



## **Audit Committee**

**Date**        **Thursday 24 July 2014**  
**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 26 June 2014 (Pages 1 - 8)
3. Declarations of interest, if any
4. Assets - Presentation by Assistant Finance Manager, Corporate Finance
5. 2013/2014 Final Outturn for General Fund and Housing Revenue Account - Report of Corporate Director, Resources (Pages 9 - 46)
6. Treasury Management Outturn 2013/2014 - Report of Corporate Director, Resources (Pages 47 - 58)
7. Statement of Accounts for the year ended 31 March 2014 - Report of Corporate Director, Resources (Pages 59 - 262)
8. Strategic Risk Management - Progress Report for the Quarter ended 30 June 2014 - Report of Corporate Director, Resources (Pages 263 - 274)
9. Fraud Awareness - Presentation by Chief Internal Auditor and Corporate Fraud Manager
10. Such other business as in the opinion of the Chairman of the meeting is of sufficient urgency to warrant consideration
11. Any resolution relating to the exclusion of the public during the discussion of items containing exempt information

## Part B

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

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

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

County Hall  
Durham  
16 July 2014

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 26 June 2014 at 9.30 am**

**Present:**

**Councillor E Bell (Chairman)**

**Members of the Committee:**

Councillors J Rowlandson (Vice-Chairman), C Carr, S Forster, J Hillary, O Temple and W Stelling

**Co-opted Members:**

Mr T Hoban and Ms K Larkin-Bramley

**1 Apologies for absence**

Apologies for absence were received from Councillor L Armstrong and T Smith.

**2 Minutes of the meeting held on 20 May 2014**

The minutes of the meeting held on 20 May 2014 were agreed and signed by the Chairman as a correct record.

With reference to Item No. 5 Confidential Report Code, Councillor Temple asked if there was any progress on comparative data information. The Chief Internal Auditor and Corporate Fraud Manager said that this would be circulated as soon as available.

Consideration was given to all current items on the Committee's Action Plan (for copy of action plan see file of Minutes) with dates set when these would be reported back to Committee.

With reference to Action No. 4 the Committee were informed that tender documents include a question asking if the company 'comply with all relevant laws'. The Committee were concerned that this does not address the minimum wage issue and asked if the question could be changed to 'comply with all relevant laws including minimum wage'.

The Plan would be updated accordingly.

### **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 Annual Review of the System of Internal Audit**

The Committee noted a report of the Chief Internal Auditor and Corporate Fraud Manager about the Annual Review of the System of Internal Audit for 2013/2014 (for copy see file of Minutes).

The Chief Internal Auditor and Corporate Fraud Manager reported that the assessment of ensuring that an effective internal control system is in place has been completed and that a self-assessment against the key elements of the Public Sector Internal Audit Standards (PSIAS) has been carried out. The Action Plan sets out that auditors will be rotated on a regular basis, whilst maintaining client relationships and knowledge.

The Corporate Director, Resources referred to the personal development of auditors and gave assurance to the Committee that the budget for retaining and improving the skills set for auditors will be maintained for as long as possible.

#### **Resolved:-**

- (i) That the findings and conclusions of the 2013/2014 review of the effectiveness of the system of Internal Audit contained within this report, be noted.
- (ii) That the Service Improvement Plan for Internal Audit as a result of this assessment detailed in Appendix 2, be noted.

### **5 Annual Audit Opinion and Internal Audit Report 2013 / 2014**

The Committee noted a report of the Chief Internal Auditor and Corporate Fraud Manager that presented the Annual Internal Audit Report for 2013/2014 which provided a 'moderate' opinion on the adequacy and effectiveness of Council's control environment for 2013/2014 (for copy see file of Minutes).

The Committee were informed that the moderate opinion gave assurances that there was a sound system of control in place but that there were still areas to improve. The Chief Internal Auditor and Corporate Fraud Manager reported that there had been fewer limited assurance reports given over the year and due to the constant changes in the authority, sustaining this opinion was seen as positive.

The Chief Internal Auditor and Corporate Fraud Manager referred to a question about the appointment of a Trainee IT auditor and confirmed that an appointment had been made. The Trainee IT auditor would hopefully be fully qualified by December 2014 and feedback on performance has been good with the quality of work produced, excellent. Following on from another question asked relating to the appointment of IT North the Chief Internal Auditor and Corporate Fraud Manager advised that they were called upon to provide additional expertise as and when required. The Trainee IT Auditor has shadowed the work carried out by IT North.

Ms Larkin-Bramley suggested that the Principal IT Auditor be invited to a future meeting to give assurances on the system in place for IT controls.

Mr Hoban asked what could be done to gain that extra step and move out of the 'moderate' bracket. The Chief Internal Auditor and Corporate Fraud Manager said that we would always strive for improvements but pointed out that systems were constantly changing. Some improvements had been made recently for services to involve Internal Audit from the beginning when they change systems, and this could alleviate some problems.

Councillor Temple referred to the Limited Assurances given in resources in relation to Taxation/VAT and Banking Arrangements and asked for an update. The Corporate Director, Resources explained that both areas had been reported to Audit Committee, as with all Limited Assurance areas. The Chief Internal Auditor and Corporate Fraud Manager added that all of these reports contained recommendations and that he would chase up to make that they had been implemented. The Corporate Director, Resources said that following the Bank Reconciliation report improvements had been made and they were up to date every month.

Councillor Hilary asked for an update to the Payment Card Industry opinion. The Chief Internal Auditor and Corporate Fraud Manager confirmed that this had been reported to Committee in February with a deadline to make improvements by September/October 2014. A member of staff from Internal Audit was included as part of the team looking at the checklist for improvements. The Corporate Director, Resources added that significant progress had been made in this area. Members were informed that Cabinet would be asked to approve the purchase of software to alleviate the risk of the authority being fined for payment card transactions. The Committee supported the purchase of the software.

**Resolved:-**

That the report be noted.

## **6 Draft Annual Governance Statement 2013 / 2014**

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.

Ms Larkin-Bramley asked what other agencies had given assurances as the AGS only mentions Internal and External Audit. The Risk, Insurance and Governance Manager explained that each Corporate Director and the Assistant Chief Executive give assurances relating to their own service area. The Chairman added that 'Other Inspection Agencies' could be added to the paragraph within the AGS.

Catherine Banks, Mazars suggested that as the Audit Commission were still providing a service until March 2015, the information about the demise of the Audit Commission should be removed from the AGS.

**Resolved:**

- (i) That the first draft of the Annual Governance Statement for 2013/14 be agreed.
- (ii) That the report be presented to County Council for information.

**7 Compliance with International Auditing Standards**

The Committee considered a report of the Chair that provided a response to a letter from Mazars regarding compliance with International Auditing Standards (for copy see file of Minutes). A response from the Corporate Director, Resources was appended to the report for Members information that related to a similar request from Mazars.

**Resolved:**

That the responses from the Chair of Audit and the Corporate Director, Resources be noted.

**8 Bi-Annual Report to Council - work of the Audit Committee**

The Committee considered the Bi-Annual Report of the Audit Committee which covered the period October 2013 – May 2014 and would be presented to the County Council at its next meeting in accordance with best practice guidelines (for copy see file of Minutes).

**Resolved:**

That the draft report be agreed and reported to the meeting of the County Council being held on 23 July 2014.

## **9 Internal Audit Strategy, Charter and Plan 2014 / 2015**

The Committee considered a report of the Chief Internal Auditor and Corporate Fraud Manager which outlined the Internal Audit Plan for 2014/2015 and the Internal Audit Strategy. The Committee also considered some minor amendments to the Audit Charter (for copy see file of Minutes).

The Chief Internal Auditor and Corporate Fraud Manager advised that the Audit Plan had been prepared on a ninth month basis to align with the Council's financial year. A 12 month plan would be set thereafter to align with the Council's Medium Term Financial Plan and Corporate Performance Framework.

### **Resolved:**

- (i) That the change in audit year (April to March) as per paragraph 7, be approved.
- (ii) That the Internal Audit Strategy in Appendix 2, be approved.
- (iii) That the proposed nine month audit plan for 2014/2015, as detailed in Appendix 3, be approved.
- (iv) That the revised Audit Charter in Appendix 4, be approved.

## **10 Forward Plan of Audit Committee Business**

The Committee considered a report of the Chief Internal Auditor and Corporate Fraud Manager that presented a forward plan of Audit Committee business for the next 12 months (for copy see file of Minutes).

### **Resolved:**

That the report be noted.

## **11 External Audit: Audit Progress - June 2014**

The Committee considered a report of the External Auditor, Mazars that set out progress to June 2014 (for copy see file of Minutes).

Catherine Banks, Mazars informed the Committee that work on the 2013/14 audit had commenced with interim work on journals and income and expenditure. She advised that 4 August had been agreed as the date for public to have their say on financial statements.

Ms Banks highlighted that the VFM briefings would continue until March 2015 and the specifics for Durham could be brought back to Committee.

### **Resolved:**

That the progress report be noted.

## **12 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.

## **13 Direct Payments Update**

The Committee received a joint report of the Head of Commissioning, Children and Adults Services and the Chief Internal Auditor and Corporate Fraud Manager that gave an update on progress made in relation to Direct Payments (for copy see file of Minutes).

The Head of Commissioning informed the Committee that a number of improvements had been made, following close working with Internal Audit, to provide a more efficient system of completing day to day audits.

Members expressed concern about protecting the public purse and asked that feedback be provided to the committee about cost effectiveness.

### **Resolved:**

That the report be noted.

## **14 Annual Fraud Report 2013 / 2014**

The Committee noted a report of the Chief Internal Auditor and Corporate Fraud Manager which informed action taken by Internal Audit during 2013/2014 and further action planned to raise awareness of the risk of fraud and corruption (for copy see file of Minutes).

The Chief Internal Auditor and Corporate Fraud Manager reminded Members that training would be provided at the next meeting on Fraud

### **Resolved:-**

That the recommendations contained within the report be approved.



Action Plan - Work of Audit Committee - Part A – 24 July 2014

Ref No.	Date of Meeting	Item No.	Title of Report	Action Required	By Whom	Report to Committee (date)/ implemented
1	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	Chief Internal Auditor and Corporate Fraud Manager	26 June 2014  CLOSED
2	28.2.14  26.6.14	4  2	Financial Procedure Rules Presentation  Minutes	Ethical question asked on all tender documentation regarding minimum wage Members informed that question was included asking if company complied with all relevant laws. The Committee suggested that this be changed to say 'Comply with all relevant laws including minimum wage'	Head of Corporate Finance  Chief Internal Audit and Corporate Fraud Manager	20 May 2014  24 July 2014
3	28.2.14	7	Changes to the Code of Practice for Local Authority Accounting in the UK for 2013/14	Presentation required on Council's Assets	Assistant Finance Manager/ Asset Manager	26 July 2014
4	26.6.14	5	Annual Audit Opinion and Internal Audit Report 2013/2014	IT Auditor to attend future meeting to explain the role of IT Audit and the assignments that they complete.	Chief Internal Auditor and Corporate Fraud Manager	27 November 2014

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**Audit Committee**

**24 July 2014**



**2013/14 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 To provide Audit Committee with details of the final outturn for both the General Fund and the Housing Revenue Account (HRA) for 2013/14.

**Background**

- 2 The 2013/14 draft Statement of Accounts includes a summary of the 2013/14 final financial outturn. The attached report presented to Cabinet on 16 July 2014 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 2013/14 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

16 July 2014

### 2013/14 Final Outturn for General Fund, Housing Revenue Account and Collection Fund



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#### Report of Corporate Management Team

Don McLure, Corporate Director Resources

Councillor Alan Napier, Cabinet Portfolio Holder for Finance

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#### Purpose of the Report

- 1 To provide Cabinet with details of the revenue and capital outturn for both the General Fund and the Housing Revenue Account (HRA) for 2013/14, and also provides the outturn for the Collection Fund in respect of Council Tax collection and Business Rates collection.

#### Background

- 2 In setting the 2013/14 budget, the Council continued to face unprecedented levels of reductions in Government grants. Over the period of the current Comprehensive Spending Review (CSR) period to 31 March 2015 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 further for local government and in total the Council is forecasting that Government support over the six year period 2011 to 2017 will reduce by £139m, which equates to a 36% reduction in Government support over this period.
- 3 The Council agreed a net revenue budget of £457.814m for 2013/14. Factoring in cuts in Government grant, inflation and other budget pressures required the delivery of £20.900m of savings in 2013/14 in order to deliver a balanced budget.
- 4 Quarterly forecast outturn reports have been considered by Cabinet throughout the 2013/14 financial year.
- 5 This final outturn for 2013/14 has been determined as part of the production of the Annual 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 for Service Groupings**

7 The overall outturn for the Council is shown in Appendix 2, which 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 when calculating 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 items and 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 Medium Term Financial Plan (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 their cash limit position.

8 After taking into account the above exclusions, through tight budgetary control by managers and robust delivery of financial savings targets, all Service Groupings have generated a cash limit underspend in 2013/14 apart from the Regeneration and Economic Development Service Grouping who incurred a relatively small overspend of £0.248m but this was after taking into account a contribution of £0.875m to the Council's MTFP Redundancy and Early Retirement Reserve.

9 The 2013/14 cash limit position for each Service Grouping is detailed in the table below:

Type of Reserve	Opening Balance as at 1 April 2013	Budgetted use at 1 April 2013	Movement during 2013/14		Closing Balance as at 31 March 2014
			Planned contribution to (-) or use of reserve	Contribution to (-) or use of reserve	
	£m	£m	£m	£m	£m
<b>Service Grouping Cash Limit</b>					
Assistant Chief Executive	-1.165	0.389	-0.108	-0.121	-1.005
Children and Adults Services	-9.732	2.991	1.700	-7.538	-12.579
Neighbourhoods	-2.311	0.139	0.356	-0.966	-2.782
Regeneration and Econ Development Resources	-3.416	0.000	0.161	0.248	-3.007
	-3.280	0.000	0.084	-0.367	-3.563
<b>TOTAL CASH LIMIT RESERVE</b>	<b>-19.904</b>	<b>3.519</b>	<b>2.193</b>	<b>-8.744</b>	<b>-22.936</b>

## Revenue Outturn

- 10 Appendix 2 provides a more 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		1,355.563
Less:		
Gross Income		<u>-958.024</u>
Net Expenditure		397.539
Financed by:		
Council Tax	164.469	
Council Tax Freeze Grant	2.029	
Start Up Funding Assessment	278.342	
Capitalisation Provision Redistribution Grant	0.881	
New Homes Bonus	4.799	
New Homes Bonus – re-imburement	0.943	
Section 31 Grant – Small Business Rate Relief	2.191	
Education Services Grant	7.685	
Net Contribution to Cash Limit Reserves	-3.032	
Net Contribution to Earmarked Reserves:		
Schools and DSG	-7.010	
Non-Schools	-50.036	
Net Contribution to the General Reserve	-3.722	
<b>Total Financing</b>		<b>397.539</b>

11 The final outturn position for the Council's General Reserve is detailed below:

	<b>£m</b>
Opening Balance as at 1 April 2013	-24.410
Add:	
Net Contribution to the General Reserve in 2013/14	-3.722
<b>Closing General Reserve Balance as at 31 March 2014</b>	<b>-28.132</b>

12 The General Reserve balance carried forward of £28.132m is within the Council's General Reserves policy of retaining between 5% and 7.5% of the Net Budget Requirement, which in cash terms equates to between £22m and £33m. The £28.132m balance at 31 March 2014 equates to 6.4% of 2014/15 Net Revenue Expenditure Budget and gives the Council options in Medium Term Financial Plan (5) to use some of the reserve to smooth the savings targets in future years.

13 The main reasons why the General Reserve has increased are detailed below:

- Section 31 Small Business Rate Relief Grant income –£2.191m;
- Capitalisation Provision Redistribution Grant income - £0.881m;
- Interest and Investment income - £1.861m more than budgeted;
- Education Services Grant - £0.449m more than budgeted;
- Contingencies - £1.327m less than budgeted offset by;
- A transfer of £5.000m to the MTFP Redundancy and Early Retirement Reserve during the year



- 14 Appendix 4 details the movement on Earmarked Reserves during 2013/14. 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 2013	-61.925	-24.041	-19.904	-105.870
Less contribution to Earmarked Reserves	-50.036	-7.010	-3.032	-60.078
<b>Earmarked Reserve Balance as at 31 March 2014</b>	<b>-111.961</b>	<b>-31.051</b>	<b>-22.936</b>	<b>-165.948</b>

### Service Grouping Commentary

- 15 A summary of the outturn for each Service Grouping is provided below. Detailed outturn reports will be provided to the relevant Overview and Scrutiny Committees.

