors have occurred because of the inaccurate receipting of goods in Oracle.	Financial Systems - Keith Munroe	Medium	The risk is the individual receipting the goods enters wrong information resulting in inappropriate balances in the General Ledger. This may result in time-consuming to correct any errors uploaded in such a way.	Introducing an independent check on every receipt entered is not practical as a control to eradicate occasional errors, plus there is no standard functionality to do this. A monthly check on all outstanding accounts (above £250) are circulated (on a monthly basis) for review.	No action required	Complete	N/A	N/A
	<b>Recommendation 23: SSP: Reconciliation of the SSP upload to the Accounts (Ex.23)</b> The Council should ensure that a senior officer reviews and authorises the year-end reconciliation. Officers complete an internal reconciliation between the SSP upload file and the Accounts Payable. There is no control sheet in place and no formal documentation of the reconciliation exists. Officers have provided assurance that a control sheet will be introduced by the year-end.	Accounts Payable - Chris Jones	Medium	The risk is the reconciliation is not in place and as a result not all invoices are uploaded to the Accounts Payable system for payment.	Although governed by the constraints of Oracle, reconciliation control sheets are used to ensure that the year end reconciliation is carried out by an officer from Strategic Finance.	Retain evidence of review	Complete	Although governed by the constraints of Oracle, reconciliation control sheets are used to ensure that the year end reconciliation is carried out by an officer from Strategic Finance.	Evidence Provided
	<b>Recommendation 24: SIMS - Invoice not authorised for payment (Ex.24)</b> School Finance staff should ensure that all invoices are authorised. The School Manager should keep all GHNs on file to provide evidence the goods have been received. The Durham Federation Finance Team stated that an approved individual signs all invoices before payment. However, the invoice tested was not authorised for payment. In addition, there is no documentary evidence of the School Manager confirming the invoice.	Service Finance - David Shier	Low	The risk is the payment of inaccurate or fraudulent invoices. In addition, goods may not have been received as there is no formal documentation of the School Manager receiving the goods.	A reminder will be issued to schools via the Extranet, about recommended procedures.	No action required	Complete	Notes placed on the Schools Extranet 5 July 2012 reminding schools of procedures	Evidence Provided
	<b>Recommendation 25: SIMS - Authorised Signatories List (Ex.25)</b> The School Finance Team should ensure the annual updating of all authorised signatories lists. The Payment Authorisation Control Using (PACU) tested was authorised by a member of staff not included on the authorised signatories list held by the School Funding Team. Officers stated the authorised signatories list was out-of-date and provided evidence they were included on the petty cash authorised signatories list, which is a suitable compensating control.	Service Finance - David Shier	Medium	The risk is an unapproved individual signs the PACU, and as a result, the school could result in payment of inaccurate or fraudulent invoices.	Agreed. The Creditor Team with School Funding will pursue this after half term which is the best time to do this.	No action required	Complete	Notes placed on Schools Extranet 15 January 2013 reminding schools of procedures on authorised signatories in offices containing revised authorised forms received. Outstanding forms will be chased	Evidence Provided
	<b>Recommendation 26: SIMS - Reconciliation of the SIMS upload to Accounts Payable system (Ex.26)</b> The Council should ensure the year-end reconciliation uses the control total sheet and also ensure a senior officer reviews and authorises the year-end reconciliation.								

2010.11	Responsibility	Priority	Auditor Comments	Responses	Actions	Update	Evidence in Relevant Office if Required
	Officers complete an internal reconciliation with the SMS upload file and the Accounts Payable system every SMS upload. However, there is no control sheet in place. Therefore no formal documentation of the reconciliation exists. Officers have provided assurance that a control sheet will be introduced by the year-end.	Medium	The risk is the reconciliation between the SMS upload file and the Accounts Payable are not accurate and as a result no all invoices are updated to the Accounts Payable system for payment.	This is now done. Reports from SMS are sent to creditors who then report on discrepancies to School Funding	Action Complete		Evidence Provided
	<b>Recommendation 27: Housing Benefits: Council Tax Benefit duplicate payment (Ex.40)</b> The Council should ensure that officers review all cases on the report report <b>City of Durham</b> Following conversion from the Northgate system to the Civica system, officers identified 48 claims with a total value of £17,403.33 requiring a duplicate Council Tax Benefit (CTB) payment in error. These claims were logged to be corrected. The Council should ensure that the Council makes a duplicate Council Tax Benefit payment to Council Tax account 3672503390 for claim number 1009328. As at 4 January 2012 officers had not amended the affected claims.	Low	The risk is the Council Tax Benefit posted to the claimants Council Tax account is wrong.	Conversion testing identified an issue regarding duplicated CTB payments. CIVCA subsequently ran a utility identifying a total of 48 affected claims. All claims have now been corrected and updated. The CTB posted to the Council Tax accounts has also been checked and is correct.	Complete		Evidence Provided
*	<b>Recommendation 28: Housing Benefits: Benefits payment controls (Ex.41)</b> The Council should ensure a Senior officer reviews all Housing Benefits payments before submission. Submission of Housing Benefit payments by a senior officer before processing is not required.	High	The risk is payment of incorrect or fraudulent payments, as there is no requirement for the payment file to be authorised.	All HB payments (with BACS if Cheque) are now authorised by a senior officer in line with the authorised signatory list before submission. Senior officers record details of the officer creating the payment file, counter signing officer and officer responsible for the file submission.	Complete		Evidence Provided
	<b>Recommendation 29: Housing Benefits: Rent Rebate Reconciliations (Ex.42)</b> The Council should ensure that officers reconcile Housing Benefit and Rent Rebate payments on a regular basis. Timely three-way reconciliations between the General Ledger, Housing Benefits and Housing Rents system, which are reviewed and authorised by a senior officer. All entries and reconciling items should be referenced to supporting documentation.	High	The risk is the values contained within the Housing Rents systems do not agree to the Housing Benefits system.	At the time of the walkthrough, reconciliations had not been completed on the new merged system. Since January 2012, a full reconciliation has taken place for 2011/2 for all three of the IPFA providers, with any discrepancies identified and corrected. Reconciliation procedures have also been agreed with the housing providers, EDH, D&H and DCH and reconciliations will continue to be completed as part of the overall Rents Reconciliations for all three areas.	Complete		Evidence Provided
	<b>Recommendation 30: Housing Benefits: Council Tax Benefit Reconciliations (Ex.42)</b> The Council should introduce a standardised format for completing reconciliations. A senior officer should review and authorise the reconciliations. All entries and reconciling items should be referenced to supporting documentation. <b>Cheshire-Street</b> The format of the reconciliation is difficult to understand. In addition, unreconciled items with a value of £110,000 are included. <b>Southfield</b> The reconciliation includes a BACS returned value for the period 1 September – 23 October 2011 of £2,366.16. However, the balance appears to exclude the BACS payment of £37 returned on 13 September 2011.	High	The risk is the values contained within the General Ledger for Council Tax Benefit may not agree to those held within the Housing Benefit and Council Tax systems.	Following completion of the merged new system full reconciliation has taken place. Since January 2012 the monthly reconciliations have re-commenced.	Complete		Evidence Provided
	<b>Recommendation 31: Housing Benefits: Rent Allowance Reconciliations (Ex.42)</b> The Council should introduce a standardised format for completing reconciliations. A senior officer should review and authorise the reconciliations. All entries and reconciling items should be referenced to supporting documentation. <b>Cheshire-Street</b> The format of the reconciliation is difficult to understand. In addition, unreconciled items with a value of £110,000 are included. <b>Southfield</b> The reconciliation includes a BACS returned value for the period 1 September – 23 October 2011 of £2,366.16. However, the balance appears to exclude the BACS payment of £37 returned on 13 September 2011.	High	The risk is the values contained within the General Ledger for Council Tax Benefit may not agree to those held within the Housing Benefit and Council Tax systems.	Following completion of the merged new system full reconciliation has taken place. Since January 2012 the monthly reconciliations have re-commenced.	Complete		Evidence Provided
	<b>Recommendation 32: Housing Benefits: First payment needs to be authorised (Ex.43)</b> The Council should only make first payments to the claimants landlord if the claimant has authorised the payment. <b>Southfield</b> The Council should ensure that officers reconcile Housing Benefit and Rent Rebate payments on a regular basis. Timely three-way reconciliations between the General Ledger, Housing Benefits and Housing Rents system, which are reviewed and authorised by a senior officer. All entries and reconciling items should be referenced to supporting documentation. <b>Cheshire-Street</b> The format of the reconciliation is difficult to understand. In addition, unreconciled items with a value of £110,000 are included. <b>Southfield</b> The reconciliation includes a BACS returned value for the period 1 September – 23 October 2011 of £2,366.16. However, the balance appears to exclude the BACS payment of £37 returned on 13 September 2011.	High	The risk is the values contained within the General Ledger for Council Tax Benefit may not agree to those held within the Housing Benefit and Council Tax systems.	Following completion of the merged new system full reconciliation has taken place. Since January 2012 the monthly reconciliations have re-commenced.	Complete		Evidence Provided
	<b>Recommendation 33: Housing Benefits: Parameters (Ex.44)</b> The Council should ensure a senior officer reviews and authorises the parameters entered into the merged system. <b>Southfield</b> The Council should ensure that officers reconcile Housing Benefit and Rent Rebate payments on a regular basis. Timely three-way reconciliations between the General Ledger, Housing Benefits and Housing Rents system, which are reviewed and authorised by a senior officer. All entries and reconciling items should be referenced to supporting documentation. <b>Cheshire-Street</b> The format of the reconciliation is difficult to understand. In addition, unreconciled items with a value of £110,000 are included. <b>Southfield</b> The reconciliation includes a BACS returned value for the period 1 September – 23 October 2011 of £2,366.16. However, the balance appears to exclude the BACS payment of £37 returned on 13 September 2011.	High	The risk is the Council are paying the first payment of Housing Benefit to the claimant's landlord without the claimants consent, potential risk through breaching the Data Protection Act 2000 by paying the claimants landlord without the claimants consent.	Housing Benefit (LHA & A42011) guidance states that an authority may make first payments to the claimant's landlord if they can confirm they consider that it will assist the claimant in securing or retaining a tenancy.	Complete		Evidence Provided
*	<b>Recommendation 34: Council Tax: Reconciliation of VOA schedule to RV reports (Ex.29)</b> The Council should ensure the review and authorisation of the reports. <b>Southfield</b> The Council should ensure that officers reconcile Housing Benefit and Rent Rebate payments on a regular basis. Timely three-way reconciliations between the General Ledger, Housing Benefits and Housing Rents system, which are reviewed and authorised by a senior officer. All entries and reconciling items should be referenced to supporting documentation. <b>Cheshire-Street</b> The format of the reconciliation is difficult to understand. In addition, unreconciled items with a value of £110,000 are included. <b>Southfield</b> The reconciliation includes a BACS returned value for the period 1 September – 23 October 2011 of £2,366.16. However, the balance appears to exclude the BACS payment of £37 returned on 13 September 2011.	High	The risk is the parameters in the merged system have been wrongly entered and therefore the benefit calculations made by the system will be inaccurate.	Spreadsheets were available detailing all parameters set and which all parameters were checked by a senior officer the spreadsheets were not countersigned. Moving forward as part of 2012/13 annual billing processes all parameters have been set in accordance with the 2012/13 changes. All parameters have been countersigned. The process of counter signing has not been updated for local parameter changes.	Complete		Evidence Provided
	<b>Recommendation 35: Council Tax and NDR: Unable to provide documentation of new property (Ex.24 and 40)</b> The Council should ensure that all documentation is sound and well maintained. <b>Southfield</b> The Council should ensure that officers reconcile Housing Benefit and Rent Rebate payments on a regular basis. Timely three-way reconciliations between the General Ledger, Housing Benefits and Housing Rents system, which are reviewed and authorised by a senior officer. All entries and reconciling items should be referenced to supporting documentation. <b>Cheshire-Street</b> The format of the reconciliation is difficult to understand. In addition, unreconciled items with a value of £110,000 are included. <b>Southfield</b> The reconciliation includes a BACS returned value for the period 1 September – 23 October 2011 of £2,366.16. However, the balance appears to exclude the BACS payment of £37 returned on 13 September 2011.	Medium	The risk is the reconciliations are not accurate and as no review takes place this is not identified.	Procedures have now been implemented to formally record the review which is undertaken by a senior officer.	Complete		Evidence Provided
	<b>Recommendation 36: Council Tax and NDR: Authorisation of Parameters (Ex.46 and Ex.37)</b> The Council should ensure a senior officer should review the 2012/13 parameters, and formal documentation of the review report.	Medium	The risk is that some properties are not charged Council Tax and NDR as assessments are not undertaken.	Following the implementation of the unitary systems and structure, procedures have been put in place and documentation controlled and filed.	Complete		Evidence Provided
*	<b>Recommendation 37: Council Tax and NDR: Authorisation of Parameters (Ex.46 and Ex.37)</b> The Council should ensure a senior officer should review the 2012/13 parameters, and formal documentation of the review report.	Medium	The risk is that some properties are not charged Council Tax and NDR as assessments are not undertaken.	Following the implementation of the unitary systems and structure, procedures have been put in place and documentation controlled and filed.	Complete		Evidence Provided

2010.11	Subcategory	Finding	Responsibility	Priority	Auditor Comments	Response	Actions	Complete by:	Update:	Evidence Provided
	<p><b>Service Finance - M Wainwright, J Stoney</b></p> <p>The parameters for 2011/12 were input into the system and then reviewed by an independent officer. However, documentation of the review took place several months after entering the parameters. Therefore there is only evidence of this control taking place in 2012.</p> <p><b>Senior Officers</b> - Wainwright, Teesdale and Downside. All parameters were checked by a senior officer (not a junior staff) during processes all parameters were checked and countersigned. The process of counter signing has now been adopted for all parameter changes.</p> <p><b>City of Durham - NNDR only</b></p> <p>Officers claimed the parameters were input by two members of staff and then reviewed by a senior officer. However, documentation of the review took place several months after entering the parameters. Therefore there is only evidence of this control taking place in 2012.</p> <p><b>Senior Officers</b> - Wainwright, Teesdale and Downside. All parameters were checked by a senior officer (not a junior staff) during processes all parameters were checked and countersigned. The process of counter signing has now been adopted for all parameter changes.</p> <p><b>City of Durham - NNDR only</b></p> <p>Officers claimed the parameters were input by two members of staff and then reviewed by a senior officer. However, documentation of the review took place several months after entering the parameters. Therefore there is only evidence of this control taking place in 2012.</p> <p><b>Senior Officers</b> - Wainwright, Teesdale and Downside. All parameters were checked by a senior officer (not a junior staff) during processes all parameters were checked and countersigned. The process of counter signing has now been adopted for all parameter changes.</p>	High	<p>The risk is the system will not be accurate and that no review was in place to identify the errors.</p> <p>All former district rates are now downloaded into Wear Valley, Teesdale, Downside, Chester-le-Street and Easington. Spreadsheets were available detailing all parameters set and whilst all parameters were checked by a senior officer spreadsheets were not countersigned. As part of 2012/13 budgeting processes all parameters were checked and countersigned. The process of counter signing has now been adopted for all parameter changes.</p>	Complete		Evidence Provided				
	<p><b>Recommendation 37: Council Tax and NNDR: Fund account reconciliations (Ex.42)</b></p> <p>The Council should be to deal with all reconciling items ready for the year-end reconciliation. A senior officer should also review and authorise the year-end reconciliation. Going forward all reconciliations should be completed on a timely basis.</p> <p>The Unitary Council Tax and NNDR system reconciliations were not completed in a timely manner and included a significant number of reconciling items, which officers were unable to explain as part of the January 2012 reconciliations. The reconciliation process was not completed for the year-end reconciliation. In addition, no evidence of senior officer review and authorisation has taken place.</p>	High	<p>Service Finance - K Coad / J Dowson</p>	<p>The risk is the General Ledger does not include all Council Tax and NNDR transactions.</p>	<p>Extensive work has been carried out in this area. A detailed action plan was developed, which included year end close down procedures as well as a reconciliation Proforma Log. Weekly meetings/updates continue to be conducted. A senior officer has responsibility for reviewing all income reconciliations in accordance with a pre-approved checklist, on at least a monthly basis.</p>	Complete	Evidence Provided			
	<p><b>Recommendation 38: NNDR: Reconciliation of VO Schedules to BV reports (Ex.39)</b></p> <p>The Council should ensure the review and authorisation of the reconciliation by a senior officer.</p> <p><b>Durham County Council - All Sites</b></p> <p>However, there is no evidence of review and authorisation of reconciliations by a senior officer.</p> <p><b>Easington</b></p> <p>On 1 April 2011 the VO schedule states there are properties of 5,088 with a rateable value of 44,923,181. However, the recent control report from the NNDR system shows properties of 2,364 with a rateable value of 49,255,901. Officers could not explain this difference.</p>	Medium	<p>Service Finance - K Coad / A Stone</p>	<p>The risk is the reconciliations are not complete and as a result not all NNDR income records are complete and as a result not all NNDR income that should be received is</p>	<p>Procedures have now been implemented to formally record the review which is undertaken by senior officer.</p> <p><b>Complete</b></p>	Complete	Evidence Provided			
*	<p><b>Recommendation 39: Housing Rents: Review of feeder system upload files not documented (Ex.26)</b></p> <p>Officers at East Durham Homes reconcile the feeder system upload files and the batch uploaded into the Housing Rents system to ensure that it is complete. However, no documentary evidence of this review is kept. This is the case for both Cash Receipting and Housing Rents.</p> <p><b>Recommendation 40: Housing Rents: Weekly cash reconciliation not documented (Ex.27)</b></p> <p>All reconciliations should be reviewed, checked and authorised by a senior officer. Particular emphasis should be placed on ensuring the Year end Housing Rents reconciliations are reviewed and authorised. A control sheet could be developed to ensure the reconciliation is complete. The weekly reconciliation between the control spreadsheet for EDH, the both Cash Receipting and Housing Benefit payments received, and the total payments as reported on the Housing Rents system should be reviewed and authorised. There is no independent review and authorisation of the reconciliations by a senior officer.</p> <p><b>Recommendation 41: Reconciliations between the rents system and General Ledger not completed (Ex.28)</b></p> <p>The Council should ensure completion of year-end reconciliations.</p> <p><b>Easington</b></p> <p>Officers at Easington have not been able to reconcile the rents system to the General Ledger for the period April to November 2011. Officers developed a control sheet that will document the reconciliation undertaken and are hoping to use this to document all 2011/12 monthly reconciliations retrospectively.</p> <p><b>Wear Valley and City of Durham</b></p> <p>The Housing Rents system and the General Ledger have been reconciled during 2011/12.</p>	Medium	<p>Service Finance - K Coad / J Hughes</p>	<p>The risk is the reconciliation does not take place as it is not evidenced. As a result errors may occur that are not identified.</p> <p>The risk is the reconciliation does not take place as it is not evidenced. As a result errors may occur that are not identified.</p> <p>The risk is the reconciliation does not take place as it is not evidenced. As a result errors may occur that are not identified.</p>	<p>This reconciliation is completed by DCC for all Rents. The Revenues section undertakes a reconciliation showing the cash processed through COON into the various rent systems. This is then confirmed with the rents teams to the figures uploaded into the rent systems.</p> <p>This reconciliation is completed by DCC for all Rents. The Revenues section undertakes a reconciliation showing the cash processed through COON into the various rent systems. This is then confirmed with the rents teams to the figures uploaded into the rent systems.</p> <p>This reconciliation is completed by DCC for all Rents. The Revenues section undertakes a reconciliation showing the cash processed through COON into the various rent systems. This is then confirmed with the rents teams to the figures uploaded into the rent systems.</p>	Complete	Evidence Provided			
	<p><b>Recommendation 42: Housing Rents: Authorisation of the rents upgrading (Ex.29)</b></p> <p>The rents upgrading calculation should be authorised on a timely basis.</p> <p>A senior officer has reviewed and authorised the rent restructure document used to update the rents across all three sites. However, this was in retrospect several months after the rents upgrading took place. Therefore there is a weakness in the timeliness of the control.</p> <p><b>Recommendation 43: Housing Rents: Agreement of properties in the rent restructure document to the rents system (Ex.30)</b></p> <p>The Council should agree several months after the new rents were uploaded to the rents system in respect of all three sites in respect of all three sites in respect of all three sites in respect of all three sites in respect of all three sites. Thereby there is a weakness in the timeliness of the control.</p> <p><b>Recommendation 44: Housing Rents: Rent download and upload (Ex.31)</b></p> <p>The Council should ensure that the rent download and upload process is completed on a timely basis so that the rent system can be reconciled.</p> <p><b>Recommendation 45: Housing Rents: No review of property removal (Ex.46)</b></p> <p>The Council should ensure that a review of all properties removed to ensure the removal has been completed.</p>	High	<p>Service Finance - J Hughes</p>	<p>The risk is the General Ledger does not include all Housing Rent transactions.</p> <p>The risk is the rent calculation for 2011/12 contains errors that were not identified.</p> <p>The risk is the rents have not been correctly uploaded and that this was not identified.</p> <p>The risk is the contractor is not completing the rent download and upload process under taken this is not identified.</p> <p>The risk is the contractor is not completing the rent download and upload process under taken this is not identified.</p>	<p>The "informal" reconciliation has been carried out for several years by the Rent Reconciliation team. It has been agreed that the reconciliation should be done on a standard format identified and therefore the process has now been introduced.</p> <p>The senior officer reviewed and authorised the rent restructure prior to the rents being updated, however the documentation evidencing this procedure was not countersigned. As part of 2012/13 budgeting processes all parameters were checked and countersigned. The process of counter signing has now been adopted for all parameter changes.</p> <p>A review of all three rent systems had taken place to confirm that the rents were uploaded correctly, however as noted above, the documentation evidencing this procedure was not completed retrospectively. During audit sample checking, no errors were identified. The reconciliation process was completed and calculations signed off at the same time prior to upload.</p> <p>In the context of the data load of new rents into the system, the rents are checked against the data load and any discrepancies are identified. Officers are able to undertake any requirements.</p>	Complete	Evidence Provided			
	<p><b>Recommendation 46: Housing Rents: Review of properties removed (Ex.47)</b></p> <p>The Council should ensure that a review of all properties removed to ensure the removal has been completed.</p>	Medium	<p>Service Finance - J Hughes</p>	<p>The risk is the contractor is not completing the rent download and upload process under taken this is not identified.</p>	<p>In the context of the data load of new rents into the system, the rents are checked against the data load and any discrepancies are identified. Officers are able to undertake any requirements.</p>	Complete	Evidence Provided			



Finding	Priority	Responsibility	Auditor Comments	Response	Actions	Complete by:	Update:	Evidence Provided
<p><b>Recommendation 46: Cash Receipts: Suspense Account (Ex.58)</b> The Council should ensure that all income posted to duplicate reference accounts has been investigated and evidence gained that it has been posted to the correct account.</p> <p>On 15 March 2012 the value of the suspense account was £1,968,971.34 related to March 2012. This does show significant improvement in managing suspense items from the very high balance seen early February 2012 which occurred due to the assignment of incorrect references meaning transactions were not recorded in the correct suspense account.</p> <p><b>Recommendation 47: Cash Receipts: Cash sheet totals reconciliation not evidenced (Ex.59)</b> The Council should ensure documentation is maintained to provide evidence of reconciliations between the cash taken by the Spennyoor Cash Office and the amount recorded in the General Ledger, however this was only not working. This resulted in no hard copy documentation being obtained. Officers did however state that they reviewed ICORN to ensure the values reconciled, although the review is not evidenced.</p>	Medium	Service Finance - J Hughes	The risk is that errors are being picked up or identified are still included in the raising stock and charges and valuations are wrongly raised for these properties.	These are current processes in place. The Bank Teams to ensure properties from the Rent Account. Any errors are spotted by the nature of the services. For example, should a RTB not be removed and the Authority continued to charge the rent, the former tenant advises immediately of the problem. Similarly, should a suspended property not be removed, the rent status would be updated to suspended. The rent status would be updated to suspended at the year end as part of the Final Accounts process. There is an overall check at the year end as part of the Final Accounts process. A similar mid-year check took place in previous years as part of the Housing Finance (Financial Services) intention to continue with this mid year reconciliation.	Continue the mid-year reconciliation	Complete	Update:	Evidence Provided
<p><b>Recommendation 48: Cash Receipts: Cash upload files reconciliation (Ex.60)</b> A reconciliation is performed between the cash upload file received from the ICORN system and the amount recorded in the General Ledger, however this was only introduced in December 2011. The reconciliation only reconciles the element of the upload file coded to account 968000 - System Cash Account in the General Ledger. As a result the reconciliation for 9 January 2012 only reconciled £1,025,427.99 of £2,781,731.26 that was included in the upload file. In addition, the reconciliation should be reviewed and authorised by a senior officer.</p>	High	Service Finance - K Coard / J Dowson	The risk is that a high volume of income is not correctly posted by the year-end.	The reconciliation is not performed and as a result errors are not identified.	Upon failure of a printer, end of day reports can be produced in the back office. All cashiers bankings have been reconciled from 1 April 2011 as part of the bank reconciliation. These form part of the reconciliation action plan.	Complete	Update:	Evidence Provided
<p><b>Recommendation 49: Cash Receipts: Duplicate References (Ex.61)</b> The Council should ensure that all income posted to duplicate reference accounts has been investigated and evidence gained that it has been posted to the correct account.</p> <p>When the new ICORN system was introduced there were many duplicate account references in the former district systems. As a result income received for one account may be wrongly posted to the other based on the duplicate reference. Officers have stated that this is no longer an issue as this was identified early in 2011/12. They have also stated the fund account reconciliations are identifying any errors.</p>	Low	Service Finance - K Coard / J Dowson	The risk is the reconciliation does not highlight differences focuses on one General Ledger account and is not reviewed and authorised.	Originally this reconciliation only included amounts going through ICORN, which includes all income. A senior officer now has responsibility for reviewing all income reconciliations in accordance with a pre-approved checklist, on at least a monthly basis.	As services was undertaken to identify all duplicate account numbers and where possible checked for wrong payments. The ICORN allocation rules were amended from September 2011 to ensure that this could no longer happen.	Complete	Update:	Evidence Provided
<p><b>Recommendation 50: Bank Reconciliations: Bank Reconciliations not prepared or authorised on a timely basis (Ex.56)</b> The Council should ensure Bank Reconciliations for all accounts should be prepared and authorised on a timely basis.</p> <p>As at 29 March 2012 the most recently completed County Fund reconciliation was 31 December 2011. January and February 2012 reconciliations were signed as prepared and reviewed on 27 March 2012 but they contained material amounts of items in the bank but not in General Ledger. Not all of these amounts were identified to transaction level.</p> <p>No district reconciliations have been undertaken since September 2011. Officers stated that one reconciliation will be prepared for each district, not each account, for the last 6 months of the year. In addition, there is no evidence the former district September 2011 reconciliations were reviewed and authorised.</p> <p>No Income Collection Fund bank reconciliation has been undertaken during the year. In addition, the Bank Reconciliations are not authorised on a timely basis. Bank reconciliations are also being authorised even though they include material reconciling items that have not been identified.</p>	High	Service Finance K Coard / J Dowson / Strategic Finance - Ian Small	The risk is that bank or General Ledger errors will not be identified and corrected on a timely basis.	Picked up by the Spennyoor team where extensive work has been carried out in this area. A detailed action plan has been developed. Weekly meetings/updates continue to be completed to monitor progress. A draft reconciliation is complete to 31 March 2012. However, a matching reconciliation is not yet complete. This reconciliation is being processed through Oracle and not processed through Oracle.	As there was no interface in place until April 12 to process the values GL coded in Oracle for these items, manual journals have been processed instead. There is now an exercise underway to match bank transactions (BACS batch values and individual cheque amounts) with manual journal entries (batch amounts). This should be completed by the week 20/3/12. As highlighted, the last reconciliation was completed on 27 March 2012. In addition, each of these accounts have operated on an imputed basis in that all credit transactions received are transferred on a daily basis over to the Income Collection account and are accounted for via ICORN. Any debts that the account holder made against the council are entered on these accounts on a daily basis. The reconciliation is complete to 31 March 2012. Officers have undertaken to ensure that the GL balances for each, reconcile to zero at the end of the month.	Complete	Update:	Evidence Provided
<p><b>Recommendation 51: Bank Reconciliations: Material sum of items through bank not included in General Ledger (Ex. 57)</b> The Council should ensure that reconciliations are only authorised when all reconciling items have been identified.</p> <p>No interface between the Open Revenue system and the General Ledger exists. Therefore transactions are being posted manually. This has resulted in large amounts of items being posted to the General Ledger but not included in the Bank. A total of £100,900.00. Some, but not all of these balances, have been identified down to transaction level. Even though these reconciling items exist, the bank reconciliations are still balances outstanding.</p>	High	Service Finance - K Coard / J Dowson	The risk is the General Ledger will not accurately reflect the bank transactions, which may impact on other areas such as the carrying forward of balances. Manual posting introduces an added risk of error or manipulation.	A senior officer now has responsibility for reviewing all reconciliations in accordance with a pre-approved checklist, on at least a monthly basis.	Action was taken in accordance with Civics September 2011. A call was made to referenced customers contacted bank rules and validation were changed & lightened account holder tables amended. Further improvements are being undertaken. Further evidence available on site	Complete	Update:	Evidence Provided



2010.11	Findings	Responsibility	Priority	Auditor Comments	Response	Actions	Complete by:	Update:	Evidence
	<p>Recommendation 52: SPOCC: No reconciliation between the SPOCC system and the Accounts Payable system (Ex.431)</p> <p>The Council should perform formal reconciliations between the SPOCC system and the Accounts Payable System. A senior officer should review and authorise the reconciliations.</p> <p>There is no formal reconciliation between the Accounts Payable system and SPOCC system. Officers stated they gain assurance that all payments processed through the SPOCC system are uploaded into the Accounts Payable system for payment, if no errors were identified when the file is uploaded.</p>	Accounts Payable - Chris Jones	Medium	The risk is the Accounts Payable system and General Ledger will not be complete.	Although governed by the constraints of Oracle, reconciliation control sheets are now checked, maintained and filed following each upload. An AP supervisor reviews and authorises the reconciliation.		Complete	Complete	Evidence Provided

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**Audit Committee**

**29 July 2013**



**Statement of Accounts for the year ended  
31 March 2013**

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**Don McLure, Corporate Director Resources**

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**Purpose of the Report**

- 1 To present to Members the Statement of Accounts for the year ended 31 March 2013 and raise any significant issues arising from the accounts.

**Background**

- 2 The 'Accounts and Audit Regulations 2011' introduced a two stage approval process for the Statement of Accounts; the first stage is in June each year. The Regulations require that the responsible financial officer, by no later than 30 June 2013, signs and certifies that the Statement of Accounts presents a true and fair view of the financial position of the Council for the year to 31 March previous, subject to the views of the External Auditor. This stage was completed on 28 June 2013.
- 3 The second stage, as set out in the Regulations, requires that on or before the 30 September, approval needs to be given to the Statement of Accounts by resolution of a committee, which for Durham County Council is the Audit Committee. This approval will take into account the views of the External Auditor. This is done so that the Statement of Accounts can then be published.
- 4 The Statement of Accounts is currently subject to audit by Mazars LLP. The audit of the accounts is ongoing. On completion, the Auditor's report will be incorporated into the published version of the document.
- 5 The attached Statement of Accounts was available for inspection by the public from 1 July 2013 to 26 July 2013 in line with the Regulations and has been published on our website.

**Statement of Accounts**

- 6 The Statement of Accounts for the financial year 2012/13 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 2012/13' (the Code) as

published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

- 7 The Code is based on approved accounting standards. In England and Wales, the local authority Code constitutes 'proper accounting practice' under the terms of section 21(2) of the Local Government Act 2003. The Council is therefore legally required to follow this Code of Practice. Explanatory notes are included in the document to assist in the interpretation of the accounts, which unfortunately are unavoidably technical and complex.
- 8 To help Members in reading and interpreting the contents, Appendix 2 to this report briefly explains the purpose of each section of the Statement.

### **Key information from the Statement of Accounts**

- 9 Page numbers used in this report refer to the page numbers on the Statement of Accounts document and not those on the full pack of reports.
- 10 There are six core statements that provide fundamental information on the financial activities and position of the Council:
  - Movement in Reserves Statement (page 42)
  - Comprehensive Income and Expenditure Account (page 44)
  - Balance Sheet (page 45)
  - Cash Flow Statement (page 46)
  - Housing Revenue Account (page 119) and
  - Collection Fund (page 124).
- 11 The Statement of Accounts also includes the accounts for Durham County Council Pension Fund (page 130) for which the Council is the Administering Authority.
- 12 The Statement of Accounts shows that the Council's 'net worth' has fallen in 2012/13 by £131.417m to £440.362m. This is due, in the main, to an increase in pension scheme liabilities for its employees as calculated by the Pension Fund's Actuary under International Accounting Standard (IAS) 19. Although the benefits are not payable until the employees retire, the Council has a commitment to make the payments which it must disclose at the time the employees earn their future entitlement.
- 13 The Council has increased its usable reserves during 2012/13.
  - a) The general reserve has increased by £2.536m to £24.410m. This reserve is held to cushion the impact of uneven cash flows, unexpected events or emergencies.
  - b) Earmarked Reserves have increased by £5.449m to £105.874m. Earmarked reserves are held for specific future purposes.

- 14 The HRA Subsidy System was abolished on 31 March 2012 and replaced by a new system of self-financing for Council Housing. Under the new system each local authority keeps the money raised locally from rents and uses it to run their stock in return for a one-off reallocation of housing debt. An amount of £52.891m was paid to the Secretary of State in 2011/12 to allow the Council to leave the HRA Subsidy System
- 15 Under the new self-financing arrangements, the Council prepared its first 30 year HRA Business Plan for the period beginning 2012/13. This plan has been rolled forward to produce the four year Medium Term Financial Plan which was approved by Council on 20 February 2013. This shows that over a 30 year period, the additional debt allocated to the Council can be sustained within the Business Plan and is repaid towards the end of the period.
- 16 The Pension Fund accounts show that its net assets as at 31 March 2013 have increased by £196.670m to £2,085.556m. Although there was a withdrawal of £5.721m as a result of payments to pensioners exceeding the contributions received, there was a £202.391m return on the Pension Fund's investments. Further information on the Pension Fund is contained within the Pension Fund's Annual Report, which will be published following the approval of the Accounts.

### **Audit Progress Report**

- 17 The External Auditor, Mazars LLP have not issued an Interim Governance Report for 2012/13. However, they have noted two deficiencies in internal control that were reported to this committee in May 2013 in their report 'Audit Progress Report'. These were;
  - journals: the lack of authorisation of journals and the failure to retain supporting documentation has been raised in previous years. Officers have agreed to authorise all journals with a value greater than £1m and to retain supporting documentation where possible within Oracle prior to upload into the ledger; or to retain outside Oracle if not. Compliance with this will be measured during the Audit of the Statement of Accounts.
  - bank reconciliations: the failure to routinely prepare timely bank reconciliations from May to December 2012 was also mentioned by Mazars LLP. These reconciliations have now been completed and the April to June reconciliation is being completed.

### **Bank Accounts and Bank Reconciliations**

- 18 During 2012/13, the number of bank accounts held by the County Council has continued to be rationalised. In January 2012 it was reported that 18 bank accounts of the 26 brought from the former district councils remained. The plan was to close 11 of these accounts by the

end of March 2012. This was achieved and only the 7 planned for closure in September 2012 remained. These were closed on 15 October 2012.

- 19 In the current year, bank reconciliations are to be completed for the following accounts:
- a) County Fund Account - reconciliations have now been completed to 31 March and the April to June reconciliation is currently in progress
  - b) Income Collection Account – reconciliations have been completed for 31 March and in the current year to 30 June 2013.

### **Audit of Accounts**

- 20 The final audit of the Statement of Accounts is now underway. At the end of this process, the Auditor will provide an Annual Governance Report detailing their comments and recommendation for improvements, based on the position at 31 March 2013.
- 21 An Action Plan will be presented to Members designed to address the Auditor's recommendations at the conclusion of the Audit.

### **Recommendation**

- 22 It is recommended that the Audit Committee:
- a. consider the attached Statement of Accounts for the County Council for the financial year ended 31 March 2013;
  - b. note the progress on the rationalisation of bank accounts and the current position on bank reconciliations; and
  - c. note the update on the Auditor's recommendations in the Annual Governance Report.

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**Contact: Don McLure Tel: 03000 261943**

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**Appendix 1: Implications**

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**Finance**

This report details the financial position of the Council as at 31 March 2013.

**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

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


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Item	Pages	Explanation of Purpose and Content
Explanatory Foreword	3 - 39	Summary of the most significant matters reported in the accounts, and the overall financial position of the Council.
Independent Auditor's Report to Durham County Council	40 - 41	Once the Audit is completed the Auditor's report will be included.
<b>Durham County Council Core Financial Statements</b>		
Movement in Reserves Statement	42 – 43	This statement shows the movement in the year on the different reserves held by the Council analysed into 'usable' reserves and other reserves
Comprehensive Income and Expenditure Account (CIES)	44	This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation.
Balance Sheet	45	The Balance Sheet shows the value as at the Balance Sheet date (31 March 2013) of the assets and liabilities recognised by the Council. The net assets of the authority (assets less liabilities) are matched by the reserves held by the Council.
Cash Flow Statement	46	The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities.
Notes to the Core Financial Statements	47 - 118	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.
<b>The Housing Revenue Account (HRA)</b>	119 - 123	The HRA Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Authorities charge rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis of which rents are raised, is shown in the Movement on the HRA Statement.



<b>Item</b>	<b>Pages</b>	<b>Explanation of Purpose and Content</b>
<b>Collection Fund</b>	124 - 129	The Collection Fund is an agent's statement that reflects the statutory obligation for billing authorities, such as the Council, to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and non-domestic rates.
<b>Durham County Council Pension Fund Accounts</b>	130 – 162	Shows the operation and membership of the Pension Fund, the expenditure and income during the year and its financial position at 31 March 2013. Following the Accounts are notes providing further information.
<b>Statement of Responsibilities for the Statement of Accounts</b>	163	Sets out the responsibilities of the Council and the Corporate Director Resources for the Statement of Accounts.
<b>Annual Governance Statement</b>	164 - 174	Gives assurance that appropriate mechanisms are in place for the maintenance of good governance across the activities of the Council.
<b>Glossary of Terms used in the Accounts</b>	175 - 186	To help the reader understand terminology used in the Statement of Accounts.

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# Statement of Accounts

For the year ended 31 March 2013

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I hope that this document proves to be both informative and of interest to readers. The Council is keen to try to improve both the quality and suitability of information provided. On that basis your feedback would be welcome.

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

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

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## 1. Introduction

This document presents the published accounts for Durham County Council for the year ended 31 March 2013 – the ‘Statement of Accounts’. It is a very important element in demonstrating the 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 Council’s financial performance, year end financial position and cash flows. This foreword covers:

- 1 Introduction
- 2 The statutory background to the Statement of Accounts
- 3 Information and Financial Statements
- 4 County Durham
- 5 A review of 2012/13
- 6 Material assets acquired, liabilities incurred
- 7 Sources of funds to meet capital expenditure and other plans
- 8 Borrowing
- 9 Pensions liability
- 10 Material or unusual items
- 11 Significant changes in accounting policies
- 12 Significant provisions, contingencies and material write-offs
- 13 Changes in statutory functions
- 14 Subsequent events
- 15 Future plans
- 16 Housing Revenue Account
- 17 Pension Fund
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## 2. Statement of Accounts

The Statement of Accounts for the financial year 2012/13 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 2012/13’ (the Code) as published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

The Code is based on International Financial Reporting Standards (IFRS) which were primarily drafted for the commercial sector and are not designed to address all the issues relevant to local government in the UK. The Code therefore prescribes a hierarchy of alternative standards on which accounting treatment should be based. These include accounting standards issued by the International Accounting Standards Board (IASB) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC), except where these are inconsistent with specific statutory requirements. The Code also draws on approved accounting standards issued by the International Public Sector Accounting Standards Board (IPSAS) and UK Generally Accepted Accounting Practice (GAAP) where these provide additional guidance. In England and Wales, the local authority Code constitutes ‘proper accounting practice’ under the terms of section 21(2) of the Local Government Act 2003. The Council is therefore legally required to follow this Code of Practice. Explanatory notes are included to assist in the interpretation of the accounts, which are unfortunately, unavoidably technical and complex.

The key document for Local Authorities in England is the Accounts and Audit Regulations (England) 2011. These regulations provide the overall legal requirements for the Statement of Accounts and have been incorporated into the Code.

The Code has introduced no changes that have necessitated amendment to the accounting policies.

### 3. Information and Financial Statements

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

The values within the financial statements are disclosed with roundings which are appropriate to their individual presentation. Consequently, the tables in the Statement of Accounts may contain rounding differences.

The information and financial statements are as follows

#### **Independent Auditor's Report**

The Report of the Independent Auditor on the Council's Accounts and the Durham County Council Pension Fund Accounts for the year ended 31 March 2013.

#### **Durham County Council's Core Financial Statements**

##### **Movement in Reserves Statement**

This statement shows the movement in the year on the different reserves held by the 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 Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. This is different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for council tax setting and dwellings rent setting purposes. The Net Increase/Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

##### **Comprehensive Income and Expenditure Statement (CI&E)**

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

##### **Balance Sheet**

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the authority (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the 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 Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

##### **Cash Flow Statement**

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the 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 Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the 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 Council.

## Notes to the Accounts

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

### The Housing Revenue Account (HRA)

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

### Collection Fund

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

### Durham County Council Pension Fund Accounts

Shows the operation and membership of the Fund, the expenditure and income during the year and its financial position at 31 March 2013. Following the Accounts are notes providing further information.

### Statement of Responsibilities for the Statement of Accounts

Sets out the responsibilities of the 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 Council.

### Glossary of Terms

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

## 4. County Durham

County Durham is a place of distinctive character with a strong sense of its own identity. It has a proud and unique history having been settled since ancient times by the Romans, Anglos, Saxons and Normans. Durham City developed as a centre of Christian worship in the 11th century with the completion of the cathedral which is now a World Heritage site. The Bishops of Durham were granted both spiritual and secular powers by William I effectively giving them the status of Kings of the North East. Later, County Durham became a centre for the industrial revolution providing the country and developing empire with coal, steel and ships. The area also saw the development of the world's first passenger steam railway in 1825.

Today, Durham is a county of economic, cultural and environmental contrasts. It stretches from the remote rural North Pennine area of outstanding natural beauty in the West to the more densely populated East Durham heritage coastline. The county covers an area of 223,260 hectares with 223,800 households and 12 major centres of population.

Following local government reorganisation in 2009, Durham County Council, with 513,200 residents, is the largest council in the North East region and the sixth largest all purpose council by population in England.

The economic history of the county has generated a spatially fragmented geography of around 250 settlements including rural villages, small and medium towns and a historic city with World Heritage status.

In common with the rest of the UK, the county's population is ageing with the average age of 40.9 years in 2009 rising to 44.2 years in 2026. Increases in life expectancy and the transition of the 'baby boom' generation from economic activity into retirement means that our older people cohort (aged 65 +) is predicted to rise by 25.1% by 2021. Even greater increases are expected in the population of people aged 85 and over which is predicted to rise by 41.9% (nearly 4,600 people). An increase in the birth rate both nationally and locally will stem the decline in the number of people aged under 25, which is expected to remain fairly constant over the next two decades at its current level of approximately 30% of the population.



Black and minority ethnic communities make up 3.4% of the population. County Durham is ranked as the 62nd most deprived out of 326 authorities nationally. There is a high proportion (45.4%) of the County Durham population living in the 30% most deprived areas. Within these communities, weekly wages and rates of car ownership are low; the health of the population is relatively poor; life expectancy is below the average for the country and there are high levels of disability and long term illness.

In November 2012, 16,168 people were claiming Job Seekers Allowance, which equates to 4.9% of the working age population. This is lower than the regional average of 5.5% but higher than the Great Britain average of 3.8%. In February 2012, 30,260 people were claiming Employment and Support Allowance or Incapacity Benefits/Severe Disablement Allowance, which equates to 9.1% of the working age population. This is higher than both the regional average of 8.2% and also the Great Britain average of 6.5%.

Durham County Council was established along with other county councils in England and Wales in 1888. The latest reorganisation of local government in Durham in 2009 saw the abolition of the seven district and borough councils in the county and the creation of Durham County Council as a single all-purpose authority providing the full range of local government services to the public.

The council is made up of 126 Members representing 63 electoral divisions with the Labour Party having a controlling majority.

The council operates a leader and cabinet style model of political governance and the cabinet is made up of ten councillors.

The council's overview and scrutiny function is made up of six scrutiny committees with an Overview and Scrutiny Management Board providing an oversight of the work of these committees which is made up of 26 councillors and ten other representatives.

The council is broadly comparable with a major company in size. We provide a large range of services that include: teaching our young people and caring for our older people; lending the latest best sellers and protecting 900 year old documents; fixing road bridges and creating bridges in our communities; helping children to swim and helping adults to work; planting trees in nature reserves and recycling paper from our homes. In fact, any local service you can think of, Durham County Council can probably have a hand in it somewhere. We have a budget of £1.4 billion, we employ 18,159 people and our services are delivered to a customer base of over half a million people. To help us manage this undertaking, we employ a Chief Executive, Assistant Chief Executive and four Directors who make up the Corporate Management Team of the council.

## 5. A Review of 2012/13

A review of the Housing Revenue Account 2012/13 budget and outturn is shown at paragraph 16 along with its future plans.

### **2012/13 Budget – General Fund**

The Council continued to face unprecedented levels of reductions in Government grants over the current Comprehensive Spending Review (CSR) period to 31 March 2015. The Council's Formula Grant for 2012/13 was confirmed in December 2011 at £223.2m which was a reduction of £17.1m when compared to 2011/12.

In total, the Cabinet forecast that Government Support for the five year period 2011/12 to 2015/16 would reduce by £108.7m and by £115.8m when including the forecast grant reduction for 2016/17. This equated to a 30% reduction in Government Support over this period.

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

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

- for the third consecutive year, council tax for County Durham stayed the same in 2012/13 as the Council accepted the Government's 'one off' Council Tax Freeze Grant. It was anticipated

that the grant would be payable in 2012/13 but not in future years and equated to almost £5m and was equivalent to the income that the Council would have received from a 2.5% council tax increase;

- protecting the winter maintenance budget as this was a high priority service based upon public consultation feedback;
- increasing the adult social care budget by £2.15m in recognition of the increasing demands on the service due to demographic changes and more people becoming dependent upon these services;
- increasing the children's safeguarding service budget by £1.5m in recognition of increasing demands due to more children entering the care service;
- an additional £3.5m of revenue to invest in new and current capital projects through prudential borrowing. The capital programme for 2012/13 was to deliver schemes to the value of over £197m in line with the Council's key priorities to stimulate regeneration and job creation within the local economy.

The 2012/13 budget also needed to absorb several significant cost pressures including:

- Landfill tax of £1.07m due to the Government increasing the costs of landfill by £8 per tonne from April 2012;
- Additional employer pension contributions of £1.2m due to a 5.3% increase on the sum required to recover the forecast deficit for Council employees on the Pension Fund;
- Concessionary fares - due to the increasing numbers of pensioners qualifying for bus passes, the increasing patronage on bus services and the withdrawal of government grants to bus companies, the concessionary fares budget was forecast to increase by £0.85m;
- Excessive inflation experienced during 2011/12 on energy and fuel costs required £1.35m and £1.0m to be added to base budgets in 2012/13.

The Council continued to strive to attract grant funding from external sources and was successful in receiving a provisional grant of £6.9m for improving Superfast Broadband access in remote areas across the County.

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

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

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

### **Budget Monitoring**

Throughout the year, the Cabinet has received quarterly reports which have forecast the likely revenue and capital outturn position for the Council against the budget described above and has approved revisions to the original revenue and capital budgets in the light of changing circumstances. These reports can be found on the Council's website [www.durham.gov.uk](http://www.durham.gov.uk).

### **General Fund Outturn**

The following paragraphs detail the actual outturn position against this budget. It was anticipated at the time that the budget was set that £2.533m would be drawn from earmarked reserves, and £2.864m from Services' cash limit reserves to finance the budget, the actual position was a contribution to earmarked reserves of £2.486m and £4.018m to cash limit reserves. Schools used £1.059m of schools' balances, and £2.538m was contributed to the general reserve.