### Assistant Chief Executive (ACE)

- 16 The 2013/14 outturn is a cash limit underspend of £0.121m. This takes into account adjustments for sums outside the cash limit such as redundancy costs which are met from the strategic reserve, yearend capital entries and a contribution of £0.353m to the MTFP Redundancy and Early Retirement Reserve to assist in meeting the cost of future redundancy payments, which was actioned in quarter 3.
- 17 The cash limit position compares to the previously forecast position of a cash limit underspend of £84k.
- 18 The underspend is a managed position, reflecting the proactive management of activity by Heads of Service across ACE throughout the year to remain within the cash limit. The main reasons for the outturn position are as follows:
- Partnerships and Community Engagement - £71k underspend primarily due to an underspend on premises costs within Community Buildings.
  - Planning and Performance - £0.334m underspend primarily due to proactive management of vacancies in anticipation of future year MTFP savings which accounts for £0.140m of the saving. There is also a £78k saving in supplies and services including a managed underspend in relation to resident surveys. The remaining £0.116m is an over recovery of income particularly around the County Records Office.
  - Policy and Communications - £70k underspend predominantly resulting from a £50k managed underspend on employees in the Civil Contingencies Unit with the remainder from a managed underspend on

supplies and services and additional income generated from advertising.

- Central Costs - £0.353m overspent as a result of making a contribution to the MTFP Redundancy and Early Retirement Reserve to assist in meeting the costs of future redundancy payments.
- Each of the 14 Area Action Partnerships (AAPs) had an area budget to contribute to local projects of £0.120m in 2013/14. Combined with revenue budget carried forward from previous years (relating to committed expenditure on agreed projects) the total revenue budget across all AAPs was £2.636m. Actual spend of £1.713m was incurred during 2013/14 leaving a balance of £0.923m. In addition contributions from Public Health, Clinical Commissioning Groups and the Welfare Assistance Fund factored in a further £1.312m of resource resulting in £2.235m committed to future projects.
- Each elected member manages a “Members Neighbourhoods Budget” of £20k for priorities in their local AAP areas made up of £10k revenue budget and £10k capital. Previous years unspent allocations totalling £0.892m are held in an earmarked reserve as all spending has been committed to specific projects. During 2013/14 £1.173m was spent, resulting in a balance of £87k being transferred to the reserve leaving a closing balance of £0.979m.
- The Members Initiative Fund outturn was £0.196m resulting in a transfer to the Members Initiative Fund Reserve of £56k.

19 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:

- £0.482m – relates to contributions to and from earmarked reserves and cash limits to support specific projects in 2013/14 and 2014/15, including carrying forward AAP (£0.349m); Members Neighbourhood Initiative Reserve (£87k) and Members Initiative Fund Reserve (£56k) underspending in 2013/14, offset by a range of other minor contributions to and from reserves.
- £0.206m net contribution to reserves in relation to Direct Revenue Financing of Capital, ER/VR costs and Insurance recharges.
- £1.732m – relates to a range of adjustments associated with capital charges, centralised repairs and maintenance and central administration.

20 Taking the final outturn position into account, including items outside the cash limit, transfers to and from earmarked reserves, the cash limit reserve to be carried forward for ACE is £1.005m. There is pre-committed planned use of £0.250m of this reserve across the MTFP 4 period.

## Children and Adults Services (CAS)

- 21 The 2013/14 outturn for Children and Adults Services (CAS) is a cash limit underspend of £7.538m. This takes into account adjustments for sums outside the cash limit such as redundancy costs which are met from the strategic reserve, yearend capital entries and a contribution to earmarked reserves including £6.199m to the MTFP Redundancy and Early Retirement Reserve to assist in meeting the cost of future redundancy payments, which was actioned in quarter 3 and a £4.350m contribution to the Demographics / Hyper Inflation reserve at year end that will be used across the MTFP 4 period.
- 22 The cash limit outturn position compares to the previously forecast position of a cash limit underspend of £9.358m.
- 23 The outturn 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 Adults area of the service has created a net underspend for the year of approximately £6.0m.
  - Net spend on adult care packages was approximately £7.1m under budget, which represents circa 7% of the total adult social care budget. This area of spend is closely monitored to assess the impact of demographic and procedural/operational changes. Savings have arisen from tighter, consistent and effective application of the existing eligibility criteria, reducing the level of care packages subsequently commissioned, and the transformational change agenda, linked to the provision of social care, will further refine processes.
  - The service continually reviews its approach to MTFP savings in order to consider increasing the saving associated with consistent application of eligibility criteria. This is being 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. Inflation rate increases within the MTFP are 2.5% for 2013/14 and 1% for 2014/15. Contracts with residential and domiciliary care providers have increases of 2% in both these years. This has led to a forecast underspend in 2013/14 of £0.400m which will be needed to underwrite part of the inflationary uplift in 2014/15 which will be 1% higher than the 1% budget provision.
  - A review of one-off additional funding has identified an in-year contribution to the overall cash limit of approximately £0.400m. It is anticipated that this funding will be utilised in part to resource the work associated with the outcomes of the work linked to the ongoing transformation agenda in social care for children and adults.

- Home to School and college transport was £0.250m under budget. This represents a net saving of £0.420m linked to policy changes offset by a £0.170m in year reduction in Extended Rights to Free Travel grant.
- The Education Service was £1.303m underspent. A number of savings have been made across the School Places and Admissions Team, Special Education Needs (SEN) and Disability teams and Educational Support and Development Teams mainly relating to employee related spend through vacancies and the early achievement of MTFP savings, reduced supplies and services expenditure and additional income.
- The Early Intervention and Involvement Service was under budget by £1.200m. A number of savings have been made across the Community Safety and involvement Team, the One Point Service and Youth Offending Service mainly relating to employee related spend through vacancies and the early achievement of MTFP savings, reduced transport spend and reduced supplies and services expenditure.
- Central Costs/Other were £9.814m over budget due to a combination of the contribution to the MTFP Redundancy and Early Retirement Reserve (£6.199m) to assist in meeting the costs of future redundancy payments; a contribution to the Demographics / Hyper Inflation Reserve of £4.350m at year end to offset and delay MTFP pressures in future years; and an increase in the provision for bad and doubtful debts of £0.120m at year end; offset in the main by a review of one-off additional funding and a procurement rebate.
- Children's care was £1.404m underspent. Early achievement of 2014/15 MTFP saving targets resulted in the employee costs being under budget by £1.180m. The continued effective implementation and operation of the Looked after Children (LAC) reduction strategy has been successful in containing fostering and residential care costs within budget – this was a substantial budgetary pressure in previous years and the outturn shows expenditure in this area was £2.300m less than the previous year, where an overspend occurred. The LAC reduction strategy also led to smaller associated efficiencies particularly in connection with transportation and supplies and services costs.
- Secure Services are operated on a trading basis and therefore report a breakeven position in terms of the CAS cash limit, but it should be noted that the service has been successful in attracting additional income and achieved a contribution to the trading reserve of £0.959m at year end. Similarly, the Continuous Professional Development and Education Development Services in the Education Service returned surpluses of £0.306m and £0.284m respectively, which have also been transferred to earmarked reserves at year end.
- Public Health underspending against the Public Health Grant was £4.442m and this has been transferred to an earmarked reserve to

meet known future commitments required in transforming the service delivery model. The underspend is in part a result of demand led activity in connection with prescribing charges being at a lower level than previously anticipated.

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:

- £4.950m relates to contributions to and from earmarked reserves and cash limits to support specific projects in 2013/14 and 2014/15, including £4.350m transferred to the Demographics / Hyper Inflation Reserve to offset and delay MTFP pressures in future years; £0.306m transferred to the Continuous Professional Development reserve, relating to the trading account surplus at the yearend; £0.114m transfer to the Tackling Troubled Families reserve which will fund planned commitments in 2014/15; £0.284m transfer to the Education reserve, relating to trading account surplus at the yearend across a number of service areas within the Education service; and a £0.105m adjustment to previously forecast contribution to the Aycliffe Secure Reserve;
- a number of reserves totaling £1.817m, mainly in respect of adult care projects, were planned to be used in 2013/14 but these have been carried forward at year end to reflect revised spending profiles;
- £0.378m net contribution to reserves in relation to Direct Revenue Financing of Capital, ER/VR costs and Insurance recharges.
- £0.648m – relates to a range of adjustments associated with capital charges, centralised repairs and maintenance and central administration.

25 Taking the outturn position into account, the cash limit reserve to be carried forward for Children and Adults Services is £12.579m. There is pre-committed planned use of this reserve of £2.066m across the MTFP 4 period.

### **Dedicated Schools Grant**

26 The Dedicated Schools Grant (DSG) allocation for 2013/14 was £349.409m, however due to schools converting to academies and reduction in high needs allocation for payments made direct by the Education Funding Agency the budget was reduced by £69.292m in year to £280.117m. This includes both the delegated schools budget and the centrally retained DSG budget.

27 The total revised delegated budget for maintained schools (including early years' providers) was £261.113m.

28 Where schools spent more than their delegated budgets, the overspend reduces their accumulated balance. Schools-related balances were £24.684m at 31 March 2014, an increase of £5.266m from the previous year.

29 This is due in part, to the balance on the equal pay provision being returned to schools amounting to £3.572m following the settlement of these claims in year. Schools will now be fully responsible for any further equal value claims

going forward. The balance (£1.695m) results from general underspending across most schools and represents an improved position to that reported at quarter 3.

- 30 Members will be aware that over the last two years schools have been operating in an environment of uncertainty with regard to the impact of the National Fair Funding Formula changes the Government are implementing from 2015/16. Schools have been prudent and have tightly managed their expenditure in recent years to build up their balances to be able to better accommodate any adverse impacts from 2015/16. Additionally, reductions in Department for Education (DfE) grant to support capital investment has resulted in schools earmarking balances for investment in planned capital improvements in their schools, effectively “saving-up” to self-finance these schemes. The Council encourages schools to have retained balances of a minimum of 2.5% of their revenue budget but also challenges schools where balances exceed this level to ensure there is a strategic plan / reason for this.
- 31 2013/14 was the first year all schools have been requested to forecast their outturn position during each quarter throughout the year. Spending in schools has been impacted by the reluctance to commit to spending 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.
- 32 The level of school balances is being closely 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.
- 33 There has been greater scrutiny and challenge being put into schools budget plans to identify and address areas of concern and risk to the Council in 2013/14 and this is an ongoing process. Whilst the vast majority of schools continue to be well managed and are financially sound, termly updates have been required from all maintained schools on their projections for the year, with reports also provided to School Governors. The Council have worked constructively with schools to address any concerns and where appropriate take action to ensure the risk to the School and the Council is mitigated.
- 34 At 31 March 2014 there were 6 schools with a deficit balance carried forward totalling £0.960m, 12 schools holding a balance less than 2.5% of their overall funding and 240 schools with balances of more than 2.5% of their overall funding. This is an improved position from the 2012/13 outturn, where there were 15 schools with a deficit balance carried forward; 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.
- 35 The pressure areas for the centrally controlled element of the DSG in 2013/14 have been within the additional cost of High Needs Special Education Needs and Disabilities (SEND) children’s placements in maintained, academy and independent special schools and school redundancy costs. This has been offset by underspends within the Education Service Team dealing with SEND children, post 16 high needs provision, capitalised repair and maintenance, school improvement and early years provision.

- 36 The overall outturn position for the centrally retained element of the DSG shows an underspend of £1.744m. The earmarked reserve relating to centrally retained DSG carried forward at 31 March is £6.367m, of which £2.873 is earmarked for specific requirements (carry over commitments on SEND, post 16 high needs provision and 2 year old provision etc.), leaving a residual sum of £3.493m, of which £0.800m is required to fund long standing capital programme commitments in respect of schemes approved in 2012/13, the balance is earmarked to support spend and budget pressures in school improvement services.

### **Neighbourhood Services**

- 37 The 2013/14 outturn for Neighbourhood Services is a cash limit underspend of £0.966m. 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.
- 38 The cash limit outturn position compares to the previously forecast Quarter 3 position of a cash limit underspend of £0.844m.
- 39 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. The main reasons accounting for the outturn position are as follows:
- There was an underspend of £0.600m within Technical Services, which was mainly due to a higher than anticipated surplus being generated within the Highways Services trading account. This was a result of increased levels of workload across the year partly due to the extremely mild winter, along with an improvement in efficiency as a result of the review of workforce levels at the end of 2012/13.
  - Within Direct Services, there was an underspend of £0.400m, due to savings in the running costs of council accommodation, and an increased surplus within the Building Services trading account.
  - An overspend of £0.500m within Strategic Waste was due to higher than anticipated one off costs associated with maintaining landfill gas power generation equipment, and also a continuing fall in income from the sale of dry recyclates. The fall in income is due to prevailing market conditions and higher than anticipated levels of contamination within the recyclable material that is collected.
  - The Library Service was £0.200m underspent due to savings associated with changes in opening hours and shift patterns brought about by the early implementation of a 2014/15 MTFP saving.
  - There was also an underspend of approximately £0.300m within the Environment, Health and Consumer Protection service due to savings in employees and supplies and services. A significant proportion of

this is due to the early achievement of MTFP savings planned for 2014/15.

- 40 Further to the quarter 3 forecast outturn report, the following items have been excluded from the outturn in arriving at the cash limit:
- £3.840m – relates to contributions to and from earmarked reserves and cash limits to support specific projects in 2013/14 and 2014/15, including a £0.505m contribution to earmarked reserves to support one off expenditure in Culture and Sport; a £1.260m contribution to earmarked reserves in respect of Highways, Waste Disposal, and Environmental Health; a £1.725m contribution to earmarked reserves in respect of Buildings and Grounds Maintenance, and Street Cleaning; and a £0.350m contribution to earmarked reserves for Customer Services.
  - An additional underspend (against the quarter 3 forecast) on Winter Maintenance activities of £0.312m. In previous years, any overspends on Winter Maintenance have been treated as outside the cash limit. The 2014/15 budget has been increased by £1.300m and an earmarked reserve is being created corporately at year end to help manage these costs within the Neighbourhood's cash limit in future years. The Winter Maintenance Reserve established at year end is £1.000m and this will be utilised in future years in severe winter events should the increased budget be insufficient to meet the unavoidable costs in this area.
  - £1.755m net contribution to reserves in relation to Direct Revenue Financing of Capital, ER/VR costs and Insurance recharges.
  - £9.143m relates to a range of adjustments associated with capital charges, centralised repairs and maintenance and central administration.
- 41 Taking the outturn position into account, the Cash Limit Reserve to be carried forward for Neighbourhood Services is £2.782m. There is pre-committed planned use of this reserve of £0.360m across the MTFP 4 period.

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

- 42 The 2013/14 outturn for Regeneration and Economic Development is a cash limit overspend of £0.249m. This takes into account adjustments for sums outside the cash limit such as redundancy costs which are met from the strategic reserve, yearend capital entries and use of / contributions to earmarked reserves including a contribution of £0.875m to the MTFP Redundancy and Early Retirement Reserve to assist in meeting the cost of future redundancy payments, which was actioned in quarter 3.
- 43 The cash limit outturn position compares to the previously forecast position of a cash limit overspend of £0.273m.



- 44 The outturn is a managed position, reflecting the proactive management of activity by Heads of Service across RED to bring spend within the cash limit. The main reasons accounting for the outturn position is as follows:
- £0.144m underspending in Strategy Programmes and Performance relates to savings on employee costs, including vacancies and the secondment of an employee to the Association of North East Councils, maternity savings and other general efficiency savings on supplies and services;
  - Economic Development and Housing was £39k overspent, primarily due to additional spend on tourism activities;
  - Planning and Assets returned a £0.646m underspend at year end due to a £0.863m underspend in the Planning Service and a £0.217m overspend on Asset Management. The underspend in the Planning service primarily relates to overachievement of planning fee income, employee savings from vacant posts and other efficiency savings on transport and supplies and services. The Assets Management Service experienced income pressures, mainly from Newgate Street in Bishop Auckland, the Brackenhill Centre in Peterlee and Millennium Square in Durham City where anticipated rental income is not being achieved;
  - Transport Services were £0.139m overspent, which is primarily due to the increase in contract costs to NSL Limited for enforcement of parking policies throughout County Durham, offset by savings on bus contract payments due to new contracts being negotiated in 2013/14 and the effects of a mild winter;
  - Central Costs were £0.861m overspent due to a £0.875m contribution to the MTFP Redundancy and Early Retirement Reserve, offset by a £14k underspend on central financing costs.
- 45 Further to the quarter 3 forecast outturn report, the following items have been excluded from the outturn in arriving at the cash limit:
- £0.346m – relates to net contributions from earmarked reserves and cash limits to support specific projects in 2014/15;
  - £1.646m net contribution to reserves in relation to Direct Revenue Financing of Capital, ER/VR costs and Insurance recharges.
  - £15.442m – relates to a range of adjustments associated with capital charges, centralised repairs and maintenance, central administration and concessionary fares
- 46 Taking the outturn position into account, the Cash Limit reserve to be carried forward for Regeneration and Economic Development is £3.007m. There is pre-committed planned use of this reserve of £2.019m across the MTFP 4 period.

## Resources

- 47 The 2013/14 outturn for Resources is a cash limit underspend of £0.367m. This takes into account adjustments for sums outside the cash limit such as redundancy costs which are met from the strategic reserve, yearend capital entries and use of / contributions to earmarked reserves including a contribution of £2.573m to the MTFP Redundancy and Early Retirement Reserve to assist in meeting the cost of future redundancy payments, which was actioned in quarter 3.
- 48 The cash limit outturn position compares to the previously forecast position of a cash limit overspend position of £0.379m.
- 49 The underspend is a managed position, reflecting the proactive management of activity by Heads of Service across Resources to bring spend within the cash limit. The main reasons accounting for the final outturn position are as follows:
- Corporate Finance was £0.170m under budget due to £48k savings on employee costs and the balance coming from additional income arising from Service Level Agreements and VAT recovered;
  - Financial Services was £1.360m under budget as a result of the early achievement of 2014/15 MTFP savings (£0.360m), underspending on employee related budgets (vacancies) in year of £0.438m and additional income of £0.522m from court cost fee income, which is also a 2014/15 MTFP saving, plus £30k from supplies and services savings and other areas;
  - Human Resources was £0.216m underspent at year end arising from £0.272m savings in employee budgets as a result of the active management of vacant posts in advance of MTFP related restructuring in 2014/15 alongside a small overspend on running expenses of £56k;
  - ICT was £0.256m underspent largely explained by a £0.250m underspend in employee budgets as a result of the active management of vacant posts in advance of MTFP related restructuring in 2014/15;
  - Legal and Democratic Services was £0.734m under budget, explained by £0.123m savings on employee related budgets, additional income of £89k and general underspends on supplies and services of £0.522m;
  - Internal Audit and Risk returned an underspend of £0.178m as a result of £0.198m savings against employee budgets as a result of the active management of vacant posts in advance of MTFP related restructuring in 2014/15 offset by a £20k overspend on supplies and services related expenditure;
  - Service Management and Central Costs were £2.546m overspent due to a combination of the £2.573m contribution to the MTFP Redundancy and Early Retirement Reserve, offset by a £27k underspend due to additional income arising from rebate from Comensura contract.

- 50 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:
- £0.817m – relates to contributions to and from earmarked reserves and cash limits to support specific projects in 2014/15, including a contribution to the Corporate Procurement Reserve (£0.376m), a contribution to the Elections Reserve (£0.186m) and a contribution to the ICT Trading Account Reserve (£0.321m), offset by a range of other minor contributions to and from reserves.
  - £0.104m net contribution from reserves in relation to Direct Revenue Financing of Capital, ER/VR costs and Insurance recharges.
  - £2.787m – relates to a range of adjustments associated with capital charges, centralised repairs and maintenance and central administration.
- 51 Taking the final outturn position into account, including items outside the cash limit, transfers to and from earmarked reserves, the cash limit reserve to be carried forward for Resources is £3.563m. There is pre-committed planned use of this reserve of £0.358m across the MTFP 4 period.

### **Resources - Centrally Allocated Costs (Corporate Costs)**

- 52 Centrally Allocated Costs were £0.176m underspent in 2013/14. The outturn has been adjusted to take into account adjustments for the use of / contributions to earmarked reserves.
- 53 The outturn position compares to the previously forecast position of an underspend of £0.136m.
- 54 The main reasons accounting for the final outturn position are as follows:
- Supplies and Services were underspent by £0.206m, primarily due to savings on audit fees, bank charges and subscriptions; offset by.
  - Under-recovery of income by £30k from the VAT sharing arrangement with North Star Housing Group.
- 55 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:
- £0.115m – relates to a contribution from the Welfare Assistance Earmarked Reserve to support specific projects in 2013/14

### **Central Budgets**

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

- 56 The Revenue Summary at Appendix 2 shows a net £3.821m underspend at year end against this heading. This saving has been achieved due to lower than forecast interest rates on loans and delayed borrowing decisions due to higher levels of cash balances than forecast.

## **Interest and Investment Income**

- 57 There has been an overachievement of investment income of £1.861m which is due to the higher than anticipated levels of cash balances held during 2013/14. 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 2013/14. In addition, a dividend of £0.279m has been received in respect of Newcastle International Airport from the Airport Company and a premium of £0.405m was received following a premature redemption of a loan.

## **Education Services Grant**

- 58 The outturn reflects net additional grant income of £0.449m which was due to the actual grant notification being higher than the amount budgeted for in 2013/14.

## **Section 31 Grant – Small Business Rate Relief**

- 59 Business properties with rateable values under £12,000 benefit from relief on their rates payable. It had been intended that the enhanced relief granted in recent years would be returned to standard rates for 2013/14. However the Government decided to extend the enhanced rates relief scheme for the whole of 2013/14. This meant that the income receivable under the new Business Rates Retention Scheme reduced and a special grant, 'Section 31 grant' has been awarded to recompense authorities for the shortfall produced as a result.
- 60 The Section 31 grant awarded against 2013/14 Business Rates bills was £8.942m. Of this, the Council will receive £2.191m and this has been accrued in the accounts for 2013/14.

## **Capitalisation Provision Redistribution Grant**

- 61 The Government proposed in the illustrative 2014/15 settlement that £100m would be held back from Revenue Support Grant for capitalisation in 2014/15. Any provision not allocated would be distributed in accordance with the authorities' share of the 2013/14 Start-Up Funding Assessment. As there was limited take up in 2013/14, the Council's share of the redistribution was £0.881m. The Council was notified of this redistribution in March 2014.

## **2013/14 Capital Outturn**

### **General Fund Capital Programme**

- 62 The original General Fund (GF) capital budget for 2013/14, taking into account the budgets approved by Council on 26 February 2013 and adjustments for re-profiling of underspends at 2012/13 year end was £163.141m. This was agreed by Cabinet on 17 July 2013.
- 63 Throughout 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. Regular updates to the capital programme were reported and approved by Cabinet as part of the quarterly

budgetary control reports in year. Requests for re-profiling capital programme underspends at 31 March 2014 have also been agreed by MOWG.

- 64 The following table summarises the revised capital budgets, taking into account revisions agreed by MOWG and Cabinet throughout the year, together with the outturn position for each service area. The table also details the action that has been taken with regard to re-profiling and other budget adjustments at year end, which were approved by MOWG on 22 May 2014.

#### General Fund Capital Programme 2013/14

Service	Revised 2013/14 Budget £m	2013/14 Outturn £m	Variance £m	Additions / Deletions From Budget £m	Reprofiling £m
Assistant Chief Executives	2.244	1.158	-1.086	-0.154	-0.932
Children and Adults Services	52.382	41.241	-11.141	0.556	-11.697
Neighbourhoods	30.722	26.090	-4.632	0.720	-5.352
Regeneration and Economic Development	37.172	34.725	-2.447	0.388	-2.835
Resources	5.267	3.892	-1.375	0.150	-1.525
<b>Total</b>	<b>127.787</b>	<b>107.106</b>	<b>-20.681</b>	<b>1.660</b>	<b>-22.341</b>

- 65 In addition to underspends requested to be carried forward into 2014/15 to fund the completion of capital scheme / programmes, the variances in the table above also include some overspends on projects that span multiple financial years, which resulted from acceleration of project delivery timescales. In such instances the 2014/15 budgets have been reduced to offset the increased activity in 2013/14. All re-profiling agreed by MOWG has now been reflected in the 2014/15 revised capital budget.
- 66 The Capital Programme is financed via various funding sources including grants, capital receipts, revenue contributions, contributions from reserves and borrowing. The financing of the 2013/14 Outturn is detailed in the table below.

#### Financing – General Fund Capital Programme 2013/14

Financed by	2013/14 Outturn £m
Grants	72.243
Direct Revenue Financing	
DSG	4.336
Other	6.516
Capital Receipts	6.857
Borrowing	17.154
<b>Total</b>	<b>107.106</b>

#### Service Grouping Commentary

- 67 The primary reasons for the net capital underspending of £20.681m (circa 16% under budget at year end) are set out below:

## Assistant Chief Executive (ACE)

68 The underspend of £1.086m within ACE is mainly due to:

- **Members Budgets** – Underspend £1.260m.  
Elected members are encouraged to invest their annual allocation within each financial year. Current guidance states that uncommitted funds may be carried forward but not beyond an elected member's term of office.
- **Community Buildings** - Underspend £39k.  
Progress on the community assets transfer has been delayed due to the on-going negotiations between the Council and the relevant community groups regarding the lease agreements for the buildings.
- **Community Facilities in Crook** - Underspend £12k.  
Progress has been delayed pending the submission of business plans from the relevant community groups.
- **AAP – AAP Area Budgets** - Overspend £0.225m.  
This reflects the capitalisation of some schemes approved and fully financed from AAP Area programmes revenue funding.

## Children and Adults Services (CAS)

69 The underspend of £11.141m for CAS is mainly due to:

- **BSF Schemes** – Underspend £2.600m.  
Milestone payments for work at Consett Academy and North Durham Academy were delayed and some outstanding final accounts and asbestos claims have yet to be resolved.
- **Devolved Formula Capital** – Underspend £2.600m.  
Work has been delayed whilst individual schools finalise capital investment plans.
- **Other School Related** – Underspend £3.500m.  
Capital expenditure on Special Education Needs (SEN) has been deferred pending the outcome of the current SEN review which along with delays in starting several schemes have contributed to the underspend in this area.
- **Adult Care** – Underspend £1.300m.  
Projected expenditure associated with in-house residential care was not committed whilst the outcome of the review of the in-house residential provision was determined. The recommendations from the review were not agreed by Cabinet until 16 April 2014.
- **Early Years** – Underspend £0.700m.  
The two year programme to provide places for 2 year olds is still due for completion in 2014/15. However, the delivery of the scheme has

been rescheduled with a greater element of the work committed in 2014/15 than originally anticipated.

- **Other areas** – Underspend £0.441m.  
Delays to programmes associated with Children’s Residential Homes, performance and planning systems development.

## Neighbourhood Services

70 The underspend of £4.632m for Neighbourhood Services is mainly due to:

- **Direct Services** – Underspend £2.115m.  
The underspend primarily relates to a planned delay in the implementation of the Garden Waste scheme. This delayed the procurement of additional wheeled bins. There were also procurement issues which led to delays in the delivery of vehicles and plant. These issues resulted in underspend of £0.886m. Outstanding work on Bereavement and Environmental Improvement schemes which were expected to be completed in 2013/14 are now due for completion in 2014/15.
- **Culture and Sport** – Underspend £0.440m.  
The delay in notification of Heritage Lottery Fund grant connected with the restoration of Wharton Park delayed progress and contributed to the majority of the Culture and Sport underspend.
- **Projects and Business Support** – Underspend £0.481m.  
Improvements to the Waste Transfer Stations previously expected to be completed in 2013/14 are now scheduled for completion in 2014/15.
- **Technical Services** – Underspend £1.582m.  
Primarily due to several projects where works have been committed in 2013/14 but which span multiple financial years and will not be completed until 2014/15.
- **Environmental Health and Consumer Protection** – Underspend £14k.  
Development of a single integrated environmental health system was completed under budget – the residual budget is not required and has been released to capital contingencies in 2014/15.

## Regeneration and Economic Development (RED)

71 The underspend of £2.447m for RED is mainly due to:

- **Economic Development and Housing** – Net overspend £0.366m.  
The outturn position results from an overspend of £1.077m due to work progressing more quickly than anticipated at the Gypsy, Roma and Traveller sites in 2013/14. This is offset by an underspend of £0.215m due to delays in contract finalisation for Durhamgate, together with an underspend on Stella Gill Industrial Estate and slower than expected progress with the Housing Renewal programme (£0.253m). In addition, there have been delays in the acquisition of properties and

demolition costs associated with the Office Accommodation project (£0.109m). The residual budget for the Urban and Rural Renaissance Initiative (URRI) programme underspent by £0.134m and is to be reviewed in future years.

- **Planning and Assets** – Underspend £1.044m.  
Underspends primarily related to capitalised maintenance (£0.552m), and projects associated with Drainage works (£0.151m) and renewable technologies (£0.318m).
- **Strategy and Performance** Underspend £78k –  
This was a contingency figure, which was not required in year.
- **Transport** – Underspend £1.691m.  
Delays in completion of schemes at Pelton / Ouston Junction and Belmont Business Park Junction following a traffic flow assessment.

## Resources

72 The underspend of £1.375m for Resources relates to ICT, details as follows:

- **ICT - Underspend £1.375m**  
Procurement issues connected to the business continuity scheme has led to delays in completing this project which is now expected to be finalised in 2014/15. Installation work for the 'Dark Fibre' network has been rescheduled to 2014/15 leading to an underspend of £0.390m. The Infrastructure Environment Monitoring scheme has underspent in 2013/14 due to delays in completion and is now anticipated to be completed by September 2014.



## Housing Revenue Account (HRA) – 2013/14 Revenue and Capital Outturn

### Revenue Outturn

73 Appendix 5 provides a detailed breakdown of the outturn position for the HRA, showing the actual position compared with the original budget. In summary, it identifies a balanced outturn position on the revenue account after using a projected surplus of £0.759m towards financing the capital programme. The following table summarises the HRA outturn position:

Housing Revenue Account	2013/14 Budget	2013/14 Final Outturn	Variance
	£000	£000	£000
<b>Income</b>			
Dwelling Rents	-63,633	-63,295	338
Other Income	-1,466	-1,672	-206
Interest and Investment Income	-104	-71	33
<b>Total Income</b>	<b>-65,203</b>	<b>-65,038</b>	<b>165</b>
<b>Expenditure</b>			
ALMO Fees	16,469	16,469	0
Repairs, Supervision and Management Costs	12,220	12,910	690
Depreciation	7,850	7,821	-29
Interest Payable	12,447	10,862	-1,585
Revenue Contribution to Capital Programme	16,217	16,976	759
<b>Total Expenditure</b>	<b>65,203</b>	<b>65,038</b>	<b>-165</b>
<b>2013/14 Surplus transferred to balances</b>	<b>0</b>	<b>0</b>	<b>0</b>

74 In summary, the main variances with the budget are explained below and relate to the figures and corresponding notes shown in Appendix 5:

- a) **Dwelling Rents £0.338m reduced income** – this results from an increase in “Right to Buy” sales where there were 80 sales in the year and an increase in the number of void properties across all three housing management areas, which providers are reporting is linked, at least in part, to the Government’s Welfare Reforms;
- b) **Charges for Services and Facilities £0.178m additional income** – this results from the additional “Right to Buy” administrative income plus additional income resulting from backdating Intensive Housing Management charges;

- c) **Repairs and Maintenance £0.762m over budget** – at the yearend a review of the capital programme expenditure identified costs which needed to be aligned to revenue spend as opposed to capital, the higher spend has been offset by a corresponding reduction in the revenue contribution to the capital programme;
- d) **General Supervision and Management £0.289m over budget** – this results from the Customer Service charge for Durham City Homes being higher than the original budget and additional asset management work relating to Housing Stock Transfer;
- e) **Rents, Rates and Taxes £0.220m over budget** – this is an increase in Council Tax charges resulting from the increased numbers of void properties;
- f) **Changes in Bad Debt Provision £0.561m under budget** – this results from lower than anticipated arrears compared to forecast, due to the delay by the Government in introducing Universal Credit and the work carried out by the three providers in maintaining rent arrears at a consistent level;
- g) **Interest Payments £1.585m under budget** – this results from a lower interest rate and lower outstanding loan debt than originally anticipated, due in part to re-profiling of the capital programme in year;
- h) **Revenue Support to Capital £0.759m over budget** – the balancing item on the HRA, which identifies the potential resources available to support the capital programme and reduce our reliance on borrowing.