- 1 This section of the report shows the following:
  - (i) Cash Limit Outturn for Service Groupings;

## Explanatory Foreword

- (ii) Overall Revenue Outturn for the General Fund with summarised Service Grouping commentary;
- (iii) Overall Capital Outturn of the General Fund with summarised Service Grouping commentary;

### Cash Limit Outturn

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

	Original Budget	Revised Budget	Service Groupings Final Outturn	Variance	Sums Outside the Cash Limit	Cash Limit Reserve	Contribution to / Use of Reserves	Cash Limit Position	Cash Limit Carry Forward
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Assistant Chief Executive	11,369	12,628	12,070	-558	-1,795	-1	1,866	-488	488
Children and Adults Services	273,278	264,213	248,576	-15,637	5,486	-	6,191	-3,960	3,960
Neighbourhood Services	98,176	114,088	101,247	-12,841	11,877	-47	592	-419	419
Regeneration and Economic Development	42,513	53,186	54,448	1,262	-3,113	-38	1,333	-556	556
Resources	20,369	22,446	20,001	-2,445	201	-	619	-1,625	1,625
<b>Cash Limit Position</b>	<b>445,705</b>	<b>466,561</b>	<b>436,342</b>	<b>-30,219</b>	<b>12,656</b>	<b>-86</b>	<b>10,601</b>	<b>-7,048</b>	<b>7,048</b>
Contingencies	11,248	6,497	-	-6,497	-	-	-	-6,497	6,497
Centrally Held Budgets	-	-	3,540	3,540	-	-	-2,743	797	-797
Corporate Costs	-	1,641	-	-1,641	1,561	-	-	-80	80
<b>NET COST OF SERVICES</b>	<b>456,953</b>	<b>474,699</b>	<b>439,882</b>	<b>-34,817</b>	<b>14,217</b>	<b>-86</b>	<b>7,858</b>	<b>-12,828</b>	<b>12,828</b>
Capital charges	-49,115	-51,722	-70,353	-18,631	-	-	-	-18,631	18,631
Gain/Loss on disposal of fixed assets	-	-	35,122	35,122	-	-	-	35,122	-35,122
Interest and Investment income	-577	-577	-3,245	-2,668	-	-	-	-2,668	2,668
Interest payable and similar charges	30,715	21,582	24,410	2,828	-	-	-	2,828	-2,828
HR Accrual - reversal	-	-	775	775	-775	-	-	-	-
<b>Net Expenditure</b>	<b>437,976</b>	<b>443,982</b>	<b>426,591</b>	<b>-17,391</b>	<b>13,442</b>	<b>-86</b>	<b>7,858</b>	<b>3,823</b>	<b>-3,823</b>
<b>Funded By:</b>									
Council Tax	-201,788	-201,788	-201,788	-	-	-	-	-	-
Council tax freeze grant	-4,989	-4,989	-5,045	-56	-	-	-	-56	56
Use of (-) / contribution to earmarked reserves	-2,633	-8,459	1,427	9,886	-	-	-	9,886	-9,886
Revenue Support Grant	-4,245	-4,245	-4,245	-	-	-	-	-	-
Re-distributed Non Domestic Rates	-219,006	-219,006	-219,007	-1	-	-	-	-1	1
New Homes Bonus	-2,551	-2,551	-2,344	207	-	-	-206	1	-1
LACSEG	-	-	-2,145	-2,145	-	-	-	-2,145	2,145
Use of (-) contribution to Cash Limit Reserve	-2,764	-2,944	4,018	6,962	-	-	-	6,962	-6,962
Use of (-) contribution to the General Reserve	-	-	2,538	2,538	-	-	-	2,538	-2,538
<b>TOTAL</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>13,442</b>	<b>-86</b>	<b>7,652</b>	<b>21,008</b>	<b>-21,008</b>

The table details how the cash limit outturn for each Service Grouping is calculated. Two key elements have been excluded from the Service Grouping outturn to calculate the cash limit outturn as detailed below:

- (i) Sums Outside the Cash Limit  
Some 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).
  - Exceptional expenditure pressures which were not accounted for in the service grouping base budget build and which are covered by contingencies or earmarked reserves held corporately e.g. Flooding and additional Winter Maintenance due to exceptional long periods of ice or snow and redundancy costs linked to MTFP savings proposals.
- (ii) Use of or Contribution to Earmarked Reserves
- Sums that Service Groupings that have utilised or contributed to Earmarked Reserves, have been excluded from their outturn position in order to calculate cash limit position.
- 3 After taking into account the above exclusions, all Service Groupings have generated a Cash Limit underspend in 2012/13. The 2012/13 cash limit underspend for each Service Grouping is detailed in the table below:

Service Grouping	Movement during 2012/13				
	Opening Balance as at 01-Apr-12	Use of Reserve	Contribution to reserve	Transfer to / from Earmarked Reserves	Closing Balance as at 31-Mar-13
	£m	£m	£m	£m	£m
Assistant Chief Executive	-1.133	0.456	-0.488	-	-1.165
Children and Adults Services	-8.092	2.320	-3.960	-	-9.732
Neighbourhoods	-2.205	0.166	-0.419	0.147	-2.311
Regeneration and Economic Development	-2.960	0.100	-0.556	-	-3.416
Resources	-1.496	-	-1.625	-0.159	-3.280
<b>Total</b>	<b>-15.886</b>	<b>3.042</b>	<b>-7.048</b>	<b>-0.012</b>	<b>-19.904</b>

**Revenue Outturn**

4 The table in paragraph 2 provides a detailed Outturn position for the Council's General Fund by Service Grouping. In addition, the table below provides a detailed Outturn position for the Council by type of expenditure and income.

	Original Budget £'000	Revised Budget £'000	Service Groupings Final Outturn £'000	Corporate Costs £'000	Variance £'000	Cash Limit Adjustments				
						Sums Outside the Cash Limit £'000	Cash Limit Reserve £'000	Contribution to / Use of Reserves £'000	Cash Limit Position £'000	Cash Limit Carry Forward (including Corporate Costs) £'000
<b>Employees</b>	516,389	524,165	517,661	-	-6,505	-1,775	-1	-1,962	-10,243	10,243
<b>Premises</b>	55,144	51,377	52,489	-	1,112	-74	-	15	1,053	-1,053
<b>Transport</b>	52,620	52,966	49,504	-	-3,462	564	-	43	-2,855	2,855
<b>Supplies and Services</b>	120,541	127,891	144,424	1,693	18,226	12	-38	1,459	19,659	-19,659
<b>Agency and Contracted</b>	228,398	230,854	226,218	56	-4,580	-1,232	-	5,501	-311	311
<b>Transfer Payments</b>	258,751	257,299	261,423	-	4,124	-	-	1,130	5,254	-5,254
<b>Central Costs</b>	85,038	92,052	84,477	-	-7,575	-4,930	-	-1,286	-13,791	13,791
<b>Other</b>	1,131	-1,059	2,999	-	4,058	-428	-	2,460	6,090	-6,090
<b>DRF</b>	-	9,385	15,900	-	6,515	-	-	-2,743	3,772	-3,772
<b>Capital Charges</b>	49,115	51,722	35,231	-	-16,491	16,491	-	-	-	-
<b>GROSS EXPENDITURE</b>	<b>1,367,127</b>	<b>1,396,653</b>	<b>1,390,326</b>	<b>1,749</b>	<b>-4,578</b>	<b>8,628</b>	<b>-39</b>	<b>4,617</b>	<b>8,628</b>	<b>-8,628</b>
<b>Income</b>										
- Specific Grants	597,299	605,499	605,436	14	-49	-	-	-578	-627	627
- Other Grants and contributions	25,984	28,709	35,889	-	7,180	-34	-	-11	7,135	-7,135
- Sales	8,397	8,597	9,978	-	1,381	-324	-	-400	657	-657
- Fees and charges	102,147	106,618	106,235	-	-383	-	47	-149	-485	485
- Recharges	172,201	165,046	174,719	1,577	11,250	-5,231	-	-172	5,847	-5,847
- Other	15,394	13,982	18,187	158	4,363	-	-	-1,931	2,432	-2,432
<b>Total Income</b>	<b>921,422</b>	<b>928,451</b>	<b>950,444</b>	<b>1,749</b>	<b>23,742</b>	<b>-5,589</b>	<b>47</b>	<b>-3,241</b>	<b>14,959</b>	<b>-14,959</b>
<b>NET EXPENDITURE</b>	<b>445,705</b>	<b>468,202</b>	<b>439,882</b>	<b>0</b>	<b>-28,320</b>	<b>14,217</b>	<b>-86</b>	<b>7,858</b>	<b>-6,331</b>	<b>6,331</b>

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

	£m	£m
Gross Expenditure	1,380.281	
Less: Gross Income	-953.690	
Net Expenditure		426.591
Financed by:		
Council Tax	201.788	
Council Tax Freeze Grant	5.045	
Revenue Support Grant	4.245	
Redistributed Non-Domestic Rates	219.007	
New Homes Bonus	2.344	
LACSEG (Academy Schools Adjustment)	2.145	
Net Contribution to Cash Limit Reserves	-4.018	
Net Contribution to Earmarked Reserves		
Schools and DSG	1.059	
Non-Schools	-2.486	
Net Contribution to the General Reserve	-2.538	
<b>TOTAL FINANCING</b>		<b>426.591</b>

5 The final outturn position for the General Reserve is detailed below:

	£m
Opening Balance as at 1 April 2012	-21.874
Add	
Net Contribution to General Reserve	-2.538
<b>Closing General Reserve Balance as at 31 March 2013</b>	<b>-24.412</b>

- 6 The General Reserve balance carried forward is within the Council's General Reserves policy of retaining up to 7.5% of Net Revenue Expenditure (£35m). The position at 31 March 2013 represents 5.2% of 2013/14 Net Revenue Expenditure Budget.
- 7 The key reasons why the General Reserve has increased are detailed below:
- Local Authority Central Spend Equivalent Grant (LACSEG) income – a £2.145m refund was received from the Department for Education in respect of 2010/11 and 2011/12 LACSEG reductions;
  - Interest and Investment income - £2.668m more than budgeted;
  - Capital Receipt income from de-minimis asset sales - £0.324m more than budgeted, offset by:
  - Interest payable and similar charges - £2.828m more than budgeted.
- 8 The final outturn for Earmarked Reserves in 2012/13 is shown below with fuller detail provided in the Notes to the Accounts. Schools Balances and Cash Limits are shown separately.

	Non-Schools £m	Schools £m	Cash Limits £m	TOTAL £m
Opening Earmarked Reserve Balance as at 1 April 2012	-59.439	-25.100	-15.886	-100.425
Add				
Net contribution to Earmarked Reserve	-2.486	1.059	-4.018	-5.445
<b>Closing Earmarked Reserve Balance as at 31 March 2013</b>	<b>-61.925</b>	<b>-24.041</b>	<b>-19.904</b>	<b>-105.870</b>

### Service Grouping Commentary

- 9 A summary from each Service Grouping Outturn follows.

#### Assistant Chief Executive (ACE)

- 10 The 2012/13 outturn is a cash limit underspend of £0.488m. This takes into account adjustments for sums outside the cash limit such as redundancy costs which are met from the strategic reserves, year end capital entries and the use of / contributions to earmarked reserves.
- 11 The cash limit outturn position compares to the previously forecast position of a cash limit underspend of £0.348m.
- 12 The underspend is a managed position, reflecting the proactive management of activity by Heads of Service across ACE to remain within the cash limit. The main reasons for the outturn position are as follows:
- In line with corporate policy employees are budgeted at 97%. As a result of low vacancy levels within the service following restructures (driven by the requirement to meet MTFP savings targets) employee costs overspent by £21k representing 0.3% of the employees' budget. The overspend in employees has been managed within the service by adjusting planned activity elsewhere within ACE to ensure this overspend is offset.
  - The Premises, Transport and Supplies and Services areas of activity are under constant review by managers to minimise spending while still delivering a high level of service and as a result they delivered a £0.315m underspend.
  - The Transfer Payments budget underspent by £65k as a result of effectively managing the allocation process of making grants to qualifying bodies.
  - Income over recovered by £0.154m. This is primarily related to activity within Partnership and Community Engagement where managers have been able to identify and access additional funding to support additional activity within the AAP areas. Additionally support of the 'Police and Crime Panel' co-ordinated by the Overview and Scrutiny function and additional income achieved by the County Records Office also contributed to the over recovery.
  - Each of the 14 area action partnerships (AAP) have an 'Area' budget to contribute to local projects of £0.120m in 2012/13. Combined with revenue budgets carried forward from

previous years (related to committed expenditure on agreed projects) the total revenue budget across all 14 AAP's was £2.370m. £1.413m was expended in 2012/13, with the remaining £0.957m committed to projects in 2013/14 by 31 March 2013.

- Each elected member manages a 'Member's Neighbourhood budget' of £25k for priorities in their local AAP areas made up of £15k revenue budget and £10k capital. The revenue funding element has been reduced by £5k per member in 2013/14. Prior to 2012/13 all underspends on these budgets have been carried forward, however due to the Local Elections on 2 May 2013, only committed budgets have been carried forward into 2013/14.
  - In 2012/13, the Members' Neighbourhood revenue budget, including sums carried forward from the previous year, totalled £3.495m. Expenditure in 2012/13 was £1.096m however, £2.393m was committed to schemes and members initiatives prior to 31 March 2013 and has therefore been carried forward.
  - The Members Initiative Fund outturn was £0.316m which comprises the £0.252m budget for 2012/13 together with £64k of budget carried forward from 2011/12.
- 13 Further to the quarter 3 forecast of outturn report, the following items have been excluded from the outturn in arriving at the cash limit outturn position:
- £1.233m of capital charges over and above the budget;
  - £17k in respect of repairs and maintenance which is managed centrally;
  - £0.422m in respect of central admin recharges;
  - £36k in respect of design service recharges which is managed centrally;
  - £45k in respect of customer services recharges.
  - £40k in respect of unfunded pensions costs;
  - £2k in respect of staff pay accrued for holidays.
- 14 A range of transfers to and from earmarked reserves held corporately and within ACE have been excluded in arriving at the cash limit outturn:
- £45k use of the MTFP Redundancy and Early Retirement Reserve connected with MTFP linked restructuring exercises;
  - £17k use of the corporate Insurance Reserve to meet corporate insurance costs in excess of the budget;
  - £64k use of the Members Initiative Fund Reserve
  - £0.644m contribution to the AAP Members Reserve.
  - £1.348m contribution to the Members Neighbourhoods Reserve.
- 15 Taking the final outturn position into account, including items proposed to be treated as outside the cash limit, transfers to and from earmarked reserves, the Cash Limit Reserve to be carried forward for ACE is £1.165m.

### **Children and Adults Services (CAS)**

- 16 The 2012/13 outturn for Children and Adults Services (CAS) is a cash limit underspend of £3.960m. This takes into account adjustments for sums outside the cash limit such as redundancy costs which are met from strategic reserves, year-end capital accounting entries and use of / contributions to earmarked reserves.
- 17 The cash limit outturn position compares to the previously forecast position of a cash limit underspend of £2.890m.
- 18 The underspend is a managed position, reflecting the proactive management of activity by Heads of Service across CAS to remain within the cash limit. The main reasons accounting for the outturn position are as follows:
- Early achievement of a number of future year MTFP management and support service proposals, together with the careful management and control of vacancies and general



budgets across the service has created a net underspend for the year from former Adults, Wellbeing and Health services of £2.92m.

- Net spend on adult care packages was £3.2m below budget. This area of spend is closely monitored to assess the impact of demographic changes. Savings have arisen from consistent and effective application of the existing eligibility criteria, reducing the level of care packages subsequently commissioned. The service is reviewing its approach to current savings in order to consider increasing the saving associated with consistent application of eligibility criteria. This will need to be carefully considered in light of transition cases, potential for ordinary residence claims and the potential for increased care package costs linked to older carers and general increases in demand.
- CAS managers have reviewed plans in respect of available one-off additional funding, which has created an in-year contribution to the cash limit of £1.12m. It is anticipated that this funding will be utilised in part to resource the work associated with the outcomes of the LGA efficiency review work linked to the transformation agenda in social care for children and adults.
- To assist in the management of the demographic pressures facing the service over the MTFP period, the service targeted a planned underspend for 2012/13, repeating the approach applied in previous years, and a further contribution of £4.5m to the reserve for demographic pressures/hyperinflation has been actioned during the year.
- Children's Care overspent by a net £1.24m. This service experienced an overspend on independent foster agency and fostering related allowances (£1.74m), which reflects the higher than budgeted number of referrals and caseloads, particularly in the first half of 2012/13, and overspends due to transport costs (£0.41m) to fund contact visits ordered by the courts, together with excess school travel costs and car allowances. Managed underspends on employees (£0.78m) and additional income from Health to fund placements (£0.25m) have helped to partially mitigate the position in year. A Looked After Children (LAC) Strategy is now in place and, together with base budget realignment within CAS and falling numbers of LAC in quarter 4, the 2013/14 budget position is considered more sustainable.
- Home to School and college transport has overspent by £0.62m in 2012/13. This is a timing issue linked to the rollout of the policy changes implemented from September 2012. Whilst the policy changes will deliver the MTFP requirements in totality, the profiling of the savings will not be in line with the original MTFP assumptions and base budget adjustments have been actioned in 2013/14.
- A number of savings across Achievement, Countywide and Early Intervention and Partnership Services (£2.35m) mainly relating to employee related spend through vacancies and the early achievement of MTFP savings and reduced supplies and services expenditure.
- There is also an improved position on bad debts of £0.7m mainly due to the clearing of outstanding debts relating to local Primary Care Trusts.

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

- £96k transfer to the Continuous Professional Development reserve, relating to the trading account surplus at the year end.
- a reserve of £0.942m has been created for Tackling Troubled Families which reflects the unspent grant in 2012/13 to fund planned commitments in 2013/14.
- an amount of £1.589m has been added to the Social Care Reserve from available one-off balances to help support the transformation agenda
- a number of reserves totaling £0.904m which were planned to be used in 2012/13 but which spend will now be incurred in 2013/14 have been carried forward at year end; and
- MTFP related redundancy costs of £0.562m have been funded through the use of the corporate reserve set up for this purpose.



20 Taking the outturn position into account, the Cash Limit Reserve to be carried forward for Children and Adults Services is £9.732m. There is a pre-committed planned use of this reserve of £5.041m across the MTFP 3 period.

### **Dedicated Schools Grant**

21 The Dedicated Schools Grant (DSG) allocation for 2012/13 was £342.05m, however due to schools converting to academies the budget was reduced by £64.107m in year to £277.943m. This includes both the delegated schools budget and the centrally retained DSG budget.

22 The total revised delegated budget for maintained schools was £257.7m and net expenditure for the year was £257.6m.

23 Where schools spent more than their delegated budgets, the overspend reduces their accumulated balance. Schools related balances were £19.418m at 31 March 2013, a reduction of £1.472m from the previous year. There has been a reluctance to commit funds due to the freeze on inflation within school budgets and until the impact of the School Funding Reforms, particularly the National Funding Formula from April 2015, becomes clearer.

24 The level of school balances is being closely monitored and managed, particularly those schools with a deficit balance and robust arrangements have been put in to place to monitor these in parallel with budget plans given the additional risks from schools that could potentially become a sponsored academy.

25 In 2013/14 and beyond there will be greater scrutiny and challenge being put to schools budget plans to identify and address areas of concern and risk to the Council. Whilst the vast majority of schools are well managed and financially sound, termly updates will now be required from all maintained schools on their projections for the year, with reports also provided to School Governors. The Council will work constructively with schools to address any concerns and where appropriate take action to ensure the risk to the School and the Council is mitigated.

26 At 31 March 2013 there are 15 schools with a deficit balance carried forward totalling £0.46m, 25 schools holding a balance less than 2.5% of their overall funding and 220 schools with balances of more than 2.5% of their overall funding.

27 The pressure areas for the centrally controlled element of the DSG in 2012/13 have been within Education Other than at School, placements in independent special schools and school redundancy costs. This has been offset by underspends within the Access and Inclusion, Learning Support Service and capitalised repair and maintenance.

28 The overall outturn position for the centrally retained element of the DSG shows an underspend of £0.413m, which has been carried forward to support spend and budget pressures in 2013/14.

### **Neighbourhood Services**

29 The 2012/13 outturn for Neighbourhood Services is a cash limit underspend of £0.419m. This takes into account adjustments for sums outside the cash limit such as redundancy costs which are met from an earmarked reserve, year-end capital accounting entries and use of / contributions to earmarked reserves.

30 The cash limit outturn position compares to the previously forecast position of a cash limit overspend of £0.142m.

31 The underspend is a managed position, reflecting the proactive management of activity by Heads of Service across Neighbourhoods to bring spend within the cash limit, having previously forecast an overspend position. The main reasons accounting for the outturn position are as follows:

- There was a shortfall of £1.4m in the surplus generated within Highways Services. This was primarily due to reduced levels of workload across the year. Progress is currently being made to downsize the workforce in order to align it with a more sustainable level of income for 2013/14.
- There was an overspend of £0.3m within Direct Services due a fall in the projected income from the sale of dry recyclates due to falling market prices.

- In order to mitigate against previously identified overspends Neighbourhoods Management team instigated an exercise to further identify areas of the budget where costs could be saved on a one-off basis within the service, and as a result an underspend of approximately £0.700m was achieved on supplies and services across all areas of Neighbourhood Services.
  - There was also an underspend of £1.0m within Strategic Waste, associated with savings from reduced levels of waste being generated, principally due to the economic climate, and the introduction of Alternate Weekly Collections, which increased diversion from landfill by more than was forecast.
  - Finally, there was an underspend of approximately £0.400m within the service associated with both the Environment, Health and Consumer Protection service and Projects and Business Services where a number of planned MTFP savings from 2013/14 have been achieved early.
- 32 Further to the quarter 3 forecast outturn report, the following items have been excluded from the outturn in arriving at the cash limit:
- An additional overspend on Winter Maintenance activities of £0.311m
  - Other sums outside the cash limit include costs in respect of capital accounting entries, and central administration recharges.
- 33 In addition, the Service is making the a net contribution to Earmarked Reserves of £0.545m:
- £0.424m relates to a contribution to earmarked reserves in respect of Culture and Sport,
  - £0.698m relates to a contribution to earmarked reserves in respect of Highways and Waste Disposal,
  - £1.609m relates to a contribution to earmarked reserves in respect of Buildings and Grounds Maintenance, and Street Cleaning,
  - £0.294m relates to a contribution to earmarked reserves in respect of Environmental Health, and
  - £0.110m relates to a contribution to earmarked reserves in respect of for Customer Services.
  - Neighbourhoods have utilised £0.404m in respect of additional ER/VR costs, and £2.186m for additional Insurance charges. Both these sums are funded corporately from Earmarked reserves held centrally
- 34 Taking the outturn position into account, the Cash Limit Reserve to be carried forward for Neighbourhood Services is £2.311m.

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

- 35 The 2012/13 outturn for Regeneration and Economic Development is a cash limit underspend of £0.556m. This takes into account adjustments for sums outside the cash limit such as redundancy costs which are met from an earmarked reserve, year end capital accounting entries and use of contributions to earmarked reserves.
- 36 The cash limit outturn position compares to the previously forecast position of a cash limit underspend of £0.615m.
- 37 The underspend is a managed position, reflecting the proactive management of activity by Heads of Service across RED to remain within the cash limit. The main reasons accounting for the outturn position is as follows:
- Strategy Programmes and Performance - £0.121m saving due to the freezing of vacant posts and other general efficiency savings on Supplies and Services.
  - Economic Development and Housing - £0.117m underspend primarily due to savings on employee costs resulting from vacant posts, maternity leave and other general efficiency savings.

- Planning and Assets - £0.490m underspend which is broken down into a £0.526m underspend in the Planning service and a £0.036m overspend on Assets. Building control income was lower than budget by £0.295m although planning fee income was higher and is offsetting this budget pressure. The underspend in the Planning Service results from vacant posts and other efficiency savings on Transport, Supplies and Services.
  - There were income pressures within the Assets Service, mainly from Newgate Street in Bishop Auckland, the Brackenhill Centre, Peterlee and Millenium Square in Durham City where rental income targets were not achieved.
  - Transport - £0.201m overspend which is primarily due to the non-realisation of budgeted vacancy savings and additional costs incurred for agency staff to cover for sickness on statutory duties. In addition there was a shortfall in anticipated income resulting from a delay in the implementation of Civil Parking in the South and loss of car parking income due to bad weather in the latter part of the financial year.
  - Central Costs - £29k underspend due to a rebate from Commensura, who manage our agency recruitment process, plus other general efficiency savings
- 38 Further to the quarter 3 forecast outturn report, the following items have been excluded from the outturn in arriving at the cash limit:
- £1.295m – relates to contributions to and from earmarked reserves and cash limits to support specific projects in 2013/14
  - -£3.113m – relates to a range of adjustments associated with capital charges, centralised repairs and maintenance, central administration and concessionary fares.
- 39 Taking the outturn position into account, the Cash Limit Reserve to be carried forward for Regeneration and Economic Development is £3.416m.

### Resources

- 40 The 2012/13 outturn for Resources is a cash limit underspend of £1.625m. This takes into account adjustments for sums outside the cash limit such as redundancy costs which are met from the strategic reserves, year end capital accounting entries and use of / contributions to earmarked reserves.
- 41 The cash limit outturn position compares to the previously forecast position of a cash limit underspend of £1.361m.
- 42 The main reasons accounting for the final outturn position are as follows:
- Employee costs underspent by £1.639m, which is primarily as a result of the planned early achievement of 2013/14 MTFP saving requirements linked to the unitisation of Finance and Human Resources. Proactive management of vacancies within Legal and Democratic Services, Internal Audit and ICT is intended to minimise the cost and disruption of restructures planned for 2013/14. The restructures linked to unitisation achieved the 2013/14 MTFP savings requirements and after accounting for transition contributed significantly to the underspend in 2012/13.
  - Premises costs are marginally underspent by £0.027m. The underspend is due mainly to reduced spend on general repairs and maintenance.
  - Transport costs underspent by £0.267m. This is due to lower than anticipated spend on car allowances across the Service.
  - Supplies and Services costs overspent by £0.920m. Contributing to the overspend are costs in Finance associated with the introduction of Hyperion and Business Intelligence budgeting tools and the cost of outsourced work packages in respect of the Housing Benefits Service.
  - Central Support and Capital is overspent by £0.209m. This is as a result of funding capital expenditure on ICT data centres, vehicles and printing equipment.
  - Income is over recovered by £0.808m. This is primarily due to an increase in court fee income within the Council Tax and Business Rates Service of £0.427m. There was also an over recovery of income in Legal Services, Corporate Finance and Financial Services.

- 43 Further to the quarter 3 forecast of outturn report, the following items have been excluded from the the outturn in arriving at cash limit:
- £1.242m of capital charges over and above the budget;
  - £5k in respect of repairs and maintenance which is managed centrally;
  - £1.569m in respect of central admin recharges;
  - £5k in respect of corporate and democratic core recharges;
  - £9k in respect of customer services recharges;
  - £0.202m of costs in respect of the Coroners Service;
  - £5k in respect of the single persons discount review in Revenues and Benefits;
  - £0.204m of the bad debt provision charge relating to expenditure incurred on the building in Newgate Street Bishop Auckland (the “Mothercare Building”);
  - £2k for the provision of backdating successful job evaluation appeals.
  - £0.324m for capital receipts less than £10k;
  - £18k in respect of staff pay for accrued holidays.
  - £22k in respect of unfunded pensions.
  - £6k in respect of equal pay provision.
- 44 A range of transfers to and from earmarked reserves held corporately and within Resources have been excluded the outturn in arriving at the cash limit position:
- £31k use of the MTFP Redundancy and Early Retirement Reserve connected with MTFP linked restructuring exercises;
  - £54k use of the Equal Pay Reserve to fund the implementation of the Job Evaluation exercise;
  - £1.654m use of the Insurance Reserve to meet the costs of insurance;
  - £0.100m contribution to the Revenues and Benefits CIVICA Development Reserve;
  - A further contribution of £0.321m to the Corporate Procurement Reserve;
  - A contribution of £0.479m to the Housing Benefit Subsidy Reserve;
  - £91k contribution to the Discretionary Housing Payments Reserve;
  - £0.350m contribution to the Oracle Development Reserve to pay for the implementation of Oracle Release 12;
  - £80k to the ICT Mobile Infrastructure Reserve;
  - £0.400m to the ICT Trading Account Reserve.
  - £16k contribution to the DWP Welfare Assistance Reserve.
- 45 Taking the final outturn position into account, the Cash Limit Reserve to be carried forward for Resources is £3.280m.

#### **Resources - Centrally Allocated Costs**

- 46 The 2012/13 outturn for Resources – Centrally Allocated Costs is an underspend of £80k. The outturn has been adjusted to take into account the removal of sums outside the cash limit in respect of Central Administration recharges.
- 47 The outturn position compares to the previously forecast position of an underspend of £64k.
- 48 The main reasons accounting for the final outturn position are as follows:
- Supplies and Services underspent by £0.106m primarily due to an underspend on audit fees.
  - Income is under recovered by £26k from the VAT sharing arrangement with North Star Housing Group.

- 49 Further to the quarter 3 forecast of outturn report, the following items have been excluded from the cash limit:
- £1.561m in respect of central admin recharges.

### **Central Budgets**

#### **Interest Payable and Similar Charges**

- 50 The Revenue Summary at paragraph 2 shows a £2.828m overspend at year end against this heading. In-year savings of £9.385m, due to lower than forecast interest rates on loans and delayed borrowing decisions due to higher levels of cash balances than forecast, have been used to offset the cost of borrowing utilised to support the capital programme.

#### **Interest and Investment Income**

- 51 There has been an overachievement of investment income of £2.668m which is due to the higher than anticipated levels of cash balances held during 2012/13. This is due in the main to lower than expected use of reserves and re-profiling of capital expenditure originally anticipated to be expended in 2012/13. In addition, £0.299m in respect of the interest has been accounted for on the loan to Newcastle International Airport Limited (NIAL) and £0.230m received for granting permission to Copenhagen Airport for the sale of their shares in the Airport.

#### **Local Authority Central Spend Equivalent Grant (LACSEG) Fund**

- 52 Following a successful legal challenge, the Council received an amount of £0.646m in 2012/13 in respect of the Government's top slice of the LACSEG grant to fund new academy schools in 2011/12 which was proven to have been 'illegal'. This payment will be used to offset any redundancy costs associated with downsizing of 'centrally managed' Behavioural Support Services, following the decision by the Schools Forum on 15 October 2012 not to 'de-delegate' Dedicated School Grant to fund these pan-county strategic services from 1 April 2013. At present the payment has been added to the Council's general reserves and future reports will detail the redundancy costs as they become known.
- 53 In addition, a further £1.499m was received in May 2013 relating to the year ended 31 March 2013 in respect of the Government's top slice of the LACSEG grant in 2012/13.

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

- 54 The Durham County Waste Management Company (and its subsidiary Premier Waste Management) entered into a Company Voluntary Arrangement (CVA) on 12 February 2013 as part of a managed liquidation of the company from 1 June 2013. This follows the Council's decision to re-let its Waste Disposal and Treatment contracts from that date.
- 55 The company was unable to submit a bid for the new contract and having explored a range of options, it was resolved that it was in the best interest of its creditors to wind up the company.
- 56 As part of agreeing the CVA, the Council made a number of financial concessions, which were necessary to ensure continuity of service provision (access to Transfer Stations; Household Waste Recycling Centres etc.) to 31 May 2013. As part of these concessions, the Council has waived its right to a claim against the liquidator for a dividend distribution linked to an outstanding loan obligation for the funding of one of the now demolished anaerobic digesters. The balance on the loan that has been written off is £0.797m.
- 57 The Council's concession was fundamental to the successful delivery of the CVA and continuity of service was maintained. The new waste Contract commenced 1 June 2013 and will deliver significant savings for the Council going forward.

## 2012/13 Capital Outturn

### Capital

#### Background

- 58 The General Fund (GF) capital budget for 2012/13 approved by County Council in February 2012 was £197.436m. Spend originally planned in the 2011/12 capital programme was re-profiled into 2012/13. This amounted to £32.214m and was approved by Cabinet on 11 July 2012.
- 59 During the year, the Capital Member Officer Working Group (MOWG) has continually reviewed progress in delivering the capital programme to take into account changes in planning and delivery timescales and analysis of changes in demands on resources. This included consideration of requests for re-profiling at year end once the outturn position was known. The recommendations following the MOWG review are included in this report.
- 60 The following table summarises the original budget and revisions reported through and agreed by MOWG, which were approved by Cabinet on 6 February 2013 as well as the outturn position for each service. The table also details the request for budget to be carried forward, which was approved at the Member Officers Working Group held on 14 May 2013.

#### General Fund Capital Programme 2012/13

	Revised 2012/13 Budget	2012/13 Outturn	Structural Maintenance outturn adjustment	Other amendments to Service Outturn	Total Revised Outturn	Variance		Budget carried forward
	£m	£m	£m	£m	£m	£m	%	£m
Assistant Chief Executives	1.867	1.422	-0.043	0.122	1.501	-0.366	-19.6	0.367
Children and Adults Services	70.041	57.248	-1.559	-	55.689	-14.352	-20.5	14.989
Neighbourhoods	26.403	24.572	-3.666	-0.080	20.826	-5.577	-21.1	5.673
Regeneration and Economic Development	40.521	30.997	5.272	-0.042	36.227	-4.294	-10.6	4.996
Resources	4.582	2.847	-0.004	-	2.843	-1.739	-38.0	1.916
Other	9.540	-	-	-	-	-9.540	-	-
<b>TOTAL</b>	<b>152.954</b>	<b>117.086</b>	<b>0.000</b>	<b>0.000</b>	<b>117.086</b>	<b>-35.868</b>	<b>-23.5</b>	<b>27.941</b>

- 61 In addition to underspends against schemes that are being requested to carry forward into 2013/14, the variances in the table above also include overspends that are due to accelerated spending, where 2013/14 budgets will be adjusted accordingly, and also overspends that are being financed from additional funding that was received after the revised capital budget was approved by the Council in February 2012.
- 62 The Capital Programme is financed via various funding sources including grants, capital receipts, revenue contributions, contributions from reserves and borrowing. The financing of the 2012/13 Outturn is detailed in the table below.

#### Financing – General Fund Capital Programme 2012/13

	2012/13 Outturn £m
<b>Financed by:</b>	
Grants	63.354
Reserves	2.743
Direct Revenue Financing	
DSG	1.992
Other	11.150
Capital Receipts	8.154
Borrowing	29.693
<b>Total</b>	<b>117.086</b>



### **Service Grouping Commentary**

63 The Capital Member Officer Working Group has approved the outturn against the agreed programme on a scheme by scheme basis for each service grouping. Reasons for any slippage and necessary reprofiling have been thoroughly challenged. A summary of the capital outturn for each Service Grouping is shown below:

#### **Assistant Chief Executive (ACE)**

64 The 2012/13 outturn capital spend for ACE was £1.501m, against the revised budget of £1.867m, a £0.366m underspend for the year.

65 Included in the capital outturn position is overspending resulting from the accelerated delivery of schemes that span the 2012/13 - 2013/14 financial years. A £0.010m overspend on Community Buildings in 2012/13 is a profiling issue and has been managed by reducing the 2013/14 budget.

66 Planned and budgeted capital expenditure of £0.377m will be reprofiled into 2013/14 and budgets adjusted in year accordingly.

#### **Children and Adults Services (CAS)**

67 The 2012/13 outturn capital spend for Children and Adults Services was £55.689m, against a revised budget of £70.041m, a £14.352m underspend for the year.

68 Included in the capital outturn position is overspending on schemes financed by additional capital grants and contributions that were not included in the budget of £2.213m and accelerated spend on 2013/14 schemes that have been brought forward and commenced in quarter 4 of £1.482m. The 2013/14 capital budgets will be adjusted in quarter 1 2013/14 to reflect this.

69 Planned and budgeted capital expenditure of £16.470m will be reprofiled into 2013/14 and budgets adjusted accordingly.

#### **Neighbourhood Services**

70 The 2012/13 outturn capital spend for Neighbourhood Services was £20.826m, against a revised budget of £26.403m, a £5.577m underspend for the year.

71 Included in the capital outturn position is overspending on schemes financed by additional capital grants and contributions that were not included in the budget of £0.670m and accelerated spend of £79k that have been financed by reducing 2013/14 budget.

72 Planned and budgeted capital expenditure of £5.752m will be re-profiled into 2013/14 and budgets adjusted in year accordingly.

73 In addition, unspent Neighbourhood's capital budgets of £0.925m were released back to capital contingencies.

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

74 The 2012/13 outturn capital spend for Regeneration and Economic Development was £36.227m, against a quarter 3 revised budget of £40.522m a £4.295m underspend for the year.

75 The RED capital budget was revised at quarter 3 to include £9.385m for the refinancing of the Newcastle International Airport Limited loan which was approved by Cabinet on 13 March 2013. Further information has recently been received and following a review of accounting regulations, the refinancing of the loan is no longer to be classified as capital expenditure and is now being accounted for as a long term debtor, which means the revised budget is no longer required. For presentation purposes this budget is shown in 'Other' on the table under paragraph 60.

76 Included in the capital outturn position is overspending on schemes financed by additional capital grants and contributions that were not included in the budget of £0.700m and accelerated spend on 2013/14 schemes that have been brought forward and commenced in quarter 4 of £0.954m. The 2013/14 capital budgets will be adjusted in quarter 1 2013/14 to reflect this.

77 Planned and budgeted capital expenditure of £5.949m will be re-profiled into 2013/14 and budgets adjusted in year accordingly.

**Resources**

- 78 The 2012/13 outturn capital spend for Resources was £2.843m, against a revised budget of £4.582m, a £1.739m underspend for the year.
- 79 Included in the capital outturn position is overspending on schemes financed by additional capital grants and contributions that were not included in the budget of £0.178m and accelerated spend on 2013/14 schemes that have been brought forward and commenced in quarter 4 of £76k. The 2013/14 capital budgets will be adjusted in quarter 1 2013/14 to reflect this.
- 80 Planned and budgeted capital expenditure of £1.992m will be reprofiled into 2013/14 and budgets adjusted in year accordingly.

**Annual Treasury Management Review****Executive Summary**

- 81 Treasury Management is the management of the Council's investments and cash flows, its banking, money market and capital market transactions, the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks. It is concerned with how the Council manages its cash resources and its scope covers borrowing, investment and hedging instruments and techniques. Risk is inherent in all treasury management activities and it is necessary to balance risk against return on investment.
- 82 2012/13 continued the challenging investment environment of previous years, namely low investment returns and continuing heightened levels of counterparty risk. The original expectation for 2012/13 was that Bank Rate would not rise until quarter 4 of 2014. However, economic growth in the UK was disappointing during the year due to the UK austerity programme, weak consumer confidence and spending, a lack of rebalancing of the UK economy to exporting and weak growth in our biggest export market - the European Union (EU).
- 83 The UK Coalition Government maintained its tight fiscal policy stance against a background of warnings from two credit rating agencies that the UK could lose its AAA credit rating. Moody's followed up this warning by actually downgrading the rating to AA+ in February 2013 and Fitch then placed their rating on negative watch, after the Budget statement in March 2013. Key to retaining the AAA rating from Fitch and Standard and Poors will be a return to strong economic growth in order to reduce the national debt burden to a sustainable level, within a reasonable timeframe. Weak UK growth resulted in the Monetary Policy Committee increasing quantitative easing by £50bn in July to a total of £375bn. Bank Rate therefore ended the year unchanged at 0.5% while CPI inflation fell from 3% at the start of the year to end at 2.8% in March, with a fall back to below 2% pushed back to quarter 1 of 2016.
- 84 The EU sovereign debt crisis was an ongoing saga during the year with first Greece and then Cyprus experiencing crises which were met with EU 'bailouts' after difficult and fraught negotiations.
- 85 Gilt yields oscillated during the year as events in the ongoing Eurozone debt crisis ebbed and flowed, causing corresponding fluctuations in safe haven flows into / out of UK gilts. This, together with a further £50bn of quantitative easing (QE) in July and widely expected further QE still to come, combined to keep Public Works Loan Board (PWLB) rates depressed for much of the year at historically very low levels.
- 86 The Government's 'Funding for Lending' Scheme, announced in July 2012, resulted in a flood of cheap credit being made available to banks and this has resulted in money market investment rates falling sharply in the second half of the year. However, perceptions of counterparty risk have improved after the European Central Bank (ECB) statement in July that it would do "whatever it takes" to support struggling Eurozone countries. This has resulted in some return of confidence to move away from only very short term investing.



**Treasury Position**

87 The Treasury position at the beginning and end of 2012/13 is shown in the table below:

	31 March 2012	Rate / Return	Average Life	31 March 2013	Rate / Return	Average Life
	£m	%	yrs	£m	%	yrs
Total Debt	418	5.03		440	4.61	
Capital financing requirement (CFR)	579			604		
Over / (-) Under borrowing	-161			-164		
Total Investments	144	1.1	0.3	112	1.72	0.3
Net Debt	274			328		

88 Investments decreased by £32m across the period, reflecting an outflow of cash from the Council, however by identifying core cash levels that could be invested in longer dated deposits it was possible to improve the average rate earned on those balances by 0.62%.

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

90 In addition, another £30m of loans was taken from the Public Works Loans Board (PWLB) during the year. This enabled the Council to take advantage of historically low interest rates and to maintain its under-borrowed position at a manageable level.

**Investment Strategy**

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

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

**Selection Criteria**

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

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

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

- ii. Banks 2 - Part nationalised UK banks – Lloyds Bank and Royal Bank of Scotland. These banks are included so long as they continue to be part nationalised or they meet the ratings in Banks 1 above.
- iii. Banks 3 – Co-operative Bank - The Council’s own banker for transactional purposes. If the bank falls below the above criteria balances will be minimised in both monetary size and time.
- iv. Bank subsidiary and treasury operation. The Council will use these where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined above.
- v. Building societies. The Council only use building societies which meet the ratings for banks outlined above.
- vi. Money Market Funds.
- vii. UK Government (including gilts, Treasury Bills and the Debt Management Account Deposit Facility).
- viii. Local authorities and parish councils.

### Time and Monetary Limits applying to Investments

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

	Long Term Rating	Money Limit	Time Limit
Banks 1 category high quality	AA	£50m	1 year
Banks 1 category medium quality	A	£25m	3 months
Banks 2 category – part-nationalised	n/a	£60m	1 year
Banks 3 category – Council's banker	A-	£25m	3 months
DMADF/Treasury Bills	AAA	unlimited	6 months
Local Authorities	n/a	£10m each	1 year
Money Market Funds	AAA	£10m each (overall £50m)	liquid

### Amendments to Limits

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

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

97 In order to provide more flexibility to act in such circumstances, the power to amend counterparty monetary and time limits has been delegated to the Corporate Director Resources. Any changes to the Annual Strategy made during the financial year are reported to County Council in either the Mid-Year Review or the Final Outturn Report.

### Icelandic Deposits Update

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

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

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

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

### Kaupthing Singer and Friedlander Ltd

101 The current position on actual payments received and estimated future payouts is as shown in the table. The Council has decided to recognise an impairment based on it recovering 85.25p in the £ compared to 83.5p in the £ at 31 March 2012.

Date	Repayment
	%
Received to 31 March 2013	76.00
Received in June 2013	3.00
January 2014	3.25
January 2015	3.00

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

**Landsbanki**

103 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.

104 The Icelandic Supreme Court's decision to grant UK local authorities priority status was followed by the winding up board making a distribution to creditors in a basket of currencies in February 2012. Further distributions were made in May and October 2012.

105 An element of the distribution is in Icelandic Kroner which has been placed in an escrow account in Iceland and is earning interest of 4.17% as at 31 March 2013. This element of the distribution has been retained in Iceland due to currency controls currently operating in Iceland and as a result is subject to exchange rate risk, over which the Council has no control.

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

Date	Repayment
	%
Received to 31 March 2013	49.65
December 2013	7.5
December 2014	7.5
December 2015	7.5
December 2016	7.5
December 2017	7.5
December 2018	7.5
December 2019	5.35

107 Recoveries are expressed as a percentage of the authority's claim in the administration, which it is expected may validly include interest accrued up to the deposit maturity date.

**Glitnir Bank hf**

108 Glitnir Bank hf is an Icelandic entity. Following steps taken by the Icelandic Government in early October 2008 its domestic assets and liabilities were transferred to a new bank (new Glitnir) with the management of the affairs of Old Glitnir being placed in the hands of a resolution committee.

109 The Icelandic Supreme Court's decision to grant UK local authorities priority status was followed by the winding up board making a distribution to creditors in a basket of currencies in March 2012.

110 An element of the distribution is in Icelandic Kroner which has been placed in an escrow account in Iceland and is earning interest of 3.4% up to 22 June 2012 and 4.2% thereafter. This element of the distribution has been retained in Iceland due to currency controls currently operating in Iceland and as a result is subject to exchange rate risk, over which the Council has no control.

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

## 6. Material Assets Acquired, Liabilities Incurred

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

	Expenditure in 2012/13 £000
Dene House Comprehensive	5,342
North Durham Academy	13,940
Structural maintenance of buildings - schools	1,985
Schools - schemes funded from capital budgets delegated to schools	2,716
Housing Capital Programme	43,856
Infrastructure - Street Lighting	1,072
Infrastructure - Other	24,853
Business Space Capital Programme	1,681
Energy Efficiency/Renewable Energy Schemes	1,718
Structural maintenance of buildings (non schools)	5,338
Vehicles, Plant and Equipment	7,671
Revenue expenditure funded from capital under statute (REFCUS) (excluding school's delegated)	
Disabled Facilities Grants	3,150
Decent Homes Assistance	1,094
Group Repair	1,058
Members' Neighbourhood Fund	1,178
Other REFCUS	21,978

## 7. Sources of Funds to meet Capital Expenditure and Other Plans

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.

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

	2011-12 Actual £m	2012-13 Estimate £m	2012-13 Actual £m
Non-HRA capital expenditure	143.77	152.96	111.99
Non-HRA PFI and Finance Lease	2.75	-	5.09
HRA capital expenditure	41.73	45.47	43.92
HRA Self-financing	52.89	-	-
<b>Total capital expenditure</b>	<b>241.14</b>	<b>198.43</b>	<b>161.00</b>
Resourced by:			
Capital receipts	9.46	20.34	9.11
Capital grants	95.42	78.19	76.44
Capital reserves	11.70	18.04	7.69
Revenue	15.63	18.68	31.56
<b>Unfinanced capital expenditure</b>	<b>108.93</b>	<b>63.18</b>	<b>36.20</b>

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 is affordable to undertake such borrowing, local authorities must follow the requirements of the Prudential Code for Capital Finance in Local Authorities, issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). The position for the Council is described in paragraph 8 below.

At 31 March 2013, usable capital receipts of £0.137m and unapplied capital grants and contributions of £32.040m, (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 Council's approved capital programme, which is subject to rolling review.

General and earmarked reserves of a revenue nature, totalling £130.284m were also held as at 31 March 2013 for General Fund purposes and another £8.305m in respect of Housing. These are detailed in the Notes to the Core Financial Statements.

## 8. Borrowing

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 2012/13 unfinanced capital expenditure and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

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

	31 March 2012	31 March 2013	31 March 2013
	Actual	Estimate	Actual
	£m	£m	£m
<b>CFR</b>			
Opening balance	484.646	579.135	579.135
Add unfinanced capital expenditure	108.943	64.505	41.293
Less MRP/VRP	-14.454	-14.995	-15.600
<b>Closing balance</b>	<b>579.135</b>	<b>628.645</b>	<b>604.828</b>

Part of the Council's treasury management activities is to address the funding requirements for this borrowing need by organising the Council's cash position to ensure sufficient cash is available to meet the capital plans and cash flow requirements. Borrowing may be sourced 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. The CFR figure includes PFI and leasing schemes, which notionally increase the Council's borrowing need, however no borrowing is actually required against these schemes as a borrowing facility is included in the contract.

The Council's (non HRA) underlying borrowing need, 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. The Council's 2012/13 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 2012/13 on 22 February 2012. MRP is effectively a repayment of the non-HRA borrowing need (there is no statutory requirement to reduce the HRA CFR). This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

The CFR can be reduced by:

- the application of additional capital financing resources (such as unapplied capital receipts); or
- charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

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

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

The following table demonstrates that during 2012/13 the Council has maintained gross borrowing within its authorised limit.

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.

	<b>31 March 2013</b>
	<b>£m</b>
Authorised limit	682.000
Operational boundary	629.000
Average gross borrowing position	435.703

During the year, £30m of loans was taken from the Public Works Loans Board (PWLB). This enabled the Council to take advantage of low interest rates and to maintain its under-borrowed position at a manageable level.

Including the above borrowings, and loan repayments of £7.52m, the overall debt position of the Council increased by £22.48m from £417.91m at 31 March 2012 to £440.39m at 31 March 2013 which is detailed in the following table.

The total borrowing at 31 March 2012 and 31 March 2013 is detailed in the following table:

<b>31 March 2012</b>		<b>31 March 2013</b>
<b>£m</b>		<b>£m</b>
	<b>Fixed Rate Funding</b>	
390.50	- PWLB	413.28
27.41	- Market	27.11
	<b>- Variable Rate Funding</b>	<b>-</b>
<b>417.91</b>		<b>440.39</b>

## 9. Pensions Liability

Durham County Council is a member of the Durham County Council Pension Fund. The Council's Balance Sheet shows a Pension's Liability of £978.899m (£897.886m in 2011/12). 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 2013, valued using the projected unit method. Allowance is made for expected future increases in pay and pension.