75 The final position on HRA general and earmarked balances as at 31 March 2014 is as follows:

- Durham City Homes Improvement Plan - £0.650m
- Welfare Reform - £0.393m
- HRA Reserve - £7.155m

### **HRA Capital Outturn**

76 The original HRA capital budget for 2013/14, taking into account the budgets approved by Council on 26 February 2013 and adjustments for re-profiling of underspends at 2012/13 year end was £55.583m. This was agreed by Cabinet on 17 July 2013.

77 As with the General Fund Capital Programme, throughout the year, the Capital Member Officer Working Group (MOWG) has continually reviewed progress in delivering the HRA capital programme, to take into account changes in planning and delivery timescales and analysis of changes in demands on resources. Regular updates to the capital programme were reported and approved by Cabinet as part of the quarterly budgetary control reports in year. The budget was reviewed throughout 2013/14 with the revised budget being £49.819m.

- 78 The following table summarises the revised capital budgets, taking into account revisions agreed by MOWG and Cabinet throughout the year, together with the outturn position for each service area. The table also details the action that has been taken with regards to re-profiling and other budget adjustments at year end, which were approved by MOWG on 22 May 2014.

#### Housing Revenue Account Capital Programme 2013/14

Service	Revised 2013/14 Budget £m	2013/14 Outturn £m	Variance £m	Additions / Deletions From Budget £m	Reprofiling £m
HRA	49.819	45.698	-4.121	-4.121	-
<b>Total</b>	<b>49.819</b>	<b>45.698</b>	<b>-4.121</b>	<b>-4.121</b>	<b>-</b>

- 79 The following table summarises the recommended financing of the HRA capital programme spend in 2013/14:

#### Financing – Housing Revenue Account Capital Programme 2013/14

Financed by	2013/14 Outturn £m
Grants	19.400
Direct Revenue Financing	16.976
Capital Receipts	1.293
Major Repairs Allowance	7.550
Borrowing	0.479
<b>Total</b>	<b>45.698</b>

- 80 The 2013/14 outturn capital expenditure was £45.698m against a revised budget of £49.819m, resulting in a £4.121m underspend for the year.
- 81 Expenditure on assets such as communal halls and garages were found to be revenue rather than capital in nature, resulting in an underspend of £1.218m.
- 82 The majority of the underspend (£1.848m) relates to the East Durham Homes programme and is due to significant savings being achieved through the introduction of a new contract in July 2013 to deliver planned Decent Homes schemes, where work is being delivered at a cheaper rate.
- 83 There was also an underspend of £0.738m on Durham City Homes schemes, which is also due to more competitive rates being obtained, resulting in planned activity being completed below budget.
- 84 The remaining £0.317m is largely attributable to underspends in mortgage rescue and new build projects.

## Collection Fund – Council Tax and Business Rates

- 85 The Collection Fund accounts for two main income streams – Council Tax and Business Rates.

### Council Tax

- 86 Council Tax is charged for all residential dwellings in bandings agreed by the Valuation Office (part of Her Majesty's Revenues and Customs). Exemptions, reliefs and discounts are awarded dependent upon the state of the property, its use and occupiers' personal circumstances.
- 87 Since its inception in 1993, the council tax system has remained largely unchanged. However, from 1 April 2013, local authorities were given the powers to amend discounts awarded to certain empty properties and apply a premium to those that had been empty for more than two years, plus remove any discounts awarded to second homes.
- 88 In December 2012 Cabinet decided to adopt these powers and therefore from 1 April 2013, no reduction is now awarded for empty properties, previously, no charge was applied for first six months empty and a 50% premium / additional charge is now applied to those properties that have been empty for two or more years. The Council also removed the 10% previously applied to second homes. These changes increased the budgeted collectable debit by c£5.5m in 2013/14.
- 89 Overall collection rates do not appear to have been adversely affected by these changes. As at 31 March 2014, the in-year overall Council tax collection rate was 95.4% which was 0.5 percentage points higher than the 2012/13 in-year performance and 1.6 percentage points above the 2011/12 in-year performance at 31 March. A major factor in this improved performance is the adjustments made to recovery cycles in 2013/14, ensuring late payers are being prompted to pay more quickly and recovery action taken against bad payers in a more timely manner.
- 90 The in-year collection rates for the last three years including the current year are shown below:

<b>Billing year</b>	<b>Position at 31 March Each Year %</b>
2013/14	95.4
2012/13	94.9
2011/12	93.8

- 91 The current overall collection rate for 2012/13 council tax liabilities is now 95.85% and for 2011/12 council tax liabilities is now 97.30%. The Council continues to recover Council Tax from earlier years and, in the long run, recovers at least 98.5%, upon which the tax base calculation is based.
- 92 The income shown in the Council Tax Collection Fund is the amount collectable from Council Tax payers in the long run, rather than the actual

cash collected in the year the charges are raised. Likely bad debts are accounted for by maintaining a bad debt provision. The amount estimated to be collectable is estimated each year by reference to the actual council taxbase for all domestic properties in the county (schedule of all properties, discounts and reliefs) with an allowance for non-collection, currently 1.5%.

- 93 Due to changes in the number of properties (including new build and demolitions), eligibility of discounts and reliefs during the year, the actual amount collectable increases or decreases from the estimate on a dynamic day to day basis. In addition, adjustments for previous billing years take place during each accounting year. All of these adjustments mean that the actual amounts collected will always differ from the estimate. Such differences at the end of each accounting year, after taking into account the calculated change required in the 'bad debt' provision, determines whether a surplus or deficit has arisen, which is then shared between the major preceptors, Durham County Council, Durham Police Authority and County Durham and Darlington Fire and Rescue Authority based on the relative proportions of the Band D council tax at the beginning of the financial year.
- 94 At 31 March 2014, the Outturn for the Council Tax Collection Fund was a surplus of £2k, arrived at as shown in the following table.

	<b>£'000</b>
Net Bills issued during Accounting Year 2013/14	263,499
LCTRS and previous year CTB adjustments	-52,421
Calculated change in provision for bad debts required	-4,974
Net income receivable (a)	206,104
Precepts and Demands	
Durham County Council (including Parish/Town Councils)	174,452
Durham Police Authority	20,060
County Durham and Darlington Fire and Rescue Authority	11,596
Total Precepts and Demands (b)	206,108
Net Surplus / (-) Deficit for year (a) – (b)	-4
Surplus Brought Forward from 2012/13	6
<b>Surplus at 31 March 2014</b>	<b>2</b>

- 95 At 15 January in each year, the estimated surplus/deficit on the Collection Fund Council Tax Account is notified to the major preceptors for inclusion in the budget setting process for the following year as an additional income or expenditure item. At 15 January 2014 an estimated break-even position on the Council Tax Collection Fund for 2013/14 was declared. The actual surplus of £2k was in line with that estimate and this will be carried forward to

15 January 2015 and will be taken into account in estimating the surplus/deficit for 2014/15, which will need to be taken into account for 2015/16 budget setting.

## Business Rates

- 96 Business rates have been levied on all non-domestic properties since 1990. In all previous years, the Council acted simply as a tax collector for Central Government, with all amounts receivable, debtor and creditor balances and provisions owing to or from Central Government. The Council remained largely unaffected by changes in business rate yield or liabilities in each year.
- 97 2013/14 was the first year of the new Business Rates Retention Scheme whereby the Council now has a real vested budget interest and stake in the level of business rate yield as income generated from Business Rates is now shared between Central Government (50%), Durham County Council (49%) and County Durham and Darlington Fire and Rescue Authority (1%). For the first time, therefore, it is not only the accuracy and timeliness of bills levied and collected that is monitored and audited, but the level of income anticipated for the year is of utmost importance and new monitoring procedures have been devised for this purpose.
- 98 Bills raised, exemptions and reliefs awarded are examined together with local knowledge of anticipated changes in reliefs such as Mandatory Charitable relief and Discretionary Rate Relief on a monthly basis to enable a comparison with the January 2013 estimate that was used for budget setting purposes. At 31 March 2014, the Outturn for the Collection Fund Business Rates was a deficit of £3.275m, arrived at as shown in the following table.

	£000
Net rate yield for 2013/14 including previous year adjustments	112,365
Estimate of changes due to appeals lodged and future appeals	-5,192
Estimated losses in Collection – Provision for Bad Debts and Write-offs	-1,769
Net income receivable (a)	105,404
Agreed allocated shares	
Central Government (50%)	54,037
Durham County Council (49%)	52,957
County Durham and Darlington Fire and Rescue Authority (1%)	1,081
Cost of Collection Allowance (paid to Durham County Council)	604
Total fixed payments (b)	108,679
Net Deficit for year (a) - (b)	-3,275
<b>Deficit at 31 March 2014</b>	<b>-3,275</b>

99 The deficit shown above is made up of £3.282m to be shared between Durham County Council, Central Government and County Durham and Darlington Fire and Rescue and a surplus of £7k payable only to Durham County Council in respect of Business Rates from Renewable Energy projects. This compares with the deficit estimated in the March 2014 Quarter 3 Forecast of Outturn report to Cabinet of £3.247m. (Nil Renewable Energy surplus or deficit forecast at that time).

100 The Quarter 3 estimate was notified to Central Government and County Durham and Darlington Fire and Rescue Authority as part of the statutory 2014/15 NNDR1 return to Central Government, whereby the estimated income from Business Rates for the following year is calculated. Any surplus or deficit for 2014/15 notified on the NNDR1 becomes part of the payment to be made during the following financial year and then forms part of the Council's budget projections. The shares relating to the January 2014 estimate have been fully accounted for in budget setting for 2014/15, and the difference carried forward to January 2015 is shown in the following table:

<b>Authority</b>	<b>Share of Business Rates</b>	<b>Share of deficit declared January 2014</b>	<b>Share of deficit at 31 March 2014</b>	<b>Deficit carried forward to January 2015</b>
		£000	£000	£000
Durham County Council	49%	1,591	1,608	17
Central Government	50%	1,624	1,641	17
County Durham and Darlington Fire and Rescue Authority	1%	32	33	1

101 The Business Rates Retention Scheme has not changed the actual business rates charged to ratepayers and therefore was not expected to have a detrimental effect on collection rates. At 31 March 2014, the in-year collection rate for 2013/14 charges was 96.4% which was 1.2 percentage points above the same point in 2012/13 and 1.7 percentage points above the in-year figure for 2011/12.

102 The in-year collection rates for the last three years, including the current year, are shown below:

<b>Billing year</b>	<b>31 March %</b>
2013/14	96.4
2012/13	95.2
2011/12	94.7

## **Section 31 Grant- Small Business Rate Relief**

- 103 Business properties with rateable values under £12,000 benefit from relief on the rates payable. It had been intended that the enhanced relief granted in recent years would be returned to standard rates for 2013/14. However, Government decided to extend the enhanced rates relief scheme for the whole of 2013/14. This meant that the income receivable under the new Business Rates Retention Scheme would be reduced and a special grant has been awarded to recompense authorities for the shortfall produced as a result.
- 104 Properties with rateable values up to £6,000 are currently being granted full relief instead of 50% relief under the previous scheme, and properties with rateable values between £6,000 and £12,000 have a tapered relief applied to them ranging from 100% down to 0%, but in all cases double the standard relief.
- 105 The grant has been calculated as 50% of the extended small business rate relief given. Under rules governing the share of Business Rates income, the Local Share of the grant is therefore calculated as 25% of the total relief granted, with 98% of that figure accruing to Durham County Council and 2% to County Durham and Darlington Fire and Rescue Authority.
- 106 The gross Small Business Relief awarded against 2013/14 Business Rates bills was £8.942m. Of this, Durham County Council will receive £2.191m and this has been accrued in the accounts for 2013/14.
- 107 Central Government has only agreed to repay by Section 31 grant the additional Small Business Rate Relief in respect of 2013/14 business rates bills. However, there have been adjustments made in respect of previous years' bills that also included the doubling of Small Business Rate Relief. The Council has raised this matter with the Department for Communities and Local Government (CLG), the response to which was that it was being considered but no date was given for the decision. If agreed, a further £80k would be payable in Section 31 grant, though for prudence purposes this has not been accrued in our accounts for 2013/14.

## **Deferred Rates**

- 108 During 2012/13, businesses could choose to spread the retail price index increase (3.2%) of their bill over three years. The bills were issued for the whole amount due but part of the bill was not collectable during the billing year.
- 109 Billing Authorities were compensated in 2012/13 by a reduction in the cash payable to Central Government of the whole amount of the rates so deferred. This was done by an adjustment of the audited statutory outturn return for business rate income – the NNDR3. Normally, this would have been repayable in 2013/14 and 2014/15 with the deferred rates being added back into the amount payable to Central Government.
- 110 In December 2013, CIPFA notified Authorities that Central Government was not looking to recover the deferred rates and that Authorities would be able to



retain this. However, it now appears that Central Government has changed its position but has not clarified if it expects to recover all of this or allocate it in the same shares as Business Rates income. If they choose to allocate the deferred rates balance to Authorities in the same shares as Business Rates income then Durham County Council would retain £0.219m. In line with guidelines issued by CLG, the balance has been carried forward into 2014/15 as a Central Government creditor and will be dealt with in that year when confirmation is received.

### Provision for Appeals

- 111 Ratepayers have the right to appeal against the rateable value of their properties which are assessed by the Valuation Office Agency, part of HM Revenues and Customs. If successful, the appeal may result in a reduction being applied to all bills issued from 1 April 2010 for that property. Appeals can continue to be lodged against bills dating back to 1 April 2010 at any time up to 31 March 2017. The level of appeals being lodged and the time taken to settle them can have a detrimental and unpredictable effect on the income for any one year. In order to try to manage this, we make a provision in our Business Rates Collection Fund for the repayment of rates already billed due to potential successful appeal outcomes.
- 112 At 31 March 2014, the provision for appeals, based on the Valuation Office appeals list for the same date, and prudent assumptions of anticipated outcomes, including potential appeals coming forward that are not known at 31 March 2014, was assessed at £5.192m. This is made up as shown in the following table:

<b>Reason for provision</b>	<b>£000</b>
Residual outstanding appeals from 2005 rating list	56
Estimated settlement reduction on outstanding appeals lodged on 2010 list	3,090
Estimated settlement reduction on appeals to be received up to end of 2010 rating list appeal period, relating to bills raised to 31 March 2014	2,004
Estimated reduction on properties close to large scale out of town development (tone of the list changes)	42
<b>TOTAL</b>	<b>5,192</b>

### Recommendations and Reasons

- 113 It is recommended that Cabinet note:
- (i) the addition to the Cash Limit Reserves of £3.032m 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 £28.132m.

- (iii) the closing balance on Earmarked Reserves (excluding Cash Limit Reserves) is £143.013m of which £31.051m relate to school and DSG balances.
- (iv) the closing HRA balance of £7.155m.
- (v) the closing balance on HRA Earmarked Reserves of £1.043m.
- (vi) the position for the Collection Funds in respect of council tax and business rates.

114 It is recommended that Cabinet approve

- (vii) that capital budget carried forward of £22.341m for the General Fund is moved into 2014/15 and that Service Groupings regularly review capital profiles throughout 2014/15 reporting revisions to MOWG and Cabinet as necessary.