The IASB has issued an amended IAS19 accounting standard that will come into force for accounting periods beginning on or after 1 January 2013. For the Council this results in higher Profit and Loss charges going forward. IAS8 requires disclosure of the impact of the changes to accounting standards adopted. If this revised IAS19 were adopted for the accounting period ending 31 March 2013 then this would increase the expense recognised for funded benefits from £62.04m to £75.65 m. There is no effect on the Balance Sheet.

The liability value represents the amount of money that needs to be set aside now to meet the benefits that the 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 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.

## 10. Material or Unusual Items

### Investments in Iceland Banks

In September and October 2008 the Icelandic economy was hit by an economic catastrophe. This led to the insolvency of virtually all the larger Icelandic banks and savings banks, including Glitnir, Landsbanki Islands hf. and Kaupthing banki hf, and the UK subsidiaries of the banks, Heritable and Kaupthing, Singer and Friedlander went into administration. The Council had £7m deposited across the three Icelandic Banks which were outstanding at the time of their collapse in October 2008.

All monies within these institutions are currently subject to the respective administration and receivership processes. The amounts and timing of payments to depositors such as the authority will be determined by the administrators / receivers and are detailed in paragraph 5 above and Note 51.

Since 2008/09 impairment of £1.910m to the asset values have been calculated in accordance with CIPFA's LAAP 82 Bulletins. During 2012/13, £0.034m of impairments have been charged through the Comprehensive Income and Expenditure Statement (CI&E). There has also been recognition of the exchange rate gain on the Icelandic Kroner held in escrow accounts in respect of deposits in Glitnir and Landsbanki banks. This has offset the impairment charged by £0.074m resulting in an overall gain of £0.040m.

## 11. Significant Changes in Accounting Policies

The accounting policies used in the preparation of the 2012/13 accounts are in line with those used in the preparation of the 2011/12 accounts as there have been no changes to the Code necessitating a change for 2012/13.

The wording of existing accounting policies has been improved to more accurately reflect the Council's approach and improve compliance with Code disclosure requirements, and clarify principles being applied:

- **Property, Plant and Equipment - Depreciation:** The part of this policy relating to Vehicles, Plant, Furniture and Equipment has been amended to more accurately reflect the Council's approach and remains in line with Code requirements.
- **The Local Government Pension Scheme:** The part of this policy referring to the valuation of property assets in respect of Durham County Council pension fund attributable to the Council has been removed as none are currently held.

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

The Council's assets have been impaired by £101.408m in 2012/13, charged partly to services in the Comprehensive Income and Expenditure Statement (CI&E) and partly to the Revaluation Reserve. This includes both the consumption of economic benefits and also revaluation losses due to the downturn in the economy as well as the on-going review of the Council's asset base since Local Government Reorganisation in 2009/10. The Council's housing stock has been impaired by £61.944m due to a decrease in the house price index.

A number of schools have been established as Academies in County Durham during 2012/13, which are independent of the Council. The effect of these changes in status has led to the removal of these schools from the Council's asset register as disposals. The loss on disposal of these schools amounts to £29.766m and has been charged to the CI&E below the Net Cost of Services.

In 2011/12 a significant project was undertaken to bring together the Council's assets into a single asset register and an opportunity was taken to review accounting treatment and align asset balances. In 2012/13, this project continued and brought together the Council's Housing assets into the single asset register.

In 2012/13 the Council impaired a long-term loan and its shareholding in Durham County Waste Management Company, as a result of the company entering into a Company Voluntary Arrangement (CVA) during the year. The CIPFA code requires financial assets to be impaired when there is objective evidence of impairment, including it becoming probable that the borrower will enter bankruptcy or other financial reorganisation. The outstanding balance of the loan at the time of the impairment was £0.797m. This was written off to the Comprehensive Income and Expenditure Statement (Surplus or Deficit on Provision of Services - Financing and Investment Income and Expenditure). The Council's shareholding in the company had a value of £1.158m and was accounted for as an Available for Sale Financial Asset. This was also



written off to the Comprehensive Income and Expenditure Statement, matched by a £1.158m gain accumulated in the Available for Sale Reserve. This resulted in a neutral impact on the Surplus or Deficit on Provision of Services.

### 13. Changes in Statutory Functions

There have been no changes in statutory functions in 2012/13.

### 14. Subsequent Events

The Statement of Accounts was signed by the Corporate Director Resources on 28 June 2013.

The Durham County Waste Management Company (and its subsidiary Premier Waste Management) entered into a Company Voluntary Arrangement on 12 February 2013 as part of a managed liquidation of the company from 1 June 2013. The company was unable to submit a bid for the new contract for waste disposal and having considered a range of options, it was resolved that it was in the best interests of its creditors to wind up the company. The impact of the impairment of the Council's loan to the company and the write off of the value of the Council's shareholding has been recognised in the 2012/13 accounts and are detailed in paragraph 12 above and Note 42.

As at this date, there have been no other circumstances or events subsequent to the period end which require adjustment to the financial statements or in the notes thereto.

### 15. Future Plans

In the face of an unprecedented reduction in Government funding, the Council remains committed to the delivery of its vision and priorities for the county which were developed with partners following Local Government Reorganisation. The council's strategic priorities, which have been developed following extensive consultation with the public, remain the focus of the Council. The council and its partners on the County Durham Partnership have all reaffirmed commitment to the following priority themes as the basis for a new Sustainable Community Strategy with the local economy remaining the key priority:

- Altogether Wealthier
- Altogether Healthier
- Altogether Better for Children and Young People
- Altogether Safer
- Altogether Greener

Together with a sixth theme of an Altogether Better Council, these priorities form the platform for the Council Plan and Service Plans for 2013- 2017.

Each of the above priority themes is underpinned by detailed objectives and outcomes and a high level action plan for delivery set out in the [Council Plan](#).

By the end of 2012/13 the Council delivered budget reductions of £93million out of a total of £188m to be achieved by 2016/17. Whilst the financial position is challenging, the ongoing opportunity presented by the creation of the unitary authority has meant that the Council had significant opportunities for economies of scale and efficiencies in service delivery which has helped in making the savings required. The aim is to make sure that these savings are well managed and that the impact on residents and service users is minimised. A peer challenge of the council was carried out in July 2012 where an external team of councillors and officers from other local authorities scrutinised the council's leadership and organisational capacity as well as examining two elements of economic development and community engagement. The final report from the team gave the Council a clean bill of health and provided assurance that the Council is on the right track to deliver the vision. Challenges highlighted within the report have been used to develop future plans.

Over the coming four years the Council will also continue to respond to the Government's programme which needs to be reflected in our Council Plan and Service Plans. A number of changes include:

- Fundamental changes in the local partnership environment, including the transfer of public health responsibilities to the Council in 2013, a reshaping of the NHS with the introduction of clinical commissioning groups (including GPs, nurses and health professionals) who will commission health services for local people.



- The election of the police and crime commissioner and the appointment of a new chief constable will play a role in deciding on local policing priorities and how the force budget and community safety grants are spent.
- Large numbers of schools are opting out of direct local authority control to become academies. This may help further redefine the role of the local authority in the education of children and young people.
- The welfare system is undergoing fundamental change. These changes will have a significant impact on the amount of benefit and allowances paid to people in County Durham which in turn will reduce the amount of money entering the local economy. Changes will have repercussions for the way in which council services are delivered.
- The Local Government Resources Review has introduced the retention of business rates locally. It is not fully clear what the financial impact on the Council will be.
- The Localism Act heralded a significant change in the statutory planning framework with a presumption in favour of development alongside greater influence for neighbourhoods in relation to planning decisions.

The 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.

The Council's Medium Term Financial Plan (MTFP) integrates corporate service and financial planning over a four-year budgeting period – 2013/14 to 2016/17. It translates the Council Plan priorities 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 the resource envelope to allow the Council to set out the policy framework and service and financial planning leading to the Budget and Council Tax setting report in February 2013.

The drivers for the 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 Council Plan;
- To deliver a programme of planned service reviews designed to keep reductions to front line services to a minimum;
- To strengthen the 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 Council can demonstrate value for money in the delivery of its priorities.

The County Council approved its budget for 2013/14 and Medium Term Financial Plan to 2016/17 in February 2013.

The Council has faced unprecedented reductions in Government grants since the 2010 Comprehensive Spending Review (CSR) when the expectation for local government was a 28% cut in Government grant for the period 2011/12 to 2014/15. Since then, the position has deteriorated for local government and in total the Council is now forecasting that Government support over the six year period 2011 to 2017 will reduce by £139m. This equates to a 36% reduction in Government support over this period.

After also taking into account estimated base budget pressures and growth in some Council priority service areas, the MTFP forecast requires the council to deliver £95m savings between 2013/14 and 2016/17. This is in addition to the £93m of savings that the council has had to make in 2011/12 and 2012/13 to balance its budgets.

The total savings therefore for the six year period 2011/12 to 2016/17 are estimated to be £188m with the figure expected to exceed £200m by 2017/18. The 2013/14 budget required savings of £20.9m to achieve a balanced net revenue budget of £457.814m.

The council will face two new risks in future years:

- (i) **Variation in Business Rate Local Share Income** – at this stage, the 2013/14 local share income is budgeted for at the baseline level set by the Government in the Start Up Funding Assessment (SUFA). It is expected however that actual income in the future could be higher or lower dependent upon the health of the economy in the county. This will need to be closely monitored for both budgetary control purposes and MTFP planning. If local share income reduces, the council will need to find additional savings to replace the income lost.
- (ii) **Localisation of Council Tax Support (LCTSS)** – from 2013/14 the council will be responsible for financing the LCTSS. Any variation in benefit claimants will change the levels of council tax income received by the council. This variation will again be linked very closely with the health of the local economy in the county.

The balanced MTFP model is summarised in the following table.

#### MTFP Summary Position

	2013-14 £m	2014-15 £m	2015-16 £m	2016-17 £m	Total £m
Reduction in Resource Base	9.852	19.411	20.445	6.958	56.666
Budget Pressures	11.014	8.455	9.937	8.887	38.293
<b>Savings required</b>	<b>20.866</b>	<b>27.866</b>	<b>30.382</b>	<b>15.845</b>	<b>94.959</b>
<b>Savings to be identified</b>	<b>-</b>	<b>12.122</b>	<b>23.309</b>	<b>15.845</b>	<b>51.276</b>

Although difficult decisions have needed to be taken in order to balance budgets in 2011/12 and 2012/13, the council continues to be successful in delivering savings against its original budget strategy. Although the 2013/14 budget requires the delivery of further savings of £20.9m, there are a number of key service areas that have been protected and some services where the budget has been increased for the benefit of council tax payers including:

- For the fourth consecutive year, council tax bills for council tax payers have stayed the same
- The Adult Social Care budget increased by £1m in recognition of the increasing demands on the council due to demographic changes and more people becoming dependent upon these services. This is in line with the priorities identified through consultation.
- Protecting all 65,000 households in receipt of council tax benefit under the local council tax support scheme despite a 10% cut in government funding.
- Protecting the highways winter maintenance programme in order to keep our main highways infrastructure open for the public. Again this is in line with public consultation findings.
- A key priority of the capital programme is to stimulate regeneration and job creation across the county. In line with the Council's key priority to stimulate regeneration and job creation across the county, an additional £3.25m of revenue has been allocated to fund prudential borrowing to invest in new and current capital projects amounting to £159m in 2013/14 with a total programme for the period 2013/14 to 2016/17 of £315m.

In December 2012, an extensive consultation process led to over 1,500 people giving their views on how the council has managed spending reductions so far, the impact that the reductions have had to date and ideas for making further reductions in the future.

#### 2013/14 Net Budget Requirement

After taking into account base budget pressures, additional investment and savings, the Council's recommended Council Net Budget Requirement for 2013/14 is £457.814m. The financing of the net budget requirement is detailed below:

**Financing of the 2013/14 Budget**

<b>Financing Method</b>	<b>Amount £m</b>
Revenue Support Grant	167.162
Top Up Grant	58.223
Business Rates - Local share	52.985
Council Tax	164.469
Council Tax Freeze Grant	2.033
New Homes Bonus	4.799
New Homes Bonus Top Slice	0.943
Education Services Grant	7.200
<b>Total</b>	<b>457.814</b>

**Capital Funding**

The council continues to invest in capital infrastructure. An additional £3.25m of revenue will be provided in the budget to finance Prudential Borrowing to continue to support the capital programme. A key priority of the capital programme is to stimulate regeneration and job creation within the local economy.

The need to invest in Capital Infrastructure during the economic downturn is seen as an essential means of regenerating the local economy and for job creation. Additional investment will maintain and improve infrastructure across the County, help retain existing jobs, create new jobs and ensure the performance of key council services are maintained and improved.

After considering all relevant factors, the Capital Member Officer Working Group (MOWG) have recommended that additional schemes be approved for inclusion in the Capital Programme. The additional 2013/14 schemes can be afforded by utilising unapplied capital grants and utilising the 2013/14 prudential borrowing allowance not committed in MTFP for 2012/13. The new 2014/15 schemes can be afforded by utilising capital grants, capital receipts and prudential borrowing. The approval of the 2014/15 schemes will leave £10.5m of prudential borrowing still to utilise. This availability of financing in 2014/15 can be considered as part of the development the next MTFP.

The new investments will ensure the council continues to invest in priority projects and key maintenance programmes.

The 2013/14 – 2016/17 Capital Budget will be as follows:

**Capital Budget**

	2013-14	2014-15	2015-16	2016-17	Total
	£m	£m	£m	£m	£m
Assistant Chief Executives	3.959	1.260	-	-	5.219
Children and Adults Services	56.046	32.005	-	-	88.051
Neighbourhoods	32.533	21.784	-	-	54.317
Regeneration and Economic Development	49.318	27.379	0.725	0.027	77.449
Resources	17.605	1.645	-	-	19.250
Other	-	10.494	30.000	30.000	70.494
<b>TOTAL</b>	<b>159.461</b>	<b>94.567</b>	<b>30.725</b>	<b>30.027</b>	<b>314.780</b>
<b>Financed By</b>					
Grants and Contributions	66.498	33.661	0.271	-	100.430
Revenue and Reserves	0.987	0.807	-	-	1.794
Capital Receipts	10.000	10.000	10.000	10.000	40.000
Capital Receipts - BSF and Schools	9.774	3.000	-	-	12.774
Borrowing	72.202	47.099	20.454	20.027	159.782
<b>TOTAL</b>	<b>159.461</b>	<b>94.567</b>	<b>30.725</b>	<b>30.027</b>	<b>314.780</b>

**Financial Reserves**

The Council holds reserves:

- As a working balance to help cushion the impact of uneven cash flow and avoid unnecessary temporary borrowing – this forms part of the General Reserve.
- As a contingency to cushion the impact of unexpected events or emergencies – this also forms part of General Reserves.
- As a means of building up funds, earmarked reserves to meet known or predicted future liabilities.

Each earmarked reserve, with the exception of the Schools' Reserve, is reviewed on an annual basis. The Schools' Reserve is the responsibility of individual schools with balances at the year end which make up the total reserve.

The Council's Reserve Policy is as follows:

- (i) Set aside sufficient sums in Earmarked Reserves as is considered prudent. The Corporate Director Resources should be authorised to establish such reserves as required, to review them for both adequacy and purpose on a regular basis reporting appropriate to the Cabinet Portfolio Member for Resources and to Cabinet.
- (ii) Aim to maintain General Reserves in the medium term of up to 7.5% of the Net Budget Requirement which in cash terms equates to up to £35m.

### **Risk**

Looking forward beyond the 2013/14 Budget, the council faces a number of significant risks including:

- (i) The council will retain 50% of business rates collected locally and be responsible for all backdated, successful business rate appeals from 1 April 2013. Any reduction in business rate yield below 2013/14 baseline levels will need to be borne by the council.
- (ii) The council is responsible for all costs associated with council tax benefit. The council must bear the cost of any increase in council tax benefit claimant numbers.
- (iii) Since the initial funding cuts announced in the 2010 Comprehensive Spending Review, every Government Budget and Autumn Statement has announced increased levels of funding reductions for local authorities extending over longer periods. The Government has announced a Comprehensive Spending Review for 2015/16 which will take place on 26 June 2013. The outcome of this review will need to be analysed carefully.

The council had previously recognised that a wide range of financial risks needed to be managed and mitigated across the medium term. The risks faced have now been exacerbated by the localisation of business rates and the localisation of council tax support. All risks will be assessed continually throughout the MTFP period. Some of the key risks identified include:

- (i) Ensure the achievement of a balanced budget and financial position across the MTFP period.
- (ii) Ensure the savings are risk assessed across a range of factors e.g. impact upon customers, stakeholders, partners and staff.
- (iii) The Government funding reductions are based upon Government national control total data. Further analysis of the 2015/16 Comprehensive Spending Review in the spring of 2013 will be required to ensure estimates are updated.
- (iv) The localisation of council tax support passes the risk for any increase in council tax benefit claimants onto the council. Activity in this area will need to be monitored carefully with medium term projections developed in relation to estimated volume of claimant numbers.
- (v) The MTFP model builds in estimates for pay and price inflation. At the present time price inflation levels remain well above Government targets which could place significant pressure upon budgets.

Further details can be found in the [full report](#) presented to County Council on 20 February 2013.

## **16. Housing Revenue Account**

### **A Review of 2012/13**

The HRA provides the income and expenditure associated with maintenance of the Council's housing stock of just under 19,000 dwellings. The Council is required to set an annual HRA budget and set the level of tenants' rents and other charges.

The Council is the largest social landlord in County Durham owning around 40% of all social housing. Under the Government's new system of housing finance from April 2012, the Council is required to plan over the longer term and has developed a 30 year HRA Business Plan to manage and maintain its housing assets.

The headline implications for 2012/13 were as follows:

- Dwelling rents for 2012/13 to increase in accordance with Government guidelines which result in an overall average increase of 6.25%;
- Average rent per week to increase from £59.34 per week to £63.05 per week – an increase of £3.71 per week on average (on a 52 week basis);
- Increases in garage rents to be linked to the overall average increase in dwelling rents and the proposed charges per week for 2012/13 (excluding VAT) are £6.46, £6.63 and £7.01 in Durham City, Easington and Wear Valley respectively;
- Efficiency savings in housing management costs of £1.35m have been identified;
- A capital programme in 2012/13 of £44.854m.

A key feature of the system of self financing implemented on 1 April 2012, is the replacement of annual subsidy arrangements with a one-off debt settlement payable to the Government. This gives the Council the ability to strategically plan financially over the longer term allowing it to shape its housing business in line with local service and investment priorities.

The HRA Capital Programme contributes significantly to the Housing Strategy Objective of 'Altogether Better Housing Standards' by improving the condition of the housing stock and providing better homes with modern facilities which are warmer and more energy efficient.

The condition of the Council's housing stock is maintained through its annual repairs and maintenance budget and improved and refurbished through its capital programme. The size of the capital programme depends on the balance between the need of the Council to improve its stock and the availability of funds to finance the improvements.

#### **Housing Revenue Account (HRA) – 2012/13 Revenue and Capital Outturn**

##### **Revenue Outturn**

- 1 The following table summarises the outturn position on the HRA showing the actual position compared with the original budget. It identifies a surplus outturn position on the revenue account of £24k alongside a balance on the General HRA Reserve of £7.155m.

	2012-13 Budget	2012-13 Outturn	Variance	
	£m	£m	£m	
<b>Income</b>				
Dwelling Rents	-60.115	-60.173	-0.058	a)
Non-dwelling rents	-0.995	-1.005	-0.010	
Charges for Services and Facilities	-0.105	-0.127	-0.022	b)
Contribution towards Expenditure	-0.250	-0.413	-0.163	c)
<b>Total Income</b>	<b>-61.465</b>	<b>-61.718</b>	<b>-0.253</b>	
<b>Expenditure</b>				
ALMO Management and Outsourced Contract	17.266	17.266	-	
Repairs and Maintenance	4.187	4.723	0.536	d)
Supervision and Management - General	4.550	4.514	-0.036	e)
Supervision and Management - Special	0.549	0.555	0.006	
Rents, Rates, Taxes and other charges	0.100	0.111	0.011	
Negative Subsidy Payment to CLG	-	-0.094	-0.094	f)
Depreciation and impairment of fixed assets (Net MRA Adjustment)	15.510	7.851	-7.659	g)
Increase / Decrease in bad debt provision	0.916	0.402	-0.514	h)
Debt Management Costs	0.186	0.186	-	
<b>Total Expenditure</b>	<b>43.264</b>	<b>35.514</b>	<b>-7.750</b>	
<b>Net Cost of HRA Services per Authority I &amp; E Account</b>	<b>-18.201</b>	<b>-26.204</b>	<b>-8.003</b>	
HRA services share of Corporate and Democratic Core	1.085	1.085	-	
HRA services share of other amounts included in the whole authority	-	-	-	
Net Cost of services but not allocated to specific services	0.402	0.387	-0.015	
<b>Net Cost of HRA Services</b>	<b>-16.714</b>	<b>-24.732</b>	<b>-8.018</b>	
Interest Payable and Similar Charges	12.234	11.303	-0.931	i)
Direct Revenue Financing (Balancing item on HRA)	4.570	13.671	9.101	j)
Interest and Investment Income	-0.114	-0.266	-0.152	k)
<b>Surplus (-) / Deficit for the year on HRA services</b>	<b>-0.024</b>	<b>-0.024</b>	<b>0.000</b>	

- 2 The HRA outturn showed a surplus position on the revenue account alongside a balance on the general HRA reserve of £7.155m. The main variances are explained below:
- Dwelling Rents £58k additional income – overall rental income was in line with the budget with a slightly lower than anticipated void rate;
  - Charges for Services and Facilities £22k additional income – primarily resulting from the enhanced management of Communal Halls within the Durham City area;
  - Contributions towards Expenditure £0.163m additional income – resulting from additional water rates collection commission, furniture pack administration service charge and right to buy administration allowance;
  - Repairs and Maintenance £0.536m overspend – arising from an improved increased cost per void as a result of the implementation of the lettable standard scheme. An overspend is being incurred as a result of problems encountered with specific gas boilers purchased prior to LGR, which are now out of warranty. Adverse weather conditions also resulted in additional repairs being carried out in 2012/13;
  - Supervision and Management £36k underspend – a small underspend in overall terms. This is partly off-set by an overspend on customer services recharges of £100k and additional expenditure on the housing stock options process;
  - HRA Subsidy £94k underspend – relates to a refund due to the Council resulting from Housing Subsidy payments made to the CLG in 2011/12;
  - Depreciation £7.659m underspend – under HRA Self Financing Local Authorities can no longer use the Major Repairs Allowance as proxy for depreciation. Underspends on

- depreciation reduce the finance available to finance the HRA Capital Programme and as such an increased revenue contribution is required;
- h) Bad Debt Provision £0.514m underspend – this is due to lower than anticipated rent arrears at the year end;
  - i) Interest Payments £0.931m underspend – this results from a lower interest rate achieved and lower overall level of debt;
  - j) Revenue Support to Capital £9.101m overspend – this is the balancing item on the HRA, which identifies the potential resources available to support the capital programme and reduce reliance on borrowing.
  - k) Interest and Investment Income £0.152m additional income – this results from an increase in the value of Investment Properties held in the HRA (such as shops).
- 3 The final position on HRA general and earmarked reserves as at 31 March 2013 is as follows:
- Stock Options Reserve - £0.500m
  - Durham City Homes Improvement Plan - £0.650m
  - HRA Reserve - £7.155m

**Capital Outturn**

- 4 The Housing Revenue Account (HRA) capital budget was set at £44.854m with re-profiling of £1.465m from 2011/12 to 2012/13 agreed by Cabinet on 11 July 2012.
- 5 The following table summarises the original budget and revisions reported through and agreed by Member Officers Working Group (MOWG), which were approved by Cabinet on 6 February 2013, as well as the outturn position for the HRA Capital Programme. The table also details the request for budget to be carried forward which was approved at the MOWG held on 14 May 2013.

**Housing Revenue Account Capital Programme 2012/13**

	Revised 2012-13 Budget	2012-13 Outturn	Variance		Budget carried forward
	£m	£m	£m	%	£m
Housing	45.474	43.919	-1.555	-3.5	0.958

- 6 The following table summarises the recommended financing of the HRA capital programme spend in 2012/13:

**Financing – Housing Revenue Account Capital Programme 2012/13**

	2012-13 Outturn £m
<b>Financed by:</b>	
Grants	13.088
Reserves	2.000
Direct Revenue Financing	13.671
Capital Receipts	0.960
Major Repairs Allowance	7.692
Borrowing	6.508
<b>Total</b>	<b>43.919</b>

- 7 The 2012/13 outturn capital expenditure was £43.919m against a revised budget of £45.474m, a £1.555m underspend for the year.
- 8 The majority of the underspend (£0.930m) relates to underspending in Durham City Homes, which has achieved significant procurement efficiencies in year. This underspend has been re-profiled into 2013/14, to enable the improvement of dwellings in the Durham City area to be continued.



- 9 The HRA programme has been enhanced by £13m of Homes and Communities Agency Decent Homes Backlog Grant funding, with £12m being used in the East Durham Homes area.
- 10 During the year, 3,439 properties were brought up to the Decent Homes Standard.

### Future Plans - 2013/14 to 2016/17

The proposed HRA budget for 2013/14, 30 year HRA Business Plan and four-year MTFP were reported to the County Council in February 2013.

The Council prepared its first 30 Year HRA Business Plan under the new 'self financing' arrangements for the period commencing 2012/13 onwards and the following table updates that Plan by rolling forward a further year the forecast for the four year Medium Term Financial Plan period 2013/14 to 2016/17 that has been taken directly from the 30 year Business Plan. During this period, a rental stream of some £268m will be available to the Council to meet its management, repairs, investment and debt costs.

The headline implications for 2013/14 are summarised below:

- Dwelling rents for 2013/14 to increase in accordance with Government guidelines which results in an overall average increase of 4.04%;
- Average rent per week to increase from £63.13 per week to £65.68 per week – an increase of £2.55 per week on average (on a 52 week basis);
- Increases in garage rents to be linked to the overall average increase in dwelling rents and the proposed charges per week for 2013/14 (on a 52 week basis) are £8.25 (for private tenants where we need to charge VAT) and £6.88 (for council tenants who are exempt from VAT);
- Efficiency savings in housing management costs of £1.65m have been identified for 2013/14, in addition to the £1.35m already delivered in 2012/13 to give a total saving of £3m as required by the HRA MTFP;
- A substantial investment programme of £99m over the next two years - £49m in 2013/14 and £50m in 2014/15.

	2013-14 Year 1 £'000	2014-15 Year 2 £'000	2015-16 Year 3 £'000	2016-17 Year 4 £'000	Total 4 years £'000
<b>Total Income</b>	64,708	65,798	68,162	69,992	268,660
<b>Total Revenue Expenditure</b>	-28,104	-28,493	-28,716	-29,086	-114,399
Interest Paid	-12,447	-12,731	-12,892	-12,902	-50,972
Debt Management	-194	-161	-165	-180	-700
Interest Received	104	139	173	207	623
Depreciation	-16,306	-16,676	-17,054	-17,441	-67,477
<b>Net Operating Income</b>	<b>7,761</b>	<b>7,876</b>	<b>9,508</b>	<b>10,590</b>	<b>35,735</b>
<b>Appropriations</b>					
Borrowing Repayment	0	0	0	0	0
Revenue Contribution to Capital	-7,761	-7,876	-9,508	-10,590	-35,735
<b>Total Appropriations</b>	<b>-7,761</b>	<b>-7,876</b>	<b>-9,508</b>	<b>-10,590</b>	<b>-35,735</b>
<b>Annual Cash Flow</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

Cabinet at its meeting on 12 December 2012 considered a detailed report on the outcome of the housing stock option appraisal project, which included a review of the options for the future ownership, financing and management of the council's housing stock.

Financial analysis of the business plan highlights a shortfall of available capital resources against spending needs over the first nine years of the business plan. The deficit is exacerbated by the Council's inability to borrow above the debt cap of £245m to supplement the business plan.



Extensive consultation and partnership working with all key stakeholder groups during the option appraisal process has identified that the preferred option is a transfer of the housing stock out of the Council and into to a new registered social housing provider with a group structure based on the council's existing housing management organisational boundaries.

Government policy on stock transfer and the provision of funding for housing revenue account debt write off remains unclear and no stock transfers have been completed since the introduction of self financing arrangements in April 2012. However, the CLG and HCA continue to engage with the council in the stock options appraisal process.

The Council has also worked with key stakeholder groups to identify an alternative option for the housing stock, should the transfer proposal be rejected by the Government, or by tenants through a ballot process. Stakeholders have selected the establishment of a single ALMO with area based arrangements to allow housing services to continue to operate as a business at arms length from the authority, achieve further efficiency savings through reductions in overheads and the joining up of services, and simplify housing management arrangements.

The HRA Business Plan in the table above is based on a stock retention scenario.

## 17. Pension Fund

Durham County Council Pension Fund is part of the Local Government Pension Scheme (LGPS) which is administered by Durham County Council.

The LGPS is a statutory scheme governed by regulations made under the Superannuation Act 1972 and was established in 1974 to cover the future pension entitlement of all eligible employees of the County Council and the former District Councils.

A number of other bodies also participate in the Fund, these include the Parish and Town Councils, Further Education Colleges, Academy Schools, Police and Fire Authorities and Admitted Bodies.

The Accounts for the Pension Fund form part of the Statement of Accounts for Durham County Council, but are not included in the Core Statements of the Council's accounts.

At 31 March 2013 the number of pensionable employees in the Pension Fund was 16,837, which is a reduction of 398, from 17,235 at 31 March 2012. The number of pensioners during 2012/13 has increased by 337 from 16,049 to 16,386.

The Net Assets of the Pension Fund as at 31 March 2013 are £2,086m, an increase of £197m from £1,889m as at 31 March 2012.

The full detail of the Pension Fund's activities for 2012/13 can be found in the Pension Fund Accounts contained in this Statement of Accounts.

## 18. Going Concern

Each year, Durham County Council assesses whether it should be considered a 'going concern', and whether the accounts should be prepared on that basis.

The Code requires that a local authority's Statement of Accounts is prepared on a going concern basis; that is, the accounts should be prepared on the assumption that the authority will continue in operational existence for the foreseeable future. This means that the Comprehensive Income and Expenditure Statement and Balance Sheet assume no intention to curtail significantly the scale of the operation.

An organisation must consider its financial performance to assess its ability to continue as a going concern. This assessment should cover historical, current and future performance.

Paragraph 15 details the future plans in place for the Council and for the Housing Revenue Account (HRA) in paragraph 16.

Those paragraphs show that:

- The council has been able to set a balanced budget for 2013/14 and has a plan in place to continue to deliver local services up to 2017. Based on this, it is clear that the Council is a going concern.

- Based on the level of reserves held, the Council has demonstrated robust financial management that underpins its status as a going concern.
- Based on the risks identified in the Medium Term Financial Planning process, there are no risks which would indicate that the Council is not a going concern.

Based on the assessment undertaken and reported to those charged with governance:

- The Council has a history of stable finance and ready access to financial resources in the future,
- There are no significant financial, operating or other risks that would jeopardise the Council's continuing operation.

Therefore the Council is a going concern and it is appropriate for the Statement of Accounts to be prepared on that basis.

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

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Movement in Reserves Statement

	General Fund Balance £000	Earmarked General Fund Reserves £000	Housing Revenue Account £000	Earmarked HRA Reserves £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Capital Grants unapplied Account £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
<b>Balance at 31 March 2012 brought forward</b>	21,874	100,425	7,821	2,460	172	-	-	132,752	439,026	571,778
<b>Movement in Reserves during 2012-13</b>										
Surplus or deficit on provision of services	-39,264	-	-28,501	-	-	-	-	-67,765	-	-67,765
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	-	-	-63,652	-63,652
<b>Total Comprehensive Income and Expenditure</b>	<b>-39,264</b>	<b>-</b>	<b>-28,501</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-67,765</b>	<b>-63,652</b>	<b>-131,417</b>
Adjustments between accounting basis and funding basis under regulations (Note 7)	47,249	-	26,525	-	-36	-	1,060	74,798	-74,798	-
<b>Net Increase/Decrease before Transfers to Earmarked Reserves</b>	<b>7,985</b>	<b>-</b>	<b>-1,976</b>	<b>-</b>	<b>-36</b>	<b>-</b>	<b>1,060</b>	<b>7,033</b>	<b>-138,450</b>	<b>-131,417</b>
Transfers to/from Earmarked Reserves (Note 8)	-5,449	5,449	1,310	-1,310	-	-	-	-	-	-
<b>Increase/Decrease in Year</b>	<b>2,536</b>	<b>5,449</b>	<b>-666</b>	<b>-1,310</b>	<b>-36</b>	<b>-</b>	<b>1,060</b>	<b>7,033</b>	<b>-138,450</b>	<b>-131,417</b>
<b>Balance at 31 March 2013 carried forward</b>	<b>24,410</b>	<b>105,874</b>	<b>7,155</b>	<b>1,150</b>	<b>136</b>	<b>-</b>	<b>1,060</b>	<b>139,785</b>	<b>300,576</b>	<b>440,361</b>

Movement in Reserves Statement

	General Fund Balance £000	Earmarked General Fund Reserves £000	Housing Revenue Account £000	Earmarked HRA Reserves £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Capital Grants unapplied Account £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
<b>Balance at 1 April 2011 brought forward</b>	17,320	90,975	7,688	3,202	1,206	-	-	120,391	750,993	871,384
<b>Movement in Reserves during 2011-12</b>										
Surplus or deficit on provision of services	-39,598	-	-97,171	-	-	-	-	-136,769	-	-136,769
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	-	-	-162,837	-162,837
<b>Total Comprehensive Income and Expenditure</b>	<b>-39,598</b>	<b>-</b>	<b>-97,171</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-136,769</b>	<b>-162,837</b>	<b>-299,606</b>
Adjustments between accounting basis and funding basis under regulations (Note 7)	53,602	-	96,562	-	-1,034	-	-	149,130	-149,130	-
<b>Net Increase/Decrease before Transfers to Earmarked Reserves</b>	<b>14,004</b>	<b>-</b>	<b>-609</b>	<b>-</b>	<b>-1,034</b>	<b>-</b>	<b>-</b>	<b>12,361</b>	<b>-311,967</b>	<b>-299,606</b>
Transfers to/from Earmarked Reserves (Note 8)	-9,450	9,450	742	-742	-	-	-	-	-	-
<b>Increase/Decrease in Year</b>	<b>4,554</b>	<b>9,450</b>	<b>133</b>	<b>-742</b>	<b>-1,034</b>	<b>-</b>	<b>-</b>	<b>12,361</b>	<b>-311,967</b>	<b>-299,606</b>
<b>Balance at 31 March 2012 carried forward</b>	<b>21,874</b>	<b>100,425</b>	<b>7,821</b>	<b>2,460</b>	<b>172</b>	<b>-</b>	<b>-</b>	<b>132,752</b>	<b>439,026</b>	<b>571,778</b>



## Balance Sheet

31 March 2012 £000	Notes	31 March 2013 £000
1,905,999 Property, Plant & Equipment	12	1,864,770
15,858 Heritage Assets	13, 48, 49, 50	15,561
4,221 Investment Property	14	3,870
2,561 Intangible Assets	15	2,620
- Assets Held for Sale		-
2,567 Long Term Investments	16	11,363
6,545 Long Term Debtors	16	15,643
<b>1,937,751 Long Term Assets</b>		<b>1,913,827</b>
69,010 Short Term Investments	16	56,900
1,263 Assets Held for Sale	20	350
5,337 Inventories	17	2,708
82,171 Short Term Debtors	18	79,151
42,874 Cash and Cash Equivalents	19	31,261
<b>200,655 Current Assets</b>		<b>170,370</b>
-12,189 Cash and Cash Equivalents	19	-10,116
-13,597 Short Term Borrowing	16	-7,439
-126,267 Short Term Creditors	21	-101,855
-13,301 Provisions	22	-15,661
-32,175 Capital Grants Receipts in Advance	37	-25,595
<b>-197,529 Current Liabilities</b>		<b>-160,666</b>
- Long Term Creditors		-
-7,470 Provisions	22	-11,850
-410,999 Long Term Borrowing	16	-437,438
-945,577 Other Long Term Liabilities	40, 41, 45	-1,027,436
-5,052 Capital Grants Receipts in Advance	37	-6,445
<b>-1,369,098 Long Term Liabilities</b>		<b>-1,483,169</b>
<b>571,779 Net Assets</b>		<b>440,362</b>
132,753 Usable Reserves	23	139,786
439,026 Unusable Reserves	24	300,576
<b>571,779 Total Reserves</b>		<b>440,362</b>



## Cash Flow Statement

2011-12 £000	2012-13 £000
136,770 Net surplus (-) or deficit on the provision of services	67,765
-99,016 Adjustments to net surplus or deficit on the provisions of services for non-cash movements (Note 25)	-118,669
8,651 Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities (Note 26)	9,562
46,405 Net Cash flows from Operating Activities (Note 27)	-41,342
87,879 Investing Activities (Note 28)	60,991
-109,711 Financing Activities (Note 29)	-10,109
24,573 Net increase (-) or decrease in cash and cash equivalents	9,540
55,258 Cash and cash equivalents at 1 April	30,685
<b>30,685 Cash and cash equivalents at 31 March</b>	<b>21,145</b>

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## 1. Accounting Policies

### 1. General Principles

The Statement of Accounts summarises the Council's transactions for the 2012/13 financial year and its position at the year end of 31 March 2013. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2011, which those Regulations require to be prepared in accordance with proper accounting practices.

Those practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (the Code) and the Service Reporting Code of Practice 2012/13 (SeRCOP), supported by International Financial Reporting Standards (IFRS).

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

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

### 2. Accruals of Income and Expenditure

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

- Revenue from the sale of goods is recognised when the 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 Council.
- Revenue from the provision of services is recognised when the 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 Council.
- Supplies are recorded as expenditure when they are consumed - where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected. The Council has a policy of not accruing for manual sundry creditor or sundry debtor provisions for less than £1,000 other than in exceptional circumstances.

### 3. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in no more than three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value. In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the 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 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 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 Council is not required to raise Council Tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the council in accordance with statutory guidance.

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

## 7. Employee Benefits

### Benefits Payable During Employment

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

They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and 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 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 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 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 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 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 Council.

However, the arrangements for the Teachers' Pension Scheme mean that liabilities for these benefits cannot ordinarily be identified specifically to the 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 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% subject to information from the Fund's Actuary]* (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 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.

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

1. Current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
2. Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
3. Interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
4. Expected return on assets – the expected annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return – credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
5. Gains or losses on settlements and curtailments – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
6. Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Pensions Reserve.

7. Contributions paid to the Durham County Council Pension Fund – cash paid as employer's contributions to the Pension Fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the 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 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 Reporting Period**

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 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 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 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 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 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 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 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 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 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 Council when there is reasonable assurance that:

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

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

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

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



## 12. Heritage Assets

### Tangible and Intangible Heritage Assets

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

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

### Recognition and measurement

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

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

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

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

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

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

### Museum Collections and Artefacts

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

### Artwork, including Public Art and Sculptures

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

The distinction between sculptures, monuments and statues can be subjective, however for the purposes of classification the Council has determined that sculptures are generally modern, commissioned pieces of art, monuments can be modern or historic and are usually dedicated to people or events and statues are usually

historical structures. Monuments and statues are included under the heading “Monuments, Statues and Historic Buildings” below.

#### **Monuments, Statues and Historic Buildings**

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

#### **Civic Regalia and Silverware**

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

#### **Geophysical / Archaeological**

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

#### **Depreciation**

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

#### **Impairment**

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

#### **Disposal**

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

### **13. Intangible Assets**

Expenditure on non-monetary assets that do not have physical substance but are controlled by the 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 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 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 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 Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

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

#### **14. Interests in Companies and Other Entities**

The Code requires local authorities to produce group accounts to reflect significant activities provided to Council taxpayers by other organisations in which an authority has an interest. The Council has reviewed its interests in companies and other entities that have the nature of subsidiaries, associates and jointly controlled entities against the criteria for group accounts as set out in the Code and has concluded that there are no such material interests that require the preparation of group accounts. In the Council's own single-entity accounts, the interests in companies and other entities are recorded as financial assets at cost, less any provision for losses.

#### **15. Inventories and Long Term Contracts**

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

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

#### **16. Investment Property**

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

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

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

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

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

Jointly controlled operations are activities undertaken by the 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 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 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 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 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 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 Council at the end of the lease period).

The 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 Council as Lessor**

#### **Finance Leases**

Where the 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 Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

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

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a

premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

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

### **Operating Leases**

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

### **19. Overheads and Support Services**

The costs of overheads and support services are charged to those services that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2012/13 (SeRCOP). The total absorption costing principle is used - the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

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

These two cost categories are defined in SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, within the cost of services.

### **20. Property, Plant and Equipment**

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

#### **Recognition**

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the 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 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 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 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); and
- 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 as follows:

- 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 as follows:

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

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



## Depreciation

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

Depreciation is calculated on the following bases:

- Dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer up to a maximum of 50 years.
- Vehicles, plant, furniture and equipment – straight line allocation over the useful life of the asset as advised by a suitably qualified officer, mainly up to a maximum of 10 years, however, some specialised items are depreciated over up to 25 years.
- Infrastructure – straight-line allocation over 40 years.

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

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

### 21. Disposals and Non-Current Assets Held for Sale

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

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

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

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

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

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

## 22. Private Finance Initiative (PFI) and Similar Contracts

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

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

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

Non-current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the 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 rate charged 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.

## 23. Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential and a reliable estimate can be made of the amount of the obligation. For example, the 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 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 Council settles the obligation.

## 24. Landfill Allowance Schemes

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



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

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

### **25. Contingent Liabilities**

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

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

### **26. Contingent Assets**

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

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

### **27. Reserves**

The 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 Council - these reserves are explained in the relevant policies.

### **28. Revenue Expenditure Funded from Capital under Statute**

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

### **29. Value Added Tax (VAT)**

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

### **30. Carbon Reduction Commitment Allowances**

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

market price of the number of allowances required to meet the liability at the reporting date. The cost to the Council is recognised and reported in the costs of the Council's services and is apportioned to services on the basis of energy consumption.

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

The Code has introduced several changes in accounting policies which will be required from 1 April 2013, the following changes are not considered to have a significant impact on the Statement of Accounts:

- IAS 1 Presentation of Financial Statements. The amendment to the standard requires that where authorities have gains or losses reclassifiable into the Surplus or Deficit on the Provision of Services, they are to be disclosed separately. The gains and losses are separately identified in the Comprehensive Income and Expenditure Statement and therefore no further disclosure is required. Note 9 provides the detail.
- Code changes in 2013/14 clarify the recognition criteria for Assets under Construction or intangible assets. Where this leads to a material change, the authority will demonstrate the impact of the change on the financial statements. The amendment is in line with the Council's current practice and will therefore not impact on the Statement of Accounts.
- IAS 12 Income Taxes – Currently this standard requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40 Investment Property. Hence this amendment introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. It is considered that this change will not affect the Statement of Accounts.
- IFRS 7 – Financial Instruments: Disclosures. The change in accounting policy relates to the offsetting of financial assets and liabilities. The amendment is in line with the Council's current practice and will therefore not impact on the Statement of Accounts. The bank overdraft is detailed in Note 19.
- There have been several significant changes in relation to IAS19 Employee Benefits. A revised IAS 19 will come into force for accounting periods beginning on or after 1 January 2013. If this revised IAS 19 was adopted for the accounting period ending 31 March 2013 this would increase the expenses recognised for funded benefits from £62.04m to £75.65m. There would be no effect on the Balance Sheet.

## 3. Critical Judgements in Applying Accounting Policies

- In applying the accounting policies set out in Note 1, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:
- Funding of Local Government - There is a high degree of uncertainty about future levels of funding for local government. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.
- Academy and Foundation Trust Schools - A number of schools transferred to academy and foundation trust status in 2012/13. Having completed a statutory process, the governing bodies of the relevant schools have agreed to change from Local Authority maintained foundation schools. These assets have been removed from the Council's Balance Sheet and a loss on disposal has been recorded in the Comprehensive Income and Expenditure Account.
- Landfill Allowances Trading Scheme - this relates to the usage of Landfill Allowances issued by the Government under the Landfill Allowances Trading Scheme (LATS). The allowances issued by government are held as current assets and are valued at the lower of cost or net realisable value. As landfill occurs, provision is made for the estimated value. The allowances are also recognised as income during the year for which the allowances were allocated. Once the value of landfill has been confirmed by the Environment Agency, the relevant value of allowances will be deducted from current assets, and the provision released. No provision has been made at 31 March 2013, as the

- market value of allowances has been assessed as zero and is not considered to be material. This is due to the LATS expiring at the end of 2012/13, meaning that any surplus allowances cease to have any value at that point.
- PFI - In 2009/10, the Council signed a Private Finance Initiative contract for the provision of three sets of new school buildings; Sedgefield Community College, Shotton Hall School (now The Academy at Shotton Hall) and Shotton Hall Primary School. The accounting policies for PFI schemes and similar contracts have been applied to the arrangement and the assets are recognised in the balance sheet as they are deemed to fall within the scope of the International Financial Reporting Interpretations Committee (IFRIC) 12. The total net value of land and buildings for these schools is £14.937m. Further details can be found in Note 41.
  - Group Accounts – The Council has financial relationships with other related companies, joint ventures and joint arrangements, details of which can be found in Note 38. There are a number of criteria by which the Council must determine whether its interest in such bodies is significant enough to be included in the Council's consolidated accounts. After consideration of these criteria, the Council has determined that the consolidation of related companies would have no material effect on the Council's financial position and therefore it is not necessary to produce Group Accounts for 2012/13.
  - Grant recognition – the adoption of the Code has required reconsideration of the extent to which grants are encumbered by conditions and the extent to which any such conditions have been met. In respect of Capital Grants and Contributions, the assumption that has been applied in the accounts is that the grant would have to be used for capital expenditure before all the conditions of the grant were fulfilled. This is because it is a standard clause that if expenditure is not used to purchase specified assets, it can be clawed back. A review of Capital Grants and Contributions was undertaken in 2012/13 and £1.059m was moved into Capital Grants Unapplied from Capital Grants - Receipts in Advance in the Balance Sheet.
  - Municipal Mutual Insurance – The Council considers that the orderly run down of all existing and prospective claims may result in a liability to be met from the insurance reserve. The Scheme Administrator suggests that there are possible future levies that may be imposed on Scheme Creditors such as the Council. The Council's Insurance Adviser recommends that adequate provision should be held against future calls in the range of 25% to 30%. The Council has provided for 28% (£1.535m) of the value of the total potential liability in the Scheme of Arrangement. As provision is not for the total amount of the potential liability, and there is the possibility of future claims, the Council considers there to be a contingent liability as it has no certainty about the timing or the amount of any future liability.
  - Closed Landfill Sites – the Council considers that there is likely to be a liability in respect of restoration works and after care costs for a number of closed landfill sites. A full review of the liability has been undertaken by a specialist independent adviser and the detailed report is awaited. As the extent and timing of this liability remains uncertain, it has been included in the accounts as a contingent liability.

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

The Statement of Accounts contains estimated figures that are based on assumptions made by the 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 Council's Balance Sheet at 31 March 2013 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Property, plant and equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets.	<p>The impact of a change in valuation or useful life would be to affect the carrying value of the asset in the balance sheet and the charge for depreciation or impairment in the CI&amp;E.</p> <p>These changes do not have an impact on the Council's General Fund position as the Council is not required to fund such non-cash charges from council tax receipts.</p>
Property, plant and equipment	Property, plant and equipment (with the exception of infrastructure, community assets, assets under construction and small value items of vehicles, plant and equipment) are revalued on a periodic basis and tested annually for indicators of impairment. Judgements are required to make an assessment as to whether there is an indication of impairment. The impairment tests include examination of capital expenditure incurred in the financial year to ascertain whether it has resulted in an increase in value or an impairment of an asset. Advice has been provided by valuers employed by the Council.	If the actual results differ from the assumptions the value of PPE will be over or understated. This would be adjusted when the assets are next revalued.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements such as the discount rate, future salary increases, mortality expectations, future inflation, and the expected rate of return on the Pension Fund's investments. The Pension Fund engages a firm of specialist actuaries to provide the Council with expert advice about the assumptions to be applied.	The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumptions would result in a decrease in the pension liability of £198.15m for funded LGPS benefits. However, the assumptions interact in complex ways. During 2012/13, the Council's actuaries advised that the net pensions liability for funded LGPS benefits had increased by £2.71m as a result of estimates being corrected as a result of experience and increased by £135.51m attributable to updating of the assumptions.
Equal Pay	Provisions made for the likely payments in respect of Equal Pay settlement. Claims are provided for in short terms provisions and these have been included at current prices as the time value of these payments is within 12 months.	If payments are not made within 12 months, it is unlikely that any additional amounts will be due in respect of late settlement of Equal Pay claims

Item	Uncertainties	Effect if actual results differ from assumptions
Insurance Provision	The value of provisions that will be used in 2013/14 is uncertain. Based on previous experience, an amount of £2m has been classified as short term to reflect the likely use of this provision in 2013/14.	If the short term provision is not used during 2013/14, the annual review of the insurance provision will ensure that an appropriate amount is included in the 2013/14 accounts.
Arrears	At 31 March 2013, the Authority had a balance of debtors of £94.08m. A review of significant balances suggested that an impairment of doubtful debts of 20.07% (£18.88m) was appropriate. However, in the current economic climate it is not certain that such an allowance would be sufficient.	If collection rates were to deteriorate, a doubling of the amount of the impairment of doubtful debts would require an additional £18.88m to be set aside as an allowance.