### **Background Papers**

- (a) Cabinet – 11 September 2013 – Forecast of Revenue and Capital Outturn 2013/14 for General Fund and Housing Revenue Account – Period to 30 June 2013 and Medium Term Financial Plan 4 Update
- (b) Cabinet – 20 November 2013 - Forecast of Revenue and Capital Outturn 2013/14 for General Fund and Housing Revenue Account – Period to 30 September 2013
- (c) Cabinet – 19 March 2014 - Forecast of Revenue and Capital Outturn 2013/14 for General Fund and Housing Revenue Account – Period to 31 December 2013

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## **Appendix 1: Implications**

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### **Finance**

The report details the financial outturn for the Council for 2013/14 for Revenue and Capital. The report covers General Fund and Housing Revenue Account for both Revenue and Capital and the outturn position for General and Earmarked Reserves at 31 March 2014, plus the Collection Fund outturn, covering both Council Tax and Business Rates.

### **Staffing**

None.

### **Risk**

The figures contained within this report have been extracted from the General Ledger, and have been scrutinised and supplemented with information supplied by Budget Managers and Service Management Teams. The outturn has been produced taking into consideration all spend in year and year end accounting requirements and standard / recommended accounting practices. This should mitigate any risks with regards to challenge over the accuracy and validity of the financial outturn position of the Council as reported.

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

None.

### **Accommodation**

None.

### **Crime and Disorder**

None.

### **Human Rights**

None.

### **Consultation**

Budget Managers and Service Management Teams have been consulted on and contributed to the contents of the report and the accounting entries contained within.

### **Procurement**

None.

### **Disability Issues**

None.

### **Legal Implications**

The outturn contained within this report has been prepared in accordance with standard accounting policies and procedures.

## Appendix 2: General Fund Revenue Summary 2013/14

	Cash Limit Adjustments								
	Original Budget 2013/14	Revised Budget	Service Groupings Final Outturn Position	Variance	Sums outside the cash limit	Cash Limit Reserve	Contribution to / Use of Earmarked Reserves	Cash Limit Position	Forecasted Variance
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Assistant Chief Executive	11,178	10,220	11,143	923	-1,733	-72	761	-121	121
Children and Adults Services	291,815	272,521	245,843	-26,678	2,847	0	16,293	-7,538	7,538
Neighbourhood Services	108,776	111,742	96,038	-15,704	9,143	0	5,595	-966	966
Regeneration and Economic Development	41,801	41,354	55,743	14,389	-15,442	0	1,301	248	-248
Resources	22,246	18,024	14,156	-3,868	2,787	0	714	-367	367
<b>Cash Limit Position</b>	<b>475,816</b>	<b>453,861</b>	<b>422,923</b>	<b>-30,938</b>	<b>-2,398</b>	<b>-72</b>	<b>24,664</b>	<b>-8,744</b>	<b>8,744</b>
Contingencies	7,852	5,827	0	-5,827			4,500	-1,327	1,327
Centrally Held Budgets	0	0	-15,526	-15,526	15,883	0	0	357	-357
Corporate Costs	80	1,670	1,609	-61	0	0	-115	-176	176
<b>NET COST OF SERVICES</b>	<b>483,748</b>	<b>461,358</b>	<b>409,006</b>	<b>-52,352</b>	<b>13,485</b>	<b>-72</b>	<b>29,049</b>	<b>-9,890</b>	<b>9,890</b>
Capital charges	-51,723	-50,473	-81,220	-30,747	-9,552			-40,299	40,299
Gain/Loss on disposal of fixed assets	0	0	40,299	40,299				40,299	-40,299
Interest and Investment income	-1,441	-1,441	-3,302	-1,861				-1,861	1,861
Interest payable and similar charges	35,148	34,796	30,975	-3,821			3,750	-71	71
HR Accrual - reversal	0	0	1,781	1,781	-1,781			0	0
<b>Net Expenditure</b>	<b>465,732</b>	<b>444,240</b>	<b>397,539</b>	<b>-46,701</b>	<b>2,152</b>	<b>-72</b>	<b>32,799</b>	<b>-11,822</b>	<b>11,822</b>
<b>Funded By:</b>									
Council tax	-164,469	-164,469	-164,469	0				0	0
Council tax freeze grant	-2,033	-2,033	-2,029	4				4	-4
Use of earmarked reserves	-4,399	24,250	57,046	32,796				32,796	-32,796
Estimated net surplus on Collection Fund	0	0	0	0				0	0
Start up Funding Assessment	-278,370	-278,370	-278,342	28				28	-28
Capitalisation Provision Redistribution Grant	0	0	-881	-881				-881	881
New Homes Bonus	-4,799	-4,799	-4,799	0				0	0
New Homes Bonus - Re-imburement	-943	-943	-943	0				0	0
Section 31 Grant - Small business rate relief	0	0	-2,191	-2,191				-2,191	2,191
Education Services Grant	-7,200	-7,236	-7,685	-449				-449	449
Forecast contribution to Cash Limit Reserve	-3,519	-5,640	3,032	8,672				8,672	-8,672
Forecast contribution to General Reserves	0	-5,000	3,722	8,722				8,722	-8,722
<b>TOTAL</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-0</b>	<b>2,152</b>	<b>-72</b>	<b>32,799</b>	<b>34,879</b>	<b>-34,879</b>

### Appendix 3: General Fund Revenue Summary by Expenditure / Income for 2013/14

	Original Budget 2013/14	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>	474,690	516,784	508,478	0	-8,306	1,619	0	-311	-6,998	6,998	0
<b>Premises</b>	49,324	52,423	54,286	0	1,863	-3,557	0	395	-1,299	1,299	0
<b>Transport</b>	50,097	50,448	46,459	0	-3,989	454	0	398	-3,137	3,137	0
<b>Supplies and Services</b>	113,512	127,120	149,446	1,633	23,959	456	0	3,437	27,852	-27,852	-192
<b>Agency and Contracted</b>	269,897	259,189	258,614	3,134	2,559	671	0	2,577	5,807	-5,807	-13
<b>Transfer Payments</b>	210,685	213,183	208,047	0	-5,136	0	0	4,705	-431	431	0
<b>Central Costs</b>	101,309	98,155	75,647	0	-22,508	6,672	-72	9,188	-6,720	6,720	0
<b>Other</b>	1,265	2,018	12,160	0	10,142	27	0	4,245	14,414	-14,414	0
<b>DRF</b>	0	100	10,852	0	10,752	0	0	2,758	13,510	-13,510	0
<b>Capital Charges</b>	51,723	50,473	40,921	0	-9,552	9,552	0	0	0	0	0
<b>GROSS EXPENDITURE</b>	<b>1,322,502</b>	<b>1,369,893</b>	<b>1,364,910</b>	<b>4,767</b>	<b>-216</b>	<b>15,894</b>	<b>-72</b>	<b>27,392</b>	<b>42,998</b>	<b>-42,998</b>	<b>-205</b>
<b>Income</b>											
- Specific Grants	528,182	571,825	562,710	3,037	-6,078	0	0	4,501	-1,577	1,577	0
- Other Grants and contribs	25,320	30,956	35,191	0	4,235	853	0	-565	4,523	-4,523	0
- Sales	6,720	5,147	10,198	0	5,051	-368	0	0	4,683	-4,683	0
- Fees and charges	108,122	106,686	112,832	0	6,146	0	0	-288	5,858	-5,858	0
- Recharges	169,661	187,788	211,397	0	23,609	1,924	0	-219	25,314	-25,314	0
- Rents	5,176	5,457	5,675	0	218	0	0	0	218	-218	0
- Other	3,426	6,505	13,561	121	7,177	0	0	-586	6,591	-6,591	29
<b>Total Income</b>	<b>846,607</b>	<b>914,364</b>	<b>951,564</b>	<b>3,158</b>	<b>40,358</b>	<b>2,409</b>	<b>0</b>	<b>2,843</b>	<b>45,610</b>	<b>-45,610</b>	<b>29</b>
<b>NET EXPENDITURE</b>	<b>475,895</b>	<b>455,529</b>	<b>413,346</b>	<b>1,609</b>	<b>-40,574</b>	<b>13,485</b>	<b>-72</b>	<b>24,549</b>	<b>-2,612</b>	<b>2,612</b>	<b>-176</b>

## Appendix 4: General Fund Earmarked Reserves as at 31 March 2014

EARMARKED RESERVES AND CASH LIMIT RESERVES	SERVICE GROUPING	2012/13 CLOSING BALANCE	USE OF RESERVES	CONTRIBUTION TO RESERVES	TRANSFERS BETWEEN RESERVES	TOTAL MOVEMENT ON RESERVES	2013/14 CLOSING BALANCE
		£,000	£,000	£,000	£,000	£,000	£,000
ACE AAP/Members Reserve	ACE	-1,854	0	-1,422	0	-1,422	-3,276
ACE Grant Reserve	ACE	-233	8	-5	0	3	-230
ACE Operational Reserve	ACE	-140	8	0	0	8	-132
ACE Public Health Reserve	ACE	0	0	0	0	0	0
ACE Clinical Commissioning Group Reserve	ACE	0	0	0	0	0	0
Social Care Reserve	CAS	-4,053	1,201	-5,662	0	-4,461	-8,514
Health and Wellbeing Reserve	CAS	-500	500	0	0	500	0
Community Safety Reserve	CAS	-22	16	0	0	16	-6
Aycliffe Young People's Centre Reserve	CAS	-428	0	-959	0	-959	-1,387
Continuing Professional Development Reserve	CAS	-469	0	-524	0	-524	-993
Education Reserve	CAS	-383	0	-204	-400	-604	-987
Tackling Troubled Families	CAS	-942	0	-615	0	-615	-1,557
Special Projects Reserve	CAS	-60	0	0	0	0	-60
Public Health Reserve	CAS	0	0	-4,442	0	-4,442	-4,442
Neighbourhoods AAP Reserve	NS	-66	14	0	14	28	-38
Customer Services Reserve	NS	-110	73	-350	0	-277	-387
Direct Services Reserve	NS	-2,594	736	-1,817	0	-1,081	-3,675
Env. Health and Consumer Protection Reserve	NS	-430	93	-179	0	-86	-516
Culture and Sport Reserve	NS	-2,291	1,024	-695	0	329	-1,962
Strategic Waste Reserve	NS	-376	150	-199	0	-49	-425
Technical Services Reserve	NS	-445	320	-1,619	125	-1,174	-1,619
Transport Asset Management Programme Reserve	NS	-318	0	0	0	0	-318
Economic Development Reserve	RED	-1,018	163	-546	0	-383	-1,401
Planning Reserve	RED	-1,688	0	-25	540	515	-1,173
North Pennines AONB Partnership Reserve	RED	-919	282	0	0	282	-637
Employability and Training Reserve	RED	-846	157	-79	124	202	-644
RED Regeneration Reserve	RED	-1,051	87	0	-664	-577	-1,628
Housing Regeneration Reserve	RED	-77	16	0	0	16	-61
Housing Solutions Reserve	RED	-987	72	-164	0	-92	-1,079
Restructure Reserve	RED	-729	0	0	0	0	-729
LSVT Reserve	RED	-111	11	0	0	11	-100
Transport Reserve	RED	-364	35	0	0	35	-329
Funding and Programmes Management Reserve	RED	-175	44	0	0	44	-131
Resources Corporate Reserve	Resources	-1,843	0	-376	0	-376	-2,219
Resources DWP Grant Reserve	Resources	-107	1	-822	0	-821	-928
Resources System Development Reserve	Resources	-850	309	-750	0	-441	-1,291
Resources Housing Benefit Subsidy Reserve	Resources	-2,579	381	0	0	381	-2,198
Local Council Tax Support Scheme Reserve	Resources	0	0	-1,031	0	-1,031	-1,031
Resources Land Search Fees Reserve	Resources	-1,000	0	0	0	0	-1,000
Resources Legal Expenses	Resources	-200	0	0	0	0	-200
Resources Elections Reserve	Resources	-800	464	-700	0	-236	-1,036
Resources ICT Reserves	Resources	-480	0	-250	0	-250	-730
Cabinet Reserve	Corporate Fin	-220	0	0	0	0	-220
Corporate Reserve - Demographic Pressures	Corporate Fin	-8,650	2,150	-4,350	0	-2,200	-10,850
Equal Pay Reserve	Corporate Fin	-7,111	1,232	-11,526	0	-10,294	-17,405
Insurance Reserve	Corporate Fin	-7,832	172	-5,397	0	-5,225	-13,057
Performance Reward Grant Reserve	Corporate Fin	-1,735	427	0	0	427	-1,308
MTFP Redundancy and Early Retirement Reserve	Corporate Fin	-4,839	3,583	-15,000	0	-11,417	-16,256
Office Accommodation Reserve	Corporate Fin	0	0	-1,000	0	-1,000	-1,000
Capital Expenditure Reserve	Corporate Fin	0	0	-2,658	-139	-2,797	-2,797
<b>Total Non-Schools Reserve</b>		<b>-61,925</b>	<b>13,729</b>	<b>-63,366</b>	<b>-400</b>	<b>-50,037</b>	<b>-111,962</b>
<b>Cash Limit Reserves</b>							
Assistant Chief Executive		-1,165	281	-121	0	160	-1,005
Children and Adults Services		-9,732	4,291	-7,538	400	-2,847	-12,579
Neighbourhood Services		-2,311	495	-966	0	-471	-2,782
Regeneration and Economic Development		-3,416	409	0	0	409	-3,007
Resources		-3,280	84	-367	0	-283	-3,563
<b>Total Cash Limit Reserves</b>		<b>-19,904</b>	<b>5,560</b>	<b>-8,992</b>	<b>400</b>	<b>-3,032</b>	<b>-22,936</b>
<b>Schools' Balances</b>							
Schools' Revenue Balance	CAS	-19,418	0	-5,266	0	-5,266	-24,684
DSG Reserve	CAS	-4,623	0	-1,744	0	-1,744	-6,367
<b>Total Schools and DSG Reserve</b>		<b>-24,041</b>	<b>0</b>	<b>-7,010</b>	<b>0</b>	<b>-7,010</b>	<b>-31,051</b>
<b>Total Earmarked Reserves</b>		<b>-105,870</b>	<b>19,289</b>	<b>-79,368</b>	<b>0</b>	<b>-60,079</b>	<b>-165,949</b>

## Appendix 5: Housing Revenue Account 2013/14 Outturn Position

	Annual Budget	Final Outturn	Forecasted Variance	
	£000	£000	£000	
<b>Income</b>				
Dwelling Rents	-63,633	-63,295	338	a)
Non Dwelling Rents	-1,075	-1,103	-28	
Charges for Services and Facilities	-391	-569	-178	b)
<b>Total Income</b>	<b>-65,099</b>	<b>-64,967</b>	<b>132</b>	
<b>Expenditure</b>				
ALMO Management Fee and Outsourced Contract	16,469	16,469	0	
Repairs and Maintenance	4,433	5,195	762	c)
Supervision and Management - General	4,417	4,706	289	d)
Supervision and Management - Special	411	408	-3	
Rents, Rates, Taxes and other Charges	310	530	220	e)
Depreciation and Impairment of fixed assets	7,850	7,821	-29	
Increase/Decrease in bad debt provision	968	407	-561	f)
Debt Management Costs	194	194	0	
<b>Total Expenditure</b>	<b>35,052</b>	<b>35,730</b>	<b>678</b>	
<b>Net cost of HRA services per Authority I&amp;E Account</b>	<b>-30,047</b>	<b>-29,237</b>	<b>810</b>	
HRA services share of Corporate and Democratic Core	1,085	1,085	0	
Net Cost of services but not allocated to specific services	402	385	-17	
<b>Net cost of HRA Services</b>	<b>-28,560</b>	<b>-27,767</b>	<b>793</b>	
Interest Payable and Similar Charges	12,447	10,862	-1,585	g)
Direct Revenue Financing [Balancing Item on HRA]	16,217	16,976	759	h)
Interest and Investment Income	-104	-71	33	
<b>[Surplus] / Deficit for the year on HRA services</b>	<b>0</b>	<b>0</b>	<b>0</b>	

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**Audit Committee**

**24 July 2014**

**Treasury Management Outturn 2013/14**



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

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**Purpose of the Report**

- 1 To provide Audit Committee with details of the Annual Treasury Management Review and final outturn on treasury management activities for 2013/14.