## 5. Material Items of Income and Expense

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

## 6. Events After the Balance Sheet Date

The Statement of Accounts was authorised for issue by the Corporate Director Resources on 28 June 2013. 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 2013, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

During 2012/13 there were a number of schools that converted to Academy status, which was a non adjusting event in 2011/12. There are no such conversions expected in 2013/14.

## 7. Adjustments Between Accounting Basis and Funding Basis Under Regulations

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

2012-13:

	Usable Reserves					
	General Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Capital Grants Unapplied £000	Movement in Unusable Reserves £000
<b>Adjustments primarily involving the:</b>						
<b>Capital Adjustment Account:</b>						
<b>Reversal of items debited or credited to the CI&amp;E Statement:</b>						
Charges for depreciation and impairment of non-current assets	-52,168	-10,090	-	-	-	62,258
Revaluation losses on Property Plant and Equipment	-15,476	-52,681	-	-	-	68,157
Movements in the market value of Investment Properties	-299	-	-	-	-	299
Amortisation of intangible assets	-1,366	-185	-	-	-	1,551
Capital grants and contributions applied	47,559	13,087	-	-	-	-60,646
Movement in the Donated Assets Account	-	-	-	-	-	-
Revenue expenditure funded from capital under statute	-13,779	-63	-	-	-	13,842
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CI&E Statement	-43,972	-2,744	-	-	-	46,716
<b>Insertion of items not debited or credited to the CI&amp;E Statement:</b>						
Statutory provision for the financing of capital investment	15,600	-	-	-	-	-15,600
Capital expenditure charged against the General Fund and HRA Balances	15,900	15,671	-	-	-	-31,571
<b>Capital Grants Unapplied Account:</b>						
Capital grants and contributions unapplied credited to the CI&E Statement	1,060	-	-	-	-1,060	-
Application of grants to capital financing transferred to the Capital Adjustment Account	-	-	-	-	-	-
<b>Capital Receipts Reserve:</b>						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the CI&E Statement	7,175	2,373	-9,548	-	-	-
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals	-12	-	12	-	-	-
Use of the Capital Receipts Reserve to finance new capital expenditure	-	-	9,114	-	-	-9,114
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	-1,024	-	1,024	-	-	-
Transfer from Deferred Capital Receipts Reserve upon receipt of cash	-	-	-566	-	-	566
<b>Deferred Capital Receipts Reserve:</b>						
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the CI&E Statement	1,662	-	-	-	-	-1,662
<b>Major Repairs Reserve:</b>						
Reversal of Major Repairs Allowance Credited to the HRA	-	7,692	-	-7,692	-	-
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	-	7,692	-	-7,692
<b>Financial Instruments Adjustment Account:</b>						
Amount by which finance costs charged to the CI&E Statement are different from finance costs chargeable in the year in accordance with statutory requirements	190	-	-	-	-	-190
<b>Pensions Reserve:</b>						
Reversal of items relating to the retirement benefits debited or credited to the CI&E Statement	-65,259	-261	-	-	-	65,520
Employer's pensions contributions and direct payments to pensioners payable in the year	56,175	676	-	-	-	-56,851
<b>Collection Fund Adjustment Account:</b>						
Amount by which council tax income credited to the CI&E Statement is different from council tax income calculated for the year in accordance with statutory requirements	10	-	-	-	-	-10
<b>Accumulated Absences Account:</b>						
Amount by which officer remuneration charged to the CI&E Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	775	-	-	-	-	-775
<b>Total Adjustments</b>	<b>-47,249</b>	<b>-26,525</b>	<b>36</b>	<b>-</b>	<b>-1,060</b>	<b>74,798</b>

2011-12:

	Usable Reserves					
	General Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Capital Grants Unapplied £000	Movement in Unusable Reserves £000
<b>Adjustments primarily involving the:</b>						
<b>Capital Adjustment Account:</b>						
<b>Reversal of items debited or credited to the CI&amp;E Statement:</b>						
Charges for depreciation and impairment of non-current assets	-57,273	-17,920	-	-	-	75,193
Revaluation losses on Property Plant and Equipment	-18,067	-47,293	-	-	-	65,360
Movements in the market value of Investment Properties	-126	-	-	-	-	126
Amortisation of intangible assets	-1,032	-178	-	-	-	1,210
Capital grants and contributions applied	71,781	2,905	-	-	-	-74,686
Movement in the Donated Assets Account	-	-	-	-	-	-
Revenue expenditure funded from capital under statute	-5,863	-152	-	-	-	6,015
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CI&E Statement	-70,619	-1,229	-	-	-	71,848
Exceptional Item: Payment to Secretary of State (HRA Reform)	-	-52,891	-	-	-	52,891
<b>Insertion of items not debited or credited to the CI&amp;E Statement:</b>						
Statutory provision for the financing of capital investment	14,453	-	-	-	-	-14,453
Capital expenditure charged against the General Fund and HRA Balances	10,250	5,380	-	-	-	-15,630
<b>Capital Receipts Reserve:</b>						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the CI&E Statement	5,945	2,706	-8,651	-	-	-
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals	-53	-	53	-	-	-
Use of the Capital Receipts Reserve to finance new capital expenditure	-	-	9,458	-	-	-9,458
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	-1,506	-	1,506	-	-	-
Transfer from Deferred Capital Receipts Reserve upon receipt of cash	-69	-	-1,332	-	-	1,401
<b>Deferred Capital Receipts Reserve:</b>						
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the CI&E Statement	435	-	-	-	-	-435
<b>Major Repairs Reserve:</b>						
Reversal of Major Repairs Allowance Credited to the HRA	-	11,696	-	-11,696	-	-
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	-	11,696	-	-11,696
<b>Financial Instruments Adjustment Account:</b>						
Amount by which finance costs charged to the CI&E Statement are different from finance costs chargeable in the year in accordance with statutory requirements	187	-	-	-	-	-187
<b>Pensions Reserve:</b>						
Reversal of items relating to the retirement benefits debited or credited to the CI&E Statement	-53,072	-198	-	-	-	53,270
Employer's pensions contributions and direct payments to pensioners payable in the year	57,012	612	-	-	-	-57,624
<b>Collection Fund Adjustment Account:</b>						
Amount by which council tax income credited to the CI&E Statement is different from council tax income calculated for the year in accordance with statutory requirements	-551	-	-	-	-	551
<b>Accumulated Absences Account:</b>						
Amount by which officer remuneration charged to the CI&E Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	-5,434	-	-	-	-	5,434
<b>Total Adjustments</b>	<b>-53,602</b>	<b>-96,562</b>	<b>1,034</b>	<b>-</b>	<b>-</b>	<b>149,130</b>



## 8. Transfers to/from Earmarked Reserves

This note sets out the amounts set aside from the General Fund and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and HRA expenditure in 2012-13.

	Balance at 1 April 2011 £000	Transfers out 2011-12 £000	Transfers in 2011-12 £000	Balance at 31 March 2012 £000	Transfers out 2012-13 £000	Transfers in 2012-13 £000	Balance at 31 March 2013 £000
<b>General Fund:</b>							
Balances held by schools under a scheme of delegation	15,740	-3,891	9,041	20,890	-5,663	4,191	19,418
AAP / Members Reserve	2,414	-414	364	2,364	-1,571	1,062	1,855
AAP Reserve - Neighbourhoods	824	-483	163	504	-477	39	66
Assistant Chief Executive - Grant Reserve	-	-	233	233	-	-	233
Assistant Chief Executive - Operational Reserve	-	-	140	140	-	-	140
Aycliffe Young Peoples Centre Reserve	300	-300	475	475	-47	-	428
DWP Grant Reserve	86	-86	159	159	-159	107	107
Cabinet Reserve	498	-	-	498	-278	-	220
Cash Limit Reserve	12,126	-1,086	4,846	15,886	-3,189	7,205	19,902
Community Safety Reserve	75	-50	50	75	-53	-	22
Continuing Professional Development Reserve	278	-	95	373	-	96	469
Corporate Reserve	865	-200	499	1,164	-60	739	1,843
Customer Services Reserve	-	-	360	360	-300	50	110
Dedicated Schools Grant and Education Reserve	3,652	-280	631	4,003	-167	1,170	5,006
Direct Services Reserve	1,122	-65	349	1,406	-96	1,284	2,594
Economic Development Reserve	5,353	-4,582	72	843	-470	644	1,017
Elections Reserve	-	-	800	800	-	-	800
Employability and Training Reserve	240	-	615	855	-130	121	846
Environmental Health and Consumer Protection Reserve	40	-	101	141	-	289	430
Equal Pay Reserve	3,473	-65	-	3,408	-131	3,834	7,111
Funding and Programmes Management Reserve	-	-	239	239	-63	-	176
Health and Wellbeing Reserve	1,566	-219	-	1,347	-847	-	500
Heritage and Culture Reserve	111	-2	139	248	-248	-	-
Housing Benefit Subsidy Reserve	-	-600	1,800	1,200	-	1,379	2,579
Housing Solutions Reserve	860	-	461	1,321	-444	110	987
Insurance Reserve	11,285	-	557	11,842	-4,154	145	7,833
Land Search Fees Reserve	-	-	1,000	1,000	-	-	1,000
Legal Expenses	-	-	-	-	-	200	200
Leisure Reserves	52	-	-	52	-52	-	-
LEP Reserve	80	-80	-	-	-	-	-
LSVT Reserve	133	-11	-	122	-11	-	111
MTFP Redundancy and Early Retirement Reserve	19,797	-10,246	-	9,551	-4,713	-	4,838
New Homes Bonus Reserve	-	-	206	206	-206	-	-
North Pennines Partnership Reserve	169	-169	-	-	-	920	920
Performance Reward Grant Reserve	1,694	-375	-	1,319	-162	578	1,735
Planning Reserve	2,034	-260	-	1,774	-86	-	1,688
Regeneration Reserve - Corporate	578	-	-	578	-578	-	-
Regeneration Reserve - Housing	223	-128	-	95	-129	111	77
Regeneration Reserve - RED	470	-	797	1,267	-216	-	1,051
Regenerataion and Communities Reserve	1,880	-1,880	-	-	-	-	-
Restructure Reserve	-	-	1,000	1,000	-271	-	729
Schools Unspent Grant Reserve	639	-639	-	-	-	-	-
Social Care Reserve	425	-64	8,968	9,329	-4,403	7,779	12,705
Special Projects Reserve	60	-	-	60	-	-	60
Sport and Leisure Reserve	1,254	-473	984	1,765	-695	1,222	2,292
Strategic Waste Reserve	-	-	104	104	-	272	376
System Development Reserve	-	-	700	700	-300	930	1,330
Tackling Troubled Families Reserve	-	-	-	-	-	943	943
Technical Services Reserve	-	-	-	-	-	445	445
Transport Reserve	-	-	364	364	-	-	364
Transport Asset Management Programme Reserve	515	-150	-	365	-47	-	318
Youth Forum Reserve	64	-64	-	-	-	-	-
<b>Total</b>	<b>90,975</b>	<b>-26,862</b>	<b>36,312</b>	<b>100,425</b>	<b>-30,416</b>	<b>35,865</b>	<b>105,874</b>
<b>HRA:</b>							
Capital Reserve	2,400	-400	-	2,000	-2,000	-	-
Stock Options Reserve	402	-342	-	60	-	440	500
DCH Improvements Reserve	400	-	-	400	-	250	650
<b>Total</b>	<b>3,202</b>	<b>-742</b>	<b>-</b>	<b>2,460</b>	<b>-2,000</b>	<b>690</b>	<b>1,150</b>



The significant earmarked reserves at 31 March 2013 were as follows:

**Schools' Revenue Balances**

Surplus or deficit balances of locally managed schools, which are committed to be spent on the education service. The net surplus at 31 March 2013 comprised individual school balances totalling £19.418m, net of loans outstanding of £0.819m.

**AAP / Members Reserve**

The purpose of the reserve is to ensure the projects can be funded in 2013/14 where an agreed spending plan exists.

**Corporate Reserve**

The main balance is in relation to the Procurement Reserve and is available to provide financial support where the council experiences significant levels of contract inflation over and above the price inflation allowance held in the Medium Term Financial Plan. Categories of spend such as energy are often subject to high levels of inflation.

**Cash Limit Reserve**

To carry forward under and overspends to meet future service demands.

**Dedicated Schools Grant and Education Reserve**

To carry forward the unspent, central element of Dedicated Schools Grant funding for multi agency operations, and to provide education business links between schools, and local businesses

**Direct Services Reserve**

The purpose of this reserve is to hold contingency sums for issues such as building services defects liabilities, building repairs and maintenance dilapidations, flooding and street cleansing.

**Equal Pay Reserve**

To provide resources to meet the cost of additional employee costs as a result of Equal Pay and Job Evaluation effective from 1 April 2005.

**Housing Benefit Subsidy Reserve**

To finance the cost of housing benefit backdated claims which are not fully funded by Government subsidy due to their age.

**Insurance Reserve**

To provide resources to cover selected risks. The major risks relate to fire, public liability and employer's liability claims below the policy excess levels.

**MTFP Redundancy and Early Retirement Reserve**

To provide for the costs of approved redundancy and early retirements.

**Performance Reward Grant Reserve**

The purpose of this reserve is to help support a number of initiatives and events such as the Lumiere light festival and also to support projects recommended by the County Durham Economic Partnership.

**Planning Reserve**

To provide a resource for improvements to the planning service.

**Social Care Reserve**

To fund expected demographic pressures in future years and for projects jointly agreed by Childrens abd Adults Services and Health and the Primary Care Trust.

**Sport and Leisure Reserve**

To provide a resource for leisure initiatives and sports development.

## 9. Other Operating Expenditure

2011-12 £000		2012-13 £000
12,119	Parish council precepts	12,409
443	Levies	400
1,506	Payments to the Government Housing Capital Receipts Pool	1,024
62,884	Gains/losses on the disposal of non-current assets	35,518
<b>76,952</b>	<b>Total</b>	<b>49,351</b>

## 10. Financing and Investment Income and Expenditure

2011-12 £000		2012-13 £000
16,730	Interest payable and similar charges	24,437
21,900	Pensions interest cost and expected return on pensions assets	28,860
-2,409	Interest receivable and similar income	-3,381
324	Impairment of Financial Investments	756
126	Movement in market value of investment properties	163
-33	Other investment income	-2,073
<b>36,638</b>	<b>Total</b>	<b>48,762</b>

## 11. Taxation and Non-Specific Grant Income

2011-12 £000		2012-13 £000
-211,251	Council tax income *	-214,207
-179,862	Non domestic rates	-219,007
-62,188	Non-ringfenced government grants	-13,779
-74,686	Capital grants and contributions	-60,647
<b>-527,987</b>	<b>Total</b>	<b>-507,640</b>

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

## 12. Property, Plant and Equipment

Movement on Balance 2012-13:

	Operational					Non-Operational		Total £000
	Council Dwellings £000	Land & Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	
<b>Cost or valuation</b>								
At 1 April 2012	492,457	1,021,751	113,274	399,811	2,444	77,361	25,218	2,132,316
Additions	42,691	30,045	13,967	26,037	11	47	22,665	135,463
Revaluation increases/(decreases)	-73,205	-31,600	-	-	-	-2,832	-	-107,637
Derecognition - disposals	-2,615	-44,612	-7,540	-	-	-2,008	-	-56,775
Derecognition - other	-	-928	-	-	-15	-	-	-943
Assets reclassified (to)/from Heritage Assets	-	-78	-	-	-	-	-	-78
Assets reclassified (to)/from Held for Sale	-	-1,871	-	-	-	-731	-	-2,602
Other reclassifications	1,833	3,983	1	1	-186	9,447	-15,079	-
Other movements in cost or valuation	-	-	-	-	-	-	-240	-240
<b>At 31 March 2013</b>	<b>461,161</b>	<b>976,690</b>	<b>119,702</b>	<b>425,849</b>	<b>2,254</b>	<b>81,284</b>	<b>32,564</b>	<b>2,099,504</b>
<b>Accumulated Depreciation and Impairment</b>								
At 1 April 2012	-13,911	-60,519	-68,683	-76,428	-87	-6,690	-	-226,318
Depreciation charge	-7,196	-24,923	-14,164	-10,344	-	-311	-	-56,938
Depreciation written out on revaluation	11,687	25,896	-	-	-	435	-	38,018
Impairment losses/(reversals)	977	-3,635	-	-	-	-686	-240	-3,584
Derecognition - disposals	870	6,994	5,821	-	-	75	-	13,760
Derecognition - other	-	-	-	-	-	-	-	-
Assets reclassified (to)/from Heritage Assets	-	86	-	-	-	-	-	86
Other reclassifications	-6	171	-	-	-	-165	-	-
Other movements in cost or valuation	-	-	-	-	-	-	240	240
<b>At 31 March 2013</b>	<b>-7,579</b>	<b>-55,930</b>	<b>-77,026</b>	<b>-86,772</b>	<b>-87</b>	<b>-7,342</b>	<b>-</b>	<b>-234,736</b>
<b>Net Book Value</b>								
At 31 March 2013	453,582	920,760	42,676	339,077	2,167	73,942	32,564	1,864,768
At 31 March 2012	478,546	961,232	44,591	323,383	2,357	70,671	25,218	1,905,998
The Revaluations / Impairments above:								
Revaluation increases/(decreases)	-73,205	-31,600	-	-	-	-2,832	-	-107,637
Depreciation written out on revaluation	11,687	25,896	-	-	-	435	-	38,018
Impairment losses/(reversals)	977	-3,635	-	-	-	-686	-240	-3,584
	<b>-60,541</b>	<b>-9,339</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-3,083</b>	<b>-240</b>	<b>-73,203</b>
Are recognised as follows:								
In the Revaluation Reserve	-5,462	7,423	-	-	-	-1,583	-	378
In the Surplus/Deficit on the Provision of Services	-55,079	-16,762	-	-	-	-1,500	-240	-73,581

## Comparative Movements in 2011-12:

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

**Depreciation**

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

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

**Capital Commitments**

At 31 March 2013, the Council had entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2013/14 and future years budgeted to cost £34.014m. Similar commitments at 31 March 2012 were £62.314m. The major commitments are:

❖ Building Schools for the Future	£15.708m
❖ Co-Location (Integrated Hubs)	£0.109m
❖ Basic Need (Schools)	£0.388m
❖ Primary Capital Programme	£3.316m
❖ Schools Capital Maintenance	£4.796m
❖ Highways Capitalised Maintenance	£2.543m
❖ Durhamgate	£1.301m
❖ Consett Business Park	£2.262m
❖ Newgate Studios / Witham Hall	£1.556m
❖ Group Repair - Wembley	£0.480m
❖ Group Repair - Dawdon	£1.200m
❖ Telephony Replacement	£0.072m
❖ Dark Fibre Networking	£0.283m

### 13. Heritage Assets

Reconciliation of the carrying value of Heritage Assets held by the Council.

	Museum Collection and Artefacts £000	Artwork, Public Art and Sculptures £000	Monuments, Statues and Historic Buildings £000	Civic Regalia and Silverware £000	Total Assets £000
<b>Cost or valuation</b>					
At 1 April 2011	9,482	1,287	4,435	654	15,858
Additions	-	-	-	-	-
Disposals	-	-	-	-	-
Revaluations	-	-	-	-	-
Impairment Losses/(reversals) recognised in the Revaluation Reserve	-	-	-	-	-
Impairment Losses/(reversals) recognised in Surplus or Deficit on the Provision of Services	-	-	-	-	-
Depreciation	-	-	-	-	-
<b>At 31 March 2012</b>	<b>9,482</b>	<b>1,287</b>	<b>4,435</b>	<b>654</b>	<b>15,858</b>
<b>Cost or valuation</b>					
At 1 April 2012	9,482	1,287	4,435	654	15,858
Additions	-	21	11	-	32
Disposals	-	-	-	-	-
Revaluations	-	-	-	-	-
Impairment Losses/(reversals) recognised in the Revaluation Reserve	-	-300	-	-	-300
Impairment Losses/(reversals) recognised in Surplus or Deficit on the Provision of Services	-	-20	-	-	-20
Depreciation	-	-	-	-	-
Assets reclassified (to)/from Property Plant and Equipment	-	-	-9	-	-9
<b>At 31 March 2013</b>	<b>9,482</b>	<b>988</b>	<b>4,437</b>	<b>654</b>	<b>15,561</b>

#### Museum Collections and Artefacts

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

#### Artwork, including Public Art and Sculptures

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

#### Monuments, Statues and Historic Buildings

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

### Civic Regalia and Silverware

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

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

### 14. Investment Properties

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

2011-12 £000		2012-13 £000
6,211	Balance at start of the year	4,221
	Additions:	
-	Enhancements	1
-39	Disposals	-189
-126	Net gains/losses from fair value adjustments	-163
	Transfers:	
-1,825	To/from Property, Plant and Equipment	-
4,221	<b>Balance at end of the year</b>	3,870

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

### 15. Intangible Assets

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

All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the Council. The useful lives assigned to the major software suites used by the 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
VM Software	Licence	January 2009	26	5	Straight Line
Income Software	Licence	November 2010	1,461	5	Straight Line
Government Connects	Licence	October 2010	132	5	Straight Line
Accounting Software	Licence	March 2011	160	5	Straight Line
BSF School Software	Licence	March 2011	85	5	Straight Line
HRA Software	Licence	March 2011	87	5	Straight Line
Web Filtering Software	Licence	June 2011	135	5	Straight Line
ICT Sharepoint Software	Licence	January 2012	79	3	Straight Line
Learning Platform	Licence	March 2012	46	5	Straight Line
Income Software	Licence	March 2012	161	5	Straight Line
ICT Sharepoint Software	Licence	August 2012	35	3	Straight Line
AccsMap Specific Software	Licence	September 2012	29	8	Straight Line
Accounting Software	Licence	December 2012	412	5	Straight Line
Learning Gateway Software	Licence	January 2013	36	5	Straight Line
HRA Software	Licence	March 2013	10	5	Straight Line
BSF School Software	Licence	March 2013	1,020	5	Straight Line
Planning Software	Licence	March 2013	63	5	Straight Line
<b>Assets transferred due to LGR</b>					
Various software	Licence	2006	36	various	Straight line
Various software	Licence	2007	383	various	Straight line
Various software	Licence	2008	1,017	various	Straight line

The carrying amount of intangible assets is amortised on a straight-line basis. Of the amortisation of £1.551m charged to revenue in 2012/13 (£1.210m in 2011/12), £0.845m was charged to central administration and central services and then absorbed as an overhead across all the service headings in the Cost of Services (£0.743m in 2011/12). It is not possible to quantify exactly how much of the amortisation is attributable to each service heading.

## Notes to the Accounts

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

<u>2011-12</u>			<u>2012-13</u>	
Software £000			Software £000	
		<b>Balance at start of year:</b>		
7,510		Gross carrying amounts	5,785	
-5,531		Accumulated amortisation	-3,224	
<u>1,979</u>		<b>Net carrying amount at start of year</b>	<u>2,561</u>	
		<b>Additions:</b>		
873		Purchases	1,610	
929		Reclassification from Property, Plant and Equipment	-	
-3,527		Disposals	-	
-		Impairment losses recognised in the Surplus/Deficit on the Provision of Services	-	
-1,210		Amortisation for the period	-1,551	
3,517		Amortisation written out on disposal	-	
<u>2,561</u>		<b>Net carrying amount at end of year</b>	<u>2,620</u>	
		<b>Comprising</b>		
5,785		Gross carrying amounts	7,395	
-3,224		Accumulated amortisation	-4,775	
<u>2,561</u>			<u>2,620</u>	

## 16. Financial Instruments

### Categories of Financial Instruments

The borrowings and investments disclosed in the Balance Sheet are made up of the following categories of financial instruments:

<u>2011-12</u>			<u>2012-13</u>	
Long-term £000	Current £000		Long-term £000	Current £000
		<b>Investments</b>		
901	69,010	Loans and receivables	803	56,900
1,667	-	Available-for-sale financial assets	10,558	-
-	-	Unquoted equity investment at cost	-	-
-	-	Financial assets at fair value through profit and Loss	-	-
<u>2,567</u>	<u>69,010</u>	<b>Total Investments</b>	<u>11,361</u>	<u>56,900</u>
		<b>Debtors:</b>		
6,545	82,171	Loans and receivables	15,643	79,151
-	-	Financial assets carried at contract amounts	-	-
<u>6,545</u>	<u>82,171</u>	<b>Total Debtors</b>	<u>15,643</u>	<u>79,151</u>
		<b>Borrowings:</b>		
-410,999	-13,597	Financial Liabilities at amortised cost	-437,443	-7,439
-	-	Financial Liabilities at fair value through profit and loss	-	-
<u>-410,999</u>	<u>-13,597</u>	<b>Total Borrowings</b>	<u>-437,443</u>	<u>-7,439</u>
		<b>Other Long term Liabilities:</b>		
-46,987	-2,756	PFI and finance lease liabilities	-48,300	-2,787
<u>-46,987</u>	<u>-2,756</u>	<b>Total other long term liabilities:</b>	<u>-48,300</u>	<u>-2,787</u>
		<b>Creditors:</b>		
-	-126,267	Financial liabilities at amortised cost	-	-101,855
-	-	Financial liabilities carried at contract amount	-	-
<u>-</u>	<u>-126,267</u>	<b>Total Creditors</b>	<u>-</u>	<u>-101,855</u>

In addition to the above categories of financial instruments, cash and cash equivalents are also financial instruments as defined by IAS 32. Further details can be found in Note 19.

Under accounting requirements the carrying value of the financial instrument is shown in the balance sheet which includes the principal amount borrowed or lent and further adjustments for breakage costs or stepped interest loans (measured by an effective interest rate calculation) including accrued interest. Accrued interest is shown separately in current assets/liabilities where the payments/receipts are due within one year. The effective interest rate is effectively accrued interest receivable under the instrument, adjusted for the amortisation of any premiums or discounts reflected in the purchase price.

### **Soft Loans**

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

### **Loans to Voluntary Organisations**

The Council has made a number of loans to voluntary organisations at less than market rates (soft loans). The value of soft loans issued by the Council at 31 March 2013 was £0.085m (31 March 2012 £0.085m). They are not considered to be material.

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

### **Employee Car Loans**

The Council made loans for car purchase to 182 employees. These employees are in posts that require them to drive regularly on the authority's business. Interest is charged on the loans based on the emissions of the vehicle. At the current level of interest rates the Council assesses that the rate for such loans are no longer less than market rates. The scheme is no longer available to employees.

The value of soft loans issued by the Council at 31 March 2013 was £0.506m (31 March 2012 £0.561m).

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

### **Soft Loans received by the Council**

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

The value of soft loans received by the Council at 31 March 2013 was £0.434m (31 March 2012 £0.723m)

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

### **Reclassifications**

There have been no reclassifications for the financial year 2012/13.



**Income, Expense, Gains and Losses**

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments are made up as follows:

2011-12					2012-13					
Financial Liabilities measured at amortised cost £000	Financial Assets: Loans and receivables £000	Financial Assets: Available for sale £000	Assets and Liabilities at Fair Value through Profit and Loss £000	Total £000		Financial Liabilities measured at amortised cost £000	Financial Assets: Loans and receivables £000	Financial Assets: Available for sale £000	Assets and Liabilities at Fair Value through Profit and Loss £000	Total £000
16,730				16,730	Interest expense	20,112				20,112
		295		-	Losses on derecognition					-
	324			295	Reductions in fair value			1,158		1,158
				324	Impairment losses		-40			-40
				-	Fee expense					-
16,730	324	295	-	17,349	<b>Total expense in Surplus or Deficit on the Provision of Services</b>	20,112	-40	1,158	-	21,230
	1,964			1,964	Interest income		3,294			3,294
	446			446	Interest income accrued on impaired financial assets		99			99
				-	Increase in fair value			9,771		9,771
				-	Gains on derecognition					-
				-	Fee income					-
-	2,410	-	-	2,410	<b>Total income in Surplus or Deficit on the Provision of Services</b>	-	3,393	9,771	-	13,164
					- Gains on revaluation					-
					- Losses on revaluation					-
					- Amounts recycled to the Surplus or Deficit on the Provision of Services after impairment					-
					- Surplus/deficit arising on revaluation of financial assets in Other Comprehensive Income and Expenditure					-
16,730	-2,086	295	-	14,939	<b>Net gain/(loss) for the year</b>	20,112	-3,433	-8,613	-	8,066

**Fair Values of Assets and Liabilities**

Financial liabilities and financial assets represented by loans and receivables are carried on the balance sheet at amortised cost (in long term assets/liabilities with accrued interest in current assets/liabilities). Their fair value can be assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments, using the following assumptions:

- For loans from the PWLB and other loans payable, premature repayment rates from the PWLB have been applied to provide the fair value under PWLB debt redemption procedures;
- For loans receivable prevailing benchmark market rates have been used to provide the fair value;
- No early repayment or impairment is recognised;
- Where an instrument has a maturity of less than 12 months or is a trade or other receivable the fair value is taken to be the carrying amount or the billed amount;
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values calculated are as follows:

31 March 2012			31 March 2013		
Carrying Amount £000	Fair Value £000		Carrying Amount £000	Fair Value £000	
-550,863	-633,659	Financial liabilities	-540,564	-647,330	
-	-	Long-term creditors	-	-	

The fair value of the liabilities is greater than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans in the market at the balance sheet date.

This shows a notional future loss (based on economic conditions at 31 March 2013) arising from a commitment to pay interest to lenders above current market rates.

31 March 2012			31 March 2013		
Carrying Amount £000	Fair Value £000		Carrying Amount £000	Fair Value £000	
151,181	151,181	Loans and receivables	129,878	130,328	
6,545	6,545	Long-term debtors	15,643	15,643	

The differences are attributable to fixed interest instruments receivable being held by the authority whose interest rate is higher than the prevailing rate estimated to be available at 31 March 2013. This increases the fair value of loans and receivables.

The fair value for loans and receivables have been determined by reference to similar practices as above which provide a reasonable approximation for the fair value of a financial instrument, and includes accrued interest. The comparator market rates prevailing have been taken from indicative investment rates at each balance sheet date. In practice, rates will be determined by the size of the transaction and the counterparty, but it is impractical to use these figures, and the difference is likely to be immaterial.

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

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

## 17. Inventories

	Balance outstanding at start of year £000	Purchases £000	Recognised as an expense in the year £000	Adjustment for internal inventories £000	Reversals of write-offs in previous years £000	Balance outstanding at year-end £000
<b>Year to 31 March 2013</b>						
Consumable Stores	2,929	12,206	-13,459	-	-	1,676
Maintenance Materials	484	4,287	-4,257	-	-	514
Client Services Work in Progress	762	2,216	-2,628	-	-	350
Rechargeable Works	1,162	1,344	-2,337	-	-	169
<b>Total</b>	<b>5,337</b>	<b>20,053</b>	<b>-22,681</b>	<b>-</b>	<b>-</b>	<b>2,709</b>
<b>Year to 31 March 2012</b>						
Consumable Stores	2,397	18,006	-17,457	-17	-	2,929
Maintenance Materials	499	481	-496	-	-	484
Client Services Work in Progress	125	762	-680	555	-	762
Rechargeable Works	854	3,649	-3,341	-	-	1,162
<b>Total</b>	<b>3,875</b>	<b>22,898</b>	<b>-21,974</b>	<b>538</b>	<b>-</b>	<b>5,337</b>

## 18. Short Term Debtors

2011-12 £000		2012-13 £000
22,887	Central government bodies	26,615
4,167	Other local authorities	3,125
1,330	NHS bodies	2,851
1	Public corporations and trading funds	42
66,248	Other entities and individuals	61,446
-16,491	Less: Impairment Allowance	-18,878
<b>78,142</b>		<b>75,201</b>
4,029	Payments in advance	3,950
<b>82,171</b>	<b>Total</b>	<b>79,151</b>

## 19. Cash and Cash Equivalents

2011-12 £000		2012-13 £000
4	Cash at bank	6
-13,110	Overdraft	-10,116
35,064	Cash held on demand (call accounts)	23,362
7,806	Deposits held for liquidity purposes	7,893
<b>29,764</b>	<b>Cash and Cash Equivalents balance</b>	<b>21,145</b>

## 20. Assets Held For Sale (Current)

2011-12 £000		2012-13 £000
-	<b>Balance outstanding at start of year</b>	1,263
1,596	Assets newly classified as held for sale: Property, Plant and Equipment	3,864
-	Assets declassified as Held for Sale: Property, Plant and Equipment	-1,262
-333	Assets sold	-3,515
<b>1,263</b>	<b>Balance outstanding at year-end</b>	<b>350</b>

## 21. Short Term Creditors

2011-12 £000		2012-13 £000
-21,367	Central government bodies	-17,654
-1,329	Other local authorities	-668
-3,311	NHS bodies	-2,041
-	- Public corporations and trading funds	-31
-91,613	Other entities and individuals	-74,953
-117,620		-95,347
-8,647	Receipts in Advance	-6,508
-126,267	<b>Total creditors</b>	-101,855

## 22. Provisions

The provisions at 31 March 2013 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; there are no more payments to be made in future years.

### Insurance Provision

The 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 Council. Settlement of the claims will continue over the coming years and the provision will be reassessed on an annual basis.

### Equal Pay

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

### Other

This includes a general purpose provision of £0.064m for commuted sums and provision of £0.129m in the Housing Revenue Account to meet the contractual obligations for repairs to the housing stock of the Council.

	S117 Refunds £000	Insurance £000	Equal Pay £000	Other Provisions £000	Total £000
<b>Balance at 1 April 2012</b>	101	9,103	10,500	1,067	20,771
Additional provisions made in 2012-13	-	9,092	3,429	111	12,632
Amounts used in 2012-13	-101	-2,161	-461	-985	-3,708
Unused amounts reversed in 2012-13	-	-2,184			-2,184
Unwinding of discounting in 2012-13	-				-
<b>Balance at 31 March 2013</b>	0	13,850	13,468	193	27,511
<b>As shown in Balance Sheet</b>					
Long Term Provisions	-	11,850	-	-	11,850
Short Term Provisions	-	2,000	13,468	193	15,661
<b>Balance at 31 March 2013</b>	0	13,850	13,468	193	27,511

## 23. Usable Reserves

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

31 March 2012 £000	31 March 2013 £000
173 Usable Capital Receipts Reserve	137
- Capital Grants and Contributions Unapplied	1,061
- Major Repairs Reserve	-
7,821 Housing Revenue Account	7,155
21,874 General Fund Balance	24,410
100,425 Earmarked reserves	105,874
2,460 Earmarked reserves - HRA	1,150
<b>132,753 Total</b>	<b>139,787</b>

### Usable Capital Receipts Reserve

Proceeds of fixed assets' sales available to meet future capital investment.

### Capital Grants and Contributions Unapplied

The balance is in respect of capital grants or contributions (or part thereof) that has been recognised as income in the Comprehensive Income and Expenditure Statement, and the expenditure to be financed from that grant or contribution has not been incurred at the Balance Sheet date.

### Major Repairs Reserve

This reserve represents the amount of the Major Repairs Allowance unspent at the year end.

### Housing Revenue Account

Resources available to meet future running costs for council housing.

### General Fund Balance

Resources available to meet future running costs for services other than council housing.

### Earmarked Reserves

Earmarked Reserves are shown in more detail in Note 8 and are resources set aside for future spending plans.

### Earmarked Reserves - HRA

Earmarked Reserves are shown in more detail in Note 8 and are resources set aside for future spending plans for council housing.

## 24. Unusable Reserves

31 March 2012 £000	31 March 2013 £000
412,848 Revaluation Reserve	387,359
940,450 Capital Adjustment Account	896,660
-2,500 Financial Instruments Adjustment Account	-2,310
979 Deferred Capital Receipt	2,075
-15,369 Short Term Accumulating Absences Account	-14,594
-897,886 Pensions Reserve	-978,899
509 Available for Sale Financial Instruments Reserve	10,280
-5 Collection Fund	5
<b>439,026 Total</b>	<b>300,576</b>

### Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment, Intangible Assets and Heritage 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.

2011-12 £000	2012-13 £000
436,918 <b>Balance at 1 April</b>	412,848
29,198 Upward revaluation of assets	22,689
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	-22,611
-17,712	-22,611
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	78
11,486	78
-13,594 Difference between fair value depreciation and historical cost depreciation	-11,211
-28,475 Accumulated gains on assets sold or scrapped	-14,356
6,513 Historical cost impairment adjustment	
-35,556 Amount written off to the Capital Adjustment Account	-25,567
412,848 <b>Balance at 31 March</b>	387,359

### Available for Sale Financial Instruments Reserve

The Available for Sale Financial Instruments Reserve contains the gains made by the 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.

2011-12 £000	2012-13 £000
804 <b>Balance at 1 April</b>	509
- Transfer of historic Available for Sale balance to Available for Sale Reserve	1,157
- Upward revaluation of investments	9,771
-295 Downward revaluation of investments not charged to the Surplus/Deficit on the Provision of Services	-1,157
509	10,280
- Accumulated gains on assets sold and maturing assets written out to the Comprehensive Income and Expenditure Statement as part of Other Investment Income	-
509 <b>Balance at 31 March</b>	10,280

### 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 Council as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties

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

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

## Notes to the Accounts

2011-12 £000	2012-13 £000
1,051,614 <b>Balance at 1 April</b>	940,450
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
-75,193 - Charges for depreciation and impairment of non-current assets	-62,259
-65,360 - Revaluation losses on Property, Plant and Equipment	-68,157
-1,210 - Amortisation of intangible assets	-1,551
-6,015 - Revenue expenditure funded from capital under statute	-13,842
-71,848 - 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	-46,717
-52,891 - Exceptional Item: Payment to the Secretary of State (HRA reform)	-
-272,517	-192,526
35,556 Adjusting amounts written out of the Revaluation Reserve	25,568
-236,961 Net written out amount of the cost of non-current assets consumed in the year	-166,958
Capital financing applied in the year:	
9,458 - Use of Capital Receipts Reserve to finance new capital expenditure	9,114
11,696 - Use of the Major Repairs Reserve to finance new capital expenditure	7,692
74,686 - Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	60,647
14,453 - Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	15,600
15,630 - Capital expenditure charged against the General Fund and HRA balances	31,571
125,923	124,624
-126 Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	-299
- Transfer Historic Available for Sale balance	-1,157
940,450 <b>Balance at 31 March</b>	896,660

### 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 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 Council's case, this period is the unexpired term that was outstanding on the loans when they were redeemed.

2011-12 £000	2012-13 £000
-2,687 <b>Balance at 1 April</b>	-2,500
- Interest on Icelandic loans credited to I&E in year	-
214 Premiums amortised to General Fund in year	217
-27 Discounts amortised to General Fund in year	-27
- Impairment of Icelandic loans	-
- Reversal of all previous Icelandic loan entries	-
187 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	190
-2,500 <b>Balance at 31 March</b>	-2,310

### 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 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 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 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).

2011-12 £000		2012-13 £000
-728,212	<b>Balance at 1 April</b>	-897,886
-174,700	Actuarial gains or losses(-) on pensions assets and liabilities	-72,270
672	Difference between Actuary's estimate and Actual Employers' Pension Contributions	-74
-53,270	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	-65,520
57,624	Employer's pensions contributions and direct payments to pensioners payable in the year	56,851
-897,886	<b>Balance at 31 March</b>	-978,899

### 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 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.

2011-12 £000		2012-13 £000
1,945	<b>Balance at 1 April</b>	979
435	Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	1,662
-1,401	Transfer to the Capital Receipts Reserve upon receipt of cash	-566
979	<b>Balance at 31 March</b>	2,075

### 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.

2011-12 £000		2012-13 £000
546	<b>Balance at 1 April</b>	-5
-551	Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	10
-5	<b>Balance at 31 March</b>	5



**Accumulated Absences Account**

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

2011-12 £000		2012-13 £000
-9,935	<b>Balance at 1 April</b>	-15,369
9,935	Settlement or cancellation of accrual made at the end of the preceding year	15,369
-15,369	Amounts accrued at the end of the current year	-14,594
-5,434	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	775
<u>-15,369</u>	<b>Balance at 31 March</b>	<u>-14,594</u>

**25. Cash Flow Statement – Non-Cash Movements**

2011-12 £'000		2012-13 £'000
-62,496	Depreciation	-56,937
-78,184	Impairment and downward revaluation	-73,637
-1,210	Amortisations	-1,551
-324	Impairment of Icelandic assets	40
5,434	Transfer to/from Accumulated Absences account	-775
1,765	Increase/decrease in the provision for bad debts	-952
12,823	Increase/decrease in creditors	25,187
-3,012	Increase/decrease in debtors	-2,068
1,462	Increase/decrease in stock	-2,629
4,354	Pension liability	-8,669
-71,848	Carrying amount of non-current assets sold	-46,717
92,220	Other non-cash items	50,039
<u>-99,016</u>		<u>-118,669</u>

**26. Cash Flow Statement – Items Included in Investing Activities**

2011-12 £000		2012-13 £000
	- Purchase of short-term (not considered to be cash equivalents) and long-term investments	-
	- Proceeds from short-term (not considered to be cash equivalents) and long-term investments	-
8,651	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	9,562
	- Other items for which the cash effects are investing or financing cash flows	-
<u>8,651</u>	<b>Net cash flows from investing activities</b>	<u>9,562</u>

**27. Cash Flow Statement – Operating Activities**

The cash flows for operating activities include the following items:

2011-12 £000		2012-13 £000
566,289	Employee costs	519,803
231,190	Rent allowances and council tax benefit	239,144
-211,251	Council Tax income	-214,207
-313,493	Dedicated Schools Grant	-277,943
-217,019	Benefit Grants	-236,035
-179,862	Redistributed NNDR	-219,007
-152,846	Other Government Grants	-102,705
52,891	Payment to government for HRA self-financing	-
13,832	Interest paid	22,130
-2,303	Interest received	-1,119
	- Dividends received	-

## 28. Cash Flow Statement – Investing Activities

2011-12 £000		2012-13 £000
189,746	Purchase of property, plant and equipment, investment property and intangible assets	130,215
222,717	Purchase of short-term (not considered to be cash equivalents) and long-term investments	195,874
	- Other payments for investing activities	-
-8,651	Proceeds from the sale of property, plant and equipment, non-current assets held for sale, investment property and intangible assets	-9,562
-229,455	Proceeds from short-term (not considered to be cash equivalents) and long-term investments	-245,262
-86,478	Other receipts from investing activities	-10,274
87,879	<b>Net cash flows from investing activities</b>	60,991

## 29. Cash Flow Statement – Financing Activities

2011-12 £000		2012-13 £000
-102,891	Cash receipts of short-term and long-term borrowing	-30,000
-12,091	Other receipts from financing activities	8,626
3,103	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	3,748
	2,168 Repayments of short-term and long-term borrowing	7,517
	- Other payments for financing activities	-
-109,711	<b>Net cash flows from financing activities</b>	-10,109

## 30. Amounts Reported for Resource Allocation Decisions (SEGMENTAL)

The tables below are a reconciliation of the 2012/13 internal management reports (monitoring and outturn) used by the Council's Cabinet to make decisions and the 2012/13 Comprehensive Income and Expenditure Statement (CI&E).

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

Subjective Analysis	Childrens and Adults Services £000	Neighbourhood Services £000	Regeneration and Economic Development £000	Corporate Resources £000	Assistant Chief Executive £000	Total £000	
Fees, charges and other service income	-126,407	-124,802	-27,257	-63,126	-3,417	-345,009	
Government grants	-356,255	-1,038	-4,749	-243,334	-60	-605,436	
<b>Total Income</b>	<b>-482,662</b>	<b>-125,840</b>	<b>-32,006</b>	<b>-306,460</b>	<b>-3,477</b>	<b>-950,445</b>	
Employee Expenses	355,700	86,023	28,320	40,750	6,868	517,661	
Other operating expenses	348,326	119,321	53,198	266,328	6,774	793,947	
Support recharges	27,212	21,743	4,936	19,383	1,905	75,179	
<b>Total Operating Expenses</b>	<b>731,238</b>	<b>227,087</b>	<b>86,454</b>	<b>326,461</b>	<b>15,547</b>	<b>1,386,787</b>	
<b>Net Cost of Services</b>	<b>248,576</b>	<b>101,247</b>	<b>54,448</b>	<b>20,001</b>	<b>12,070</b>	<b>436,342</b>	
<b>Reconciliation to cost of services in the CIES</b>						<b>£000</b>	
Net cost of services in service analysis						436,342	
Add services not included in the main analysis						-22,323	
Add amounts not reported to management						33,710	
Remove amounts not included in the CIES						29,563	
<b>Cost of Services in CIES</b>						<b>477,292</b>	
<b>Reconciliation to Subjective Analysis</b>							
	Service Analysis £000	Services not in Analysis £000	Not reported to Mngmt £000	Not Included in CI&E £000	Cost of Services £000	Corporate Amounts £000	Total £000
Fees, charges and other service income	-345,009			-1,059	-346,068		-346,068
Interest and investment income						-3,381	-3,381
Interest received on finance leases (lessor)						-214,207	-214,207
Income from Council Tax						-293,433	-838,222
Government Grants and Contributions	-605,436			60,647	-544,789		
Council Tax Freeze Grant							
IAS19							
<b>Total Income</b>	<b>-950,445</b>	<b>-</b>	<b>-</b>	<b>59,588</b>	<b>-890,857</b>	<b>-511,021</b>	<b>-1,401,878</b>
Employee Expenses	517,661				517,661		517,661
Other service expenses	793,947			-4,468	789,479		789,479
Support Service recharges	75,179				75,179		75,179
Contribution to Housing Capital Receipts Pool						1,024	1,024
Interest Payable						24,437	24,437
Impairment of Financial Investments			797		797	919	1,716
Net Trading				1,820	1,820	-2,073	-253
Precepts and Levies				-400	-400	12,809	12,409
HRA			30,170		30,170		30,170
Gain or Loss on the disposal of non-current assets						35,518	35,518
Direct Revenue Funding			2,743	-26,828	-24,085		-24,085
Change in Fair Value of Investment Properties				-163	-163		-163
Other Adjustments				14	14		14
IAS19		-22,323			-22,323	28,860	6,537
<b>Total Operating Expenses</b>	<b>1,386,787</b>	<b>-22,323</b>	<b>33,710</b>	<b>-30,025</b>	<b>1,368,149</b>	<b>101,494</b>	<b>1,469,643</b>
<b>Surplus or deficit on provision of services</b>	<b>436,342</b>	<b>-22,323</b>	<b>33,710</b>	<b>29,563</b>	<b>477,292</b>	<b>-409,527</b>	<b>67,765</b>

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

Subjective Analysis	Children and Young People Services £000	Adults, Wellbeing and Health £000	Neighbourhood Services £000	Regeneration and Economic Development £000	Corporate Resources £000	Assistant Chief Executive £000	Total £000
Fees, charges and other service income	-76,280	-63,559	-123,701	-25,113	-80,857	-3,023	-372,533
Government grants	-376,451	-15,421	-2,910	-4,327	-231,778	-199	-631,086
<b>Total Income</b>	<b>-452,731</b>	<b>-78,980</b>	<b>-126,611</b>	<b>-29,440</b>	<b>-312,635</b>	<b>-3,222</b>	<b>-1,003,619</b>
Employee Expenses	353,469	61,118	86,353	28,404	40,186	6,691	576,221
Other operating expenses	150,555	181,103	113,629	30,987	272,066	7,284	755,624
Support recharges	22,944	8,462	23,711	7,488	21,718	1,353	85,676
<b>Total Operating Expenses</b>	<b>526,968</b>	<b>250,683</b>	<b>223,693</b>	<b>66,879</b>	<b>333,970</b>	<b>15,328</b>	<b>1,417,521</b>
<b>Net Cost of Services</b>	<b>74,237</b>	<b>171,703</b>	<b>97,082</b>	<b>37,439</b>	<b>21,335</b>	<b>12,106</b>	<b>413,902</b>

#### Reconciliation to cost of services in the CIES

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

#### Cost of Services in CIES

**551,167**

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

### 31. Trading Operations

The deficit for the year on trading operations relating to Direct Services and Technical Design Services is charged as Financing and Investment Income and Expenditure - Other investment income (see note 10).

The summary revenue account for these services is shown below.