**Background**

- 2 The 2013/14 draft Statement of Accounts includes a summary of the 2013/14 final outturn for Treasury Management. The attached report presented to Cabinet on 16 July 2014 provides a more detailed review of the final outturn position for Treasury Management.

**Recommendation and reasons**

- 3 Members are asked to note the 2013/14 final outturn position on Treasury Management.

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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

16 July 2014

Treasury Management Outturn 2013/14



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### Report of Corporate Management Team

Don McLure, Corporate Director Resources

Councillor Alan Napier, Cabinet Portfolio Holder for Finance

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#### Purpose of the Report

- 1 The regulatory framework of Treasury Management on the Council's cash management, loans and investments requires that the Council receive, comment upon and agree Treasury Management review reports. This report is therefore to update Cabinet with the annual treasury management report for the year ended 31 March 2014.
- 2 As well as meeting the regulatory framework, the report also incorporates the needs of the 'Prudential Code', which can be regarded as being best operational practice, to ensure adequate monitoring of the Council's capital expenditure plans and prudential indicators (PIs). The treasury strategy and PIs for 2013/14 were previously reported to Council as part of the Medium Term Financial Plan 2013/14 – 2016/17 on 20 February 2013.
- 3 The report also supports the objective in the revised Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management and the Communities and Local Government Investment Guidance. These state that Members should receive reports and scrutinise the Treasury Management service.

#### Background

- 4 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.
- 5 The financial year 2013/14 continued to be the challenging investment environment of previous years of low investment returns, although levels of counterparty risk had subsided. The original expectation for 2013/14 was that Bank Rate would not rise during the year and for it only to begin to gradually rise from quarter 1 of 2015. Bank rates did stay the same and this forecast rise has now been revised to a delayed start of quarter 3 of 2015.

- 6 Economic growth (GDP) in the UK had been virtually flat during 2012/13 but it grew strongly during 2013/14. Consequently, there was no additional quantitative easing during 2013/14 and Bank Rate ended the year unchanged at 0.5% for the fifth successive year. Consumer Price Index (CPI) inflation remained high and substantially above the 2% target during 2012, but by January 2014 it had fallen below the target rate to 1.9% and then fell further to 1.7% in February. It is also expected to remain slightly below the target rate for most of the two years ahead.
- 7 Gilt yields had been on a sharply rising trend during 2013 but volatility had returned in the first quarter of 2014.
- 8 The Government's Funding for Lending Scheme, announced in July 2012, resulted in cheap credit being made available to banks which resulted in money market investment rates falling significantly in the second half of that year and continuing into 2013/14. That part of the Scheme which supported the provision of credit for mortgages was terminated in the first quarter of 2014 due to concerns over the impact on rising house prices.
- 9 The UK Government maintained its tight fiscal policy stance but recent strong economic growth has led to a cumulative, (in the Autumn Statement and the March Budget), reduction in the forecasts for total borrowing of £97bn over the next five years, culminating in a forecasted £5bn surplus in 2018/19.
- 10 The EU sovereign debt crisis subsided during the year and confidence in the ability of the Eurozone to remain intact increased substantially. Perceptions of counterparty risk improved after the European Central Bank statement in July 2012 that it would do "whatever it takes" to support struggling Eurozone countries; this led to a return of confidence in its banking system which has continued into 2013/14 and led to a move away from only very short term investing. However, the problems of the Eurozone, or its banks may not have ended as the zone faces the likelihood of weak growth over the next few years at a time when the total size of government debt for some nations is likely to continue rising. Future stress tests of Eurozone banks could also reveal some areas of concern.

## Treasury Position

11 The Treasury position at the beginning and end of 2013/14 is shown in the table below:

	31-Mar-13 (Restated)	Rate/ Return	Average Life	31-Mar-14	Rate/ Return	Average Life
	£m	%	yrs	£m	%	yrs
<b>Total Debt</b>	440	4.61		437	4.49	
<b>Capital Financing Requirement (CFR)</b>	603			607		
<b>Over / (-) Under Borrowing</b>	-163			-170		
<b>Total Investments</b>	112	1.72	0.3	152	0.71	0.3
<b>Net Debt</b>	328			285		

12 Investments increased by £40m across the period as a result of re-profiling of the capital programme and a lower than anticipated use of reserves. Due to the reduction of interest rates offered by high quality counterparties by 1.00%, the average rate earned on those balances fell during 2013/14.

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

14 As a result of the favourable cash balances position, no new borrowing was raised during the year.

## Capital Expenditure and Financing

15 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.

- 16 Actual capital expenditure forms one of the required prudential indicators. The table below shows actual capital expenditure in 2013/14 and how this was financed.

	<b>2012/13 Actual</b>	<b>2013/14 Estimate</b>	<b>2013/14 Actual</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Non-HRA Capital Expenditure	117.09	135.74	107.11
Non-HRA PFI and Finance Lease	5.09	-	2.48
HRA Capital Expenditure	43.92	50.31	45.70
<b>Total capital expenditure</b>	<b>166.10</b>	<b>186.05</b>	<b>155.29</b>
Resourced by:			
Capital receipts	9.12	16.59	8.15
Capital grants	76.44	81.72	91.64
Capital reserves and Revenue	39.25	31.82	35.38
<b>Unfinanced capital expenditure</b>	<b>41.29</b>	<b>55.92</b>	<b>20.12</b>

### Overall Borrowing Need

- 17 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 2013/14 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.
- 18 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 team organises the Council's cash position to ensure sufficient cash is available to meet the capital plans and cash flow requirements.
- 19 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.
- 20 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).
- 21 The Council's 2013/14 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 2013/14 on 20 February 2013.
- 22 The Council's CFR for the year is shown in the following table, and represents one of the key prudential indicators. The 2012/13 CFR has been restated as follows:
- To correct the opening CFR, which was overstated.

- To recognise the impairment in 2012/13 of the Durham County Waste Management Company loan; this has reduced the CFR.
- To recognise HRA non-dwelling impairment, which can no longer be reversed to the Capital Adjustment account, and which has the effect of reducing the CFR.

<b>CFR</b>	<b>31-Mar-13 Actual (Restated)</b>	<b>31-Mar-14 Estimate</b>	<b>31-Mar-14 Actual</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Opening balance	579.135	604.828	603.431
Add unfinanced capital expenditure (as above)	41.293	55.921	20.117
Less MRP/VRP	-15.600	-16.005	-16.018
Adjusted for:			
Restatement of Opening Balance	-0.573		
Impairment of Loan	-0.801		
HRA non-dwelling impairment/revaluation losses	-0.023		-0.270
<b>Closing balance</b>	<b>603.431</b>	<b>644.744</b>	<b>607.260</b>

- 23 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.
- 24 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.
- 25 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.
- 26 The table below demonstrates that during 2013/14 the Council has maintained gross borrowing within its authorised limit.

	<b>2013/14 £m</b>
Authorised limit	746.000
Operational boundary	693.000
Maximum gross borrowing position	440.389
Average gross borrowing position	438.625

## Investment Strategy

- 27 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 Guidance and the CIPFA Treasury Management Code when making decisions.
- 28 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

- 29 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):

	<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-	C-	-
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 uses 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

- 30 The time and monetary limits for institutions on the Council's Counterparty List for 2013/14 were 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

## Icelandic Deposits Update

- 31 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>	

- 32 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.
- 33 The current situation concerning the recovery of sums deposited varies between each institution.

## Kaupthing Singer and Friedlander Ltd

- 34 The current position on actual amounts received and estimated future receipts are as shown in the table. The Council has recognised an impairment based on it recovering 85.75p in the £ compared to 85.25p in the £ at 31 March 2013.

Date	Repayment
	%
Received to 31 March 2014	81.50
Received in June 2014	2.00
June 2015	2.25

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

### Landsbanki

- 36 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.
- 37 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 December 2011. Further distributions were made in May 2012, October 2012 and September 2013 respectively.
- 38 An element of the distribution was in Icelandic Krona which was placed in an escrow account in Iceland and was earning interest of 4.17% as at 31 March 2013. This element of the distribution was retained in Iceland due to currency controls currently operating in Iceland and as a result was subject to exchange rate risk, over which the Council has no control.
- 39 During 2013/14, the Council sold its claims against the insolvent estate of Landsbanki through a competitive auction process. The price at which the claims were sold was based on a reserve price set by the Council, on the basis of legal advice received through the Local Government Association and its lawyers Bevan Brittan.
- 40 The administration of the insolvent estate of Landsbanki is likely to continue for several years given the complexity of the on-going issues in Iceland, which created uncertainty around the timings of future recoveries. The sale of the Council's claims has removed this uncertainty.
- 41 The sale included the Icelandic Kronur which had been held in an escrow account in Iceland since it was paid with the first distribution to priority creditors in December 2011.
- 42 The proceeds of the sale were paid in Pounds Sterling and were received in February 2014 so the Council is no longer a creditor of Landsbanki.

## **Glitnir Bank hf**

- 43 Glitnir Bank hf is also 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.
- 44 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.
- 45 An element of the distribution is in Icelandic Krona which has been placed in an escrow account in Iceland and earned interest of 3.4% up to 22 June 2012 and thereafter is earning 4.2%. 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.
- 46 The distribution has been made in full settlement, representing 100% of the claim.

## **Recommendations and Reasons**

- 47 It is recommended that Cabinet:
- Note the Treasury Management Outturn position for 2013/14.

## **Background Papers**

- 16 July 2014 – Cabinet - 2013/14 Final Outturn for General Fund, Housing Revenue Account and Collection Fund.
- 20 February 2013 – County Council - General Fund Medium Term Financial Plan, 2013/14 – 2016/17 and Revenue and Capital Budget 2013/14
- 26 February 2014 – County Council - General Fund Medium Term Financial Plan, 2014/15 to 2016/17 and Revenue and Capital Budget 2014/15

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**Contact: Jeff Garfoot Tel: 03000 261946**

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## **Appendix 1: Implications**

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### **Finance**

The report details of the overall financing of the Council's anticipated capital expenditure, along with forecast borrowing and investment income returns are provided in the report.

### **Staffing**

None.

### **Risk**

None.

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

None.

### **Accommodation**

None.

### **Crime and Disorder**

None.

### **Human Rights**

None.

### **Consultation**

None.

### **Procurement**

None.

### **Disability Issues**

None.

### **Legal Implications**

None.

Agenda Item

**Audit Committee**

**24 July 2014**

**Statement of Accounts for the year ended  
31 March 2014**



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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 2014 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 2014, 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 27 June 2014.
- 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 formally 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 is available for inspection by the public from 7 July 2014 to 1 August 2014 in line with the Regulations and has been published on our website.

**Statement of Accounts**

- 6 The Statement of Accounts for the financial year 2013/14 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 2013/14' (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 50)
  - Comprehensive Income and Expenditure Account (page 52)
  - Balance Sheet (page 53)
  - Cash Flow Statement (page 54)
  - Housing Revenue Account (page 130) and
  - Collection Fund (page 135).
- 11 The Statement of Accounts also includes the accounts for Durham County Council Pension Fund (page 142) for which the Council is the Administering Authority.
- 12 The Statement of Accounts shows that the Council's 'net worth' has fallen in 2013/14 by £220.446m to £652.694. This is due, in the main, to a decrease 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 2013/14.
  - a) The general reserve has increased by £3.724m to £28.134m. This reserve is held to cushion the impact of uneven cash flows, unexpected events or emergencies.
  - b) Earmarked Reserves have increased by £60.078m to £165.952m. Earmarked reserves are held for specific future purposes.

- 14 The Pension Fund accounts show that its net assets as at 31 March 2014 have increased by £45.395m to £2.131bn. Although there was a withdrawal of £30.807m as a result of payments to pensioners exceeding the contributions received, there was a £76.202m 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 of Accounts**

- 15 The final audit of the Statement of Accounts is now underway. At the end of this process, the Auditor will provide an Audit Completion Report detailing their comments and recommendation for improvements, based on the position at 31 March 2014.

### **Recommendation**

- 16 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 2014.

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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 2014.

### **Staffing -**

None

### **Risk -**

None

### **Equality and Diversity -**

None

### **Accommodation -**

None

### **Crime and Disorder -**

None

### **Human Rights -**

None

### **Consultation -**

None

### **Procurement -**

None

### **Disability -**

None

### **Legal Implications -**

None



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

Item	Pages	Explanation of Purpose and Content
Explanatory Foreword	3 - 44	Summary of the most significant matters reported in the accounts, and the overall financial position of the Council.
<b>Statement of Responsibilities for the Statement of Accounts</b>	45	Sets out the responsibilities of the Council and the Corporate Director Resources for the Statement of Accounts.
Independent Auditor's Report to Durham County Council	46 - 49	Once the Audit is completed the Auditor's report will be included.
<b>Durham County Council Core Financial Statements</b>		
Movement in Reserves Statement	50 – 51	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)	52	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	53	The Balance Sheet shows the value as at the Balance Sheet date (31 March 2014) of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council.
Cash Flow Statement	54	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	55 - 129	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>	130 - 134	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>	135 - 141	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>	142 – 173	Shows the operation and membership of the Pension Fund, the expenditure and income during the year and its financial position at 31 March 2014. Following the Accounts are notes providing further information.
<b>Annual Governance Statement</b>	174 - 185	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>	186 - 197	To help the reader understand terminology used in the Statement of Accounts.



# Statement of Accounts

## For the year ended 31 March 2014

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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. Message from Don McLure CPFA – Corporate Director Resources

In the face of an unprecedented reduction in government funding, Durham County Council remains committed to the delivery of its vision and priorities which are developed in consultation with the public, all of our partners and stakeholders.

Our plan over the coming three years continues to be influenced and shaped by the Government's ongoing financial austerity programme and fundamental central policy changes which continue to dominate and challenge the Council, local government, and the public sector generally.

It is the Council's view that the financial landscape for all local authorities will remain challenging until at least 2018/19 and at this time it is forecast that the Council will need to save an estimated further £110m of savings over the three year period 2014/15 to 2016/17.

That said, the Council continued to deliver a high standard of services during 2013/14 while successfully delivering all of our challenging savings targets in very difficult circumstances, in line with the Medium Term Financial Plan.

This document presents the published accounts for Durham County Council for the year ended 31 March 2014 – the 'Statement of Accounts'.

The Council continues to have a robust financial standing with sound and continuously improving financial management procedures and processes in place.

I aim to give the readers of these accounts and all interested parties, including electors, local residents, Council Members, partners and other stakeholders information about the money that the Council has received and spent, that it has been accounted for properly, that the financial standing of the Council continues to be safe and secure and services are being delivered using value for money principles at all times.

The Statement of Accounts begins with this explanatory foreword and the presentation of the Accounts have been designed to help readers to understand and interpret the financial statements which follow accounting standards and regulation and are by their very nature complex in some areas. The style and format of the Statement of Accounts is very similar to that used in 2012/13.

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 and your feedback would be welcome.

**Don McLure CPFA**

**Corporate Director Resources**

## 2. Introduction

This document presents the published accounts for Durham County Council for the year ended 31 March 2014 – the 'Statement of Accounts'. The purpose of the Statement of Accounts is to give electors, those subject to locally levied taxes and charges, members of the Council, employees and other interested parties clear information about the Council's finances. 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. The Explanatory Foreword focuses on the matters that are of relevance to the principal users of the Statement of Accounts. As well as complementing and supplementing the information provided in the Accounts, it also provides a forward look at the issues that have affected the Council's development, performance and position during 2013/14 and are likely to impact in the future. This foreword covers:

- 1 Message from the Corporate Director Resources
- 2 Introduction
- 3 Statement of Accounts
- 4 Related Parties – Members Interests and Directorships
- 5 Information and Financial Statements

6	County Durham
7	Key Achievements in 2013/14
8	A review of 2013/14
9	Material assets acquired, liabilities incurred
10	Sources of funds to meet capital expenditure and other plans
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13	Material or unusual items
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16	Changes in statutory functions
17	Subsequent events
18	Future plans
19	Housing Revenue Account
20	Pension Fund
21	Going Concern

### 3. Statement of Accounts

The Statement of Accounts for the financial year 2013/14 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 2013/14' (the Code) as published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

The Code specifies the principles and practices required to give a 'true and fair' view of the financial position and transactions of a local authority. It sets out the accounting concepts and accounting principles which underpin the Statement of Accounts. The Code is based on approved accounting standards and reflects specific statutory requirements.