	2010-11 £000	2011-12 £000	2012-13 £000	
<b>Highways Operations</b>				
The Authority runs a highways operations team which maintains the network of roads, footpaths and street lighting within the County. They also complete and carry out works for external bodies. The trading objective of the team is to meet the net cash limit target as set. The cumulative surplus over the last three financial years: £964,000	Turnover	-29,270	-31,373	-27,677
	Expenditure	29,189	30,980	27,187
	Surplus(-)/Deficit	-81	-393	-490
<b>Fleet</b>				
The Authority operates an in house Fleet Management Service which has the direct responsibility for the management and safeguarding of Authority's Operators Licence along with the responsibility of the safe and cost effective maintenance and procurement of the Authority's 1002 vehicles. Whilst the objective of the service is to only recover the actual the capital cost and maintenance of the fleet, the service also undertakes taxi vehicle examinations along with maintenance work for external bodies through Service level agreements. The cumulative deficit over the last three financial years: £395,000	Turnover	-18,803	-17,912	-17,519
	Expenditure	18,834	18,105	17,690
	Surplus(-)/Deficit	31	193	171
<b>Depots</b>				
The Authority operates from five main strategic depots and two satellite depots covering the County of Durham. The depots along with possessing vehicle maintenance facilities provide operational bases to front line services for the Authority. The service also lets depot accommodation to external bodies. The trading objective is to meet the net cash limit target as set. The cumulative deficit over the last three financial years : £1,122,000	Turnover	-2,771	-2,529	-2,079
	Expenditure	3,203	2,651	2,647
	Surplus(-)/Deficit	432	122	568
<b>Buildings R&amp;M and Construction</b>				
The Authority runs a 'Building Services' team which procures, maintains buildings and, constructs major and minor projects, on behalf of all Five Directorates within Durham County Council as well as a wide range of other service users. 'Building Services' also complete and carry out work for external bodies both private and public. The in house team demonstrates Value for Money by delivering services on time, within cost and to the required standard using a combination of directly employed staff and supply chain partners. The costs of services is benchmarked with other Local Authorities and as the 'Building Services' organisation continues to improve its outputs, the hourly rates for Tradesmen have fallen from the levels previously. The trading objective of the team is to meet the net cash limit target as set. The cumulative surplus over the last three financial years: £2,010,000	Turnover	-18,103	-21,614	-17,520
	Expenditure	18,718	20,704	15,805
	Surplus(-)/Deficit	615	-910	-1,715
<b>Housing Maintenance</b>				
The Authority provides a housing repairs and maintenance service on behalf of Durham City Homes. The Durham Housing Maintenance Team procures services, maintains tenant's homes and undertakes 'decent homes' improvements to approximately 6,100 homes. The in-house team demonstrates Value for Money by delivering against a wide range of performance indicators. The costs of services are benchmarked against other service providers from across the UK. The trading objective of the team is to meet with the net cash limit target as set. The cumulative surplus over the last three financial years: £773,000	Turnover	- 5,590	-6,109	-7,159
	Expenditure	5,589	5,851	6,645
	Surplus(-)/Deficit	- 1	-258	-514
<b>Cleaning Services</b>				
The Authority runs a Building Cleaning Service which procures services, maintains buildings working across the entire portfolio of Durham County Council's buildings. The Building Cleaning Services also undertake works on behalf of a number of service users both internal and external to Durham County Council. The costs of services are benchmarked with other Local Authority providers from across the UK. The trading objective of the team is to meet the net cash limit target set. The cumulative deficit over the last three financial years £1,203,000	Turnover	-3,308	-3,163	-3,003
	Expenditure	4,098	3,693	2,886
	Surplus(-)/Deficit	790	530	-117

	2010-11 £000	2011-12 £000	2012-13 £000
<b>Catering Services</b>			
The Authority runs a Catering Service which procures goods and services, and provides both canteen services and an event catering service. These services are available to both internal and external bodies. The in-house team demonstrates Value for Money having been awarded the catering for Durham County Council following a competitive tender. Services are provided using a combination of directly employed staff and Agency Workers. The trading objective of the team is to meet the net cash limit target as set. The cumulative deficit over the last three financial years £878,000			
Turnover	-1,098	-853	-741
Expenditure	1,282	1,270	1,018
Surplus(-)/Deficit	184	417	277

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

### 32. Agency Services

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

In 2012/13 £7.318m (£5.543m in 2011/12) was received for the following services, Finance, Information and Communications Technology, Human Resources, Legal Advice and Support, Inspections and Subject Reviews, Cleaning, Ground Maintenance and Crematorium Services.

The increase, from 2011/12 to 2012/13, in charges received, is mainly due to the larger number of Academies and the services provided to them.

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

### 33. Members' allowances

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

2011-12 £000		2012-13 £000
1,676	Salaries	1,669
289	Allowances	287
112	Expenses	102
<u>2,077</u>	<b>Total</b>	<u>2,058</u>

## 34. Officers' Remuneration

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

Name	Period	Salary, Fees and Bonuses		Expenses	Compensation	Pensions	Total
		Allowances	£	Allowances	for Loss of Office	Contribution	
		£	£	£	£	£	£
Chief Executive - George Garlick	2012-13	200,000		529		26,200	226,729
	2011-12	200,000	-	277	-	26,200	226,477
Corporate Director - Resources	2012-13	140,000		211		18,340	158,551
	2011-12	140,000	-	695	-	18,340	159,035
Corporate Director - Children's and Adults' services Note 1.	2012-13	93,333		152		12,227	105,712
Corporate Director - Adults, Wellbeing and Health Note 1.	2012-13	46,667		76		6,113	52,856
	2011-12	127,287	-	165	-	16,675	144,127
Corporate Director - Children and Young People's Service Note 1	2012-13	58,333		279	49,335	7,642	115,589
	2011-12	140,000	-	686	-	18,340	159,026
Corporate Director - Neighbourhood Services	2012-13	140,000		61		18,340	158,401
	2011-12	140,000	-	134	-	18,340	158,474
Corporate Director - Regeneration and Economic Development	2012-13	140,000		108		18,340	158,448
	2011-12	140,000	-	-	-	18,340	158,340
Assistant Chief Executive	2012-13	120,000		93		15,720	135,813
	2011-12	120,000	-	-	-	15,720	135,720
Monitoring Officer	2012-13	110,000		90		14,410	124,500
	2011-12	109,578	-	-	-	14,355	123,933

Note 1 The Corporate Directorates of Adults, Wellbeing and Health and Children and Young People's Services merged during 2012/13. The Corporate Director of Children and Young People's Services took early retirement and voluntary redundancy, and the Corporate Director of Adults, Wellbeing and Health was appointed as Corporate Director of Children's and Adults' Services on 1 August 2012 on the same annual salary.

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

Remuneration	2012-13			2011-12		
	School Staff	Other Staff	Total	School Staff	Other Staff	Total
£50,000 - £54,999	136	66	202	143	71	214
£55,000 - £59,999	83	37	120	90	52	142
£60,000 - £64,999	37	11	48	38	12	50
£65,000 - £69,999	18	8	26	18	18	36
£70,000 - £74,999	6	1	7	7	13	20
£75,000 - £79,999	6	9	15	8	12	20
£80,000 - £84,999	3	1	4	7	3	10
£85,000 - £89,999	6	1	7	6	2	8
£90,000 - £94,999	3	0	3	3	3	6
£95,000 - £99,999	0	8	8	0	8	8
£100,000 - £104,999	0	2	2	0	3	3
£105,000 - £109,999	0	1	1	0	2	2
£110,000 - £114,999	1	7	8	1	5	6
£115,000 - £119,999	0	1	1	0	0	0
£120,000 - £124,999	0	1	1	0	1	1
£125,000 - £129,999	0	1	1	0	2	2
£130,000 - £134,999	0	1	1	0	2	2
£135,000 - £139,999	0	0	0	0	1	1
£140,000 - £144,999	0	4	4	0	4	4
£145,000 - £149,999	0	0	0	0	0	0
£150,000 - £154,999	0	0	0	0	0	0
£155,000 - £159,999	0	0	0	0	0	0
£160,000 - £164,999	0	0	0	0	0	0
£165,000 - £169,999	0	0	0	0	0	0
£170,000 - £174,999	0	0	0	0	0	0
£175,000 - £179,999	0	0	0	0	0	0
£180,000 - £184,999	0	0	0	0	1	1
£185,000 - £189,999	0	0	0	0	0	0
£190,000 - £194,999	0	0	0	0	0	0
£195,000 - £199,999	0	0	0	0	0	0
£200,000 - £204,999	0	1	1	0	1	1
	299	161	460	321	216	537

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

(a) Exit package cost band (including special payments)	(b) Number of compulsory redundancies		(c) Number of other departures agreed		(d) Total number of exit packages by cost band [(b) + (c)]		(e) Total cost of exit packages in each band	
	2011-12	2012-13	2011-12	2012-13	2011-12	2012-13	2011-12 £000	2012-13 £000
£0 - £20,000	128	137	191	155	319	292	2,503	1,924
£20,001 - £40,000	10	16	135	75	145	91	3,972	2,599
£40,001 - £60,000	0	3	38	19	38	22	1,765	1,063
£60,001 - £150,000	0	0	6	2	6	2	511	181
<b>Total</b>	<b>138</b>	<b>156</b>	<b>370</b>	<b>251</b>	<b>508</b>	<b>407</b>	<b>8,751</b>	<b>5,767</b>



### 35. External Audit Costs

The 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 Council's external auditors. The appointed auditor for 2011-12 was the Audit Commission. Following outsourcing, the appointed auditor for 2012-13 is Mazars LLP.

2011-12 £000	2012-13 £000
531 Fees payable with regard to external audit services carried out by the appointed auditor for the year	333
116 Fees payable in the year for the certification of grant claims and returns by the appointed auditor	53
<b>647 Net cash flows from investing activities</b>	<b>386</b>

In addition to the fees paid to Mazars LLP as per the above table, a rebate from the Audit Commission of £35,280 has also been received in respect of 2011-12 and earlier years.

### 36. Dedicated Schools Grant

The Council's expenditure on schools is funded primarily by grant monies provided by the Department for Education; the Dedicated Schools Grant (DSG). An element of DSG is recouped by the Department to fund academy schools in the Council's area. 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 2011. 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.

Details of the deployment of DSG receivable for 2012/13 are as follows:

	Central Expenditure £000	ISB £000	Total £000
A Final DSG for 2012/13 before Academy Recoupment			342,050
B Academy figure recouped for 2012/13			64,107
C Final DSG for 2012/13			277,943
D Plus			
Brought forward from 2011/12			4,210
E Less			
Carry forward to 2013/14 agreed in advance			1,769
F Agreed budgeted distribution in 2012/13	22,223	258,162	280,384
G In year adjustments	-3,691	3,691	-
H Final budgeted distribution for 2012/13	18,532	261,853	280,384
I Less			
Actual central expenditure	14,398		
J Less			
Actual ISB deployed to schools		263,133	
K Plus			
Local authority contribution for 2012/13	-	-	-
L Carry forward to 2013/14	4,134	-1,280	4,623 *

\* Total carry-forward (L) on central expenditure less carry forward on ISB (L) plus carry forward 2011/12 already agreed (E).

A: DSG figure as issued by the Department in June 2012.

B: Figure recouped from the authority in 2012/13 by the DfE for the conversion of maintained schools into Academies.

C: Total figure after DfE Academy recoupment for 2012/13.

D: Figure brought forward from 2011/12 as agreed with the Department.

E: Any amount which the authority decided after consultation with the schools forum to carry forward to 2013/14 rather than distribute in 2012/13 – this will be the difference between estimated and final DSG for 2012/13, or a figure (positive or negative) brought forward from 2011/12 which the authority is carrying forward again.

- F: Budgeted distribution of DSG, adjusted for carry-forward, as agreed with the Schools Forum.
- G: Changes to the initial distribution.
- H: Budgeted distribution of DSG as at the end of the financial year.
- I: Actual amount of central expenditure items in 2012/13.
- J: 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).
- K: Any contribution from the local authority in 2012/13 which will have the effect of substituting for DSG in funding the Schools Budget.
- L: Carry forward to 2013/14:
- For central expenditure, difference between final budgeted distribution of DSG (H) and actual expenditure (I), plus any local authority contribution (K).
  - For ISB, difference between final budgeted distribution (H) and amount actually deployed to schools (J) plus any local authority contribution (K).
  - Total is carry-forward (L) on central expenditure less carry forward on ISB (L) plus carry forward 2012/13 already agreed (E).

£1.992m of the DSG has been used to fund capital expenditure in schools. This expenditure is not included in the net cost of Children's and Education Services as it is not a proper charge to the Income and Expenditure Account, The expenditure forms part of the statement of Movement on the General Fund Balance.

### 37. Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2012/13:

2011-12 £000		2012-13 £000
<b>Credited to Taxation and Non Specific Grant Income:</b>		
-211,251	Council Tax Income	-214,207
-179,862	Non Domestic Rates	-219,007
	Non-Ring Fenced Government Grants	
-55,596	- Revenue Support Grants	-4,245
-	- LACSEG (Local Authority Central Spend Equivalent Grant)	-2,144
-114	- Local Services Support Grant	-
-4,972	- Council Tax Freeze Grant	-5,045
-1,506	- New Homes Bonus Scheme Grant	-2,345
-74,686	Capital Grants and Contributions	-60,647
-527,987		-507,640

**Grant and Contribution Income Credited to Services**

2011-12 £000	2012-13 £000
<b>Credited to Services:</b>	
- Arts Council Eng - NE	-412
-274 Arts Projects	-319
-154 Asylum seekers grant	-108
-450 CDENT grant	-126
-373 Darlington Borough Council	-378
-522 DCSF grant	-358
-313,493 Dedicated schools grant (DSG)	-277,943
-385 DEFRA Grant	-352
-2,816 Department for Transport grant	-1,527
-23,869 Early Intervention Grant	-24,810
-325 Education Authorities-other	-276
-290 Educational visits	-216
-76 English heritage grants	-63
-453 ERDF grant	-161
-373 Health commercial placements	-393
-993 Heritage lottery fund grant	-825
-124 Home Office-positive futures grant	-134
-5,360 Housing Benefit - Admin Grant	-4,842
-53,585 Housing Benefit Grant - Council tax	-54,980
-131,030 Housing Benefit Grant - Rent Allowance	-140,922
-38,842 Housing Benefit Grant - Rent Rebate	-42,584
-9,725 Learning Disability and Health Reform Grant	-10,047
-20,569 Learning and skills Council grant	-16,325
-254 Natural England	-134
-16,231 NHS - care costs	-13,581
- NHS - integrated services	-1,034
-3,282 NHS - joint arrangements	-1,780
-606 NNDR Cost of Collection Allowance	-605
-228 ONE-single capital pot	-
-2,003 Other local authorities	-807
-281 PCT's	-240
-5,519 PFI Grants	-5,519
-251 Police Authority	-307
-188 Probation Service	-3
-46 Pupil Premium Grant	-10,749
-2,500 Social care reform grant	-2,794
-228 Sports Council Grant	-10
-8,470 Standards Fund grant	-
-401 Supporting People 18 to 21	-379
-1 Supporting people programme grant	-
-336 Sure start grant	-
-624 Teacher Development Agency grant	-214
-228 Train to Gain	-
-67 TSI	-44
- YJB - ISSP grant	-3
- Youth justice grant	-3
- Youth music grant	-17
-1,020 Youth offending teams grant	-966
-20,384 Other grants and contributions	-24,903
-667,229	-642,193

### Capital Grants and Contributions Receipt in Advance

The 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:

2011-12			2012-13	
Long Term Liabilities £000	Short Term Liabilities £000		Long Term Liabilities £000	Short Term Liabilities £000
<b>Capital Grants and Contributions Receipts in Advance</b>				
-1,762	-1,250	Transit 15	-1,273	-1,250
-	-11	Bowburn Development	-	-
-	-566	Netpark Phase 2 Infrastructure - ERDF	-	-
-	-189	Home and Community Agency	-1,435	-2,299
-	-	HLF Grant - Biomass Boilers	-	-45
-	-15	English Heritage	-	-
-	-214	DEFRA	-	-312
-	-6,220	DFT	-	-1,820
-	-10	Dti	-	-
-	-480	Heritage Lottery Fund	-	-
-	-2,115	Basic Need	-	-2,231
-2,706	-6,678	Capital Maintenance	-3,700	-7,404
-	-4,908	Devolved Capital	-	-3,735
-	-7,845	Building Schools for the Future (BSF)	-	-3,528
-	-21	Sure Start	-	-
-	-	AHDC Capital	-	-279
-	-	2 Year Old Provision	-	-903
-	-	Studio Schools	-	-43
-	-	Peterlee St. Bede's - School Contribution to BSF Project	-	-180
-	-11	Environment Agency	-	-47
-	-226	DfE Capital Grant - Aiming High Disabled Children	-	-
-	-	Sport England	-	-
-	-88	PCT	-	-81
-417	-279	IT Improvements	-	-
-	-4	LD Shared Living	-	-
-29	-	Improving Care Home Environment	-	-
-	-177	SCP Mental Health	-	-
-34	-	Community Safety Grant	-	-
-	-21	English Heritage	-	-
-53	-300	Social Care Reform Grant	-	-
-	-8	RIEP Community Safety Grant	-	-
-51	-539	Other	-37	-1,438
<u>-5,052</u>	<u>-32,175</u>	<b>Total Capital Grants and Contributions Receipts in Advance</b>	<u>-6,445</u>	<u>-25,595</u>

### 38. Related Parties

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the 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 Council.

#### Central Government

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

**Members**

Members of the County Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2012/13 is shown in Note 33.

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

The local environmental projects, youth groups and community associations, in which members are involved, received grant funding to the value of £486,887 in 2012/13 ( £423,442 in 2011/12). In all instances, the grants were made with proper consideration of declarations of interest. The relevant members did not take part in any discussion or decision relating to the grants. Members are also involved in:

- the Citizen Advice Bureau (CAB) delivering advice services across the county, which received financial support to the value of £497,326 in 2012/13 (£453,236 in 2011/12). One member is employed by Derwentside CAB;
- VISIT County Durham, the tourism management board for County Durham for which there were transactions to the value of £188,843 in 2012/13 (£413,066 in 2011/12) with the Council; and
- County Durham Villages Regeneration Company which operates as a public-private partnership to regenerate communities within County Durham. There were no transactions with the Council in 2012/13.

During 2012/13, works and services to the value of £19,527 (£5,898 in 2011/12) were commissioned from companies in which six members had an interest. Contracts were entered into in full compliance with the County Council Standing Orders.

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

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

No further declarations were identified.

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

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

**Durham County Waste Management Company Limited (DCWMC)**

The Environmental Protection Act 1990 required local authorities to establish waste management companies to provide their waste disposal functions. This led to the creation of DCWMC in 1993. The Council holds 84% of the share capital with Darlington Borough Council holding the remaining 16%. In 2012/13 the principal activities of the company included the collection, disposal and recycling of trade and municipal waste. The Board of the DCWMC had a total of 8 members of which 5 are officers from the Council.

The Durham County Waste Management Company (and its subsidiary Premier Waste Management) entered into a Company Voluntary Arrangement on 12 February 2013 as part of a managed liquidation of the company from 1 June 2013. The company was unable to submit a bid for the new contract for waste

disposal and having considered a range of options, it was resolved that it was in the best interests of its creditors to wind up the company.

#### **County Durham Development Company Limited (CDDC)**

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

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

Dale & Valley Homes Limited was established as an Arms Length Management Organisation by Wear Valley District Council on 1 April 2006 to carry out the management and maintenance of council houses. The Board of Dale & Valley Homes has a total of 15 members of which 5 are members from the Council. Dale and Valley Homes is paid a management fee to fund the staff costs and related administration expenses. The main source of income of the company is the management fee receivable from the Council, which in 2012/13 was £5.511m (£5.911m in 2011/12). The Company accounts for 2012/13 are not yet available. The deficit for the year ended 31 March 2012 was £0.078m.

When completed, copies of the Company's accounts can be obtained from the Registered Office at County Hall, Durham, DH1 5UT.

#### **East Durham Homes Limited**

East Durham Homes Limited was created as an Arms Length Management Organisation in April 2004 to carry out the housing management and maintenance functions on behalf of the authority. The Board of East Durham Homes Limited has a total of 15 members of which 5 are also members of the County Council. East Durham Homes is paid a management fee to fund the staff costs and related administration expenses. The main source of income of the company is the management fee receivable from the Council, which in 2012/13 totalled £11.755m (£12.355m in 2011/12). The housing assets remain in the ownership of the Council and are included in the balance sheet of the authority. The net liability of the company at 31 March 2013 is £14.758m (31 March 2012: £14.546m) and the surplus for the year to 31 March 2013 was £0.288m (31 March 2012: £0.007m deficit). The debtors of East Durham Homes as at 31 March 2013 are valued at £1.516m (£0.753m in 2011/12) of which £1.154m is owed by the Council (£0.529m in 2011/12). Creditors at 31 March 2013 are valued at £3.041m (£3.105m in 2011/12). Of the creditor balance £0.231m is due to the Council (£0.765 in 2011/12).

It should be noted that the Company's accounts have yet to be finalised and therefore the figures shown above 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. On 4 May 2001, the seven local authority shareholders of NIAL (the "LA7") entered into a strategic partnership with Copenhagen Airports A/S 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 originally held a shareholding of 1,185 shares representing an 11.85% interest in the company. The shares are not held for trading outside of the LA7.

The valuation of the holding is reviewed each year to consider whether any events have occurred which would materially change the valuation. The last full independent valuation was carried out in May 2010

which valued the shareholding at £0.509m based upon the discounted cash flow method. This valuation approach was used as no open market share value was available for the holding.

On 16 November 2012, Copenhagen Airports A/S sold its 49% holding to AMP Capital Investors. As a result the valuation of the LA7 holding is now based on the open market value achieved in this sale. At the same time, an internal sale of shares also took place within the LA7 group. The Council now holds a 12.15% interest in the Newcastle Airport Local Authority Holding Company Limited, valued at £10.558m.

Through its shares in Newcastle Airport Local Authority Holding Company Limited the Council has an effective shareholding of 6.20% in Newcastle International Airport Limited (and the group companies of NIAL Group Limited and NIAL Holdings Limited). The principal activity of Newcastle International Airport Limited (Registered Number 2077766) is the provision of landing services for both commercial and freight operators. Members of the LA7 entered into a loan agreement with NIAL Group Limited in 2012/13, issuing £67.665m shareholder loan notes. The loan notes will be repayable in 2032. No dividends were payable for the year ended 31 December 2012 (nil for the year ended 31 December 2011).

Other than the loan notes there are no outstanding balances owed to or from NIAL at the end of the year. NIAL Group Limited made a loss before tax of £2.361m and a profit after tax of £1.502m for the year ended 31 December 2012. In the previous year, the Group made a loss before tax of £2.884m and a profit after tax of £1.404m.

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 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 Council now holds 1.45% of the total shareholding in Peel Airports Limited. The Company accounts for 2012/13 are not yet available.

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

#### **Central Durham Crematorium**

The Central Durham Crematorium was built in 1960 and is overseen by the Central Durham Crematorium Joint Committee, comprising Durham County Council and Spennymoor Town Council. The net assets of the crematorium at 31 March 2013 are £2.877m (31 March 2012: £2.075m). Durham County Council is the administrative body and employing authority for the crematorium.

It should be noted that the Central Durham Crematorium Statutory Small Bodies Annual Return is still subject to external audit. Copies of the Durham Crematorium Annual Return and Supporting Statement of 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 2013 are £0.587m (31 March 2012: £0.446m). Durham County Council is the administrative body and employing authority for the crematorium.

It should be noted that the Mountsett Crematorium Small Bodies Annual Return is still subject to external audit. Copies of the Mountsett Crematorium Annual Return and Supporting Statement of 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 99 bodies, including borough, parish and town councils, colleges, academy schools, statutory bodies and admitted bodies. During 2012/13, the Pension Fund had an average balance of £20.395m (£19.535m in 2011/12) of



surplus cash deposited with the Council. In 2012/13 the Council paid the fund a total of £0.303m (£0.187m in 2011/12) in interest on these deposits.

### 39. Capital Expenditure and Capital Financing

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

2011-12 £000		2012-13 £000
484,646	<b>Opening Capital Financing Requirement</b>	579,136
	Capital investment:	
158,269	Property, Plant and Equipment	130,371
2,751	Property, Plant and Equipment - Finance Leases	5,092
-	Heritage Assets	32
874	Intangible Assets	1,645
-	Acquisition of share capital	278
26,359	Revenue Expenditure Funded from Capital under Statute	28,678
52,891	Exceptional Item: Payment to the Secretary of State (HRA reform)	-
	Sources of finance:	
-9,458	Capital receipts	-9,114
-95,416	Government grants and other contributions	-76,442
-11,696	Major Repairs Allowance	-7,692
	Sums set aside from revenue:	
-15,630	- Direct revenue contributions	-31,556
-14,454	- Minimum Revenue Provision	-15,600
<u>579,136</u>	<b>Closing Capital Financing Requirement</b>	<u>604,828</u>
	<b>Explanation of movements in year</b>	
16,106	Increase/(decrease) in underlying need to borrow (supported by government financial assistance)	-11,151
75,633	Increase/(decrease) in underlying need to borrow (unsupported by government financial assistance)	31,751
2,751	Assets acquired under finance leases	5,092
<u>94,490</u>	<b>Increase/(decrease) in Capital Financing Requirement</b>	<u>25,692</u>

### 40. Leases

#### Council as Lessee

##### Finance leases

The 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 2012 £000		31 March 2013 £000
	- Other Land and Buildings	
7,137	Vehicles, Plant, Furniture and Equipment	9,441
<u>7,137</u>		<u>9,441</u>

The 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 Council and finance costs that will be payable by the Council in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:



Notes to the Accounts

31 March 2012 £000		31 March 2013 £000
	Finance lease liabilities (net present value of minimum lease payments):	
2,052	Current	2,550
3,650	Non-Current	5,200
468	Finance costs payable in future years	1,292
6,170	<b>Minimum lease payments</b>	<b>9,042</b>

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

31 March 2012			31 March 2013		
Minimum Lease Payments £000	Finance Lease Liabilities £000		Minimum Lease Payments £000	Finance Lease Liabilities £000	
2,279	2,052	Not later than one year	2,926	2,550	
3,879	3,639	Later than one year and not later than five years	5,958	5,073	
12	11	Later than five years	158	127	
6,170	5,702		9,042	7,750	

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

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

*Operating Leases*

The Council has acquired a number of 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 2012 £000		31 March 2013 £000
1,256	Not later than one year	816
2,855	Later than one year and not later than five years	1,429
882	Later than five years	405
4,993		2,650

Where assets acquired under operating leases are sub-let, disclosure is required of the future minimum sublease payments expected to be received by the 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 2012 £000		31 March 2013 £000
259	Minimum lease payments	259
	- Contingent rents	-
-264	[Sublease payments receivable]	-264
-5		-5

**Council as Lessor**

*Finance Leases*

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

*Operating leases*

The 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 2012 £000	31 March 2013 £000
2,280 Not later than one year	2,296
5,621 Later than one year and not later than five years	3,098
6,758 Later than five years	6,757
14,659	12,151

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

In 2012/13 no rents were received by the authority in respect of contingent rents (2011/12 Nil).

#### 41. Private Finance Initiatives and Similar Contracts

##### Schools

In 2009/10, the 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 Council in a good state of repair and at nil cost.

Shotton Hall School became an Academy on 1 February 2011. The Council has granted the Academy lease of the land & buildings at a peppercorn rent for 125 years. The PFI contract remains with the Council and the Academy has signed an agreement with the 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 Council during the operational phase. These payments can be reduced where the buildings are not provided to the standard defined in the contract.

The Council's balance sheet includes both assets and liabilities arising from the contract.

**Value of Assets at 31 March 2013**

31 March 2012 £000		31 March 2013 £000
12,944	Net book value at 1 April	13,310
627	Additions	-
-261	Depreciation	-299
-	Revaluations	143
<u>13,310</u>	Net book value at 31 March	<u>13,154</u>

In addition to the net book value of £13.154m 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 £1.783m and the total net value of land & buildings for these schools carried forward is £14.937m.

**Value of Liabilities at 31 March 2013**

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 2012/13 are summarised below:

31 March 2012 £000		31 March 2013 £000
44,691	<b>Balance outstanding at start of year</b>	44,042
-649	Payments during the year	-704
	- Capital expenditure incurred in the year	
	- [other movements]	
<u>44,042</u>	<b>Balance outstanding at year-end</b>	<u>43,338</u>

**Estimates of Future Payments Due**

	Payments for Services £000	Reimbursement of Capital Expenditure £000	Interest £000	Total £000
Payable in 2013-14	2,022	734	4,397	7,153
Payable within two to five years	8,979	3,430	16,806	29,215
Payable within six to ten years	13,504	5,668	18,823	37,995
Payable within eleven to fifteen years	15,294	9,288	15,254	39,836
Payable within sixteen to twenty years	18,879	13,233	9,808	41,920
Payable within twenty-one to twenty-three years	10,926	10,983	2,227	24,136
<b>Total</b>	<u>69,604</u>	<u>43,336</u>	<u>67,315</u>	<u>180,255</u>

Contract payments are partially linked to inflation as measured by the RPIx index (all items excluding Mortgage Interest Payments). These estimates assume that after 2013-14 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 Council to receive some of the savings arising from re-financing. Re-financing is only possible if market conditions allow. The Council has not been informed by the contractor of any plans for re-financing.

## 42. Impairment Losses

The Council's assets have been impaired by £101.408m in 2012/13, charged partly to services in the Comprehensive Income and Expenditure Statement (CI&E) and partly to the Revaluation Reserve. This includes both the consumption of economic benefits and also revaluation losses due to the downturn in the economy as well as the on-going review of the Council's asset base since Local Government Reorganisation in 2009/10. The Council's housing stock has been impaired by £61.944m due to a decrease in the house price index.

In 2012/13 the Council impaired a long-term loan and its shareholding in Durham County Waste Management Company, as a result of the company entering into a Company Voluntary Arrangement (CVA) during the year. The CIPFA code requires financial assets to be impaired when there is objective evidence of impairment, including it becoming probable that the borrower will enter bankruptcy or other financial reorganisation. The outstanding balance of the loan at the time of the impairment was £0.797m. This was written off to the Comprehensive Income and Expenditure Statement (Surplus or Deficit on Provision of Services - Financing and Investment Income and Expenditure). The Council's shareholding in the company had a value of £1.158m and was accounted for as an Available for Sale Financial Asset. This was also written off to the Comprehensive Income and Expenditure Statement, matched by a write of a £1.158m gain accumulated in the Available for Sale Reserve. This resulted in a neutral impact on the Surplus or Deficit on Provision of Services.

## 43. Termination Benefits

The authority terminated the contracts of a number of employees in 2012/13. The value of the redundancy payments charged to services in 2012/13 was £5,887,593 and in 2011/12 was £11,464,629. The table below analyses the payments made in the relevant financial years. The majority of the payments made in 2012/13 were due to the rationalisation of services within the Authority.

2011-12 £000	2012-13 £000
4,719 Children's and Education Services	2,250
994 Adult Social Care	490
1,117 Highways and Transportation	796
556 Planning and Development	100
926 Cultural and Related Services	227
841 Environmental Services	481
932 Central Services	1,081
- Local Authority Housing - HRA	-
486 Housing General	124
743 Trading	339
150 Corporate and Democratic Core	-
11,464 Total	5,888

In addition to the above redundancy payments, the pension enhancement value in 2012/13 was £714,403 and in 2011/12 was £1,114,612.

## 44. Pension Schemes Accounted for as Defined Contribution Schemes

Teachers employed by the 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 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 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 2012/13, the Council paid £17.521m to Teachers' Pensions in respect of teachers' retirement benefits, representing 14.1% of pensionable pay. The figures for 2011/12 were £20.334m and 14.1%. There were no contributions remaining payable at the year-end.

## 45. Defined Benefit Pension Schemes

### Participation in Pension Schemes

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

The 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 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:

2011-12			2012-13	
Local Government Pension Scheme £000	Discretionary Benefits Arrangements £000		Local Government Pension Scheme £000	Discretionary Benefits Arrangements £000
<b>Comprehensive Income and Expenditure Statement</b>				
Cost of services:				
38,544	-	- Current service cost	41,953	
410	-	- Past service cost	-	
-9,210	-	- Settlements and curtailments	-7,120	
Net operating expenditure				
1,626	-	- Current service cost	1,827	
Financing and Investment Income and Expenditure:				
102,120	4,020	- Interest cost	99,030	3,480
-84,240	-	- Expected return on scheme assets	-73,650	
49,250	4,020	Total Post Employment Benefit Charged to the Surplus and Deficit on the Provision of Services	62,040	3,480
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement:				
-170,140	-4,560	- Actuarial gains and (losses)	-67,670	-4,600
-120,890	-540	Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	-5,630	-1,120
<b>Movement in Reserves Statement</b>				
-49,250	-4,020	Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the code	-62,040	-3,480
Actual amount charged against the General Fund Balance for pensions in the year:				
51,812		Employer's contributions payable to scheme	50,900	
	5,812	Retirement benefits payable to pensioners		5,951

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

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

2011-12			2012-13		
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	
1,904,270	75,860	<b>Opening balance at 1 April</b>	2,120,940	78,680	
40,170	-	Current service cost	43,780		
102,120	4,020	Interest cost	99,030	3,480	
14,660	-	Contributions by scheme participants	13,650	4,600	
156,660	4,560	Actuarial gains (-) and losses	132,800	-6,000	
-81,780	-5,760	Benefits paid	-85,780		
410	-	Past service costs	-		
-	-	Curtailments	1,000		
-15,570	-	Settlements	-13,150		
<b>2,120,940</b>	<b>78,680</b>	<b>Closing balance at 31 March</b>	<b>2,312,270</b>	<b>80,760</b>	

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

2011-12			2012-13		
Funded Liabilities: Local Government Pension Scheme £000			Funded Liabilities: Local Government Pension Scheme £000		
1,252,590		<b>Opening balance at 1 April</b>	1,301,660		
84,240		Expected rate of return	73,650		
-13,480		Actuarial gains and losses (-)	65,130		
51,790		Employer contributions	51,290		
14,660		Contributions by scheme participants	13,650		
-81,780		Benefits paid	-85,780		
-6,360		Settlements	-5,030		
<b>1,301,660</b>		<b>Closing balance at 31 March</b>	<b>1,414,570</b>		

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

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

The actual return on scheme assets in the year was £138.78m (2011/12: £70.76m).

**Scheme History**

	31 March 2009 £000	1 April 2010 £000	31 March 2011 £000	31 March 2012 £000	31 March 2013 £000
<b>Present value of liabilities:</b>					
Local Government Pension Scheme		-	-	-	-
Discretionary Benefits	-1,479,950	-2,061,690	-1,904,270	-2,120,940	-2,312,270
<b>Fair value of assets in the Local Government Pension Scheme</b>	885,380	1,170,900	1,252,590	1,301,660	1,414,570
<b>Surplus/(deficit) in the scheme:</b>					
Local Government Pension Scheme	-594,570	-890,790	-651,680	-819,280	-897,700
Discretionary Benefits	-76,600	-84,270	-75,860	-78,680	-80,760
<b>Total</b>	<b>-671,170</b>	<b>-975,060</b>	<b>-727,540</b>	<b>-897,960</b>	<b>-978,460</b>
<b>Adjusted Total *</b>	<b>-670,970</b>	<b>-975,648</b>	<b>-728,212</b>	<b>-897,886</b>	<b>-978,899</b>

\* 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 Council has in the long run to pay post employment (retirement) benefits. The total liability of £978.899m has a substantial impact on the net worth of the Council as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the 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 Council in the year to 31 March 2014 is £53.96m. Expected contributions for the Discretionary Benefits scheme in the year to 31 March 2014 are £6.12m.

### 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:

2011-12		2012-13	
Local Government Pension Scheme	Discretionary Benefits Arrangements	Local Government Pension Scheme	Discretionary Benefits Arrangements
Standard SAPS Normal Health All Amounts	<b>Mortality assumptions:</b> Year of Birth base table	Standard SAPS Normal Health All Amounts	
105%	105% Scaling to above base table rates	105%	105%
	Longevity at 65 for current pensioners:		
22.0	22.0 - Men	22.1	22.1
24.1	24.1 - Women	24.3	24.3
	Longevity at 65 for future pensioners:		
23.8	23.8 - Men	23.9	23.9
26.1	26.1 - Women	26.2	26.2
	<b>Principle financial assumptions (% per annum)</b>		
3.5	3.4 - Rate of inflation (RPI)	3.6	3.5
2.5	2.4 - Rate of inflation (CPI)	2.7	2.6
5.0	n/a - Rate of increase in salaries	4.6	n/a
2.5	2.4 - Rate of increase in pensions	2.7	2.6
4.7	4.6 - Rate for discounting scheme liabilities	4.4	4.1
	<b>Commutation:</b>		
60.0	n/a - Percentage each member is assumed to exchange of the maximum amount permitted of their pre 1 April 2010 pension entitlements, for additional lump sum	60.0	n/a
80.0	n/a - Percentage each member is assumed to exchange of the maximum amount permitted of their post 31 March 2010 pension entitlements, for additional lump sum	80.0	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 2012			31 March 2013		
Long-term expected rate of return % pa	Asset split %		Long-term expected rate of return % pa	Asset split %	
8.1	45.8	Equity investments	7.8	52.7	
7.6	7.1	Property	7.3	7.3	
3.1	34.4	Government bonds	2.8	27.2	
3.7	11.1	Corporate bonds	3.8	10.1	
1.8	1.6	Cash	0.9	2.7	
8.1	0.0	Other	7.8	0.0	
5.8	100.0	<b>Total</b>	5.8	100.0	

### History of Experience Gains and Losses

The actuarial gains identified as movements on the Pensions Reserve in 2012/13 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2013:

	2008-09		2009-10		2010-11		2011-12		2012-13	
	£000	%	£000	%	£000	%	£000	%	£000	%
<b>Difference between the expected and actual return on assets</b>										
- Funded	-154,050	-26.5%	243,240	20.8%	-470	0.0%	-13,480	-2.7%	65.1	4.60%
<b>Experience gains and -losses on liabilities</b>										
- Funded #	3,685	0.4%	20,620	1.0%	16,248	0.9%	-16,232	-0.8%	2,732	0.10%
- Unfunded #	467	-1.2%	2,550	-3.0%	744	-1.0%	160	-0.2%	202	-0.30%

# 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 2013.

## 46. Contingent Liabilities

### a) Job Evaluation

A contingent liability has been recognised in respect of the implementation of a second phase of job evaluation, the costs and scope of which have yet to be fully determined

### b) Pension Contributions on Equal Pay Payments

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

### c) Durhamgate Scheme

A risk was previously identified within the Durhamgate scheme where the contractor was submitting claims for additional costs for delays, design faults and unforeseen works. These claims have been challenged and work undertaken to reduce the scope of the works and to secure additional external funding for the scheme. There are no further unforeseen costs and legal advice has been taken which suggest it is reasonable to challenge contractors and designers over the project overspend.



**d) Municipal Mutual Insurance**

Historically, the Municipal Mutual Insurance Company (MMI) was the principle provider of insurance to the County Council. In the early 1990's it became clear that MMI was in danger of becoming insolvent. It was determined that MMI would close to new business and there would be an orderly run down of all the existing and prospective claims. The Council signed up to this agreement and as remaining assets have proven to be insufficient to cover potential future liabilities, the Scheme of Arrangement was invoked on 13 November 2012. At the current time, the Council's maximum potential liability that can be clawed back is £5.5m.

The Council's Insurance Adviser recommended that adequate provision should be held against future calls in the range of 25% to 30%. The Council has provided for 28% (£1.535m) of the value of the total potential liability in the Scheme of Arrangement. As the provision is not for the total amount of the potential liability, and there is the possibility of future claims, the Council considers it prudent for there to be a contingent liability in the accounts as it has no certainty about the timing or the amount of any future liability.

Any increase in the provision in respect of the Scheme of Arrangement will be met from the Insurance Reserve.

**e) Closed Landfill Sites**

Local Authorities were required to set up Local Authority Waste Disposal Companies (LAWDC's) under the Environmental Protection Act 1990. The Council transferred the ownership of open landfill sites to the LAWDC in 1992. However, the Council continues to own closed landfill sites and most, but not all have been restored and the Council is responsible for restoration works and after care costs. After care costs include site maintenance, gas management, environmental monitoring and leachate (liquid waste) management. This was undertaken by the LAWDC up to 31 May 2013, when responsibility transferred to the Council. The Council considers that there is likely to be a liability in respect of restoration works and after care costs for a number of closed landfill sites. A full review of the liability has been undertaken by a specialist independent adviser and the detailed report is awaited. As the extent and timing of this liability remains uncertain, it has been included in the accounts as a contingent liability.

**f) Joint Stocks Phase 2 Landfill Site**

The Environment Agency is the regulator of the Landfill site as described in the Environmental Permitting (England and Wales) Regulations 2010. Under these regulations a Permit to operate this landfill site was transferred to the Council following the demise of the LAWDC on 31 May 2013. The Council has become responsible for the monitoring and control of gas and leachates at this site from 1 June 2013. The Council has resources allocated within its Medium Term Financial Plan to restore/cap the facility, which is no longer required for landfill operations. A performance deed has been established to ensure that the Environment Agency has the resources to meet the legal obligations associated with the site in the event that the Council fails to do so. The amount secured by this deed is £4.25m for the first year, diminishing over 60 years as the liability reduces. The Council has no immediate financial liability as a payment under the performance deed would only be required if the Council failed to meet its legal requirements. At the current time it is considered unlikely that the Council will fail to meet its obligations in the future therefore it has been included in the accounts as a contingent liability.

**g) Asbestos Management**

The Council will be completing asbestos management plans for a number of former District Council buildings, in line with statutory requirements. If the completion of these plans identifies any potential problems that need rectifying, this may lead to future major expenditure being required. The extent of this liability remains uncertain and it has therefore been included in the accounts as a contingent liability.

**h) Local search and enquiries fees**

The Council had identified a potential liability as a result of claims for refunds of local search and enquiries fees and damages that may be brought by personal search companies. A reserve has been established to mitigate the potential impact of claims. As the extent and timing of this liability remains uncertain, it has been included in the accounts as a contingent liability.

**i) Tribunal and Court Claims**

The Council are currently involved in a number of tribunal and court claims where potentially damages may be awarded against the Council. There is no certainty of the outcome of these cases, or of amounts involved, therefore a contingent liability has been included in the accounts.

**j) Insurance Claims**

Following an incident resulting in closure of a number of buildings, there are potential claims that may arise from local businesses as a result of the disruption and is therefore included in the accounts as a contingent liability.

**47. Contingent Assets**

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

There are no contingent assets to be disclosed.

**48. Heritage Assets: Five-year Summary of Transactions**

The Code of Practice requires that the financial statements contain a summary of transactions relating to Heritage Assets for the accounting period and each of the previous four accounting periods; however this information need not be given for any accounting period beginning before 1 April 2010 where it is not practicable to do so.

During 2012/13, a public consultation was undertaken on the future of the Civic Heart Arch in Chester-le-Street market place (classified under Artwork, Public Art and Sculptures), which was found to have structural problems and would be costly to repair. The outcome was in favour of demolition, which took place in February 2013. The £0.320m asset value was written off as impairment.

	2010-11 £000	2011-12 £000	2012-13 £000
<b>Capital Expenditure on Heritage Assets</b>			
Artwork, Public Art and Sculptures	-	-	21
Monuments, Statues and Historic Buildings	-	-	11
<b>Total Cost of Purchases</b>	<u>-</u>	<u>-</u>	<u>32</u>
<b>Impairment Recognised in the Period</b>			
Artwork, Public Art and Sculptures	-	-	-320
<b>Total Impairment</b>	<u>-</u>	<u>-</u>	<u>-320</u>

**49. Heritage Assets: Further Information on the Council's Collection****Museum Collections and Artefacts**

This includes:

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

**Artwork, including Public Art and Sculptures**

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

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

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

#### **Monuments, Statues and Historic Buildings**

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

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

#### **Civic Regalia and Silverware**

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

#### **Geophysical / Archaeological**

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

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

#### **Preservation and Management**

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

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

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

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

#### **50. Trust Funds (Not included in the Balance Sheet)**

The 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.

2011-12 £000	2012-13 £000
439 Balance at 1st April	357
- New Funds opened in year	-
-81 Funds closed in year	-
17 Interest on balances, dividends etc, received	17
-18 Expenditure on prizes etc	-4
<b>357 Balance at 31st March</b>	<b>370</b>

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

## 51. Nature and Extent of Risks Arising from Financial Instruments

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

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

### Overall Procedures for Managing Risk

The Council's overall risk management procedures focus on the unpredictability of financial markets, and are structured to implement suitable controls to minimise these risks and potential adverse effects on resources available to fund services. The procedures for risk management are set out through a legal framework based on the Local Government Act 2003 and associated regulations and are carried out by the Council's Treasury Management team.

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

Overall, these procedures require the 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 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 Council's annual Council Tax setting budget meeting or before the start of the year to which they relate. These items are reported with the Treasury Management Strategy which outlines the detailed approach to managing risk in relation to the Council's financial instrument exposure. Actual performance is also reported after each year, as is a mid-year update.

The annual Treasury Management Strategy which incorporates the prudential indicators was approved by Council on 22 February 2012 and is available on the Council's website.

The key issues within the strategy were:

- The Authorised Limit for 2012/13 was set at £772.710m. This is the maximum limit of external borrowings or other long term liabilities.
- The Operational Boundary was set at £722.710m. 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 Council's net debt.

These policies are implemented by the Treasury Management team. The 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 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 Council's website.

The Council uses the creditworthiness service provided by Sector. This service uses a sophisticated modelling approach with credit ratings from all three rating agencies - Fitch, Moody's and Standard and Poors, forming the core element. However, it does not rely solely on the current credit ratings of counterparties but also uses the following as overlays:

- Credit ratings of Short Term of F1, Long Term A, Support bb+ and Individual 3 (Fitch or equivalent rating), with the lowest available rating being applied to the criteria.
- UK institutions provided with support from the UK Government;
- Building societies which meet the ratings for banks outlined above.

The Council's maximum exposure to credit risk in relation to its investments in banks and building societies of £87.634m 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 Council's deposits, but there was no evidence at the 31 March 2013 that this was likely to crystallise.

No breaches of the Council's counterparty criteria occurred during the reporting period and the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits and bonds.

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

The Council does not generally allow credit for customers, such that £15.831m of the £61.446m balance is past its due date for payment. The past due amount can be analysed by age as follows:

31 March 2012	31 March 2013
£000	£000
15,239 Less than three months	9,110
1,251 Between three and six months	2,498
1,962 Between six months and one year	1,272
4,963 More than one year	2,951
<u>23,415</u> Total	<u>15,831</u>

The Council initiates a legal charge on property where, for instance, clients require the assistance of social services but cannot afford to pay immediately. The total collateral at 31 March 2013 was £1.682m.

#### Credit Risk – Icelandic Investments Disclosure

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

Bank	Date Invested	Maturity Date	Amount Invested £'000	Interest Rate %	Carrying Amount £'000	Impairment £'000
KSF	30/10/07	28/10/08	1,000	6.120	91	260
Landsbanki [1]	12/04/07	13/10/08	1,000	6.010	457	369
Landsbanki [2]	12/04/07	14/04/09	1,000	6.040	444	390
Glitnir Bank [1]	25/10/06	24/10/08	3,000	5.620	671	649
Glitnir Bank [2]	18/12/07	16/12/08	1,000	6.290	214	242
<b>Total</b>			<b>7,000</b>		<b>1,877</b>	<b>1,910</b>

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 Council will be determined by the administrators / receivers.

Currently, recovery of the sums deposited varies between each institution and is covered by guidance issued by CIPFA (LAAP Bulletin 82 Update 7) on 17 May 2013, further amended on 28 May 2013. Based on the latest information available the Council considers that it is appropriate to consider an impairment adjustment for the deposits, and has taken the action outlined below.

The Authority continues to adopt a prudent approach and as the available information from administrators/receivers is not definitive as to the amounts and timings of future payments, and are based on estimates, further adjustments will be made in 2013/14 if required, once more detail has been made available on the final recovery amounts.

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

The current position on actual payments received and estimated future payments is as shown in the table below. The Council has decided to recognise an impairment based on it recovering 85.25p in the £. This reflects an improvement from the position reported as at 31 March 2012 of 83.5p in the £.

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

<b>Date</b>	<b>Repayment</b>
	<b>%</b>
Received to 31 March 2013	76.00
June 2013	3.00
June 2014	3.25
June 2015	3.00

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

#### **Landsbanki**

Landsbanki Islands hf is an Icelandic entity. Following steps taken by the Icelandic Government in early October 2008 its domestic assets and liabilities were transferred to a new bank (new Landsbanki) with the management of the affairs of Old Landsbanki being placed in the hands of a resolution committee. The Icelandic Supreme Court's decision to grant UK local authorities priority status was followed by the winding up board making a distribution to creditors in a basket of currencies in February 2012. Further distributions were issued in May and October 2012.

An element of the distribution is in Icelandic Kroner which has been placed in an escrow account in Iceland and is earning interest of 4.17% as at 31 March 2013. This element of the distribution has been retained in Iceland due to currency controls currently operating in Iceland and as a result is subject to exchange rate risk, over which the Council has no control. The authority has recognised a gain in 2012/13 due to currency fluctuations.

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

<b>Date</b>	<b>Repayment</b>
	<b>%</b>
Received to 31 March 2013	49.65
December 2013	7.50
December 2014	7.50
December 2015	7.50
December 2016	7.50
December 2017	7.50
December 2018	7.50
December 2019	5.35

Recovery is subject to the following uncertainties and risks:



- The impact of exchange rate fluctuations on the value of assets recovered by the resolution committee and on the settlement of the authority's claim, which may be denominated wholly or partly in currencies other than sterling.

Recoveries are expressed as a percentage of the authority's claim in the administration, which it is expected may validly include interest accrued up to the deposit maturity date.

#### **Glitnir Bank hf**

Glitnir Bank hf is an Icelandic entity. Following steps taken by the Icelandic Government in early October 2008 its domestic assets and liabilities were transferred to a new bank (new Glitnir) with the management of the affairs of Old Glitnir being placed in the hands of a resolution committee. The Icelandic Supreme Court's decision to grant UK local authorities priority status was followed by the winding up board making a distribution to creditors in a basket of currencies in March 2012.

An element of the distribution is in Icelandic Kroner which has been placed in an escrow account in Iceland and is earning interest of 4.2% as at 31 March 2013. This element of the distribution has been retained in Iceland due to currency controls currently operating in Iceland and as a result is subject to exchange rate risk, over which the Council has no control.

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

#### **Foreign Exchange Risk in Relation to Icelandic Deposits**

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

#### **Accounting for Interest and Impairment**

The total impairment (principal plus interest not received) recognised in the Income and Expenditure Account in 2012/13, has been 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 authority until monies are recovered.

Interest credited to the Comprehensive Income and Expenditure Statement in 2012/13 was £0.099m and the impairment (principal plus interest not received) was adjusted by £0.034m, 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 Council until monies are recovered. There has been a recognition of the exchange rate gain on the Icelandic Kroner held in escrow accounts in respect of deposits in Glitnir and Landsbanki banks. This has offset the impairment charged by £0.074m resulting in an overall gain of £0.040m.

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

#### **Liquidity Risk**

The Council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through a comprehensive cash flow management system, as required by the CIPFA Code of Practice. This seeks to ensure that cash is available when needed.

The Council has ready access to borrowings from the money markets to cover any day to day cash flow need, and the PWLB and money markets for access to longer term funds. The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

All sums owing (£110.348m) are due to be paid in less than one year.

#### **Refinancing and Maturity Risk**

The 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 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 Council

approved treasury and investment strategies address the main risks and the Treasury Management 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 Council's day to day cash flow needs, and the spread of longer term investments provide stability of maturities and returns in relation to the longer term cash flow needs.

The maturity analysis of financial liabilities is as follows, (approved by Council in the Treasury Management Strategy):

31 March 2012		31 March 2013
£000		£000
7,507	Less than one year	3,546
3,546	Between one and two years	4,447
19,904	Between two and five years	27,039
70,071	Between five and ten years	70,638
68,820	Between ten and fifteen years	101,340
108,523	Between fifteen and twenty years	119,862
26,796	Between twenty and twenty five years	10,801
112,739	More than twenty five years	102,716
417,906	<b>Total</b>	440,389

### Market Risk

The 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 Council. For instance, a rise in interest rates would have the following effects:

- borrowings at variable rates – the interest expense charged to the Comprehensive Income and Expenditure Statement will rise.
- borrowings at fixed rates – the fair value of the liabilities borrowings will fall (no impact on revenue balances);
- 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 (no impact on revenue balances).

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

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together Council's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. From this Strategy a treasury indicator is set which provides maximum limits for fixed and variable interest rate exposure. The Treasury Management team monitors market and forecasts 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.

The Treasury Management team has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and which is used to update the budget quarterly during the year. This allows any adverse changes to be accommodated. The analysis will also advise whether new borrowing taken out is fixed or variable.



According to this assessment strategy, at 31 March 2013, if interest rates had been 1% higher with all other variables held constant, the financial effect would be a decrease of £59.439m in the fair value of fixed rate borrowings, although this would not impact on the Surplus or Deficit on the Provision of Services or other Comprehensive Income and Expenditure.

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

### Price Risk

The Council, excluding the Pension Fund, does not generally invest in equity shares or marketable bonds.

However, the Council does have shareholdings to the value of £10.558m (£0.509m in 2011/12) in Newcastle Airport which is not listed on the stock exchange. The Council is therefore not exposed to losses arising from the movement in the price of shares, but is exposed to loss from revaluations of these shares.

The Council also has a shareholding in Durham Tees Valley Airport which is not listed on the stock exchange. They are held at nil value.

During 2012/13 the Council's shareholding in the Durham County Waste Management Company had a value of £1.158m and was accounted for as an Available for Sale Financial Asset. As a result of the company entering into a Company Voluntary Arrangement (CVA), this was written off to the Comprehensive Income and Expenditure Statement, matched by a write off of a £1.158m gain accumulated in the Available for Sale Reserve. This resulted in a neutral impact on the Surplus or Deficit on Provision of Services.

## 52. Exceptional Items

- i) 2011/12
  - a. The implementation of housing finance reform at the end of the year abolished the housing subsidy system financed by central government and, consequently, all housing debt has been reallocated nationally between housing authorities. The result of this reallocation is that this Council made a capital payment to the Department of Communities and Local Government of £53m. In 2011/12 this payment is charged to Local Authority (HRA) within the Comprehensive Income and Expenditure Statement and reversed out of the HRA via the Movement in the Housing Revenue Account Statement.
- ii) 2012/13
  - a. There are no exceptional items in 2012/13.

## 53. Prior Period Adjustments (PPAs)

There are no Prior Period Adjustments.

## 54. Non-Adjusting Post Balance Sheet Event for Non Domestic Rates - Appeals Outstanding at 31 March 2013

When the new arrangements for the retention of business rates come into effect on 1 April 2013, local authorities will assume the liability for refunding ratepayers who have successfully appealed against the rateable value of their properties on the rating list.

This will include amounts that were paid over (to Central Government) in respect of 2012/13 and prior years. Previously, such amounts would not have been recognised as income by the authorities, but would have been transferred to Department for Communities and Local Government (CLG).

When authorities assume these liabilities on 1 April 2013, a provision will need to be recognised.

At 1 April 2013, the value of appeals outstanding for Durham County Council as the billing Authority is estimated at £6.061m based on the Valuation Office schedule dated 31 March 2013 and criteria taken into account in submitting the NNDR1 for 2013/14. The share of this estimated liability that relates to Durham County Council as a precepting authority is £2.970m (49%).

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

1. HRA Income and Expenditure Statement, and
2. Movement on the HRA Statement.

Notes to the HRA follow these two statements.

### HRA Income and Expenditure Statement

2011-12 £000		Notes	2012-13 £000
	Income		
-56,837	Dwelling Rents (Net of voids)	6	-60,173
-905	Non Dwelling Rents (Net of voids)		-1,005
-147	Charges for Services and Facilities		-127
-39	Contributions towards Expenditure		-413
<u>-57,928</u>	Total Income		<u>-61,718</u>
	Expenditure		
13,210	Repairs and Maintenance	8	12,717
15,218	Supervision and Management	8	13,927
64	Rent, Rates, Taxes and Other Charges	9	111
3,790	Negative HRA Subsidy Payable	5	-94
175	Debt Management Costs		175
65,391	Depreciation and Impairment of Non-Current Assets	10 & 11	63,115
885	Movement in the Allowance for Bad Debts	7	402
52,891	Exceptional Item - Payment to the Secretary of State	12	-
152	Sums directed by the Secretary of State that are expenditure in accordance with UK GAAP		63
<u>151,776</u>	Total Expenditure		<u>90,416</u>
<u>93,848</u>	Net Cost of HRA Services per Authority Income and Expenditure Statement		<u>28,698</u>
1,085	HRA Services Share of Corporate and Democratic Core		1,085
407	HRA Share of Other Amounts Included in the Whole Authority Net Cost of Services but Not Allocated to Specific Services		387
<u>95,340</u>	Net Cost of HRA Services		<u>30,170</u>
-1,478	Gain (-) or Loss on Sale of HRA Non-Current Assets		371
6,327	Interest Payable and Similar Charges		11,314
-113	Interest and Investment Income		-266
-2,905	Capital Grants & Contributions Receivable		-13,088
<u>97,171</u>	Deficit for the Year on HRA Services		<u>28,501</u>

### Movement on the HRA Statement

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

2011-12 £000		2012-13 £000	£000
7,688	Balance on the HRA at the end of the previous year		7,820
-97,171	Deficit for the year on the HRA Income and Expenditure Statement	-28,501	
96,561	Adjustments between accounting basis and funding basis under statute	26,525	
<u>-610</u>	Net Increase before transfer to or from reserves	<u>-1,976</u>	
742	Transfers to (-) or from reserves	1,310	
132	Increase or decrease (-) in the year on the HRA		-666
<u>7,820</u>	Balance on the HRA at the end of the current year		<u>7,154</u>

**Note to the Movement on the HRA Statement**

**1. Analysis of Movement of the HRA Statement**

This note further analyses the Movement on the HRA Statement and shows the adjustments between accounting basis and funding basis under regulations.

2011-12 £000	2012-13 £000
11,696 Transfer to/from the Major Repairs Reserve	7,692
-62,638 Transfer to/from the Capital Adjustment Account	-49,932
1478 Gain or loss (-) on sale of HRA Non-Current Assets	-371
414 HRA Share of Contributions to or from the Pension Reserve	415
5,380 Capital expenditure funded by the HRA	15,671
-52,891 Payment to the Secretary of State (to write the revenue transaction out of the HRA as this is defined by Statute to be capital expenditure)	-
<b>-96,561 Adjustments between accounting basis and funding basis under statute</b>	<b>-26,525</b>

**Notes to HRA Income and Expenditure Account**

**1. Housing Stock**

The Council was responsible for managing an average of 18,715 dwellings during 2012/13. The following table shows the movements in stock numbers at the beginning and end of the year:-

Movements in the Year	Houses	Flats	Bungalows	Total
Stock at 1 <sup>st</sup> April, 2012	11,370	1,954	5,458	18,782
Add:				
Additions	18	-8	6	16
Less:				
Sales	48	2	-	50
Demolitions	16	40	8	64
Other Disposals	1	31	5	37
Stock at 31 March, 2013	11,323	1,873	5,451	18,647

The housing stock is managed on a day to day basis by three separate providers consisting of two Arms Length Management Organisations (ALMO's) – Dale and Valley Homes (4,266 dwellings) and East Durham Homes (8,363 dwellings), and one in-house provider – Durham City Homes (6,018 dwellings). This reflects the management arrangements that were in place in the former district authorities of Wear Valley, Easington and Durham City prior to local government reorganisation which the new Unitary Authority has now inherited.

**2. Housing Assets Valuation**

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

Valuation at 1 April 2012 £000	Asset Type	Valuation at 31 March 2013 £000
472,296	Operational Assets Dwellings	472,736
6,248	Garages	5,810
478,544	Total Dwellings including Garages	478,546
17,446	<b>Other Land and Buildings</b>	16,032
264	<b>Vehicles, Plant &amp; Equipment</b>	71
6,585	<b>Non-Operational Assets</b>	5,559
502,839	<b>Balance Sheet Valuation</b>	500,208

The Vacant Possession value of the dwellings held in the Housing Revenue Account as at 1 April 2012 was £1,123.229m (£1,218.213m at 1 April 2011). The valuation of the dwellings in the Balance Sheet (as shown in the table above) is on the basis of Existing Use as Social Housing with secure tenancies. The difference between the Balance Sheet valuation and the higher valuation on the basis of Vacant Possession shows the economic cost of providing council housing at less than open market rents.

### 3. Capital Expenditure and Financing

The Council spent £43.919m during 2012/13 on its HRA Assets:

2011-12 £000	Expenditure	2012-13 £000
41,735	Improvements to Council Housing	43,919
52,891	Exceptional Item - Payment to the Secretary of State (HRA Self Financing)	-
94,626	<b>Total Expenditure</b>	43,919

This expenditure was financed as follows:

2011-12 £000	Financing	2012-13 £000
11,696	Majors Repairs Reserve	7,692
1,217	Capital Receipts	960
18,600	Supported Borrowing	-
1,937	Prudential Borrowing (HCA New Build)	1,223
-	Prudential Borrowing (Housing Improvements)	5,285
52,891	Prudential Borrowing (HRA Self Financing)	-
2,905	Capital Grants	13,088
4,980	Revenue Contributions	13,671
400	Reserves and Balances	2,000
94,626	<b>Total Financing</b>	43,919

### 4. Capital Receipts

During 2012/13 the Council generated £2.375m gross capital receipts from the sale of its Housing assets as shown in the following table:

2011-12 £000	Source of Receipt	2012-13 £000
2,070	Council House Sales (RTB Legislation)	1,625
943	Qualifying Council House Disposals	396
15	Council House Mortgage Repayments	11
-	Housing Land & Other Sales	343
3,028	<b>Total Capital Receipts</b>	2,375

Under the Capital Receipts Pooling Arrangements the Council had to pay over to the Government £1.024m of the above sale proceeds in 2012/13. This is shown in the following table:

Source of Receipt	Capital Receipt £000	Usable Element £000	Poolable Element £000
Council House Sales (RTB Legislation)	1,625	609	1,016
Qualifying Council House Disposals	396	396	-
Council House Mortgage Repayments	11	3	8
Housing Land & Other Sales	343	343	-
<b>Total</b>	2,375	1,351	1,024

## 5. HRA Subsidy

The Housing Revenue Account subsidy is based on a notional account representing the Government's assessment of what the Council should be collecting and spending. On the 31 March 2012 the HRA subsidy system was abolished, the payment received in 2012/13 relates to an adjustment from 2011/12.

2011-12 £000		2012-13 £000
31,437	Management and Maintenance	-
11,696	Major Repairs Allowance	-
7,460	Charges for Capital	-
50,593	<b>Subsidy Allowances</b>	-
	Less:	
-2	Mortgage Interest	-
-54,434	Assumed Rent Income	-
-54,436	<b>Subsidy Reductions</b>	-
53	Prior Years Adjustments	-94
-3,790	<b>Total Subsidy Payable(-) / Due</b>	-94

## 6. Dwelling Rents

This sum represents the gross rental income due for the year after allowance is made for empty properties. During the year 1.35% of properties available for rent were vacant, which is less than the Government's target of 2% for empty properties. The average rent in 2012/13 was £63.13 a week on a 52 week basis.

## 7. Rent Arrears and Provision for Bad and Doubtful Debts

The amount of rent arrears at 31 March 2013 was £3.631m (£3.743m at 1 April 2012).

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

The aggregate balance sheet provision in respect of uncollectable debts at 31 March 2013 is £2.916m (£2.874m at 1 April 2012).

The actual charge to the HRA in respect of bad debts provision and debts written off in 2012/13 was £0.402m. This charge relates to write-offs of uncollectable rent of £0.395m and an increase in provision of £0.007m to ensure the provision reflects the estimated doubtful debt based on an age profile of value of rent arrears.

## 8. Supervision and Management (General and Special)

Supervision and management expenditure on functions relating to all HRA properties are charged under this item. General Services includes expenditure on HRA policy and management, tenancy management, and rent collection and accounting. Special Services are the running costs of those services that benefit specific groups of tenants, these include communal heating and lighting, lifts, caretaking and cleaning, grounds maintenance and non-essential care welfare services. Sheltered Housing provision comes under the heading of Special Services.

The HRA includes management fee payments to the two ALMO's – Dale and Valley Homes and East Durham Homes of £5.511m and £11.755m respectively. This is broken down as follows:

	East Durham Homes £	Dale & Valley Homes £	Total £
Repairs and Maintenance	5,350,315	2,643,023	7,993,338
Supervision and Management	6,404,685	2,867,977	9,272,662
<b>Total Management Fee</b>	11,755,000	5,511,000	17,266,000

## 9. Rent, Rates, Taxes and Other

This includes all items which the Council is liable to pay in respect of HRA property. It includes Council Tax on empty properties, lease rental on properties, rates and water charges payable on non-dwellings and landlord insurance costs.

## 10. Depreciation of Property, Plant and Equipment

Authorities are required to charge depreciation on all HRA properties calculated in accordance with proper practices, including non-dwelling properties. During 2012/13 the total charge made for depreciation of HRA assets was £7.876m as shown below: -

2011-12 £000	Asset type	2012-13 £000
11,696	Operational Assets: Dwellings	7,196
651	Operational Assets: Other Buildings e.g. Garages	495
178	Operational Assets: Vehicles, Plant & Equipment	185
-	Non-operational Assets: Shops etc	-
-	Government Grants Written Down	-
<u>12,525</u>	<b>Total Depreciation Charge</b>	<u>7,876</u>

## 11. Impairment of Property, Plant and Equipment

During 2012/13 £55.238m (£52.866m in 2011/12) was charged to the Housing Revenue Account for impairment where there had either been a general fall in the value of the assets or where the Council had incurred expenditure on assets for which there had not been an equivalent increase in the value of the asset.

## 12. Payment to the Secretary of State

The HRA Subsidy System was abolished on 31 March 2012 and replaced by a new system of self-financing for Council Housing. Under the new system of self-financing each Local Authority keeps the money raised locally from rents and uses it to run their stock in return for a one off reallocation of housing debt. To exit the HRA Subsidy System Durham County Council was required to pay the Secretary of State the amount of £52.891m in 2011/12.

## 13. Movement on Major Repairs Reserve (MRR)

The 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:

2011-12 £000	Movement on Reserve	2012-13 £000
-	<b>Balance as at 1st April</b>	-
-11,696	Depreciation on HRA Assets	-7,692
11,696	HRA Capital Expenditure funded from MRR	7,692
<u>-</u>	<b>Balance as at 31st March</b>	<u>-</u>

## Collection Fund

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 Central Government, Durham Police Authority, County Durham and Darlington Fire and Rescue Authority and to Durham County Council General Fund. Notes to the statements follow.

### Income and Expenditure Account

2011-12 £000		Notes	2012-13 £000
	<b>Income</b>		
-199,551	Council Tax due from Taxpayers	2	-202,636
-53,062	Council Tax Benefit		-54,010
-108,044	Non Domestic Rates due from Ratepayers	3	-105,192
<u>-360,657</u>	Total Income		<u>-361,838</u>
	<b>Expenditure</b>		
	<b>Precepts and Demands</b>	4	
210,989	Durham County Council (including 113 Parishes of £12.409m)		214,197
23,782	Durham Police Authority		24,131
13,617	County Durham & Darlington Fire & Rescue Authority		14,227
	<b>Business Rates</b>		
107,438	Payment to National Pool		104,587
606	Costs of Collection		605
	<b>Bad &amp; Doubtful Debts</b>		
741	Write Offs - Council Tax		82
3,172	Change in Provision for Bad & Doubtful Debts	5	3,997
967	Distribution of Previous Years Estimated Surplus	6	-
<u>361,312</u>	Total Expenditure		<u>361,826</u>
655	Movement on Fund Balance		-12
-649	Surplus on Fund Brought Forward		6
<u><u>6</u></u>	<b>Fund Balance Carried Forward</b>	7	<u><u>-6</u></u>

### 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 Council. The Collection Fund accounts independently for income relating to Council Tax and Non Domestic Rates on behalf of those bodies (including the Council's own General Fund) for which the income has been raised. The costs of administering the Collection Fund are accounted for in the General Fund.

#### 2. Council Tax

Council Tax was introduced by the Government to replace the Community Charge with effect from 1st April 1993. It is a tax based on property values, which are grouped into eight bands ranging from A to H.

Durham County Council is the billing authority for its administrative area and collects Council Tax to cover its own requirements and those of Durham Police Authority, County Durham and Darlington Fire and Rescue Authority and, where applicable, Town and Parish Councils.

Based on information on the Valuation Lists the properties in each area are categorised into Bands A to H, as in the table overleaf. An agreed proportion is applied to properties in each band to convert them into Band D equivalents. Further adjustments to the number of properties are made in respect of those occupied by a single Council taxpayer (25% discount), second homes (10% discount), other eligible discounts and an allowance for non-collection to arrive at the Council Tax Base.

The Council Tax Base is then divided into the County Council Demand and the Precepts requested by Durham Police Authority, County Durham and Darlington Fire and Rescue Authority and, where applicable, Town and Parish Councils to calculate the standard Band D Council Tax. The other bands' liabilities are calculated by reference to the same proportion used to convert to band D:

Property Value	Council Band	Properties in Each Band	Proportion of Band 'D'	Band 'D' Equivalent Properties
Up to £ 40,000	Band A	143,207	6/9ths	95,471
Over £ 40,000 up to £ 52,000	Band B	29,136	7/9ths	22,661
Over £ 52,000 up to £ 68,000	Band C	28,250	8/9ths	25,111
Over £ 68,000 up to £ 88,000	Band D	19,147	1	19,147
Over £ 88,000 up to £120,000	Band E	9,442	11/9ths	11,540
Over £120,000 up to £160,000	Band F	3,552	13/9ths	5,131
Over £160,000 up to £320,000	Band G	2,001	15/9ths	3,335
Over £320,000	Band H	259	2	518
		234,994		182,914
<b>Chargeable Properties (after single person discounts etc) (Taxbase) 2012-13:</b>				<b>157,295.30</b>

The Council Tax base for 2011/12 was £155,021.10

The average Band D Council Tax for the year was made up as follows:

Authority	2011-12 £000	2012-13 £000
Durham County Council	1,282.86	1,282.86
Durham Police authority	153.41	153.41
County Durham & Darlington Fire & Rescue Authority	87.84	90.45
<b>Band D Tax</b> (Plus Town/ Parish precept as applicable)	<b>1,524.11</b>	<b>1,526.72</b>

Council Tax due from Taxpayers of £202.636m is made up of the following Charges and reliefs:

	2011-12 £000	2012-13 £000
Property charges	292,831	295,014
less:		
Disabled relief	-306	-292
Property exemptions	-11,244	-12,624
Discounts	-27,595	-24,367
Personal disregard	-1,075	-1,086
Transitional relief	2	1
Benefits	-53,062	-54,010
	<b>199,551</b>	<b>202,636</b>

Adding back the Council tax benefits and adjusting for Bad Debts written off and the provision for Bad and Doubtful Debts enables a comparison to be made with the Chargeable properties (Taxbase).

	2011-12 £000	2012-13 £000
Council tax due from Taxpayers	199,551	202,636
Add back Benefits receivable	53,062	54,010
less:		
Parishes	-12,119	-12,409
Write-offs	-741	-82
Increase in provision for Bad and Doubtful Debts	-3,172	-3,997
	<b>236,581</b>	<b>240,158</b>

Dividing by the Band D Council Tax £1,526.72 give an average Taxbase of 157,303.2 compared with 157,295.3 at Budget Setting. However it should be noted that the Council Tax due includes amendments for previous years.

### 3. Business Rates (National Non Domestic Rates)

Business Rates are determined on a national basis by Central Government, which sets an annual non-domestic rating multiplier each year.



## Collection Fund

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 2012/13 the general multiplier amounted to £0.458 (£0.433 in 2011/12) and the Small Business Relief was set at £0.450 (£0.426 in 2011/12).

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 2013 was £296.956m (VO Schedule dated 20 March 2013), (£296.464m at 31 March 2012 (VO Schedule dated 21 March 2012)).

Non-Domestic rates due from Ratepayers of £105.192m is made up of the following charges and reliefs

	2011-12 £000	2012-13 £000
Property charges	121,920	121,048
Less:		
Charitable relief, net of Council contribution	-8,536	-8,506
Small business relief	-5,605	-6,704
Property exemptions	-3,449	-5,123
Voids	5,096	8,234
Interest payable	-121	-30
Bad Debts written off	-542	-1,960
Increase in Bad Debts Provision	-899	-1,321
Rates deferral Scheme	180	-446
	<u>108,044</u>	<u>105,192</u>

Applying the general multiplier of £0.458 to the average (simple mean) rateable value of £296.606m for 2012/13 would give gross rates chargeable for 2012/13 of £135.846m.

After adjusting for amended bills for previous years and weighting the simple mean brings us back to the property charges of £105.192m.

## 4. Precepts and Demands

The following authorities made a Precept or demand on the Fund in 2012/13:

Authority	2011-12 £000	2012-13 £000
Durham County Council	210,989	214,197
Durham Police Authority	23,782	24,131
County Durham & Darlington Fire & Rescue Authority	13,617	14,227
<b>Total</b>	<u>248,388</u>	<u>252,555</u>

In 2012/13, the County Demands include Town and Parish precepts totalling £12.409m. In 2011/12, the County Demands include Town and Parish precepts of £12.119m

A total of 113 Town and Parish Councils levied a Precept in 2012/13. In addition, the newly formed Charter Trust for the City of Durham raised a charge of £3.80 for each Band D equivalent residential dwelling in the former City of Durham.

The Band D Town or Parish precept ranged from £nil to £256.04. There are also areas for which there is no Town or Parish Council.

Regulations require that those Town or Parish Councils levying a precept of £0.140m or more are separately identified in Council Tax literature. Details of those Councils are detailed in the table below:

Authority	2011-12 £	2012-13 £
Barnard Castle	136,025	148,642
Brandon & Byshottles	142,050	145,135
Chilton	201,855	206,524
Easington Colliery	320,000	320,000
Ferryhill	611,840	626,030
Great Aycliffe	1,616,850	1,624,400
Horden	470,221	475,614
Monk Hesleden	258,000	260,580
Murton	320,000	325,000
Peterlee	1,456,894	1,468,466
Seaham	1,106,470	1,117,818
Sedgefield	232,435	238,950
Sildon	660,380	669,630
Spennymoor	1,209,490	1,234,720
Stanley	800,000	800,000
Trimdon	152,250	156,816
<b>Sub Total</b>	<b>9,694,760</b>	<b>9,818,325</b>
<b>Other Town and Parish Precepts</b>	<b>2,424,388</b>	<b>2,590,659</b>
<b>Total</b>	<b>12,119,148</b>	<b>12,408,984</b>

## 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 Council's detailed accounting policies.

In 2012/13 the bases applied are as follows:

Council Tax: Arrears at 31<sup>st</sup> March 2013 have been analysed by age of debt and stage of recovery action being taken. These have been put into three broad categories:

Category 1.No reminder yet sent;

Category 2.First, second or final reminder; and,

Category 3.Summons (including liability orders, bailiff and bankruptcy)

A percentage has been applied to the total arrears in various groupings as below:

Category of Arrears	Year	Percentage provision applied
Category 1- No reminders yet sent	2012/13	2%
	2010/11 and 2011/12	5%
	2009/10 and older	100%
Category 2- First, second or final reminder	2012/13	15%
	2010/11 and 2011/12	25%
	2009/10 and older	100%
Category 3- Summons etc	2012/13	20%
	2010/11 and 2011/12	50%
	2009/10 and older	100%

This is the second stage of the review of the overall debtors provision. Any debt over three years old is now covered by 100% provision. During 2012/13 the proportion of arrears covered by provision increased from 33.2% to 44.8%.

## Collection Fund

NNDR: As with Council Tax, arrears at 31<sup>st</sup> March 2013 have been analysed by age of debt and stage of recovery action being taken. These have been put into three broad categories:

Category 1.No reminder yet sent;

Category 2.First, second or final reminder; and,

Category 3.Summons (including liability orders, bailiff and bankruptcy)

A percentage has been applied to the total arrears in various groupings as below:

Category of Arrears	Year	Percentage provision applied
Category 1- No reminders yet sent	2012/13	12.5%
	2011/12	25%
	2010/11 and older	100%
Category 2- First, second or final reminder	2012/13	25%
	2011/12	50%
	2010/11 and older	100%
Category 3- Summons etc	2012/13	45%
	2011/12	90%
	2010/11 and older	100%

## 6. Previous Year's Surplus

Any surplus or deficit on the Collection Fund at the end of the year must be taken into account in setting future years Council Taxes by those authorities precepting upon the fund.

The Council Tax surplus distributed during 2012/13 was shared between principal authorities as follows: -

Authority	Total Surplus distributed in 2011-12 £000	Total Surplus distributed in 2012-13 £000
Durham County Council	814	-
Durham Police Authority	97	-
County Durham & Darlington Fire & Rescue Authority	56	-
<b>Total Distributed</b>	<b>967</b>	<b>-</b>

## 7. Collection Fund Balance

The Collection Fund balance at the end of the 2012/13 financial year amounted to a surplus of £5,648 which is due to be shared between principal authorities as shown below:

Authority	2011-12 £000	2012-13 £000
Durham County Council	5	-5
Durham Police Authority	1	-1
County Durham & Darlington Fire & Rescue Authority	-	-
<b>Total Distributed</b>	<b>6</b>	<b>-6</b>

Durham County Council and the major preceptors, Durham Police Authority and County Durham and Darlington Fire and Rescue, each account for a share of the Collection Fund balance in proportion to their Precept or Demand on the fund.

This also applies to the balances for arrears and prepayments on the Council Taxpayers account and the Provision for Doubtful Debts for Council Tax.

This does not apply to any balances relating to Business Rates as all such balances relate to Central Government.

The following table shows how the Collection Fund balances have been allocated between Durham County Council and the major precepting authorities:

## Collection Fund

<b>Authority</b>	<b>Collection Fund Surplus £000</b>	<b>Provision for Bad debts- Council Tax Arrears £000</b>	<b>Council Tax Arrears £000</b>	<b>Council Tax Overpayments and Prepayments £000</b>
Durham County Council	-5	-9,825	21,874	-3,299
Durham Police Authority	-1	-1,198	2,668	-402
County Durham & Darlington Fire & Rescue Authority	-	-693	1,542	-233
<b>Total Distributed</b>	<b>-6</b>	<b>-11,716</b>	<b>26,084</b>	<b>-3,934</b>

**Fund Account**

2011-12			2012-13	
£000	£000	Notes	£000	£000
<b>DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED IN THE FUND</b>				
-96,448		7	-93,884	
-7,945		8	-5,365	
-5			-5	
	-104,398			-99,254
99,973		9	95,978	
4,618		10	7,695	
1,204		11	1,302	
-			-	
	105,795			104,975
	<b>1,397</b>	<b>Net withdrawals/ -additions from dealings with members</b>		<b>5,721</b>
<b>RETURN ON INVESTMENTS</b>				
-40,132		12	-32,216	
-65,556		15	-175,578	
-		13	-	
8,992		14	5,403	
	-96,696	<b>Net returns on investments</b>		-202,391
	<b>-95,299</b>	<b>NET INCREASE IN THE NET ASSETS AVAILABLE FOR BENEFITS DURING THE YEAR</b>		<b>-196,670</b>

## Net Assets Statement

2011-12				2012-13	
£000	£000		Notes	£000	£000
<b>INVESTMENT ASSETS</b>					
44,332		Fixed interest securities	15	73,341	
814,163		Equities	15	435,804	
367,949		Index linked securities	15	410,966	
<u>585,487</u>	1,811,931	Pooled investment vehicles	15	<u>1,117,793</u>	2,037,904
425		Loans	15	408	
		Other cash deposits:			
35,287		Fund Managers	15	14,091	
25,370		Short term investments	15	20,882	
<u>17,534</u>	<u>78,616</u>	Derivative contracts	15	<u>13,739</u>	<u>49,120</u>
	1,890,547				2,087,024
<b>Other Investment Assets</b>					
6,816		Dividend accruals	15,18	4,974	
516		Tax recovery	15,18	527	
<u>21,844</u>	<u>29,176</u>	Other investment balances	15,18	<u>41,709</u>	<u>47,210</u>
	<b>1,919,723</b>	<b>Total Investment Assets</b>			<b>2,134,234</b>
<b>INVESTMENT LIABILITIES</b>					
-13,937		Derivative contracts	15	-11,984	
<u>-16,399</u>		Other investment balances	19	<u>-39,881</u>	
	<b>-30,336</b>	<b>Total Investment Liabilities</b>			<b>-51,865</b>
	<b>1,889,387</b>	<b>NET INVESTMENT ASSETS</b>			<b>2,082,369</b>
<b>Current assets</b>					
5,568		Contributions due from employers	18	7,891	
<u>2,537</u>		Other current assets	18	<u>974</u>	
	8,105				8,865
<b>Current liabilities</b>					
-480		Unpaid benefits	19	-538	
<u>-8,126</u>		Other current liabilities	19	<u>-5,140</u>	
	-8,606				-5,678
		<b>NET ASSETS OF THE SCHEME AVAILABLE TO FUND BENEFITS AT 31 MARCH</b>			<b>2,085,556</b>
	<u><b>1,888,886</b></u>				<u><b>2,085,556</b></u>

The Pension Fund's accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the reported accounting period. The actuarial present value of promised retirement benefits, which does take account of such obligations, is disclosed in Notes 23 and 24.

These accounts should therefore be read in conjunction with the information contained within these notes.

## 1. Fund Operation and Membership

Durham County Council Pension Fund (the Fund) is part of the Local Government Pension Scheme (LGPS) which is administered by Durham County Council. The Council is the reporting entity for the Fund. The LGPS is a statutory scheme governed by regulations made under the Superannuation Act 1972. The fund is administered in accordance with the following secondary legislation:

- LGPS (Benefits, Membership and Contributions) Regulations 2007 (as amended)
- LGPS (Administration) Regulations 2008 (as amended)
- LGPS (Management and Investment of Funds) Regulations 2009
- LGPS (Miscellaneous) Regulations 2012.

The Pension Fund Committee has responsibility delegated from Durham County Council to discharge the powers and duties arising from Section 7 of the Superannuation Act 1972 and Regulations made thereunder, to ensure the effective stewardship of the Pension Fund's affairs. The delegation is wide ranging and covers the management of all of the Fund's activities, including the administration and investment of funds. The Committee meets at least quarterly to assess performance and annually to consider wider matters.

The Corporate Director Resources is responsible for the administration of the Pension Fund. He is assisted by the Pensions Administration and Strategic Finance teams in his statutory duty to ensure the Pension Fund remains solvent and is administered effectively.

The Fund was established in 1974 to cover the future pension entitlement of all eligible employees of the County Council and former District Councils. The Fund excludes provision for teachers, police officers and firefighters for whom separate pension arrangements exist. A number of other scheduled and admitted bodies also participate in the Scheme.

The LGPS is a defined benefit occupational pension scheme to provide pensions benefits for pensionable employees of participating bodies. On retirement contributors receive annual pensions (and where applicable, lump sum payments). 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.

At 31 March 2013 the number of pensionable employees in the Fund was 16,837, which is a reduction of 398, from 17,235 at 31 March 2012. The number of pensioners during 2012/13 has increased by 337 from 16,049 to 16,386.

Contributions represent the total amounts receivable from:

- employing authorities, at a rate determined by the Fund's Actuary, and
- pensionable employees, at a rate set by statute.

The Fund's total benefits and contributions are summarised in the following table:

2011-12			2012-13	
Benefits	Contributions		Benefits	Contributions
£000	£000		£000	£000
81,352	-66,630	Administering Authority	77,649	-64,694
16,381	-24,867	Scheduled Bodies	16,590	-25,714
2,240	-4,951	Admitted Bodies	1,739	-3,476
<b>99,973</b>	<b>-96,448</b>		<b>95,978</b>	<b>-93,884</b>

The names of all 99 contributing employers are as follows:

**Scheduled Bodies**

***Local Authorities:***

Durham County Council  
Darlington Borough Council

***Parish Councils:***

Brandon & Byshottles Parish Council  
Chilton Parish Council  
Easington Colliery Parish Council  
Easington Village Parish Council  
Fishburn Parish Council  
Framwellgate Parish Council  
Horden Parish Council  
Hutton Henry Parish Council  
Lanchester Parish Council  
Monk Haseden Parish Council  
Murton Parish Council  
North Lodge Parish Council  
Shotton Parish Council  
South Hetton Parish Council  
Thornley Parish Council  
Trimdon Foundry Parish Council  
Trimdon Parish Council  
Wheatley Hill Parish Council  
Wingate Parish Council

***Town Councils:***

Barnard Castle Town Council  
Ferryhill Town Council  
Great Aycliffe Town Council  
Peterlee Town Council  
Seaham Town Council  
Sedgefield Town Council  
Shildon Town Council  
Spennymoor Town Council  
Stanley Town Council

***Colleges:***

Bishop Auckland College  
Darlington College  
Derwentside College  
East Durham College  
New College Durham  
Queen Elizabeth 6th Form College

***Statutory Bodies:***

BBrandH Academy Limited  
Carmel College  
Central Durham Joint Crematoria Committee  
Dale and Valley Homes  
Darlington School of Maths & Science  
Durham & Darlington Fire and Rescue Authority  
Durham Police Authority  
Easington Academy  
East Durham Homes

***Statutory Bodies (continued):***

Education Village  
Excel Academy Partnership (Framwellgate School)  
Federation of Abbey Schools Academy Trust  
Glendene Academy  
Heathfield Academy Trust  
Hummersknott Academy Trust  
Hurworth School Limited  
King James I Academy  
Longfield Academy Trust  
Murton Community Primary School  
New College Durham Academies Trust  
New Seaham Primary School  
Park View Academy  
Parkside Sports College  
Reid Street Primary School  
Skerne Park Primary  
St Aidans C of E Academy  
St Bedes Academy  
St Bedes RC Primary  
St George CE  
St John's Catholic School & Sixth Form College  
St John's CE Primary School  
Staindrop School  
Teesdale Education Trust  
The Academy at Shotton Hall  
The Fed. of Mowden Schools  
The Hermitage Academy Trust  
Tudhoe Learning Trust  
West Park Academy  
Woodham College

**Admitted Bodies:**

Barnard Castle School  
Bowes Museum  
Carillion  
Cestria Community Housing  
Compass Group UK  
Creative Management Services  
Derwentside Homes  
Future Leisure in Coxhoe  
Hobson Golf Club Ltd  
KGB Cleaning & Support Services  
Kier Support Services  
Leisureworks  
Livin plc (formerly Sedgefield Borough Homes)  
Mears  
Mitie Cleaning  
Mitie PFI  
Morrison Facilities Management Ltd  
Murton Welfare Association  
Peterlee Fire Company  
Taylor Shaw Longfield  
Taylor Shaw Primaries  
Teesdale Housing Association  
The Forge  
Three Rivers Housing Group



Further information about the Fund can be obtained from its separately published Annual Report which is available on the Council's website at [durham.gov.uk](http://durham.gov.uk)

## 2. Basis of Preparation

The Pension Fund accounts have been prepared in accordance with:

- International Financial Reporting Standards (IFRS)
- CIPFA Code of Practice on Local Authority Accounting in the UK, 2012/13 (the Code)

The accounts have been prepared on an accruals and going concern basis.

The financial statements summarise the transactions and the available net assets of the Pension Fund available. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial valuations of the Fund, which do take account of such obligations, are carried out every three years. The Actuary completed a valuation during 2010/11, the results of which determined the contribution rates from 1 April 2011 to 31 March 2014. Details of the latest valuation are included in Note 24.

## 3. Statement of Accounting Policies

### **Significant Accounting Policies**

The accounting policies set out below have been applied consistently to all periods presented in these accounts. The accounts have been prepared on the normal accruals basis of accounting.

### ***Fund Account***

#### **Contributions Receivable**

Contribution income is categorised and recognised as follows:

- Normal contributions, from both members and employers, are accounted for on an accruals basis;
- Employer's augmentation contributions are accounted for in the year in which they become due;
- Employer's other contributions are accounted for in accordance with the terms of the arrangement.

#### **Transfers to and from other Schemes**

Transfer Values represent amounts paid to or received from other local and public authorities, private occupational or personal pension schemes in respect of pension rights already accumulated by employees transferring from or to the participating authorities.

Individual transfer values paid and received are accounted for on a cash basis as the amount payable or receivable is not determined until payment is made and accepted by the recipient. Bulk (Group) transfers out and in are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

#### **Pension Benefits Payable**

Pension benefits are recognised and recorded in the accounting records and reported in the financial statements as an expense in the period to which the benefit relates. Any amounts due but yet to be paid are disclosed in the Net Assets Statement as current liabilities.

#### **Administrative Expenses**

All administration expenses are accounted for on an accruals basis. All costs of the pensions administration team and a proportion of the costs of the pension fund accounting team are charged to the Pension Fund as administrative expenses.

**Investment Income**

Investment income is accounted for as follows:

- income from equities is recognised in the fund account on the date stocks are quoted ex-dividend;
- income from fixed interest and index-linked securities, cash and short-term deposits is accounted for on an accruals basis;
- interest income is recognised in the fund account as it accrues;
- income from other investments is accounted for on an accruals basis;
- income from overseas investments is recorded net of any withholding tax where this cannot be recovered;
- foreign income has been translated into sterling at the date of the transactions when received during the year or at the exchange rates applicable on the last working day in March where amounts were still outstanding at the year end;
- changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year.

**Taxation**

The fund is a registered public service scheme under Section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax would normally be accounted for as a fund expense as it arises, however when investment managers are not able to supply the necessary information, no taxation is separately disclosed in the fund account.

**Investment Management Fees**

All investment management fees are accounted for on an accruals basis. Fees of the external investment managers are agreed in the respective mandates governing their appointments. Where an investment manager's fee note has not been received by the balance sheet date, an estimate based upon the market value of their mandate as at the end of the financial year is used for inclusion in the fund account.

The cost of obtaining independent investment advice from consultants is also included in investment management fees. Independent advisers' fees are based on a retainer for attendance at Pension Fund Committee Meetings and the provision of advice to the Pension Fund Committee. Fees for any additional work are based on a daily or hourly rate, as provided for by agreement or by separate arrangement.

A proportion of the costs of the pension fund accounting team and treasury management team are charged to the Pension Fund for investment management activities.

Note 14 includes details relating to investment management fees.

**Net Assets Statement****Valuation of Investments**

Investments are included in the accounts at their fair value as at the reporting date. Fair value is the price for which an asset could reasonably be exchanged, or a liability settled, in an arm's length transaction. 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 unithold investments.

All prices in foreign currency are translated into sterling at the prevailing rate on the last working day of March.

An investment asset is recognised in the Net Assets Statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes to the fair value of the asset are recognised by the Fund.

The values of investments as shown in the Net Assets Statement have been determined as follows:

- Quoted equity securities which are traded on an exchange are accounted for on a bid market price basis, where Investment Managers provide valuations in this manner;
- Fixed interest securities that are traded on an exchange are accounted for at bid market price where Investment Managers provide valuations in this manner;
- Index linked securities are valued at bid market value where Investment Managers provide valuations in this manner;
- Unitised securities are valued at the closing bid price if bid and offer prices are reported by the relevant exchange and in the Investment Manager's valuation report. Single priced unitised securities are valued at the reported price;
- 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;
- Derivative contracts outstanding at the year end are included in the Net Assets Statement at fair value ( as provided by Investment Managers) and gains and losses arising are recognised in the Fund Account as at 31 March. The value of foreign currency contracts is based on market forward exchange rates at the reporting date. The value of all other derivative contracts is determined using exchange prices at the reporting date.

Where Investment Managers are unable to supply investment valuations in line with the above policies, valuations will be included as supplied by the Investment Manager, usually at mid-market price.

#### **Cash and Cash Equivalents**

Cash comprises cash in hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with insignificant risk of change in value.

#### **Contingent Assets**

A contingent asset arises where an event has taken place that gives a possible asset which will only be confirmed by the occurrence of uncertain future events not wholly within the control of the Pension Fund. Contingent assets are not recognised in the Net Assets Statement however details are disclosed in Note 22.

#### **Investment Transactions**

Investment transactions arising up to 31 March but not settled until later are accrued in the accounts.

#### **Acquisitions Costs of Investments**

Acquisition costs of investments are added to book cost at the time of purchase.

#### **Actuarial Present Value of Promised Retirement Benefits**

The actual present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards. As permitted under IAS 26 the Pension Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the accounts ( Note 24).

#### **Additional Voluntary Contributions (AVCs)**

The Fund provides an additional voluntary contribution (AVC) scheme for its members, the assets of which are invested separately from those of the Fund . In accordance with LGPS Regulations, AVCs are not recognised as income or assets in the Pension Fund Accounts, however a summary of the scheme and transactions are disclosed in Note 20 to these accounts.

If, however, AVCs are used to purchase extra years' service from the Pension Fund, this is recognised as contribution income in the Fund's accounts on an accruals basis. Amounts received in this way can be found in Note 7 as additional contributions from members.

4. Critical Judgements in Applying Accounting Policies

The preparation of the statements in conformity with IFRS requires management to make judgements, estimates and assumptions which affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. In applying the policies, the Pension Fund has to make certain judgements about complex transactions, or those involving uncertainty. Those with most significant effect are:

- the Fund will continue in operational existence for the foreseeable future as a going concern;
- the fair value of unquoted private equities is highly subjective and based upon forward looking estimates and judgements involving many factors. Investment managers provide the values to be recognised in the Net Assets Statement.
- the pension fund liability is calculated every three years by the appointed actuary. Assumptions underpinning the valuations are agreed with the actuary; the estimate is subject to significant variances based on changes to the underlying assumptions.

5. Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

The Pension Fund Accounts contain estimated figures that are based upon assumptions made about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, as balances cannot be determined with certainty, actual results may be materially different from the assumptions and estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Items in the Net Assets Statement for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual differs from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of actuaries is engaged to provide the fund with expert advice about the assumptions to be applied. Note 24 summarises the results of the actuarial valuation.	For instance a 3 year increase in life expectancy would reduce the funding target by 4%. A 1% fall in the yield from bonds would reduce the funding target by 13%. If pension increases were 1% higher than expected, the funding target would reduce by 9%. A 25% fall in the market value of equities and property investments would lead to a 12% fall in the funding target. If pensionable pay increases are 1% higher than assumed, the funding target will decrease by 5%.
Fair Value of investments	The Accounts are as at 31 March 2013 and all the investments held by the fund are valued as at that date using the best estimate possible of 'fair value', as detailed in 'Significant Accounting Policies - Valuation of Investments'.	The use of estimates for investment values is greatest for those assets classified at Level 3 and there is a risk that these investments may be over or under-stated in the accounts (see Note 16 for an explanation of Level 3 investments). The total value of Level 3 investments held by the Fund is £611.42m at 31/3/13. Every 1% increase/ decrease in fair value would result in an increase/ decrease in the value of the fund by approximately £6.1m
Impairment Losses	There were no impairment losses during 2012/13	

## 6. Post Net Assets Statement (Balance Sheet) Event

There have been no events after 31 March 2013 which require any adjustments to these accounts.

## 7. Contributions Receivable

2011-12 £000		2012-13 £000
	<b>Employer contributions:</b>	
-44,786	Normal	-43,861
-1,719	Augmentation	-120
-27,728	Deficit funding	-28,306
	<b>Member contributions:</b>	
-22,059	Normal	-21,257
-156	Additional contributions	-340
<b>-96,448</b>		<b>-93,884</b>
-66,630	Administering Authority	-64,694
-24,867	Scheduled Bodies	-25,714
-4,951	Admitted Bodies	-3,476
<b>-96,448</b>		<b>-93,884</b>

## 8. Transfers in From Other Pension Funds

2011-12 £000		2012-13 £000
-2,308	Group Transfers	-2,083
-5,637	Individual Transfers	-3,282
<b>-7,945</b>		<b>-5,365</b>

The Group Transfers figure of £2.083m for 2012/13 relates to the transfer value due from the Ministry of Justice to fund the pension benefits of Magistrates' Courts staff who have already transferred out of the DCC Pension Fund to the Civil Service Pension Scheme. The transfer will be paid to the Fund in equal instalments of £208,300 over 10 years, however the full amount has been accrued in 2012/13 in line with the Fund's accounting policy for group transfers in.

## 9. Benefits Payable

2011-12 £000		2012-13 £000
76,026	Pensions	81,656
27,678	Commutations and lump sum retirement benefits	17,484
1,290	Lump sum death benefits	1,815
-5,021	Recharged benefits	-4,977
-	Purchased annuities	-
<b>99,973</b>		<b>95,978</b>
81,352	Administering Authority	77,649
16,381	Scheduled Bodies	16,590
2,240	Admitted Bodies	1,739
<b>99,973</b>		<b>95,978</b>

10. Payments To and On Account of Leavers

2011-12 £000		2012-13 £000
5	Refunds to members leaving service	4
1	Payments for members joining state scheme	1
-	Purchase of annuities	-
4,612	Individual transfers to other schemes	4,491
-	Group transfers to other schemes	3,199
<b>4,618</b>		<b>7,695</b>

11. Administration Expenses

2011-12 £000		2012-13 £000
1,038	DCC support costs	1,054
64	Legal fees	37
43	External Audit fees	26
13	Internal Audit fees	25
46	Actuary fees	160
<b>1,204</b>		<b>1,302</b>

12. Investment Income

2011-12 £000		2012-13 £000
-2,430	Interest from fixed interest securities	-4,286
-4,291	Income from index-linked securities	-2,307
-27,042	Dividends from equities	-18,855
-177	Interest on cash deposits	-39
-6,192	Income from pooled investment vehicles	-6,729
<b>-40,132</b>		<b>-32,216</b>

13. Taxation

The Pensions SORP requires that any withholding tax that is irrecoverable should be disclosed in the Fund Account as a tax charge, however as Investment Managers have not been able to supply information for the full year, no amount of irrecoverable withholding tax has been disclosed.

- United Kingdom Income 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.