The Code is based on European Union adopted International Financial Reporting Standards (IFRS) (with the exception of IFRS 13 '*Fair Value Measurement*') which were primarily drafted for the commercial sector and are not designed to address all the issues relevant to local government in the UK. Therefore, where appropriate, the Code adapts IFRSs and sets out the required accounting treatment based on the approach in the Memorandum of Understanding (MoU) between the Relevant Authorities. In the unusual event that a local authority enters into a transaction for which the accounting treatment and disclosure required is not covered by the Code, it 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 (England) Regulations 2011. These regulations provide the overall legal requirements for the Statement of Accounts and have been incorporated into the Code.

The key changes in the Code necessitated by changes in accounting practices and accounting standards in 2013/14 which affect the Council's Statement of Accounts are in the accounting treatment and disclosure requirements of post-employment benefits and new requirements for accounting in the Collection Fund for the newly introduced Business Rates Retention Scheme.

The changes introduced in the Code that have necessitated amendment to the accounting policies for 2013/14 are in respect of Post-Employment Benefits, the newly created Business Improvement District Scheme in the City of Durham and for the Voluntary Aided/Voluntary Controlled/Foundation Schools.

#### 4. Related Parties – Members interests and directorships

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 the reader to assess the extent to which the Council may have been constrained in its ability to operate independently or may have secured the ability to limit another party's ability to transact freely with the Council. More detailed information is disclosed in Note 38.

Elected Members of the Council have direct control over the Council's financial and operating policies. In Local Government, elected members are often involved in the local community through various organisations and voluntary bodies, as well as holding positions as school governors and being members of Parish and Town Councils. Details of all of these organisations are recorded in the Register of Members' interests, which is open to public inspection at County Hall, Durham during office hours. Each County Councillors' 'register of interests' can be viewed on the [Your Councillors](#) page on the Council's website by clicking on the relevant County Councillor.

There are a number of organisations which are independent from the council, but have an impact on its service areas. In order that the council can maintain effective partnerships with a number of these organisations, representatives of the council, usually elected councillors, sit on the various committees and forums that are responsible for them. A [list](#) of these organisations can be found on the Council's website.

Chief Officers are also required to disclose any related party transactions, including directorships. These are also disclosed in Note 38 of the Accounts.

The Council also has financial relationships with a number of related companies, details of which are included in Note 38. Although some are considered to be significant, for example due to the level of investment, the Code defines the tests for determining which entities are included in a council's group accounts. The Council has confirmed, following a qualitative and quantitative assessment of the Council's interests in subsidiaries, that these are not material and do not warrant consolidation into Group Accounts. These entities include:

- Durham County Waste Management Company
- Service Direct NewCo Limited
- Dale and Valley Homes
- East Durham Homes
- Central Durham Crematorium
- Mountsett Crematorium
- Beamish Museum Joint Committee and related companies
- NIAL Holdings Limited
- Durham Tees Valley Airport Limited
- Durham County Council Pension Fund

#### 5. 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:

**Statement of Responsibilities for the Statement of Accounts**

Sets out the responsibilities of the Council and the Corporate Director Resources.

**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 2014.

**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 Council (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 fundamentally important in the presentation of a true and fair view. They aim to assist understanding and have three significant roles; presenting information about the basis of preparation of the core financial statements and the specific accounting policies used; disclosing information required by the Code that is not presented elsewhere in the financial statements, for example sub-classification of the Property, Plant and Equipment; and providing information that is not provided elsewhere but is relevant to the understanding of the accounts, this applies to information that is material in a qualitative rather than quantitative sense, for example, transactions with Related Parties.

### 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 business 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 2014. Following the Accounts are notes providing further information.

### 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's understanding.

## 6. 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 300 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 41.3 years in 2011 rising to 42.1 years in 2021. 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 29% of the population.

Black and minority ethnic communities make up 1.8% 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 September 2013, 13,110 people were claiming Job Seekers Allowance (JSA), which equates to 4.09% of the working age population. This is lower than the regional average of 4.7% but higher than the Great Britain average of 3.2%. In February 2013, 50,660 people were claiming 'out of work' benefits including Job Seekers Allowance, Employment and Support Allowance, Incapacity Benefit and 'other' income related benefits, which equates to 15.3% of the working age population and is a fall from 16% of the working age population in February 2012. This is lower than the regional average of 15.5% but higher than the Great Britain average of 11.7%. The history of heavy industry has left the region with a legacy of greater sickness and disability and dependency on benefit payments. The estimated financial loss in the county per working age adult due to welfare reform is the equivalent of £565 a year compared to £320 in the South East and £470 across Great Britain as a whole.

### **Durham County Council**

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.

Countywide elections took place on 2 May 2013 when all 126 seats on Durham County Council were contested. This was the first county council election to be held since Local Government Reorganisation in 2009. The council is made up of 126 Members representing 63 electoral divisions, each represented by either one, two or three members. The Labour Party has 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 £1.326 billion, we employ over 17,826 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.

### **The Council's Vision**

The Council has a vision and priorities which are shared together with partners and which are based on consultation with local people and Area Action Partnerships. This vision developed by the Council reflects the views and aspirations of the community and opportunities for improvement. It focuses around an altogether better Durham and comprises two components; to have an altogether better place which is altogether better for people.

This vision provides a framework which guides all of our detailed plans and programmes which will turn our vision into a reality. This is achieved through organising our improvement actions into a structure comprised of five priority themes.

This vision is shared with our partners and set out in the County's Sustainable Community Strategy. It is reassuring to note that during the current economic climate with all public sector agencies facing large reductions in government funding, the Council and its partners have reaffirmed their commitment to the above vision and the objectives that have previously been developed for each of the priority themes.

The Council Plan, which is available on the Council's website, [www.durham.gov.uk](http://www.durham.gov.uk), sets out our corporate priorities for improvement and the key actions that the Council will take in support of the delivery of the long-term goals in the Sustainable Community Strategy. It also identifies the improvements that the Council wants to make in how it manages itself. These actions are captured in a sixth priority theme of an Altogether Better Council.

The Council Plan is sub-divided into a section on each of our priority themes. Each of the priority themes is underpinned by detailed objectives and outcomes and a high level action plan for delivery set out in the Council Plan and details the objectives and outcomes that we have developed following our policy analysis work. It also sets out the narrative of what we are trying to achieve. 'Did you know' and 'look out for' sections provide further information in relation to each objective for the reader. As a result of our performance management framework, we provide a balanced and comprehensive analysis of the development and performance of the Council as we have been able to measure and highlight some recent successes in the 'going well' sections whilst the 'cause for concern' sections show the areas under each objective where we would like to perform better. These issues are addressed in the high level action plans designed to deliver our ambitions for each objective. Progress against these action plans, together with performance against the measures, is detailed in the Council Plan enable monitoring and reporting throughout the year.

### **Risk Management**

An essential part of corporate and service planning is the consideration of risks and actions that the Council can take to minimise or eliminate their occurrence or their impact on service delivery. Risk management is integrated within the Council's annual planning cycle and risks are kept under regular scrutiny with a formal review of all service and corporate risks being carried out on a quarterly basis by the Council's Corporate Risk Management Group. The Council's Audit Committee is responsible for monitoring the development and operation of risk management and the overall corporate governance of the authority. Risks are assessed at two levels: gross impact and likelihood based on an assessment of the risk without any controls in place; and net impact and likelihood based on the assessment of the current risk after taking into account the existing controls and mitigating actions in place.

### **Performance and Efficiency**

Our analysis of national policy imperatives, local needs, current performance and consultation data has helped us to formulate the priorities contained within the Council Plan. The Council's requirement to make substantial savings following government grant reductions to balance our budget remains a priority. It is important that the Council continues to effectively programme manage the achievement of these savings so that they are realised in a planned way.

The Council has a corporate planning framework which sets out how the performance of its services is managed. Objectives setting out what the council wants to achieve over the next three years are developed together with key measures which are used to determine the extent to which our objectives are being met. Plans setting out the actions that we will take to achieve our objectives and maintain performance are also drawn up. Monitoring reports of the progress against these actions and performance against key measures detailed within the Council Plan are considered by senior managers and councillors on a quarterly basis. A range of actions are taken where services are found to be underperforming including taking remedial action such as carrying out further investigations, allocating additional resources or employing new processes or working with other agencies to bring performance within target.

Demand for many of the Council's advice, guidance and support services has increased as a result of the economic downturn and reforms to the welfare system. Managing the performance of our services against a background of reducing budgets and increasing demand in some areas is a major challenge for the Council.

So the Council's performance needs to be considered in the context of reducing budgets and employee numbers and also increasing demand for a number of our services including face-to-face contacts at our customer access points, presentations at our Housing Solutions Service, applications for housing benefit and requests for information made under the Freedom of Information Act. Despite the tough financial climate for the council, we have achieved improvements in many areas.

## 7. Key Achievements in 2013/14

Despite the tough financial climate for the Council, we have achieved improvements in many areas.

Noteworthy achievements include:

- In March 2014, the Council won the Council of the Year category at the 2014 Local Government Chronicle (LGC) Awards, the biggest celebration of innovation and talent across British councils.
- Performance against the decent homes standard across all council owned stock of 18,500 homes continues to improve and is on course to achieve target.
- The Council has been instrumental in attracting top class businesses such as Hitachi Rail UK to the county and in securing major property investments such as Durham Gate, Freeman's Reach and NETPark.
- The Council has invested in its own apprenticeship support programme, creating 357 additional places for young people across the county since November 2011.
- GCSE results in our schools have improved for the eleventh consecutive year and both GCSE and A-level results are higher than regional and national averages.
- The County Durham Think Family Programme has been recognised nationally by Louise Casey and the Troubled Families National Programme as a model of best practice. Our pre-birth intervention work has won national acclaim and awards for early years family support and child protection.
- Our fostering service was rated as outstanding by Ofsted as were our safeguarding services. Durham's inspection judgement was the equal second highest of 151 local authorities inspected in the country.
- The percentage of social care users in receipt of community services who have a personal budget continues to improve and exceeds the national average.
- We have made excellent progress in recycling and composting rates and levels of municipal waste being landfilled, with Durham outperforming the regional and national averages.
- We have already exceeded our ambitious target to reduce carbon dioxide emissions across the county by 40 per cent by 2020.
- We have invested over £4 million in installing solar photovoltaic panels onto council buildings and through our building efficiency retrofit project making improvements to heating and lighting systems.
- Our street lighting efficiency programme will save £2 million whilst reducing our carbon footprint.
- The lighting scheme we designed for Durham Cathedral and Castle has won the international Auroralia Award for exemplary and original sustainable urban lighting. The scheme has also been shortlisted in the national Lighting Design Awards 2014.
- Housing rent arrears across all providers is achieving target, bucking the trend experienced in other parts of the country following welfare reform.
- 100 per cent of the stock owned and managed by the council (Durham City Homes) met the decent homes standard at the end of last year.
- Our income team won 'Most Improved team of the year' at the Institute of Revenues, Rating and Valuation (IRRV) awards.
- Our auditors gave the authority an unqualified value for money conclusion for 2012/13.

## 8. A Review of 2013/14

A review of the Housing Revenue Account 2013/14 budget and outturn is shown at section 19 along with its future plans.

### **2013/14 Budget – General Fund**

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 forecasted that Government support over the six year period 2011 to 2017 would reduce by £139m. This equated to a 36% reduction in Government support over this period.

The Council's provisional funding baseline for 2013/14 was announced by the Government on 19 December 2012 with the final settlement being announced on 4 February 2013. The funding baseline for 2013/14 was £249.5m which was £9.1m less than the 2012/13 allocation.

The continuing unprecedented reductions in local government funding were set against the backdrop of fundamental change in the Government's methodology for financing local authorities from 2013/14.

The two key changes introduced from 2013/14 are:

- **Business Rate Retention (BRR) Scheme**

Under the new BRR scheme, the council retains 49% of all business rates collected across the county – an estimated £53m in 2013/14. The council is therefore also be able to retain 49% of any increase in business rate yield from any growth in businesses being set up in Durham, but there is also some risk under the new system because the council has to bear 49% of any reduction in business rate yield. The council is also required to pay for 49% of the cost of all successful, backdated business rate appeals that were outstanding on 31 March 2013 and would not be settled until 2013/14 or later.

- **Local Council Tax Reduction Scheme (LCTRS)**

The Government has transferred the responsibility for council tax benefit to local authorities from 2013/14 with a funding reduction of 10%, which equates to a funding loss of £5.5m. From 1 April 2013, the council became responsible for setting a new local council tax reduction scheme which meant 100% of the costs of any additional council tax support, should the number of benefit claimants increase, is paid for by the council.

The government's intention in introducing these fundamental changes in the method of financing local authorities was to provide an incentive to grow local economies.

It should be recognised however that in a period of recession or intermittent growth in local economies, the government's new local government policy was transferring a significant risk to local authorities and especially those in deprived areas like County Durham.

The change in funding methodology was also a significant shift away from the former formula methodology which was based upon an assessment of 'need' for the people living in County Durham, including deprivation assumptions for all areas across the County.

The savings to achieve the 2013/14 balanced budget were aligned to the Council's original budget strategy that was agreed in June 2010, which was supported by the public following extensive consultation. The council's strategy continued to be to protect front line services wherever possible, including reducing management and support services costs; to invest in priority service areas whilst at the same time limiting council tax increases for council tax payers during the continuing period of recession.

Although the 2013/14 budget required the delivery of further savings of £20.9m, there were a number of key service areas that were protected and some services where the budget was increased for the benefit of council tax payers including:

- For the fourth consecutive year, council tax bills for council tax payers stayed the same as the council accepted the Government's Council Tax Freeze Grant of £2m which is the equivalent to the amount of income the council would have received from a 1% council tax increase.
- Increasing the Adult Social Care budget by £1m in recognition of the increasing demands on the council due to demographic changes and more people becoming dependent upon these services. This was in line with the priorities identified through consultation.
- Protecting all 65,000 households in receipt of council tax benefit under the local council tax reduction 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 was 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 this priority, an additional £3.25m of revenue was 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.

After taking into account base budget pressures, additional investment and savings, the Council's Net Budget Requirement for 2013/14 was £457.814m.