## 14. Investment Management Fees

Investment managers' fees are based on the value of assets under management. An ad-valorem fee is payable to one investment manager, whereas the others are paid a performance related fee, derived from a base fee plus a percentage of out-performance. All fees are payable in arrears.

Independent Advisers' fees are based on a retainer for attendance at Pension Fund Committee and Annual Meetings and the provision of advice. Fees for any additional work are based on a daily or hourly rate, as agreed in advance.

2011-12 £000		2012-13 £000
8,695	Manager Fees	5,068
149	Custody Fees	158
148	Adviser Fees	177
<u>8,992</u>		<u>5,403</u>

## 15. Investments

### Analysis by Investment Manager

The following investment managers were employed in 2012/13 to manage the Pension Fund's assets:

- AllianceBernstein Limited (AllianceBernstein)
- Baring Asset Management Limited (Barings)
- BlackRock Investment Management UK Limited (BlackRock)
- CB Richard Ellis Collective Investors Limited (CBRE)
- Edinburgh Partners Limited (Edinburgh Partners)
- Royal London Asset Management (RLAM)

Following a review of the Pension Fund's investment strategy in 2012/13, it was decided to reduce and reshape the strategic allocation to equity holdings. Consequently, all investments held with Edinburgh Partners were removed and re-allocated to other (existing) investment managers during the year.

The long-term strategic allocation as at 31 March 2013 was as follows (the actual allocation varies slightly due to market movements):

31 March 2012 %	Investment Manager	Asset Class	31 March 2013 %
16	AllianceBernstein	Global Bonds	15
8	Barings	Dynamic Asset Allocation	20
20	Blackrock	Global equities )	37
7	Blackrock (pooled)	Global equities )	
8	CBRE	Global property	8
21	Edinburgh Partners	Global equities	0
20	RLAM	Investment grade sterling bonds	20
<u>100</u>			<u>100</u>

In October 2012 Durham County Council, on behalf of the Pension Fund, approached the market for global equity and emerging market investment managers to replace the existing manager of global/ UK equities. On 1 May 2013 the Pension Fund Committee approved the appointment of three new investment managers (subject to agreeing terms and conditions); two of which will manage global equity with an emerging market bias and one which will have an emerging market equity mandate. It is anticipated that the re-allocation of the Fund's equity assets will commence in the second quarter of 2013/14.

The market values of investments analysed by Investment Manager as at 31 March were as follows:

31 March 2012 £000	%		31 March 2013 £000	%
285,900	15.45	AllianceBernstein	301,217	14.67
143,727	7.77	Barings	397,393	19.35
515,369	27.84	Blackrock	807,330	39.31
122,132	6.60	CBRE	135,285	6.59
413,927	22.36	Edinburgh Partners	0	0.00
179	0.01	Other - NEL	99	0.00
369,581	19.97	RLAM	412,426	20.08
<b>1,850,815</b>	<b>100.00</b>		<b>2,053,750</b>	<b>100.00</b>

The totals in the above table include all assets held by Investment Managers on behalf of the Fund, including cash and derivatives. The total as at 31 March 2013 excludes loans of £0.408m, cash invested by the administering authority of £20.882m, other investment assets of £47.210m and liabilities of £39.881m (£0.425m, £25.370m, £29.176m and £16.399m respectively, as at 31 March 2012).

Of the total value of net investment assets reported in the Net Assets Statement as at 31 March 2013, £2.054m (98.5%) is invested through Investment Managers (£1.851m or 97.96% of the total in 2011/12).

#### Reconciliation of Movements in Investments 2012/13

Investment category	Value at 31 March 2012 £000	Purchases at cost £000	Sales proceeds £000	Change in market value £000	Value at 31 March 2013 £000
Fixed interest securities	44,332	339,972	-313,115	2,152	73,341
Equities	814,163	2,357,269	-2,623,648	-111,980	435,804
Index linked securities	367,949	1,642,392	-1,638,844	39,469	410,966
Pooled investment vehicles	585,487	1,647,159	-1,365,833	250,980	1,117,793
	1,811,931	5,986,792	-5,941,440	180,621	2,037,904
Derivative contracts:					
Futures, margins & options	2,628	3,687	-3,518	-1,457	1,340
Forward foreign currency	969			-554	415
	1,815,528	5,990,479	-5,944,958	178,610	2,039,659
Other investment balances:					
Loans	425				408
Other cash deposits	60,657			-3,032	34,973
Dividend accruals	6,816				4,974
Tax recovery	516				527
Other investment balances	5,445				1,828
<b>Net Investment Assets</b>	<b>1,889,387</b>			<b>175,578</b>	<b>2,082,369</b>

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investment during the year.



**Reconciliation of Movements in Investments 2011/12**

<b>Investment category</b>	<b>Value at 31 March 2011</b>	<b>Purchases at cost</b>	<b>Sales proceeds</b>	<b>Change in market value</b>	<b>Value at 31 March 2012</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Fixed interest securities	35,717	169,081	-164,929	4,463	44,332
Equities	898,953	228,094	-281,139	-31,745	814,163
Index linked securities	356,100	1,711,127	-1,771,561	72,283	367,949
Pooled investment vehicles	444,319	205,475	-82,765	18,458	585,487
	<u>1,735,089</u>	<u>2,313,777</u>	<u>-2,300,394</u>	<u>63,459</u>	<u>1,811,931</u>
Derivative contracts					
Futures, margins & options	-	1,281	-1,068	2,415	2,628
Forward foreign currency	-1,312			2,281	969
	<u>1,733,777</u>	<u>2,315,058</u>	<u>-2,301,462</u>	<u>68,155</u>	<u>1,815,528</u>
Other investment balances:					
Loans	441				425
Other cash deposits	39,649			-2,599	60,657
Dividend accruals	7,089				6,816
Tax recovery	566				516
Other investment balances	-3,475				5,445
<b>Net Investment Assets</b>	<u><u>1,778,047</u></u>			<u><u>65,556</u></u>	<u><u>1,889,387</u></u>

**Analysis of Investments**

2011-12			2012-13	
£000	£000		£000	£000
		<b>ASSETS INVESTED THROUGH FUND MANAGERS</b>		
		<b>Fixed interest securities</b>		
6,113		UK - Public sector	22,932	
8,474		UK - other	22,256	
29,745		Overseas - Public sector	28,153	
-		Overseas - other		
	44,332			73,341
		<b>Equities</b>		
469,321		UK quoted	402,039	
179		UK unquoted	99	
344,663		Overseas quoted	33,666	
	814,163			435,804
		<b>Index linked securities</b>		
358,390		UK quoted - Public sector	373,587	
9,559		Overseas quoted -Public sector	37,379	
	367,949			410,966
		<b>Pooled Investment Vehicles</b>		
267,439		Managed funds - non property - UK - quoted	-	
44,840		Managed funds - non property - Overseas - quoted	-	
0		Managed funds - non property - UK - unquoted	24,875	
149,476		Managed funds - non property - Overseas - unquoted	944,643	
859		Unit Trusts - property - UK quoted	14,489	
33,416		Unit Trusts - property - UK unquoted	27,309	
28,504		Unit Trusts - property - Overseas quoted	29,874	
60,953		Unit Trusts - property - Overseas unquoted	76,603	
	585,487			1,117,793
		<b>Derivative Contracts</b>		
17,534		Assets	13,739	
-13,937		Liabilities	-11,984	
	3,597			1,755
35,287	35,287	<b>Fund Managers' cash</b>	14,091	14,091
<b>1,850,815</b>	<b>NET ASSETS INVESTED THROUGH FUND MANAGERS</b>		<b>2,053,750</b>	
		<b>OTHER INVESTMENT BALANCES</b>		
	25,370	Short term investments (via DCC Treasury Management)		20,882
	425	Loans		408
	29,176	Other investment assets		47,210
	-16,399	Other investment liabilities		-39,881
	<b>1,889,387</b>	<b>NET INVESTMENT ASSETS</b>		<b>2,082,369</b>

**Analysis of Derivatives****Objectives and Policies for Holding Derivatives**

Derivatives are financial instruments that derive their value from the price or rate of some underlying item. Underlying items include equities, bonds, commodities, interest rates, exchange rates and stock market indices.

The Fund uses derivatives to manage its exposure to specific risks arising from its investment activities. Derivatives may be used to gain exposure to an asset more efficiently than holding the underlying asset or hedge against the risk of adverse currency movement on the Fund's investments. The use of derivatives is managed in line with the investment management agreement agreed between the Pension Fund and its investment managers.

A summary of the derivative contracts held by the Pension Fund is provided in the following table:

2011-12		Derivative Contracts	2012-13	
£000	£000		£000	£000
		<b>Forward foreign currency</b>		
1,226		Assets	2,942	
<u>-257</u>		Liabilities	<u>-2,527</u>	
	969	<b>Net Forward foreign currency</b>		415
		<b>Futures</b>		
13,735		Assets	9,493	
<u>-13,680</u>		Liabilities	<u>-9,457</u>	
	55	<b>Net Futures</b>		36
		<b>Options</b>		
2,573		Assets	0	
<u>0</u>		Liabilities	<u>0</u>	
	2,573	<b>Net Options</b>		0
		<b>Margins</b>		
0		Assets	1,304	
<u>0</u>		Liabilities	<u>0</u>	
	0	<b>Net Margins</b>		1,304
	<u><b>3,597</b></u>	<b>Net market value of derivative contracts</b>		<u><b>1,755</b></u>

The Pension Fund invests in the following types of derivatives:

**i. Forward Foreign Currency Contracts**

Currency is bought and sold by investment managers ( Barings, CBRE and Royal London) for future settlement at a predetermined exchange rate. Such contracts are used to hedge against the risk of adverse currency movements on the Fund's investments. Contracts are by their nature over the counter and are primarily in US dollars, euros and sterling.

## Notes to Durham County Council Pension Fund Accounts

Settlement	Currency bought	Local Value	Currency sold	Local Value	Asset Value £000	Liability Value £000
1 to 6 mths	GBP	4,316,734	SEK	44,959,000		-236
1 to 6 mths	GBP	4,335,714	SEK	44,931,000		-214
1 to 6 mths	GBP	3,974,561	SEK	42,981,100		-378
1 to 6 mths	GBP	4,390,654	SEK	42,817,000	55	
1 to 6 mths	GBP	5,452,206	CAD	8,517,000		-68
1 to 6 mths	GBP	7,198,646	EUR	8,323,000	159	
1 to 6 mths	GBP	5,097,381	CAD	8,048,000		-119
1 to 6 mths	GBP	4,471,910	USD	6,766,000	16	
1 to 6 mths	GBP	4,306,909	USD	6,764,000		-148
1 to 6 mths	GBP	5,438,673	EUR	6,685,400		-216
1 to 6 mths	GBP	3,770,098	CAD	6,038,000		-143
1 to 6 mths	EUR	6,861,000	GBP	5,569,554	233	
1 to 6 mths	CAD	8,063,000	GBP	5,184,876	41	
1 to 6 mths	GBP	3,720,498	EUR	4,471,000		-61
1 to 6 mths	CAD	6,469,000	GBP	4,077,786	115	
1 to 6 mths	SEK	42,811,000	GBP	4,058,492	277	
1 to 6 mths	EUR	4,621,000	GBP	3,974,060		-66
1 to 6 mths	EUR	4,584,000	GBP	3,880,952		-4
1 to 6 mths	GBP	2,075,930	EUR	2,529,000		-63
1 to 6 mths	GBP	950,586	EUR	1,121,000	2	
less than 1 mth	USD	4,047,000	GBP	2,711,194		-46
less than 1 mth	GBP	3,493,098	AUD	5,071,000	14	
less than 1 mth	GBP	1,324,976	AUD	1,932,000		
less than 1 mth	USD	1,358,000	EUR	1,058,993		-3
1 to 6 mths	EUR	24,576,325	GBP	21,433,652	628	
1 to 6 mths	USD	84,118,546	GBP	56,167,663	746	
1 to 6 mths	JPY	529,865,132	GBP	3,694,621		-21
1 to 6 mths	GBP	8,495,114	EUR	9,890,000	128	
1 to 6 mths	GBP	22,226,993	USD	34,680,000		-618
1 to 6 mths	GBP	12,074,642	USD	18,250,000	53	
1 to 6 mths	GBP	6,634,667	USD	9,883,000	124	
1 to 6 mths	GBP	11,250,311	JPY	1,555,000,000	351	
1 to 6 mths	GBP	8,178,023	JPY	1,173,000,000		-44
1 to 6 mths	GBP	6,369,802	JPY	920,000,000		-79
					<b>2,942</b>	<b>-2,527</b>
<b>Net forward foreign currency contracts at 31 March 2013</b>						<b>415</b>

Settlement	Currency bought	Local Value	Currency sold	Local Value	Asset Value £000	Liability Value £000
1 to 6 mths	USD	40,168,026	GBP	25,366,784	216	
1 to 6 mths	GBP	4,226,043	USD	6,637,000	70	
1 to 6 mths	USD	6,474,000	GBP	4,096,431		-42
1 to 6 mths	GBP	2,517,181	USD	4,029,000		-6
1 to 6 mths	GBP	26,513,257	EUR	31,843,052		-55
1 to 6 mths	GBP	35,991,020	USD	57,115,818	223	
1 to 2 mths	GBP	11,172,352	AUD	16,500,000	489	
1 to 2 mths	GBP	11,548,815	EUR	13,900,000		-38
up to 1 mth	GBP	439,985	EUR	530,000		-2
1 to 2 mths	GBP	6,325,031	USD	10,000,000	66	
up to 1 mth	GBP	499,301	USD	789,000	5	
up to 1 mth	USD	12,200,000	AUD	11,551,936	157	
up to 1 mth	USD	10,789,000	GBP	6,865,634		-114
					<b>1,226</b>	<b>-257</b>
<b>Net forward foreign currency contracts at 31 March 2012</b>						<b>969</b>

**ii. Futures**

When there is a requirement to hold cash assets, but the fund manager does not want this cash to be out of the market, index based futures contracts are bought which have an underlying economic value broadly equivalent to the cash held in anticipation of cash outflow required. Outstanding exchange traded futures contracts, held by Barings, are as follows:

	Expires	Product Description	Currency	Market Value at 31 March 13	
				£000	£000
<b>Assets</b>					
UK equity	1 to 3 months	FTSE 100 (LIFFE) (LG)	GBP	1,207	
Overseas equity	1 to 3 months	DOWJONESEURO STOXX 50	EUR	8,286	
<b>Total assets</b>					9,493
<b>Liabilities</b>					
UK equity	1 to 3 months	FTSE 100 (LIFFE) (LG)	GBP	-1,206	
Overseas equity	1 to 3 months	DOWJONESEURO STOXX 50	EUR	-8,251	
<b>Total liabilities</b>					-9,457
<b>Net Futures Contracts at 31 March 2013</b>					<u><u>36</u></u>

Type	Expires	Product Description	Currency	Market Value at 31 March 12	
				£000	£000
<b>Assets</b>					
UK equity	1 to 3 months	FTSE 100 (LIFFE) (LG)	GBP	2,977	
Overseas equity	1 to 3 months	S&P 500 (CME) (LG)	USD	10,758	
<b>Total assets</b>					13,735
<b>Liabilities</b>					
Overseas equity	1 to 3 months	IMM S&P 500	USD	-10,720	
UK equity	1 to 3 months	NEW FTSE 100	GBP	-2,960	
<b>Total liabilities</b>					-13,680
<b>Net Futures Contracts at 31 March 2012</b>					<u><u>55</u></u>

**iii. Options**

In order to benefit from potentially greater returns available from investing in equities whilst minimising the risk of loss of value through adverse equity price movements, the Fund, through Barings, has bought a number of equity option contracts to protect it from falls in value in the main markets in which it is invested. There were no option contracts held at 31 March 2013.

Type	Expires	Product Description	Currency	Market Value at 31 March 13
				£000
NIL				0
<b>Net Options at 31 March 2013</b>				<u><u>0</u></u>

Type	Expires	Product Description	Currency	Market Value at 31 March 12
				£000
<b>Assets</b>				
UK equity	less than 1 year	LIF FTSE 100 ESX	GBP	14
UK equity	less than 1 year	LIF FTSE 100 ESX	GBP	150
UK equity	less than 1 year	LIF FTSE 100 ESX	GBP	14
UK equity	less than 1 year	LIF FTSE 100 ESX	GBP	70
UK equity	less than 1 year	LIF FTSE 100 ESX	GBP	297
Overseas equity	up to 1 month	UBS	EUR	0
UK equity	up to 1 month	UBS	GBP	337
Overseas equity	up to 1 month	UBS	USD	537
Overseas equity	up to 1 month	UBS	USD	1,154
<b>Net Options at 31 March 2012</b>				<u><u>2,573</u></u>

**iv. Margins**

The value of margin amounts outstanding at 31 March are as follows:

	Product Description	Currency	Market Value at 31 March 13 £000	Market Value at 31 March 13 £000
<b>Assets</b>	UBS	GBP	173	
	UBS	EUR	1,131	
<b>Net Margins at 31 March 2013</b>				<u>1,304</u>

Type	Product Description	Currency	Market Value at 31 March 12 £000	Market Value at 31 March 12 £000
	NIL		0	
<b>Net Margins at 31 March 2012</b>				<u>0</u>

**Investments Exceeding 5% of the Market Value of the Fund**

The following investments represented more than 5% of the Pension Fund's total net assets available for benefits:

- Aquila Life Fund S1, which is a pooled fund managed by Blackrock, was valued at £480.022m or 23.02% at 31 March 2013 (£123.262m or 6.5% at 31 March 2012);
- Diversified Yield Plus fund - a pooled fund of Broad Bonds through AllianceBernstein. The value of this investment at 31 March 2013 was £301.217m or 14.44% (£259.343m or 13.7% at 31 March 2012).

**16. Financial Instruments****Classification of Financial Instruments**

Accounting policies describe how different asset classes of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts (equal to fair value) of financial assets and liabilities by category and net assets statement heading:

2011-12			2012-13		
Designated as fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost	Designated as fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost
£000	£000	£000	£000	£000	£000
<b>Financial assets</b>					
44,332			73,341		
814,163			435,804		
367,949			410,966		
585,487			1,117,793		
17,534			13,739		
	425			408	
	35,287			14,091	
	25,370			20,882	
29,176			47,210		
	8,105			8,865	
<u>1,858,641</u>	<u>69,187</u>	<u>0</u>	<u>2,098,853</u>	<u>44,246</u>	<u>0</u>
<b>Financial liabilities</b>					
-13,937			-11,984		
-16,399		-8,606	-39,881		-5,678
0			0		
<u>-30,336</u>	<u>0</u>	<u>-8,606</u>	<u>-51,865</u>	<u>0</u>	<u>-5,678</u>
<u><b>1,828,305</b></u>	<u><b>69,187</b></u>	<u><b>-8,606</b></u>	<u><b>2,046,988</b></u>	<u><b>44,246</b></u>	<u><b>-5,678</b></u>
<b>1,888,886</b>			<b>2,085,556</b>		
<b>Net Assets at 31 March</b>					

**Net Gains and Losses on Financial Instruments**

31 March 2012		31 March 2013
£000		£000
<b>Financial Assets</b>		
68,155	Fair Value through profit and loss	178,610
-2,599	Loans and receivables	-3,032
<b>Financial Liabilities</b>		
0	Fair Value through profit and loss	
0	Loans and receivables	
0	Financial liabilities measured at amortised cost	
<u>65,556</u>	<b>Total</b>	<u>175,578</u>

**Valuation of Financial Instruments Carried at Fair Value**

The valuation of financial instruments has been classified into three levels according to quality and reliability of information used to determine fair values.

**LEVEL 1**

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts. Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

**LEVEL 2**

Financial instruments at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

**LEVEL 3**

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include unquoted equity investments and hedge fund of funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions. The values of the investment in private equity are based upon valuations provided by the general partners to the private equity in which the Fund has invested. These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS and US GAAP. Valuations are usually undertaken annually.

The following tables provide analyses of the financial assets and liabilities of the pension fund as at 31 March 2013 and 31 March 2012, grouped into Levels 1 to 3, based on the level at which the fair value is observable.

	Quoted market price	Using observable inputs	With significant unobservable inputs	Total
Values at 31 March 2013	Level 1	Level 2	Level 3	
	£000	£000	£000	£000
<b>Financial Assets</b>				
Financial Assets at fair value through profit and loss	1,169,977	317,456	611,420	2,098,853
Loans and receivables	44,246			44,246
<b>Total Financial Assets</b>	<b>1,214,223</b>	<b>317,456</b>	<b>611,420</b>	<b>2,143,099</b>
<b>Financial Liabilities</b>				
Financial Liabilities at fair value through profit and loss		-51,865		-51,865
Financial Liabilities at amortised cost	-5,678			-5,678
<b>Total Financial Liabilities</b>	<b>-5,678</b>	<b>-51,865</b>	<b>0</b>	<b>-57,543</b>
<b>Net Financial Assets</b>	<b>1,208,545</b>	<b>265,591</b>	<b>611,420</b>	<b>2,085,556</b>

	Quoted market price	Using observable inputs	With significant unobservable inputs	Total
Values at 31 March 2012	Level 1	Level 2	Level 3	
	£000	£000	£000	£000
<b>Financial Assets</b>				
Financial Assets at fair value through profit and loss	1,340,769	376,916	140,956	1,858,641
Loans and receivables	69,187			69,187
<b>Total Financial Assets</b>	<b>1,409,956</b>	<b>376,916</b>	<b>140,956</b>	<b>1,927,828</b>
<b>Financial Liabilities</b>				
Financial Liabilities at fair value through profit and loss		-30,336		-30,336
Financial Liabilities at amortised cost	-8,606			-8,606
<b>Total Financial Liabilities</b>	<b>-8,606</b>	<b>-30,336</b>	<b>0</b>	<b>-38,942</b>
<b>Net Financial Assets</b>	<b>1,401,350</b>	<b>346,580</b>	<b>140,956</b>	<b>1,888,886</b>

## 17. Nature and Extent of Risk Arising From Financial Instruments

### Risk and Risk Management

The Pension Fund's activities expose it to a variety of financial risks. The key risks are:

- i. **MARKET RISK** the possibility that financial loss may arise for the Fund as a result of changes in, for example, interest rates movements;
- ii. **CREDIT RISK** the possibility that other parties may fail to pay amounts due to the Fund;
- iii. **LIQUIDITY RISK** the possibility that the Fund might not have funds available to meet its commitments to make payments.



The Fund's primary long-term risk is that its assets will fall short of its liabilities (i.e. promised benefits payable to members). The aim of investment risk management is to minimise the risk of an overall reduction in the value of the fund and maximise the opportunity for gains across the whole fund portfolio. This is achieved through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The administering body manages these investment risks as part of its overall Pension Fund risk management programme.

The Fund's assets are managed by a number of Investment Managers, as disclosed in Note 15. The division of the management of the assets between all 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 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 Fund assets are completed. The Custodian has stringent risk management processes and controls. Client accounts are strictly segregated to ensure that the Fund assets are separately identifiable. Conservative investment practices are ensured by the Custodian where they invest cash collateral.

The Fund also employs a specialised service as an independent check to ensure that all dividends receivable are compared against those collected by the Custodian and that they were received on the due date; any discrepancies are investigated.

Durham County Council will invest the short term cash balances on behalf of the Pension Fund. This is done in line with the administering authority's Treasury Management Policy and interest is paid on a quarterly basis to the 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 Council to comply with the CIPFA Prudential Code, the CIPFA Code of Practice on Treasury Management in the Public Services and investment guidance issued through the Act.

**i. MARKET RISK**

Market risk is the risk of loss from fluctuations in market prices, interest and foreign exchange rates. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix. The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Fund and its investment advisers undertake appropriate monitoring of market conditions and benchmark analysis.

These risks are managed in two ways:

- ❖ the exposure of the fund to market risk is monitored through a factor risk analysis to ensure that risk remains within tolerable levels;
- ❖ specific risk exposure is limited by applying risk-weighted maximum exposures to individual investments.

**Other Price Risk**

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The Fund is exposed to share and derivative price risk. This arises from investments held by the fund for which the future price is uncertain. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses, from shares sold short, is unlimited.

The Fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the council to ensure it is within limits specified in the Fund Investment Strategy.

**Other Price Risk – Sensitivity Analysis**

Following analysis of historical volatility, investment manager volatility and expected investment return movement during the financial year, in consultation with the Fund's investment advisers, the Fund has determined that the potential market movements in market price risk, shown in the table below, are reasonably possible for the 2013/14 reporting period. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

If the market price of the Fund investments were to increase/ decrease in line with these potential market movements, the value of assets available to pay benefits in the market price by Investment Manager would vary as illustrated in the following table (the prior year comparator is also shown below):

Manager	Asset type	Asset value at	Potential market	Value on	Value on
		31 March 2013		movements	increase
		£000	%	£000	£000
Alliance Bernstein	Broad Bonds	301,217	6%	319,290	283,144
Barings	DAA	390,795	8%	422,059	359,531
BlackRock	UK/ Passive Global Equity	803,427	21%	972,147	634,707
CBRE	Unlisted property	101,525	10%	111,678	91,373
CBRE	Listed property	29,874	24%	37,044	22,704
RLAM	UK Index Linked Gilts	410,967	8%	443,844	378,090
Other	UK Equity	99	24%	123	75
	Loans	408	0%	408	408
	Cash	34,973	0%	34,973	34,973
	Net derivative assets	1,755	0%	1,755	1,755
	Net investment balances	7,329	0%	7,329	7,329
<b>Total change in net investment assets available</b>		<b>2,082,369</b>		<b>2,350,650</b>	<b>1,814,089</b>

Manager	Asset type	Asset value at	Potential market	Value on	Value on
		31 March 2012		movements	increase
		£000	%	£000	£000
Alliance Bernstein	Broad Bonds	259,344	7%	277,498	241,190
Alliance Bernstein	PPIP	26,213	21%	31,718	20,708
Barings	DAA	129,406	8%	139,758	119,054
BlackRock	Global Equity	508,849	21%	615,707	401,991
CBRE	Unlisted property	87,525	13%	98,903	76,147
CBRE	Listed property	29,363	20%	35,236	23,490
Edinburgh Partners	Global Equity	403,103	21%	487,755	318,451
RLAM	Global Linked Gilts	367,949	7%	393,705	342,193
Other	UK Equity	179	21%	217	141
	Loans	425	0%	425	425
	Cash	60,657	0%	60,657	60,657
	Net derivative assets	3,597	0%	3,597	3,597
	Net investment balances	12,777	0%	12,777	12,777
<b>Total change in net investment assets available</b>		<b>1,889,387</b>		<b>2,157,953</b>	<b>1,620,821</b>

**Interest Rate Risk**

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's interest rate risk is routinely monitored by the administering authority (as part of its Treasury Management Service for investment of surplus cash), its managers, custodian and investment advisers in accordance with the Fund's risk management strategy. This includes monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks. During periods of falling interest rates and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns.

**Interest Rate Risk - Sensitivity Analysis**

The Fund recognises that interest rates can vary and can affect income to the fund and the value of the net assets available to pay benefits. The following table shows the fund's asset values having direct exposure to interest rate movements as at 31 March 2013 and the effect of a +/- 50 BPS change in interest rates on the net assets available to pay benefits (assuming that all other variables, in particular exchange rates, remain constant). The prior year comparator is also provided:

Asset type	Asset Values at 31 March 2013	Change in year in the net assets available to pay benefits	
		+50 BPS	-50 BPS
		£000	£000
Cash and cash equivalents	34,973	175	-175
Fixed interest securities	73,341	367	-367
<b>Total change in net investment assets available</b>	<b>108,314</b>	<b>542</b>	<b>-542</b>

Asset type	Asset Values at 31 March 2012	Change in year in the net assets available to pay benefits	
		+50 BPS	-50 BPS
		£000	£000
Cash and cash equivalents	60,657	303	-303
Fixed interest securities	44,332	222	-222
<b>Total change in net investment assets available</b>	<b>104,989</b>	<b>525</b>	<b>-525</b>

**Currency Risk**

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund (GBP). The fund holds both monetary and non-monetary assets denominated in currencies other than GBP. The Fund's currency rate risk is routinely monitored by the Fund and its investment advisers in accordance with the fund's risk management strategy, including monitoring the range of exposure to currency fluctuations.

**Currency Risk - Sensitivity Analysis**

Having consulted with the Fund's independent investment advisers, the Fund considers the likely volatility associated with foreign exchange rate movements will range between 7% and 13%. For prudence, the Fund has applied a 13% fluctuation (as measured by one standard deviation) based on the adviser's analysis of long-term historical movements in the month end exchange rates over a rolling 12 month period. This analysis assumes that all other variables, in particular interest rates, remain constant.

The following table exemplifies, by Fund Manager, to what extent a 13% strengthening/ weakening of the pound, against the various currencies in which the fund holds investments, would increase/ decrease the net assets available to pay benefits ( a prior year comparator is also provided) :

Manager	Currency exposure by asset type	Level of unhedged exposure	Total Volatility	Asset value at 31	Value on	Value on
				March 13	increase	decrease
				£000	£000	£000
Alliance Bernstein	Broad Bonds	0%	0%	301,217	301,217	301,217
Barings	DAA	20%	3%	390,795	402,519	379,071
BlackRock	UK Equity	0%	0%	323,405	323,405	323,405
BlackRock	Global Equity	90%	12%	480,022	537,625	422,419
CBRE	Global Property	15%	2%	131,399	134,027	128,771
RLAM	UK Index Linked Gilts	0%	0%	410,967	410,967	410,967
Other	UK Equity	0%	0%	99	99	99
	Loans	0%	0%	408	408	408
	Cash	0%	0%	34,973	34,973	34,973
	Net derivative assets	0%	0%	1,755	1,755	1,755
	Net investment balances	0%	0%	7,329	7,329	7,329
<b>Total change in net investment assets available</b>				<b>2,082,369</b>	<b>2,154,324</b>	<b>2,010,414</b>

Manager	Currency exposure by asset type	Level of unhedged exposure	Total Volatility	Asset value at 31	Value on	Value on
				March 12	increase	decrease
				£000	£000	£000
Alliance Bernstein	Broad Bonds & PPIP	0%	0%	285,557	285,557	285,557
Barings	DAA	20%	3%	129,406	133,288	125,524
BlackRock	Global Equity	0%	0%	508,849	508,849	508,849
CBRE	Global Property	10%	1%	116,888	118,057	115,719
Edinburgh Ptns	Global Equity	100%	13%	403,103	455,506	350,700
RLAM	Global Linked Gilts	0%	0%	367,949	367,949	367,949
Other	UK Equity	0%	0%	179	179	179
	Loans	0%	0%	425	425	425
	Cash	0%	0%	60,657	60,657	60,657
	Net derivative assets	0%	0%	3,597	3,597	3,597
	Net investment balances	0%	0%	12,777	12,777	12,777
<b>Total change in net investment assets available</b>				<b>1,889,387</b>	<b>1,946,841</b>	<b>1,831,933</b>

## ii. CREDIT RISK

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the fund's financial assets and liabilities.

The Fund's entire investment portfolio (except derivatives) is exposed to some form of credit risk. The Fund minimises credit risk by undertaking transactions with a large number of high quality counterparties, brokers and institutions.

Fund managers adopt procedures to reduce credit risk related to its dealings with counterparties on behalf of its clients. Before transacting with any counterparty, the Manager evaluates both credit worthiness and reputation by conducting a credit analysis of the party, their business and reputation. The credit risk of approved counterparties is then monitored on an ongoing basis, including periodic reviews of financial statements and interim financial reports as required.

The Pension Fund has sole responsibility for the initial and ongoing appointment of custodians. Uninvested 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 Fund are held in a segregated client account. As at 31 March 2013, this level of exposure to the custodian is only 0.7% of the total value of the portfolio.

Surplus cash is invested by Durham County Council only with financial institutions which meet identified minimum credit criteria, in accordance with the Fitch, Moody's and Standard & Poors' Credit Ratings Services. The Annual Investment Strategy sets out the maximum amounts and time limits in respect of deposits placed with each financial institution; deposits are not made unless they meet the minimum requirements of the investment criteria.

The Fund believes it has managed its exposure to credit risk. No credit limits were exceeded during the reporting period and the Fund does not expect any losses from non-performance by any of its counterparties in relation to deposits.

The cash holding under its treasury management arrangements at 31 March 2013 was £21.39m (£25.37m at 31 March 2012). This was held with the following institutions:

	Rating	Balances	Rating	Balances
		as at 31 March 2013		as at 31 March 2012
		£000		£000
<b>Bank Deposit Accounts</b>				
Bank of Scotland	A	11,631	A	0
Barclays	A	4,846		
The Co-operative Bank	BBB-	455	A-	889
Natwest Bank	A	2,326	A	7,201
Santander UK Plc			A+	1,800
<b>Fixed Term Deposits</b>				
Barclays			A	1,260
Bank of Scotland			A	9,000
Nationwide Building Society			A+	2,700
Natwest Bank	A	1,939	A	1,800
UK Local Authorities			N/A	540
<b>Income Bond</b>				
National Savings & Investments	N/A	194	N/A	180
<b>Total</b>		<b>21,391</b>		<b>25,370</b>

### iii. LIQUIDITY RISK

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. Steps are taken to ensure that the Fund has adequate cash resources to meet its commitments. Management prepares quarterly cash flow forecasts to understand and manage the timing of the Fund's cash flows. The appropriate strategic level of cash balances to be held forms part of the fund investment strategy and rebalancing policy.

The vast majority of the 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 Fund.

Durham County Council, as administering authority, invests the cash balances of the Fund in line with its Treasury Management Policy and as agreed by the Pension Fund Committee. The Council manages its liquidity position to ensure that cash is available when needed, through the risk management procedures set

out in the prudential indicators and treasury and investment strategy reports, and through a comprehensive cash flow management system.

Regulation 5 of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, gives Durham County Council a limited power to borrow on behalf of the Pension Fund for up to 90 days. The Council has ready access to borrowings from the money markets to cover any day to day cash flow need. This facility is only used to meet timing differences on pension payments and as they are of a short-term nature, exposure to credit risk is considered negligible.

## 18. Analysis of Debtors

2011-12 £000		2012-13 £000
928	Central government bodies	1,680
5,767	Other local authorities	5,649
0	NHS bodies	0
0	Public corporations and trading funds	0
30,586	Other entities and individuals	48,746
<u>37,281</u>	<b>Total debtors</b>	<u>56,075</u>
	<b>Included in the Net Assets Statement as:</b>	
29,176	Other Investment Balances	47,210
8,105	Current Assets	8,865
<u>37,281</u>		<u>56,075</u>

Of the £56.075m, £54.617m is repayable within 12 months after the year end; the remaining £1.458m falls due after 12 months.

## 19. Analysis of Creditors

2011-12 £000		2012-13 £000
-663	Central government bodies	-41,929
-1,404	Other local authorities	0
0	NHS bodies	0
0	Public corporations and trading funds	0
-22,938	Other entities and individuals	-3,630
<u>-25,005</u>	<b>Total creditors</b>	<u>-45,559</u>
	<b>Included in the Net Assets Statement as:</b>	
-16,399	Other Investment Liability Balances	-39,881
-8,606	Current Liabilities	-5,678
<u>-25,005</u>		<u>-45,559</u>

All of the £45.559m is expected to be paid by the Pension Fund within 12 months after the year end.

## 20. Additional Voluntary Contributions (AVCs)

AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. The Pension Fund offers two types of AVC arrangement:

- ❖ Purchase of additional pension, which is invested as an integral part of the Fund's assets;
- ❖ Money purchase scheme, managed separately by HECM, Standard Life and Prudential. AVCs may be invested in a range of different funds.

The table below refers only to the money purchase AVCs:

	Value at 31 March 2012	* Purchases	Sales	Change in Market Value	Value at 31 March 2013
	£000	£000	£000	£000	£000
HECM	2,265	44	210	134	2,233
Prudential **	2,605				
Standard Life	1,220	58	70	131	1,339
<b>Total</b>	<b>6,090</b>	<b>102</b>	<b>280</b>	<b>265</b>	<b>3,572</b>

\* Purchases represent the amounts paid to AVC providers in 2012/13.

\*\* To date the Prudential has not been able to supply the Fund with their figures for purchases, sales and change in market value for 2012/13 due to problems encountered with the implementation of their new computer system. The figures for the Prudential in the table above are therefore incomplete.

The financial information relating to money purchase AVCs, as set out above, is not audited by the Fund's External Auditors as it is not included in the 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) Regulations 2009.

## 21. Related Party Transactions

Related parties are bodies or individuals that have the potential to control or influence the Pension Fund or to be controlled or influenced by the Pension Fund. Influence in this context is expressed in terms of a party:

- ❖ being potentially inhibited from pursuing at all times its own separate interests by virtue of the influence over its financial and operating policies; or
- ❖ actually subordinating its separate interests in relation to a particular transaction.

Related parties of the Pension Fund fall into three categories:

- a) Employer related
- b) Member related
- c) Key management personnel

### a) EMPLOYER RELATED

There is a close relationship between an employer and the Pension Fund set up for its employees and therefore each participating employer is considered a related party.

The following table details the nature of related party relationships.

Transaction	Description of the Financial Effect	Amount	
		2011/12	2012/13
Contributions receivable	Amounts received from employers in respect of contributions to the Pension Fund	£96.448m	£93.884m
Debtors	Amounts due in respect of employers and employee contributions	£5.568m	£7.891m
Creditors	Amounts due to the Administering Authority in respect of administration expenses	£1.032m	£1.343m
Administration Expenses	The administration of the Pension Fund is undertaken by officers of the County Council. The Council incurred the following costs, including staff time, which have been subsequently reimbursed by the Fund	£1.032m	£1.343m
Long term loans	The Pension Fund made loans to Durham County Council prior to January 1974 which earn interest of between 5.75% and 9.875% pa of the outstanding balance, in addition to capital repayments	Loans outstanding £0.283m	Loans outstanding £0.272m
Investment Income	Part of the Pension Fund's cash holding is invested in the money markets by Durham County Council. The average surplus cash balance and interest earned were:	Balance = £19.535m Interest = £0.187m	Balance= £20.395m Interest = £0.303m

**b) MEMBER RELATED**

Member related parties include:

- ❖ Member and their close families or households
- ❖ Companies and businesses controlled by the Members and their close families which have a financial contractual relationship with any of the organisations that contract with the Pension Fund.

Durham County Council and Darlington Borough Council have a number of members who are on the Pension Fund Committee. These members are subjected to a declaration of interest circulation as with all Durham County Council members. Each member of the pension fund committee is also required to declare their interests at the start of each meeting. There were no material related party transactions between any members or their families and the Pension Fund.

There are 3 members of the pension fund committee who are in receipt of pension benefits from Durham County Council Pension Fund; a further 4 members are active members of the Pension Fund.

**c) KEY MANAGEMENT PERSONNEL**

Related parties in this category include:

- ❖ Key management i.e. Senior officers and their close families
- ❖ Companies and businesses controlled by the key management of the Pension Fund or their close families.

Disclosure requirements for officer remuneration and members allowances can be found in the main accounts of Durham County Council.

There were no material related party transactions between any officers or their families and the Pension Fund.



## 22. Contingent Assets

### a) PENSION CONTRIBUTIONS ON EQUAL PAY PAYMENTS

Originally equal pay settlements were not deemed to be pensionable however, this has now changed and an element of choice has been introduced. Individuals can choose to have their settlements considered to be pensionable. This provision has now been added to the agreements that individuals with pending equal pay settlements sign.

There is no certainty that an individual will pay pension contributions on their Equal Pay settlement. The agreements signed by individuals are 'open-ended' in that an individual's ability to determine their settlement as 'pensionable' is not time limited, so the timing of any liability to pay contributions are not certain. The level of contributions likely to be received by the Pension Fund, are unlikely to have a material effect on the Pension Fund accounts.

### b) FOREIGN INCOME DIVIDENDS (FIDs)

The Pension Fund is involved in claims for tax reclaims due to EC Legislation. The outcome of the Court cases will determine the reclaim of taxes, neither the amount of income nor the timing of the income is certain.

Up until 1 July 1997 UK Pension Funds were entitled, under UK tax law, to reclaim tax credits attaching to dividends received from UK resident companies. However, Pension Funds which received dividends designated by UK companies as FIDs, or dividends received from overseas companies, were not entitled to a refundable tax credit. Since UK sourced dividends came with a 20 percent tax credit, the net investment income return from UK companies paying such dividends was significantly higher than UK companies paying FIDs or from overseas companies, for which no credit was available. As a result there was a disincentive for Pension Funds to invest in such companies.

The UK tax law which gave rise to these consequences was arguably contrary to EU law, notably Article 56EC, in that it treated UK Pension Funds investing directly into overseas companies, or UK companies paying FIDs, less favourably than UK companies paying ordinary dividends.

The legal arguments to support the strongest element of the FID and Manninen type claims (for EU sourced dividends and FIDs) are considered to be very good. The points in issue are currently being considered at the High Court via a Group Litigation Order containing over 65 UK Pension Funds, including Durham County Council Pension Fund.

### c) WITHHOLDING TAX (WHT) CLAIMS

Pension funds, investment funds and other tax exempt bodies across Europe have in recent years been pursuing claims against a number of EU Member States for the recovery of withholding taxes suffered on EU sourced dividend income. These claims were made in the light of the Fokus Bank (Case E-1/04) ruling in December 2004 on the grounds that the WHT rules of those Member States are in breach of the free movement of capital principle of the EC Treaty. The legal arguments used to support Fokus claims are strong and rely on existing case law. The EU Commission announced that it is taking action against a number of member states which operate discriminatory rules regarding the taxation of outbound dividends.

A test case in the Netherlands on behalf of a number of UK pension funds was successful and in January 2009 notification from the Dutch Tax Authorities was received that the claims brought by the test claimant for the recovery of withholding taxes going back to 2003 had been accepted and would be repaid in the near future. Following the ruling in the Netherlands which essentially states that the Dutch tax authorities should not have levied a "withholding tax" (WHT) on dividend payments to tax exempt bodies (such as UK pension funds) located within the European Union but outside the Netherlands, a similar process for reclaiming WHT in other EU Member States is now on-going.

It is likely that now a precedent for the change in WHT has been set by the Netherlands, and that other states have reduced the level of WHT of non-residents, recovery is probable.

## 23. Funding Arrangements

In line with the LGPS (Administration) Regulations 2008, the Fund's actuary undertakes a funding valuation every 3 years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last full valuation took place as at 31 March 2010. The next one will take place as at 31 March 2013.

The key elements of the funding policy are to:

- ensure the long term solvency of the fund, i.e. that sufficient funds are available to meet all pension liabilities as they fall due for payment;
- ensure that employer contribution rates are as stable as possible;
- minimise the long term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return;
- reflect the different characteristics of employing bodies in determining contribution rates where the administering authority considers it reasonable to do so;
- use reasonable measures to reduce the risk to other employers and ultimately the taxpayer from an employer defaulting on its pension obligations.

The aim is to achieve 100% solvency over a period of 19 years and to provide stability in employer contribution rates by spreading any increases in rates over a period of time. At the 31 March 2010 actuarial valuation, the Fund was assessed as being 80% funded (79% at 31 March 2007).

The required level of contributions to be paid into the Fund by participating bodies (in aggregate) with effect from 1 April 2011 was 13.1% of pensionable pay plus additional monetary amounts of £29.1m in 2011/12 and £28.4m in 2012/13 and £29.9m in 2013/14, increasing broadly by 5.3% p.a. thereafter.

The actuarial valuation of the Fund has been undertaken using the projected unit method for most participating bodies, whereby the salary increase for each member is assumed to increase until they leave active service. The principal assumptions made by the actuary when assessing the funding target and contribution rates are as follows:

Discount rate for periods in service	
Scheduled Bodies	6.80% p.a.
Admission Bodies	6.25% p.a.
Discount rate for periods after leaving service	
Scheduled Bodies	6.80% p.a.
Admission Bodies	4.75% p.a.
Rate of pay increases	5.3% p.a.
Rate of increases in pensions in payment (in excess of guaranteed minimum pension)	3.3% p.a.

## 24. Actuarial Present Value of Promised Retirement Benefits

The actual present value of promised retirement benefits (or defined benefit obligation) is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards. As permitted under IAS 26 the Pension Fund has opted to disclose the actuarial present value of promised retirement benefits by way of this note to the accounts. The Fund Accounts do not take account of liabilities to pay pensions and other benefits in the future.

The following table provides the actuarial present value of the promised retirement benefits in the Fund at the last valuation date i.e. 31 March 2010. The corresponding fair value of fund assets is also shown in order to illustrate the level of surplus or deficit within the Fund when the liabilities are valued using IAS 19 assumptions. For comparison purposes information from the previous triennial valuation is also provided.

	Value as at 31-Mar-10 £m	Value as at 31-Mar-07 £m
Fair value of net assets	1,682	1,459
Actuarial present value of the promised retirement benefits	2,833	2,172
Surplus / -deficit in the Fund as measured for IAS26 purposes	-1,151	-713

### Assumptions

The principal assumptions used by the Fund's independent qualified actuaries were:

#### Financial Assumptions

	31-Mar-10 (% p.a.)	31-Mar-07 (% p.a.)
Discount rate	5.5	5.3
RPI Inflation	3.9	3.2
CPI Inflation	3	N/A
Rate of increase to pensions in payment*	3.9	3.2
Rate of increase to deferred pensions*	3.9	3.2
Rate of general increase in salaries **	5.4	4.7

\* In excess of Guaranteed Minimum Pension increases in payment where appropriate

\*\* In addition, we have allowed for the same age related promotional salary scales as set out in the 2010 Valuation Report for 31 March 2010 measurement date and as set out in the 2007 Valuation Report for 31 March 2007 measurement date.

#### Commutation Assumption

31 March 2010	31 March 2007
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.

**Demographic Assumptions**

<b>Post retirement mortality</b>	<b>31 March 2010</b>	<b>31 March 2007</b>
<b>Males</b>		
Base table	Standard SAPS Normal Health All Amounts (S1NMA)	Standard tables PNMA00 making allowance for improvements in mortality in line with the Medium Cohort factors to 2007
Scaling to above base table rates **	105%	125%
Allowance for future improvements	In line with CMI 2009 with long term improvement of 1.25% p.a.	In line with Medium Cohort improvements with an underpin to the improvements of 1.0% p.a.
Future lifetime from age 65 (currently aged 65)	21.7	20.2
Future lifetime from age 65 (currently aged 45)	23.6	22.1
<b>Females</b>		
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

## 25. Statement of Investment Principles

In accordance with the Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2009, the Council has prepared and reviewed a written statement of the investment policy of the Pension Fund. This statement has been adopted by the Pension Fund Committee and is published in the Durham County Council Pension Fund Annual Report, a copy of which is available on the Council's website at [durham.gov.uk](http://durham.gov.uk)

## 26. Funding Strategy Statement

The Local Government Pension Scheme (England and Wales) (Amendment) Regulations 2004 require Administering Authorities to prepare a Funding Strategy Statement. The Funding Strategy Statement was published in March 2005 and has been reviewed by the Pension Fund Committee during 2012/13. As a minimum it must be revised whenever there is a material policy change in matters set out in the Funding Strategy Statement or the Statement of Investment Principles. The Funding Strategy Statement has been adopted by the Pension Fund Committee and is published in the Durham County Council Pension Fund Annual Report, a copy of which is available on the Council's website at [durham.gov.uk](http://durham.gov.uk)

## 27. Prior Period Adjustment

The Public-Private Investment Plan (PPIP), an unquoted pooled investment vehicle managed by Alliance Bernstein, was incorrectly classified in the 2011/12 accounts as Managed Funds - Non Property- UK Unquoted, rather than Managed Funds - Non Property- Overseas Unquoted. The market value of this investment was £26.087m at 31 March 2012. The Aquila Life World Fund, managed by Blackrock, was also incorrectly classified in the 2011/12 accounts as Managed Funds - Non Property- UK Unquoted, rather than Managed Funds - Non Property - Overseas Unquoted. The market value was £123.263m at 31 March 2012.

These have been re-classified in the comparator figures for 2011/12 in Note 15 of these accounts.

## The Council's Responsibilities

The Council is required to:

- ❖ make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. For the 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 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 Council as at 31 March 2013 and its expenditure and income for the year ended 31 March 2013.

Don McLure

Corporate Director, Resources

28 June 2013

## Annual Governance Statement 2012/13

### 1. SCOPE OF RESPONSIBILITY

Durham County Council (the Council) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

The Council has approved, adopted and published on its website, a code of corporate governance, which is consistent with the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA)/ Society of Local Authority Chief Executives (SOLACE) Framework – “Delivering Good Governance in Local Government”. This statement explains how the Council has complied with the code and also meets the requirements of Regulation 4 (3) of the Accounts and Audit (England) Regulations 2011 in relation to the publication of an Annual Governance Statement.

### 2. THE PURPOSE OF THE GOVERNANCE FRAMEWORK

The governance framework comprises of the systems and processes, and culture and values, by which the Council is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services for the people of County Durham.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at the Council for the year ended 31 March 2013 and up to the date of approval of the statement of accounts.

### 3. THE GOVERNANCE FRAMEWORK

The key elements of the systems and processes that comprise the Council's governance arrangements are detailed in the Council's local Code of Corporate Governance, which is documented in the Council's [Constitution](#). This sets out the key documents and processes that determine the way the Council is directed and controlled to meet the six core principles of the CIPFA/ SOLACE Framework. The following sections demonstrate assurance that the Council has complied with each of these principles in practice, and also highlights where we have further improved our corporate governance arrangements during 2012/13.

#### **Principle 1: Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area**

The [Sustainable Community Strategy 2010-30](#) (SCS) which has been produced by the Council in conjunction with its partners on the County Durham Partnership (CDP), demonstrates its shared long-term vision for the future of County Durham. This vision for County Durham, namely 'Altogether Better Durham' outlines two areas of focus – **Altogether Better Place** and **Altogether Better for People** and five priority themes, which represent the major issues identified by residents:

- Altogether wealthier;
- Altogether better for children and young people;
- Altogether healthier;
- Altogether greener;
- Altogether safer.

The SCS is renewed every three years and the current review is due for completion in September 2013.

The CDP, which is the strategic partnership for the County, is made up of key public, private and voluntary sector partners, and is underpinned by thematic partnerships set around the five priority themes. Operationally, it is supported by the Delivery and Improvement Group (DIG), whose role is to monitor performance towards implementing the SCS, and consider strategically how plans align and where efficiencies and value can be maximised through integration, shared services and joint commissioning.

The [Council Plan](#) contains the Council's corporate priorities and the key actions to take in support of delivering the longer term goals in the SCS and the Council's own improvement agenda. The Council Plan is supported by a series of Service Plans at a Service Grouping level which detail the planned actions to deliver the Council's vision. Plans developed in partnership are also in place to deliver the goals of the SCS, such as the Joint Strategic Needs Assessment and Joint Health and Wellbeing Strategy.

The Council Plan and the [Medium Term Financial Plan 2013 - 2017](#) (MTFP) enable the Council to make best use of resources, and enable the continued provision of value for money (VFM) services that meet the needs of residents, businesses and other stakeholders. Cabinet approved a report in July 2012 detailing the planning frameworks and timetable that enabled the Council to develop the 2013/14 Budget, the 2013/14 – 2016/17 MTFP, the Council Plan and Service Plans. A comprehensive schedule of savings targets have been programmed to achieve the necessary savings to enable us to deliver a balanced budget and MTFP. Assurance over the delivery of this programme is gained by detailed and frequent monitoring undertaken by Corporate Management Team (CMT) and Cabinet and the target savings of £26.6m for 2012/13 have been delivered. Moreover, a programme management approach to the changes introduced by the Welfare Reform Act has been put in place involving key actions such as the introduction of a local Welfare Assistance Scheme, a new policy for Discretionary Housing Payments and the development of systems and performance indicators to enable the Welfare Reform Steering Group to monitor and report on the impacts of the reforms.

A programme management approach for key corporate projects has been established and embedded including project management training across the Council. Assurance that the Council is effectively managing major change is demonstrated by the transfer of public health responsibilities, resulting from the Health and Social Care Act 2012, which was completed on 31 March 2013. A programme management approach was adopted, with monitoring by Corporate Management Team, the NHS Transition Project Board, Shadow Health and Wellbeing Board, Cabinet, Overview and Scrutiny Committees and the County Durham Partnership Board. This ensured that the transition was successfully completed.

Numerous reviews have been undertaken across the Council to provide assurance that VFM services are being provided and key examples include:

- Day Services;
- Adult Social Care Services, as part of the LGA efficiency programme;
- Twin Bins / Alternate Weekly Collections;
- Centralisation of HR and Finance functions;
- Stock options appraisal and agreed strategy for rationalisation of management and support across the providers.



Senior Management Teams have used benchmarking data from statutory returns, such as budget statements collected by the Department for Education and the Personal Social Services Expenditure Return, to inform programmes of VFM reviews and savings options in various service areas. Where necessary, this has been supplemented by data from commercial benchmarking clubs, such as CIPFA, to facilitate meaningful comparisons with other organisations. Independent assurance of our VFM was also gained from the Audit Commission, who issued an unqualified VFM conclusion in 2011/12.

To enable better use of resources, the Council has further strengthened its governance arrangements by:

- Centralising the Council's finance and human resources functions;
- Merging Children and Young Peoples Services and Adults Wellbeing and Health into one integrated service from August 2012;
- Developing a new model of service delivery for the Health and Safety function;
- Implementing a new approach to Community Buildings Grant Aid, including the allocation process, criteria and administration for 2013/14 applications;
- Developing Financial Management Standards, which underpin the high level arrangements set out in the Council's Financial Procedures Rules in the Constitution.

To measure the quality of services, the Council has a locally led performance management framework. Detailed [reports](#) on the Council's performance have been provided to Cabinet on a quarterly basis, and assurance is also gained through performance clinics between the Chief Executive and individual Directors during the year. Through good governance, the Council continues to improve the quality of services, and this has been confirmed by external independent sources of assurance. For example, during July 2012 the Council was the subject of a [Peer Review](#) by the Local Government Association, the purpose of which was to:

- measure our progress since reorganisation in April 2009;
- report on progress to local residents and the Government;
- provide a useful external challenge to our vision and direction of travel;
- access learning and ideas from other areas.

The key findings of the [Peer Review](#) were:

- The Council has strong political leadership, with a clear vision for the future and has provided a clear political steer on the future 'Altogether Better' vision and direction for the Council and its partners. The Council needs to work on an ongoing basis to ensure that the vision is consistently translated through to Officers, Members and communities;
- The Council has a clear MTFP and delivery of savings and associated risks are being well managed;
- The Council has undertaken an extensive programme to bring together services in a coherent way, whilst also taking opportunities to join up some services and make financial savings;
- The organisational culture of the Council is open, transparent and generally positive, even in light of the impact of national public sector funding reductions;
- The Council is well regarded by external partner agencies.

Further independent assurance of the Council's financial management was provided by the Audit Commission in both their Annual Governance Report and Certification of Claims and Returns Annual Report. Governance reviews are also led by Services, such as the quality assurance team in Children and Adults Services.

Members have robustly scrutinised the performance of the Council, demonstrated by a number of key scrutiny reviews of Council services during 2012/13, which are outlined in the [Overview and Scrutiny Annual Report](#).

The Council considers the governance implications of its actions, and revised its Code of Corporate Governance in January 2013 to ensure that it remains consistent with the principles of the CIPFA/SOLACE Framework – “Delivering Good Governance in Local Government”.

**Principle 2: Members and officers working together to achieve a common purpose with clearly defined functions and roles**

The key document describing the roles and responsibilities of Member and Senior Officer posts and functions is the Council [Constitution](#).

Members and Officers work together on the workload of the Cabinet which is managed through a system of Cabinet pre-agenda meetings. To support this, Corporate Directors have held regular briefing sessions with Cabinet Portfolio Members and their support Members. For example, a number of informal sessions took place throughout the MTFP planning process to ensure CMT and Cabinet have a shared understanding of the complexities in the MTFP process, and all Opposition parties were briefed during the development of the MTFP. Other examples of Members and Officers working together include monthly meetings of the Capital Member/Officer Working Group and six-monthly updates on disposals of surplus property. Improvements during the year to strengthen our governance arrangements include a revised Code of Conduct for Members and a revised Code of Practice for Members and Officers dealing with Planning Matters.

Member remuneration is overseen by an independent panel, and their report was approved by Council on in February 2013.

The Council has appointed the Corporate Director, Resources as Chief Financial Officer and Section 151 Officer to fulfil the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010). The Chief Financial Officer, who is a member of the CMT and reports directly to the Chief Executive, has been involved in all CMT discussions, and has reviewed all reports to Cabinet which have financial implications. The Chief Financial Officer has also provided an opinion under section 25 of the Local Government Act 2003 on the reserves for the Council, which Members considered when setting the budget.

The Council’s self-assessment against the principles of the CIPFA Statement on the Role of Head of Internal Audit illustrates a high degree of compliance. Areas for improvement primarily relate to improving assurance on programme and project risks. New Public Sector Internal Audit Standards were introduced in April 2013 and an initial assessment of compliance, and a review of the Internal Audit strategy, will be undertaken in 2013/14 as part of the annual review of effectiveness.

**Principle 3: Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour**

The key elements of the Council’s approach to communicating and embedding the expected standards of behaviour for Members and staff are detailed in the Council [Constitution](#). This includes the Code of Conduct for Members, which was revised in 2012/13. The Council’s Codes of Conduct included in the Constitution also apply to its partnership working.

The Standards Committee has the key governance role of promoting and monitoring high standards of conduct by elected Members, independent Members and co-opted Members. The Localism Act 2011 abolished the standards board regime and introduced a new duty to promote and maintain high standards of conduct. A new ethical framework was adopted in July 2012, and consequently, an Annual Report was not produced in 2012, the last [Standards Committee Annual Report](#) being presented to the Full Council in October 2011.

We have also reviewed and updated other key governance documents to ensure our values are followed in practice, such as the Contract Procedure Rules.

In terms of disclosure of gifts, hospitality and interests, assurance is gained over Member declarations and registrations by the Monitoring Officer maintaining and monitoring the Register of Gifts, Interests and

Hospitality for Members, which is available online. Staff declarations are maintained and monitored by their Head of Service. The Monitoring Officer issued a formal reminder during the year to Corporate Directors about their responsibilities in relation to gifts and hospitality.

A climate of openness has been encouraged by the Council Leader who holds regular Cabinet meetings at various locations throughout County Durham. The values of the Council are further promoted in the Single Equality Scheme which includes 'protected characteristics' covered by the Equality Act. Supporting this scheme is an impact assessments process, which ensures that the impact on equality is considered in the Council's decision making. For example, in 2012/13, the MTFP was fully equality impact assessed. Our commitment is further demonstrated by equality impact assessment training, which has been attended by nearly 200 people, and equality sessions provided for Area Action Partnership Co-ordinators during 2012/13. A schedule of impact assessments is monitored through the Equality, Diversity and Cohesion Working Group.

To improve fraud awareness across the Council, training was rolled out to all tier 5 managers and above. Fraud risks have been reassessed, to confirm that they are in line with the recommendations of both the 'Fighting Fraud Locally' and 'Protecting the Public Purpose' guidance.

Examples of further improvements that demonstrate the Council upholding high standards of conduct and behaviour include implementing a Policy and Code of Practice on the use of CCTV across the Council, and improving the quality of applications and authorisations made under the Regulation of Investigatory Powers Act through a programme of formal training and the provision of associated templates.

#### **Principle 4: Taking informed and transparent decisions which are subject to effective scrutiny and managing risk**

The Council's [Constitution](#) sets out how the Council operates, how decisions are made and the procedures followed to ensure that these are effective, transparent and accountable to local people. This includes the Officer Scheme of Delegation, which is reviewed annually in line with the review of the Constitution. A revised Constitution was approved by the full Council in March 2013, having been reviewed by an all-party group, namely the Constitution Working Group. Key changes to the Constitution in 2012/13 reflect:

- The restructure of CMT resulting from the merger of Children and Young Peoples Services and Adults Wellbeing and Health into one integrated service from August 2012;
- Revised roles and responsibilities for the Standards Committee following the changes introduced by the Localism Act 2011;
- A revised Code of Conduct for Members;
- Establishment of the Police and Crime Panel following the new arrangements for policing and police accountability introduced by the Police Reform and Social Responsibility Act 2011;
- Changes introduced by The Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012. This included the Officer Delegation Scheme, Access to Information Procedure Rules, Executive Procedure Rules, and Overview and Scrutiny Procedure Rules;
- Amendments to the delegations to the Corporate Director, Resources to factor in changes under the Welfare Reform Act 2012 and Local Government Finance Act 2012, and to the delegations for the Director of Public Health;
- A revised Code of Practice for Members and Officers dealing with Planning Matters.

Overview and Scrutiny, which consists of an Overview and Scrutiny Management Board and six committees, has the key role to make decision-making processes transparent, accountable and inclusive and to improve services for people by being responsive to their needs. To maintain independent assurance, the Council refreshed co-opted members to the Council's Overview and Scrutiny Committees in 2012. Due to the timing of the 2013 local elections, the next refresh will be done in early 2014. Where appropriate, Members have scrutinised the decisions of the Council, demonstrated by a number of key reviews which are outlined in the [Overview and Scrutiny Annual Report](#). They also contributed to a number of consultations and policy development areas, such as the draft County Durham Climate Change Strategy and Community Infrastructure. Further assurance on the effectiveness of the Overview and Scrutiny function was provided by

the Peer Review, which concluded that it is making a useful contribution through influencing policy development in areas related to the Council Plan.

A Police and Crime Panel was established under the Police and Social Responsibility Act 2011, and agreed its panel arrangements, terms of reference and joint working arrangements with Overview and Scrutiny functions at Durham County Council and Darlington Borough Council. All Council panel members have received induction training and personal development plans.

A [Health and Wellbeing Board](#) was established following the transfer of public health responsibilities to the Council in April 2013.

To maintain the accountability and integrity of the Council's decision-making, a number of further improvements to governance in this area have been implemented in 2012/13. For example,

- Non-executive members received training to enable them to input into performance setting MTFP and budget planning;
- A revised Powers of Delegated Authority Schedule, and a revised Policy and Procedural Frameworks were implemented following the Council assuming public health responsibilities, and the merger of Children and Young Peoples Services and Adults, Wellbeing and Health Service;
- Improving records management by updating records retention schedules, identifying Records Champions, and developing Secure Handling of Paper Records in Transit Policy;
- Improving handling of responses to requests for information under the Freedom of Information Act, Environmental Information Regulations and subject access requests made under the Data Protection Act;
- Implementing a revised Data Quality Policy, corporate data protection training and signing up to the Information Commissioner's Office's information promise. and
- Implementing a revised database of policies and procedures, accessible via the Intranet.

The Council's decision-making processes are also supported by,

- A risk management strategy and policy;
- An Audit Committee with responsibility for monitoring and reviewing the risk, control and governance processes and associated assurance processes;
- The Council ensuring that it complies with legal requirements in its decision making by ensuring that all reports requiring a decision include the legal implications, report authors confirming that they have obtained legal advice on proposals contained in reports, and the source of that legal advice.

The key mechanism provided for employees, and contractors and suppliers providing services for the Council, to raise concerns about potential breaches of conduct in decision-making is the Confidential Reporting Code (Whistle blowing policy), which is part of the Council's Constitution, and is monitored by the Audit Committee.

#### **Principle 5: Developing the capacity and capability of Members and Officers to be effective**

The Council is committed to continually reviewing the development needs of Members and Officers.

Our approach to Member development is outlined in the Member Learning and Development Strategy, which was reviewed in October 2012. This was developed through undertaking Personal Development reviews with Elected Members in order to identify individual and group learning interventions, and incorporated the planning and delivery of a large scale induction for the new Electorate in May 2013. All these activities were further informed during 2012/13 by the active Officer/Member Elected Member Development Group who promote the participation and development of all Elected Members in the Council. Assurance on the effectiveness of our approach to Member development is demonstrated by the Council being awarded the North East Charter on Member Development in May 2011, with the next re-assessment due in 2014.

Further interventions to develop the capacity of officers to enable them to deliver upon the Council's key objectives have included an Employee Support Programme and development programmes for managers being established to enable them to support employees and the Council through the major restructuring process associated with the MTFP outcomes. Key improvements in place to further develop officer capability and capacity include:

- A full review of the Appraisal process, and actions undertaken to improve appraisal completion rates;
- Implementation of the "The Durham Manager" development programme, aimed at the Extended Management Team of the Council, that commenced in December 2012 and will reach over 450 key managers;
- Implementation of an Attendance Management framework to support managers improve attendance at work;
- Improvements in workforce data management and production to further inform strategic workforce development planning.

Assurance on the effectiveness of our approach to developing the capability and capacity of officers is demonstrated by the Council maintaining the Investor in People Standard, with re-accreditation due in 2014. Additional assurance was also gained from the Peer Review, which concluded that staff generally perceive middle managers to be in touch with operational service issues.

#### **Principle 6: Engaging with local people and other stakeholders to ensure robust public accountability**

As the strategic partnership for the County, the County Durham Partnership (CDP) is the lead umbrella partnership for most other partnerships in County Durham, and the Leader of the Council is the chair of the CDP. The Council's relationships with partners are managed through the Partnership Governance Framework.

The Council's approach to engaging stakeholders is outlined in the Consultation and Engagement Strategy. This is complemented by the County Durham Partnership Community Engagement and Empowerment framework, which has shaped and supported a common vision and approach for community engagement by partners in County Durham, and the County Durham Compact, which provides a framework for partnership and engagement with the voluntary and community sector. Key examples of, and improvements in, our engagement with stakeholders during the year include:

- An interim update to the Consultation and Engagement Strategy to comply with legislation, and training to equip staff with the necessary skills to undertake consultation exercises effectively;
- Stakeholders being involved in the development of the MTFP, demonstrated by undertaking a detailed consultation process which can be found in the [County Council's MTFP and Budget Report](#). One of the aims of the 2012 consultation was to gauge the public's view on how the Council has managed the austerity savings and which areas should be considered in future. A two-phase consultation exercise was an integral part of the MTFP development plan;
- Carried out a number of satisfaction surveys on frontline services, both on a quarterly and annual basis;
- Undertook significant consultation exercises for over 60 projects, including Household Waste Recycling Centres, Twin Bins, Library Strategy, Digital Durham, and the Local Council Tax Support Scheme, and surveys such as the Children and Young Peoples Survey;
- A high level approach to localities, covering delivery, engagement and statistical reporting has been agreed through County Durham Partnership.
- Established the Voluntary and Community Sector (VCS) Working Group, led by the Council with representatives from the VCS, to establish arrangements to support front line Third Sector organisations in County Durham;



- Established a Local Councils Working Group and held an event in October 2012 to build closer working relationships in relation to new and developing areas of work;
- Launched the 'Disabled Go' website, which provides information to the public on access to over 1,000 venues;
- Introduced the first corporate staff awards scheme in December 2012, and the re-launch of the New Era website, which provides a monthly policy and news round-up from the Chief Executive to all staff;
- The Community Building team enhancing support, including a buddy programme, to a range of partners and external organisations.

The Council has a strong commitment to working with partners to meet the needs of its communities. There are 14 Area Action Partnerships (AAP) in place across the County, who are each governed by a board comprising members of the public, partner organisations and elected Councillors. These are multi-agency partnerships who are fully engaged with the community in identifying and resolving local priorities, and utilise locality budgets to drive improvements to service quality. A number of AAPs have encouraged greater stakeholder engagement by holding mass participation budget meetings where members of the public have been given a say in the allocation of over £680,000 funding with over 1,000 attendees taking part. A Countywide AAP meeting, namely the Big Tent Event, was led by the Council Leader and over 100 people attended.

Assurance that the Council is effectively engaging with various stakeholders was gained from the Peer Review, which highlighted:

- The Council is well regarded by external partner agencies;
- The Council uses a range of channels to communicate with local communities and staff;
- The internal communication channels are generally good and staff understand key issues within the Council;
- The Council has invested heavily in developing its approach to Customer Services, including a series of new Customer Access Points;
- A number of good examples of consultation across the county which the council and other agencies can learn from on an ongoing basis, such as the community buildings review and local budget consultations.

We are in a group relationship with East Durham Homes and Dale and Valley Homes and undertake significant activities through this group. The main features of their governance arrangements are documented each year through written assurance statements.

#### **4 REVIEW OF EFFECTIVENESS**

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the senior managers within the Council who have responsibility for the development and maintenance of the governance environment, the annual report of the Head of Internal Audit and Risk, and also by comments made by the external auditors and other review agencies and inspectorates.

The process for maintaining and reviewing the effectiveness of the corporate governance framework involves the key Member and Officer roles outlined below, namely:

- The Executive;
- Chief Financial Officer;
- Monitoring Officer;
- Overview and Scrutiny Committee;
- Standards Committee;
- Audit Committee.

The Council's [Constitution](#) sets out the governance roles and responsibilities of these functions. In addition:

- The Corporate Director, Resources co-ordinates and oversees the Council's corporate assurance arrangements by:
  - Preparing and maintaining the Council's Code of Corporate Governance as a formal framework for the Council's governance arrangements;
  - Reviewing the systems, processes and documentation to determine whether they meet the requirements of this Code, reporting any breaches and recommending improvements;
  - Preparing an Annual Governance Statement to demonstrate how far the Council complies with the principles of good governance and recommending improvements.
- Internal and External Audit provide independent assurance on the effectiveness of the corporate governance framework.

The review was also informed by a statement provided by each Corporate Director and the Assistant Chief Executive commenting on the effectiveness of the Council's governance arrangements generally and how they impacted on their service areas. These included consideration of the effectiveness of internal controls. Based on the work undertaken, Internal Audit is able to provide a Moderate overall assurance opinion on the adequacy and effectiveness of internal control operating across the Council in 2012/13. This moderate opinion ranking is the same as the 2011/12 and provides assurance that there is basically a sound system of control in place, but there are some weaknesses and evidence of non-compliance with controls or ineffective controls. Given the extent of change across the Council and the overall reduction in resources during the year, the sustainment of this assurance opinion should be regarded as a positive outcome.

## 5 SIGNIFICANT GOVERNANCE ISSUES

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit Committee. The Council is fully committed to the principles of corporate governance, and has made further progress during the past twelve months in developing its arrangements.

Following the production of the Annual Governance Statement for 2011/12, an action plan, containing the following recommendations was produced. Progress made in implementing each recommendation, as outlined below, was confirmed by the Corporate Director, Resources and formed the starting point of the work to produce the 2012/13 Annual Governance Statement.

### **1. Continue the positive direction of travel by implementing the planned control improvements to financial systems.**

The positive direction continues, supported by comments from External Audit as part of the accounts closure process for 2011/12 and reported to the Audit Committee. Further actions to address the financial systems weaknesses have been incorporated into the Resources Service Improvement Plan, and as such, this is no longer considered a significant area for governance improvement.

### **2. Pay Harmonisation and Single Status.**

Outstanding pay harmonisation and single status issues have been addressed with the three recognised Trade Unions, who have all signed the Local Collective Agreement with the Council. The agreement's effective date is 1 October 2012, and where employees have a reduction in basic pay as a result of this agreement, they will receive protection of basic contractual pay up to 30 September 2014. This is no longer considered a significant area for governance improvement.

### **3. Implement Revised Financial Management Standards.**

The revised Financial Management Standards have been implemented, and are being rolled-out. This is no longer considered a significant area for governance improvement.

#### **4. Business Continuity.**

A significant amount of work has been undertaken to develop ICT architecture with minimal potential single points of failure. The Member Officer Working Group has approved the capital for a backup site, which will be in partnership with Sunderland City Council. Work has commenced, and should be live by September 2013. This is still considered a significant governance issue and has been carried forward as a governance improvement.

#### **5. Changing Government Policy on the Ethical Framework.**

Following the implementation of the Localism Act, the Council adopted a new code of conduct, delegations and assessment framework, which was supported by training to Members. This is no longer considered a significant area for governance improvement.

The Corporate Director, Resources also sought assurance on the effectiveness of the Council's governance arrangements from each of the Council's Corporate Directors and the Assistant Chief Executive. As a result of this exercise, and the work of both Internal and External Audit, a number of issues have been identified where improvement in the Council's governance arrangements are required. The most significant issues, agreed by the Corporate Management Team at its meeting on 12 June 2013, and as reported to the Audit Committee on 27 June 2013, together with a summary of action taken or being taken to address each issue, are detailed below.

##### **1. Business Continuity**

A backup ICT site will be developed in partnership with Sunderland City Council by September 2013. This is carried forward from the previous Annual Governance Statement.

##### **2. Value for Money.**

All services have actions in their Service Plans around securing Value for Money (VFM) and achieving MTFP savings targets. This will be strengthened by further developing systems to measure and demonstrate VFM. The Council will build on the good work in achieving financial savings by further strengthening our arrangements for securing value for money to meet the CIPFA guidance on a VFM strategy.

##### **3. Localities**

The County Durham Partnership (CDP) is aiming to develop a new approach to locality working, and has agreed the adoption of a CDP statistical geography for cross-thematic strategic planning. The objective is to create a framework to build a better understanding of our localities and thus develop a stronger understanding of the performance challenges in each area in order to improve local outcomes.

We propose over the coming year to take steps to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.



**Signed:**

Simon Henig  
Leader of Durham County Council

George Garlick  
Chief Executive

Don McLure  
Corporate Director, Resources

**Academy School**

Academy Schools are directly funded by Government and are independent of the 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 Council.

**Amortisation**

Amortisation is the equivalent of depreciation for intangible assets.

**Apportionment**

A way of sharing costs using an appropriate method, e.g. floor area for an accommodation-related service.

**Appropriation**

The transfer of sums to and from reserves, provisions, and balances.

**Assets**

An item having a monetary value to the Council, e.g. property, investments or cash.

**Assets Held for Sale**

Long term assets that are surplus to the 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 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 Council's financial affairs.

**Authorised Limit**

This is the maximum limit of external borrowings or other long term liabilities.

**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.

**Balance Sheet**

This is a financial statement that shows the financial position of the Council at a point in time, the balance sheet date, which for the Council is 31 March. It shows the value of the fixed and net current assets and long term liabilities, as well as the reserves and balances.

**Bid Price**

In the context of stock trading on a stock exchange, the bid price is the highest price a buyer of a stock is willing to pay for a share of that given stock.

**Billing Authority**

Durham County Council is the billing authority responsible for the collection of Council tax and non-domestic rates. The Council tax includes amounts for precepting authorities.

**Bonds**

A type of investment in certificates of debt issued by the government of a company. These certificates represent loans which are repayable at a future specified date with interest.

**Borrowing**

Loans from the Public Works Loans Board, and the money markets, that finance the capital programme of the 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.

**Capital Adjustment Account (CAA)**

This account accumulates the write down of the historical cost of non-current assets as they are consumed by depreciation and impairments or written off on disposal. It also accumulates the resources that have been set aside to finance capital expenditure. The balance on the account represents timing differences between the amount of the historical cost of non-current assets that has been consumed and the amount that has been financed in accordance with statutory requirements.

**Capital Charge**

Charges made to local authority services to reflect the 'cost' of using non-current assets in the provision of services. The charge comprises the annual provision for depreciation. To ensure that these notional charges do not impact on local taxation they are reversed out in the Movement in Reserves Statement.

**Capital Expenditure**

Expenditure on the acquisition or construction of non-current assets that have a value to the Council for more than one year, or expenditure which adds to and not merely maintains the value of existing non-current assets.

**Capital Financing Costs**

These are the revenue costs of financing the capital programme and include the repayment of loan principal, loan interest charges, loan fees and revenue funding for capital.

**Capital Financing Requirement (CFR)**

This sum represents the authority's underlying need to borrow for capital purposes. It is calculated by summing all items on the Balance Sheet that relate to capital expenditure, e.g. non-current assets, financing leases, government grants deferred etc. The CFR will be different to the actual borrowing of the authority. This figure is then used in the calculation of the Council's Minimum Revenue Provision.

**Capital Grants Unapplied Account**

Grants that have been recognised as income in the Comprehensive Income and Expenditure Account (CI&E) but where expenditure has not yet been incurred

**Capital Receipts**

The proceeds from the sale of capital assets such as land, and buildings. These sums can be used to finance capital expenditure.

**Carbon Reduction Commitment (CRC)**

The Council has to account for its obligations in relation to the purchase and surrender of CRC allowances and for the eventual settlement of the liability.

**CAS**

Children and Adults Services

**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.

**CLG**

Department for Communities and Local Government

**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 Council's accounting policy is detailed in paragraph 20 of the Accounting Policies.

**Comprehensive Income and Expenditure Account (CI&E)**

This statements reports the net cost of services for which the 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 Council may reap in the future due to an event that has happened in the past.

**Contingent Liabilities**

Potential costs that the 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 Council.

**CSR**

Comprehensive Spending Review.

**Debtors**

Persons or bodies who owe sums to the 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.

**Derivatives**

Derivatives are financial instruments that derive their value from the price or rate of some underlying item.

**Direct Revenue Financing (DRF)**

The cost of capital projects that is financed directly from the annual revenue budget.

**Direct Service Organisations (DSOs)**

Workforces employed directly by local authorities to carry out works of repair, maintenance, construction etc. of buildings, grounds and roads and to provide catering and cleaning services and repairs and maintenance of vehicles.

**Equities**

Ordinary shares in UK and overseas companies traded on a stock exchange. Shareholders have an interest in the profits of the company and are entitled to vote at shareholder's meetings.

**Fair Value**

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

**FIDs and Manninen**

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

**Finance Lease**

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

**Financial Instrument**

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

**Financial Instruments Adjustment Account (FIAA)**

This account is an unusable reserve which absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. Transfers are made to ensure that the General Fund records the amount required by the applicable regulations or statutory guidance, the FIAA carries the excluded surplus or deficit.

**Fitch**

Fitch Ratings is a rating agency providing credit ratings research and risk analysis of financial institutions across the world. Credit ratings are used by investors as indications of the likelihood of receiving the money owed to them in accordance with the terms on which they invested.

**Fixed Interest Securities**

Investments in mainly government, but also company stocks, which guarantee a fixed rate of interest. The securities represent loans that are repayable at a future date but which can be traded on a recognised stock exchange before the repayment date.

**Formula Grant**

The general government grant paid to support the revenue expenditure of local authorities. It comprises Revenue Support Grant and redistributed National Non-Domestic Rates. It is distributed by formula through the Local Government Finance Settlement.

**Foundation Schools**

Foundation Schools are run by their governing body and they employ the staff. Land and buildings are usually owned by the governing body or a charitable foundation.

**Funding Strategy Statement**

The Funding Strategy Statement is a clear and transparent fund-specific strategy which identifies how employers' pension liabilities are best met going forward; supports the regulatory requirement to maintain as nearly constant employer contribution rates as possible; and takes a prudent longer-term view of funding the Fund's liabilities. The single strategy for all employers in the Fund is implemented and maintained by Administering Authority.

**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 Council.

**Group Accounts**

Many local authorities now provide services through partner organisations. Where an authority has material financial interests or a significant level of control over one or more entities it should prepare Group Accounts.

**Heritage Assets**

This is a separate class of asset (land, building, or artefact/exhibit) that is held principally for its contribution to knowledge or culture and meets the definition of a heritage asset.

**Historical Cost**

The original purchase cost of an asset.

**Housing Benefit**

A system of financial assistance to individuals towards certain housing costs administered by Local Authorities and subsidised by central Government.

**Housing Revenue Account (HRA)**

This is a separate account to the General Fund, which includes the expenditure and income arising from the provision of housing accommodation by the Authority. The HRA is ring-fenced: no cross subsidy is allowed between the HRA and General Fund.

**IAS**

International Accounting Standard – regulations outlining the method of accounting for activities, currently being replaced by International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

**ICT**

Information and Communications Technology

**IFRIC**

Interpretations originated from the International Financial Reporting Interpretations Committee.

**IFRS**

International Financial Reporting Standards – issued and set by the International Accounting Standards Board (IASB). These are standards that companies and organisations follow when compiling their financial statements. They have been adapted to apply to local authorities and are consolidated in the Code of Practice on Local Authority Accounting (the Code). The Code applied to the Council's Statement of Accounts for the first time in 2010/11.

**Impairment**

Impairment of an asset is caused either by a consumption of economic benefits e.g. physical damage (e.g. fire at a building) or deterioration in the quality of the service provided by the asset (e.g. a school closing and becoming a storage facility). A general fall in prices of a particular asset or type of asset is treated as a revaluation.

**Index Linked Securities**

Investments in government stock that guarantee a rate of interest linked to the rate of inflation. These securities represent loans to government which can be traded on recognised stock exchanges.

**Infrastructure Assets**

A fixed asset that cannot be taken away or transferred, and which can only continue to benefit from it being used. Infrastructure includes roads and bridges.

**Intangible Assets**

Intangible assets do not have physical substance but are identifiable and controlled by the authority through custody or legal rights, for example software licences.

**Intangible Heritage Asset**

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

**Inventory**

Items of raw materials, work in progress or finished goods held at the financial year end, valued at the lower of cost or net realisable value.

**Investment**

An asset which is purchased with a view to making money by providing income, capital appreciation, or both.

**Investment Properties**

Interest in land and/or buildings in respect of which construction work and development have been completed and which are held for their investment potential rather than for operational purposes, any rental income being negotiated at arms length.

**IPSAS**

International Public Sector Accounting Standards Board.

**Joint Venture**

An entity in which the reporting authority has an interest on a long term basis and is jointly controlled by the reporting authority and one or more entities under a contractual or other binding arrangement.

**LAAP Bulletin**

CIPFA's Local Authority Accounting Panel (LAAP) periodically issues bulletins to local authority practitioners, providing guidance on topical issues and accounting developments and, when appropriate, clarification on the detailed accounting requirements.

**Leasing**

A method of funding expenditure by payment over a defined period of time. An operating lease is similar to renting; the ownership of the asset remains with the lessor and the transaction does not fall within the capital system. A finance lease transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee and do fall within the capital system.

**Levy**

A levy is a charge made by one statutory body to another in order to meet the net cost of its services, e.g. payments to the Environment Agency for flood defence and land drainage purposes.

**Liabilities**

An obligation to transfer economic benefits. Current liabilities are usually payable within one year.

**LGR**

Local Government Re-organisation.

**Long-Term Investments**

Investments intended to be held for use on a continuing basis in the activities of the 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 was an element of housing subsidy, and represented the capital cost of keeping HRA dwellings stock in its current condition. It largely replaced 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 Council analysed into 'usable reserves and 'unusable' reserves.

**MTFP**

Medium Term Financial Plan.

**Myners' Principles**

A set of ten principles issued by Government which Pension Schemes are required to consider and to which they must publish their degree of compliance.

**National Non-Domestic Rates (NNDR)**

The means by which local businesses contribute, to the cost of providing local authority services. The rates are paid into a central pool which is divided between all authorities as part of Formula Grant.

**Net Book Value**

The amount at which non-current assets are included in the Balance Sheet. It represents historical cost or current value less the cumulative amounts provided for depreciation or impairment.

**Net Cost of Service**

The actual cost of a service to the Council after taking account of all income charged for services provided. The net cost of service reflects capital charges and credits for government grants deferred made to services to reflect the cost of employing non-current assets.

**Net Expenditure**

The actual cost of a service to the Council after taking account of all income charged for services provided.

**Net Realisable Value**

The expected sale price of stock, in the condition in which it is expected to be sold. This may be less than cost due to deterioration, obsolescence or changes in demand.

**Non Current Assets**

Tangible or intangible assets that yield benefits to the authority and the services it provides for a period of more than one year. Tangible assets have physical substance, for example land, buildings and vehicles. Intangible assets do not have physical substance but are identifiable and controlled by the authority through custody or legal rights, for example software licences.

**Non Distributed Costs**

These are overheads from which no service user benefits. They include the costs associated with unused assets and certain pension costs.

**Non-Operational Assets**

Non-operational assets are those held by an authority but not directly occupied, used or consumed in the delivery of services, or for the service or strategic objectives of the authority. Examples include; assets under construction, land awaiting development, commercial property, investment property, and surplus assets held for disposal.

**Operating Lease**

A lease where the asset concerned is returned to the lessor at the end of the period of the lease.

**Operational Assets**

Property, plant and equipment held and occupied, used or consumed by the authority in the direct delivery of those services for which it has either a statutory or discretionary responsibility.

**Operational Boundary**

This is the expected level of debt and other long term liabilities during the year.

**Outturn**

Actual expenditure within a particular year.

**Past Service Cost**

The increase in the present value of Pension Fund liabilities related to employees' service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits or other long-term employee benefits. Past service costs may be either positive, where benefits are introduced or improved) or negative (where existing benefits are reduced).

**Portfolio**

A number of different assets considered and managed as a whole by an investment manager, to an agreed performance specification.

**Precept**

An amount charged by another Authority to the Councils Collection Fund. There are two major preceptors in Durham County Councils collection fund: the Police and Fire Authorities.

**Precept Income**

County Councils obtain part of their income from precepts levied on the district councils in their area.

Precepts, based on the council tax base of each district council, are levied on a collection fund, administered separately by each district council.

**Prior Period Adjustment (PPA)**

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.

**Reserves**

Sums set aside to fund specific future purposes rather than to fund past events. There are two types of reserve, 'usable' reserves and 'unusable' reserves.

**Revaluation Reserve**

The Revaluation Reserve records the accumulated gains on the non-current assets held by the Council arising from increases in value, as a result of inflation or other factors (to the extent that these gains have not been consumed by subsequent downward movements in value). The overall balance on the Reserve represents the amount by which the current value of non-current assets carried in the Balance Sheet is greater because they are carried at revalued amounts rather than depreciated historical cost.

**Revenue Contributions**

See 'Direct Revenue Financing'

**Revenue Expenditure and Income**

Expenditure and income arising from the day-to-day operation of the Council's services, such as salaries, wages, utility costs, repairs, and maintenance.

**Revenue Expenditure Funded from Capital Under Statute**

Expenditure that legislation allows to be classified as capital for funding purposes. However, it does not result in the expenditure being shown in the Balance Sheet as a fixed asset. This expenditure is charged to the relevant Service revenue account in the year.

Examples of this are grants and financial assistance to others, expenditure on assets not owned by the Council and amounts directed by the Government.

**Revenue Support Grant (RSG)**

A Government grant that can be used to finance expenditure on any service.

**RICS**

Royal Institution of Chartered Surveyors

**Section 151 Officer**

The officer designated under Section 151 of the Local Government Act 1972 to have overall responsibility for the administration of the financial affairs of the Council and the preparation of the Council's Statement of Accounts.

**Service Reporting Code of Practice (SeRCOP)**

The Code of Practice provides guidance to Local Authorities on financial reporting. It details standard definitions of services and total cost, which allows direct comparisons of financial information to be made with other local authorities.

**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 Investment Principles (SIP)**

The Statement of Investment Principles details the policy which controls how a pension fund invests.

**Subsidiary**

An entity is a subsidiary of a reporting entity if the authority is able to exercise control over the operating and financial policies of the entity and is able to gain benefits or be exposed to risk of potential losses from this control.

**Supported Capital Expenditure (SCE)**

SCEs represent the amount of capital expenditure that the Government will support through the provision of revenue grant to cover the cost of borrowing, i.e. repayments of principal and interest.

**Surplus**

Arises when income exceeds expenditure or when expenditure is less than available budget.

**Surplus Properties**

Those properties that are not used in service delivery, but do not meet the classification of investment properties or assets held for sale.

**Tangible Heritage Asset**

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

**Transfer Values**

Amounts paid to or received from other local and public authorities, private occupational or personal pension schemes in respect of pension rights already accumulated by employees transferring from or to the participating authorities.

**Treasury Management Policy and Strategy**

A plan outlining the 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 Council from the sale of non-current assets that are yet to be spent on other capital projects.

**Unusable Reserves**

Unusable reserves are reserves that the 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 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 Council.

**Variance**

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

**Work-in-Progress**

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

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## Audit Committee

29 July 2013

### Amendments to the Draft Annual Governance Statement for the year April 2012 – March 2013



#### Addendum to Agenda Item 7

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#### Report of Don McLure, Corporate Director, Resources

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##### Purpose of the Report

1. This report provides an update of amendments made to the draft Annual Governance Statement (AGS) following consideration of an initial draft by the Audit Committee at the meeting on 27 June 2013. This is an addendum to agenda item 7, 'Statement of Accounts for the year ended 31 March 2013'.

##### Background

2. At the meeting on 27 June 2013, the Audit Committee approved a draft AGS, subject to certain amendments, prior to being reported to full Council for information.
3. A revised draft, incorporating the amendments requested by the Committee, has been issued for consideration by Council at its meeting on 24 July 2013.
4. Due to timing issues relating to the publication of the draft Statement of Accounts, the draft AGS included in the Statement of Accounts to be considered at this Audit Committee meeting, (page 245 of the report pack), does not reflect these amendments.
5. This report highlights these amendments, referencing the page numbers in the report pack, to provide an audit trail for the Committee:
  - Page 246 of the report pack – Additional wording to highlight that **'The key risk facing the Council is the challenge of managing unprecedented budget reductions in the current period of economic austerity. To meet this challenge, the arrangements in place will equip the Council well for dealing with further austerity measures announced as part the latest central government spending review.'**
  - Page 254 of the report pack:
    - A conclusion to the report, namely **'In conclusion, we are satisfied that the Council's corporate governance arrangements in place during 2012/13 were sound and that improvements identified will further strengthen the management of the Council to response to new challenges ahead.'**

- Rewording the governance improvement related to value for money to reflect that it will help the Council in delivering the Medium Term Financial Plan (MTFP) savings. The reworded improvement is **'Whilst the Council has a good track record of delivering efficiency savings identified in its MTFP, the effective management of further budget reductions is a key strategic risk for the Council going forward. All services have actions in their Service Plans around securing Value for Money (VFM) and achieving MTFP savings targets. This will be strengthened by further developing systems to measure and demonstrate how and where VFM is being achieved through a more co-ordinated corporate benchmarking approach. This may identify potential further efficiency savings and will provide further assurance that the budget reductions required are being delivered in the right areas for the Council to achieve its objectives and priorities.'**
  - Remove the proposed governance improvement for Localities, as this was not considered a significant issue to report in the AGS.
6. The final proposed AGS will be incorporated in the Final Statement of Accounts and reported for formal approval by the Audit Committee at its meeting on the 30 September 2013.

#### **Recommendations and reasons**

7. Audit Committee note the amendments made to the draft Annual Governance Statement as reported to Council.

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**Contact: David Marshall Tel: 03000 269648**

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## **Appendix 1: Implications**

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**Finance** - Financial planning and management is a key component of effective corporate governance.

**Staffing** - Ensuring the adequate capability of staff meets a core principle of the Chartered Institute of Public Finance Accountants/ Society of Local Authority Chief Executives (CIPFA/ SOLACE) guidance.

**Risk** – Delivery of the corporate governance action plan will strengthen the decision making and strategic and operational management of the Council's business.

**Equality and Diversity/ Public Sector Equality Duty** - Engaging local communities including hard to reach groups meets a core principle of the CIPFA/ SOLACE guidance.

**Accommodation** – None directly, although asset management is a key component of effective corporate governance

**Crime and Disorder** – None.

**Human Rights** - None.

**Consultation** - Engaging local communities meets a core principle of the CIPFA/ SOLACE guidance.

**Procurement** – None.

**Disability issues** – Ensuring access to services meets a core principle of the CIPFA/ SOLACE guidance.

**Legal Implications** – Ensuring compliance with relevant laws and regulations, and ensuring that expenditure is lawful, is a key component of effective corporate governance

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Durham County Council

Audit Progress report

July 2013

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# 1. Introduction

The purpose of this report is to provide the Audit Committee with a report on progress in delivering our responsibilities as your external auditors. For the benefit of any new members we have also taken the opportunity to include some background information on auditors' and audited bodies' responsibilities which we hope you find helpful.

This report also seeks to highlight key emerging national issues and developments which may be of interest to Members.

If you require any additional information, please contact me or your Senior Manager using the contact details at the end of this update.

Finally, please note our website address ([www.mazars.co.uk](http://www.mazars.co.uk)) which sets out the range of work Mazars carries out, both within the UK and abroad. It also details the existing work Mazars does in the public sector.

## 2. Progress on the 2012/13 audit

Good progress is now being made on the audit for 2012/13. We have now started on the detailed audit of the financial statements authorised for issue by the Chief Finance Officer on the 28<sup>th</sup> June 2013. This work will be completed between July-September and we will bring our Audit Completion Report to the September meeting of the Audit Committee.

Other work on-going includes:

- regular liaison meetings with senior finance staff to discuss queries arising from the audit of the financial statements;
- submission of the National Fraud Initiative (NFI) risk assessment: as required by our regulator, the Audit Commission, we review the Council's progress in addressing any 'matches';
- completion of other returns as required by the Audit Commission; and
- finalisation of our work feeding into the VfM conclusion work (including progress in achieving savings planned).

### **Significant issues arising from work to date**

We are required to report any significant deficiencies in internal control that we become aware of to 'those charged with governance' (i.e. the Audit Committee).

Further to the two issues raised in our last report we note here one additional issue:

- ICT business continuity arrangements: we have raised in previous years the lack of business continuity arrangements in place should anything happen to ICT at the Tanfield site. As audit committee members are aware, this has remained a key weakness for 2012/13. However, we are pleased to note that a backup site has been approved which will be in partnership with Sunderland City Council and should be live by September 2013.

### 3. National publications and other updates

#### **The Future of Public Audit, Department for Communities and Local Government, *May 2013***

The Local Audit and Accountability Bill has begun its passage through Parliament. The Bill confirms the abolition of the Audit Commission and sets out how the new arrangements will operate after abolition. In time, local public bodies (including CCGs) will appoint their own external auditors, although the exact timetable for this remains unclear.

<http://services.parliament.uk/bills/2013-14/localauditandaccountability/documents.html>

#### **Annual Fraud Indicator 2013, National Fraud Authority, *June 2013***

The National Fraud Authority (NFA) works with the counter-fraud community to make fraud more difficult to commit in and against the UK.

The NFA aims to highlight potential fraud losses, through the Annual Fraud Indicator (AFI), with a view to encourage the building of more resilience amongst business, charities, the public sector and by individuals. The AFI 2013 is a compendium of fraud loss indicators drawn together to illustrate tentatively the possible scale, prevalence and cost of fraud. The report also contains some useful case studies.

<https://www.gov.uk/government/publications/annual-fraud-indicator--2>

## 4. Audit Quality

The Financial Reporting Council (FRC) published in June its 2012/13 annual report on the outcome of its audit quality inspections ('Audit Quality Inspections Annual Report'). The report includes an overall assessment of audit quality together with a number of key messages for audit committees and audit firms. In summary:

- there has been an improvement in the overall standard of audit work;
- the improvement is not even across firms and types of entities and;
- firms need to maintain their focus on professional scepticism and the effectiveness of their independence and ethical policies and procedures.

For 2012/13, Mazars LLP was not subject to the FRC's inspections having been reviewed in 2011/12. The report can be found at <http://www.frc.org.uk/Our-Work/Conduct/Audit-Quality-Review/Audit-firm-specific-reports/Audit-firm-specific-reports-2012.aspx>

We have highlighted this report separately, as consideration of the quality of the work of external audit is part of the terms of reference of this Committee. Key recommendations and issues from the FRC's report are set out in the table below, along with our response to the recommendations and issues raised.

<b>FRC issue/recommendation</b>	<b>Audit and Governance Committee consideration</b>	<b>Mazars approach</b>
<p><b>Focus on audit quality</b></p> <p>Firms should have appropriate controls and procedures to ensure that audit efficiencies are not achieved at the expense of audit quality.</p>	<p>Where significant fee reductions have been proposed or agreed, carefully consider whether the overall level of work to be performed is likely to be sufficient to identify material misstatements and ensure that audit quality is not compromised.</p>	<p>Our audit approach complies with auditing standards and delivers efficiencies through the use of experienced staff, IT audit techniques, effective communication with management and finance staff and focusing on the risks of material misstatement.</p>
<p><b>Professional scepticism</b></p> <p>Firms should ensure further improvements and greater consistency in exercising sufficient professional scepticism.</p>	<p>Support and encourage a sceptical approach in the audit of areas of key judgement and ensure that auditors have access to all relevant information.</p>	<p>We will report in our Audit Strategy Memorandum the areas of key judgements and significant risks where we have applied appropriate challenge to management.</p>
<p><b>Auditor independence and ethical issues</b></p> <p>Firms should review the</p>	<p>Seek additional independence information where appropriate and</p>	<p>All staff must annually make an independence declaration and attend training on independence</p>



<b>FRC issue/recommendation</b>	<b>Audit and Governance Committee consideration</b>	<b>Mazars approach</b>
adequacy of their independence and ethical procedures and the training that they provide to staff at all levels.	challenge firms to demonstrate their independence, both in substance and form.	and ethics. We share promptly with management and the Audit Committee any perceived or actual threats to our independence and put in place safeguards where appropriate. We report these formally and openly in our Audit Strategy Memorandum and Audit Completion Report.
<p><b>Audit quality monitoring</b></p> <p>Firms should reconsider the robustness of their monitoring processes and the extent to which they contribute to an improvement in overall audit quality.</p>	Ask the firm whether their audit has been reviewed by the firm's internal monitoring processes and, if so, what the main lessons learnt were; how the findings compare with the FRC's inspection findings and what actions the firm has taken to address the issues identified.	<p>2012/13 was the first year of the firm's appointment as your auditor. Mazars has a comprehensive internal quality monitoring system.</p> <p>This includes, for each Director new to the firm, a full internal quality monitoring review of at least two engagements and additional reviews of audit work as it progresses.</p> <p>We will share lessons learned with you as they arise.</p>

## **Audit Commission oversight of audit quality**

Our regulator, the Audit Commission, also publishes quarterly and annual reports on the quality of the work it has outsourced to the firms.

<http://www.audit-commission.gov.uk/audit-regime/audit-quality-review-programme/>

## 5. Contact details

Please let us know if you would like further information on any items in this report.

[www.mazars.co.uk](http://www.mazars.co.uk)

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