### **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.

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

### **Cash Limit Outturn**

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

	Original Budget £'000	Revised Budget £'000	Service Groupings Final Outturn £'000	Variance £'000	Cash Limit Adjustments			Cash Limit Position £'000	Cash Limit Carry Forward £'000
					Sums Outside the Cash Limit £'000	Cash Limit Reserve £'000	Contribution to / Use of Reserves £'000		
Assistant Chief Executive	11,178	10,220	11,143	923	-1,733	-72	761	-121	121
Children and Adults Services	291,815	272,521	245,843	-26,678	2,847	-	16,293	-7,538	7,538
Neighbourhood Services	108,776	111,742	96,038	-15,704	9,143	-	5,595	-966	966
Regeneration and Economic Development Resources	41,801	41,354	55,743	14,389	-15,442	-	1,301	248	-248
	22,246	18,024	14,156	-3,868	2,787	-	714	-367	367
<b>Cash Limit Position</b>	<b>475,816</b>	<b>453,861</b>	<b>422,923</b>	<b>-30,938</b>	<b>-2,398</b>	<b>-72</b>	<b>24,664</b>	<b>-8,744</b>	<b>8,744</b>
Contingencies	7,852	5,827	-	-5,827	-	-	4,500	-1,327	1,327
Centrally Held Budgets	-	-	-15,526	-15,526	15,883	-	-	357	-357
Corporate Costs	80	1,670	1,609	-61	-	-	-115	-176	176
<b>NET COST OF SERVICES</b>	<b>483,748</b>	<b>461,358</b>	<b>409,006</b>	<b>-52,352</b>	<b>13,485</b>	<b>-72</b>	<b>29,049</b>	<b>-9,890</b>	<b>9,890</b>
Capital charges	-51,723	-50,473	-81,220	-30,747	-9,552	-	-	-40,299	40,299
Gain/Loss on disposal of fixed assets	-	-	40,299	40,299	-	-	-	40,299	-40,299
Interest and Investment income	-1,441	-1,441	-3,302	-1,861	-	-	-	-1,861	1,861
Interest payable and similar charges	35,148	34,796	30,975	-3,821	-	-	3,750	-71	71
HR Accrual - reversal	-	-	1,781	1,781	-1,781	-	-	-	-
<b>Net Expenditure</b>	<b>465,732</b>	<b>444,240</b>	<b>397,539</b>	<b>-46,701</b>	<b>2,152</b>	<b>-72</b>	<b>32,799</b>	<b>-11,822</b>	<b>11,822</b>
<b>Funded By:</b>									
Council Tax	-164,469	-164,469	-164,469	-	-	-	-	-	-
Council tax freeze grant	-2,033	-2,033	-2,029	4	-	-	-	4	-4
Use of (-) / contribution to earmarked reserves	-4,399	24,250	57,046	32,796	-	-	-	32,796	-32,796
Start Up Funding Assessment	-278,370	-278,370	-278,342	28	-	-	-	28	-28
Capitalisation Provision Redistribution Grant	-	-	-881	-881	-	-	-	-881	881
New Homes Bonus	-4,799	-4,799	-4,799	-	-	-	-	-	-
New Homes Bonus - re-imburement	-943	-943	-943	-	-	-	-	-	-
Section 31 Grant - Small business rate relief	-	-	-2,191	-2,191	-	-	-	-2,191	2,191
Education Services Grant	-7,200	-7,236	-7,685	-449	-	-	-	-449	449
Use of (-) contribution to Cash Limit Reserve	-3,519	-5,640	3,032	8,672	-	-	-	8,672	-8,672
Use of (-) contribution to the General Reserve	-	-5,000	3,722	8,722	-	-	-	8,722	-8,722
<b>TOTAL</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,152</b>	<b>-72</b>	<b>32,799</b>	<b>34,879</b>	<b>-34,879</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 when calculating 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 items and 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 the Medium Term Financial Plan (MTFP) savings proposals.

(ii) Use of or Contribution to Earmarked Reserves

## Explanatory Foreword

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

- 3 After taking into account the above exclusions, through tight budgetary control by managers and robust delivery of financial savings targets, all Service Groupings have generated a cash limit underspend in 2013/14 apart from the Regeneration and Economic Development Service Grouping who incurred a relatively small overspend of £0.248m but this was after taking into account a contribution of £0.875m to the Council's MTFP Redundancy and Early Retirement Reserve.
- 4 The 2013/14 cash limit underspend for each Service Grouping is detailed in the table below:

### Movement during 2013/14

Service Grouping	Opening	Use of	Contribution	Transfer to /	Closing
	Balance as at			Reserve	
	01-Apr-13		to reserve	Earmarked	31-Mar-14
	£m	£m	£m	Reserves	£m
Assistant Chief Executive	-1.165	0.281	-0.121	-	-1.005
Children and Adults Services	-9.732	4.291	-7.538	0.400	-12.579
Neighbourhoods	-2.311	0.495	-0.966	-	-2.782
Regeneration and Economic Development	-3.416	0.409	-	-	-3.007
Resources	-3.280	0.084	-0.367	-	-3.563
<b>Total</b>	<b>-19.904</b>	<b>5.560</b>	<b>-8.992</b>	<b>0.400</b>	<b>-22.936</b>

## Revenue Outturn

- 5 The table in paragraph 2 provides a more 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.

	Cash Limit Adjustments									
	Original Budget	Revised Budget	Service Groupings Final Outturn	Corporate Costs	Variance	Sums Outside the Cash Limit	Cash Limit Reserve	Contribution to / Use of Reserves	Cash Limit Position	Cash Limit Carry Forward (including Corporate Costs)
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Employees	474,690	516,784	508,478	-	-8,306	1,619	-	-311	-6,998	6,998
Premises	49,324	52,423	54,286	-	1,863	-3,557	-	395	-1,299	1,299
Transport	50,097	50,448	46,459	-	-3,989	454	-	398	-3,137	3,137
Supplies and Services	113,512	127,120	149,446	1,633	23,959	456	-	3,437	27,852	-27,852
Agency and Contracted	269,897	259,189	258,614	3,134	2,559	671	-	2,577	5,807	-5,807
Transfer Payments	210,685	213,183	208,047	-	-5,136	-	-	4,705	-431	431
Central Costs	101,309	98,155	75,647	-	-22,508	6,672	-72	9,188	-6,720	6,720
Other	1,265	2,018	12,160	-	10,142	27	-	4,245	14,414	-14,414
DRF	-	100	10,852	-	10,752	-	-	2,758	13,510	-13,510
Capital Charges	51,723	50,473	40,921	-	-9,552	9,552	-	-	-	-
<b>GROSS EXPENDITURE</b>	<b>1,322,502</b>	<b>1,369,893</b>	<b>1,364,910</b>	<b>4,767</b>	<b>-216</b>	<b>15,894</b>	<b>-72</b>	<b>27,392</b>	<b>42,998</b>	<b>-42,998</b>
<b>Income</b>										
- Specific Grants	528,182	571,825	562,710	3,037	-6,078	-	-	4,501	-1,577	1,577
- Other Grants and contribs	25,320	30,956	35,191	-	4,235	853	-	-565	4,523	-4,523
- Sales	6,720	5,147	10,198	-	5,051	-368	-	-	4,683	-4,683
- Fees and charges	108,122	106,686	112,832	-	6,146	-	-	-288	5,858	-5,858
- Recharges	169,661	187,788	211,397	-	23,609	1,924	-	-219	25,314	-25,314
- Rents	5,176	5,457	5,675	0	218	-	-	-	218	-218
- Other	3,426	6,505	13,561	121	7,177	-	-	-586	6,591	-6,591
<b>Total Income</b>	<b>846,607</b>	<b>914,364</b>	<b>951,564</b>	<b>3,158</b>	<b>40,358</b>	<b>2,409</b>	<b>-</b>	<b>2,843</b>	<b>45,610</b>	<b>-45,610</b>
<b>NET EXPENDITURE</b>	<b>475,895</b>	<b>455,529</b>	<b>413,346</b>	<b>1,609</b>	<b>-40,574</b>	<b>13,485</b>	<b>-72</b>	<b>24,549</b>	<b>-2,612</b>	<b>2,612</b>



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

	£m	£m
Gross Expenditure	1,355.563	
Less: Gross Income	-958.024	
Net Expenditure		<u>397.539</u>
Financed by:		
Council Tax	164.469	
Council Tax Freeze Grant	2.029	
Start Up Funding Assessment	278.342	
Capitalisation Provision Redistribution Grant	0.881	
New Homes Bonus	4.799	
New Homes Bonus - re-imburement	0.943	
Section 31 Grant - Small Business Rate Relief	2.191	
Education Services Grant	7.685	
Net Contribution to Cash Limit Reserves	-3.032	
Net Contribution to Earmarked Reserves		
Schools and DSG	-7.010	
Non-Schools	-50.036	
Net Contribution to the General Reserve	-3.722	
<b>TOTAL FINANCING</b>		<u><u>397.539</u></u>

6 The final outturn position for the Council's General Reserve is detailed below:

	£m
Opening Balance as at 1 April 2013	-24.410
Add	
Net Contribution to General Reserve	-3.722
<b>Closing General Reserve Balance as at 31 March 2014</b>	<u><u>-28.132</u></u>

7 The General Reserve balance carried forward of £28.132m is within the Council's General Reserves policy of retaining between 5% and 7.5% of the Net Budget Requirement, which in cash terms equates between £22m and £33m. The £28.132m balance at 31 March 2014 equates to 6.4% of 2014/15 Net Revenue Expenditure Budget and gives the Council options in the Medium Term Financial Plan to use some of the reserve to smooth the savings targets in future years.

8 The main reasons why the General Reserve has increased are detailed below:

- Section 31 Small Business Rate Relief Grant income –£2.191m;
- Capitalisation Provision Redistribution Grant income - £0.881m;
- Interest and Investment income - £1.861m more than budgeted;
- Education Services Grant - £0.449m more than budgeted;
- Contingencies - £1.327m less than budgeted offset by;
- A transfer of £5.000m to the MTFP Redundancy and Early Retirement Reserve during the year

9 The final outturn for Earmarked Reserves in 2013/14 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 2013	-61.925	-24.041	-19.904	-105.870
Add				
Net contribution to Earmarked Reserve	-50.036	-7.010	-3.032	-60.078
<b>Closing Earmarked Reserve Balance as at 31 March 2014</b>	<u><u>-111.961</u></u>	<u><u>-31.051</u></u>	<u><u>-22.936</u></u>	<u><u>-165.948</u></u>

### Service Grouping Commentary

10 A summary of the outturn for each Service Grouping is provided below.

#### Assistant Chief Executive (ACE)

11 The 2013/14 outturn is a cash limit underspend of £0.121m. This takes into account adjustments for sums outside the cash limit such as redundancy costs which are met from the strategic reserve, year end capital entries and a contribution of £0.353m to the MTFP Redundancy and Early Retirement

- Reserve to assist in meeting the cost of future redundancy payments, which was actioned in quarter 3.
- 12 The cash limit position compares to the previously forecast position of a cash limit underspend of £84k.
- 13 The underspend is a managed position, reflecting the proactive management of activity by Heads of Service across ACE throughout the year to remain within the cash limit. The main reasons for the outturn position are as follows:
- Partnerships and Community Engagement - £71k underspend primarily due to an underspend on premises costs within Community Buildings.
  - Planning and Performance - £0.334m underspend primarily due to proactive management of vacancies in anticipation of future year MTFP savings which accounts for £0.140m of the saving. There is also a £78k saving in supplies and services including a managed underspend in relation to resident surveys. The remaining £0.116m is an over recovery of income particularly around the County Records Office.
  - Policy and Communications - £70k underspend predominantly resulting from a £50k managed underspend on employees in the Civil Contingencies Unit with the remainder from a managed underspend on supplies and services and additional income generated from advertising.
  - Central Costs - £0.353m overspent as a result of making a contribution to the MTFP Redundancy and Early Retirement Reserve to assist in meeting the costs of future redundancy payments.
  - Each of the 14 Area Action Partnerships (AAPs) had an area budget to contribute to local projects of £0.120m in 2013/14. Combined with revenue budget carried forward from previous years (relating to committed expenditure on agreed projects) the total revenue budget across all AAPs was £2.636m. Actual spend of £1.713m was incurred during 2013/14 leaving a balance of £0.923m. In addition contributions from Public Health, Clinical Commissioning Groups and the Welfare Assistance Fund factored in a further £1.312m of resource resulting in £2.235m committed to future projects.
  - Each elected member manages a “Members Neighbourhoods Budget” of £20k for priorities in their local AAP areas made up of £10k revenue budget and £10k capital. Previous years unspent allocations totalling £0.892m are held in an earmarked reserve as all spending has been committed to specific projects. During 2013/14 £1.173m was spent, resulting in a balance of £87k being transferred to the reserve leaving a closing balance of £0.979m.
  - The Members Initiative Fund outturn was £0.196m resulting in a transfer to the Members Initiative Fund Reserve of £56k.
- 14 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:
- £0.482m – relates to contributions to and from earmarked reserves and cash limits to support specific projects in 2013/14 and 2014/15, including carrying forward AAP (£0.349m); Members Neighbourhood Initiative Reserve (£87k) and Members Initiative Fund Reserve (£56k) underspending in 2013/14, offset by a range of other minor contributions to and from reserves.
  - £0.206m net contribution to reserves in relation to Direct Revenue Financing of Capital, ER/VR costs and Insurance recharges.
  - £1.732m – relates to a range of adjustments associated with capital charges, centralised repairs and maintenance and central administration.
- 15 Taking the final outturn position into account, including items outside the cash limit, transfers to and from earmarked reserves, the cash limit reserve to be carried forward for ACE is £1.005m. There is pre-committed planned use of £0.250m of this reserve across the MTFP 4 period.

## Children and Adults Services (CAS)

- 16 The 2013/14 outturn for Children and Adults Services (CAS) is a cash limit underspend of £7.538m. This takes into account adjustments for sums outside the cash limit such as redundancy costs which are met from the strategic reserve, year end capital entries and a contribution to earmarked reserves including £6.199m to the MTFP Redundancy and Early Retirement Reserve to assist in meeting the cost of future redundancy payments, which was actioned in quarter 3 and a £4.350m contribution to the Demographics / Hyper Inflation reserve at year end that will be used across the MTFP 4 period.
- 17 The cash limit outturn position compares to the previously forecast position of a cash limit underspend of £9.358m.
- 18 The outturn 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 Adults area of the service has created a net underspend for the year of approximately £6.0m.
  - Net spend on adult care packages was approximately £7.1m under budget, which represents circa 7% of the total adult social care budget. This area of spend is closely monitored to assess the impact of demographic and procedural/operational changes. Savings have arisen from tighter, consistent and effective application of the existing eligibility criteria, reducing the level of care packages subsequently commissioned, and the transformational change agenda, linked to the provision of social care, will further refine processes.
  - The service continually reviews its approach to MTFP savings in order to consider increasing the saving associated with consistent application of eligibility criteria. This is being 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. Inflation rate increases within the MTFP are 2.5% for 2013/14 and 1% for 2014/15. Contracts with residential and domiciliary care providers have increases of 2% in both these years. This has led to a forecast underspend in 2013/14 of £0.400m which will be needed to underwrite part of the inflationary uplift in 2014/15 which will be 1% higher than the 1% budget provision.
  - A review of one-off additional funding has identified an in-year contribution to the overall cash limit of approximately £0.400m. It is anticipated that this funding will be utilised in part to resource the work associated with the outcomes of the work linked to the ongoing transformation agenda in social care for children and adults.
  - Home to School and college transport was £0.250m under budget. This represents a net saving of £0.420m linked to policy changes offset by a £0.170m in year reduction in Extended Rights to Free Travel grant.
  - The Education Service was £1.303m underspent. A number of savings have been made across the School Places and Admissions Team, Special Education Needs (SEN) and Disability teams and Educational Support and Development Teams mainly relating to employee related spend through vacancies and the early achievement of MTFP savings, reduced supplies and services expenditure and additional income.
  - The Early Intervention and Involvement Service was under budget by £1.200m. A number of savings have been made across the Community Safety and involvement Team, the One Point Service and Youth Offending Service mainly relating to employee related spend through vacancies and the early achievement of MTFP savings, reduced transport spend and reduced supplies and services expenditure.
  - Central Costs/Other were £9.814m over budget due to a combination of the contribution to the MTFP Redundancy and Early Retirement Reserve (£6.199m) to assist in meeting the costs of future redundancy payments; a contribution to the Demographics / Hyper Inflation

Reserve of £4.350m at year end to offset and delay MTFP pressures in future years; and an increase in the provision for bad and doubtful debts of £0.120m at year end; offset in the main by a review of one-off additional funding and a procurement rebate.

- Children's care was £1.404m underspent. Early achievement of 2014/15 MTFP saving targets resulted in the employee costs being under budget by £1.180m. The continued effective implementation and operation of the Looked after Children (LAC) reduction strategy has been successful in containing fostering and residential care costs within budget – this was a substantial budgetary pressure in previous years and the outturn shows expenditure in this area was £2.300m less than the previous year, where an overspend occurred. The LAC reduction strategy also led to smaller associated efficiencies particularly in connection with transportation and supplies and services costs.
- Secure Services are operated on a trading basis and therefore report a breakeven position in terms of the CAS cash limit, but it should be noted that the service has been successful in attracting additional income and achieved a contribution to the trading reserve of £0.959m at year end. Similarly, the Continuous Professional Development and Education Development Services in the Education Service returned surpluses of £0.306m and £0.284m respectively, which have also been transferred to earmarked reserves at year end.
- Public Health underspending against the Public Health Grant was £4.442m and this has been transferred to an earmarked reserve to meet known future commitments required in transforming the service delivery model. The underspend is in part a result of demand led activity in connection with prescribing charges being at a lower level than previously anticipated.

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:

- £4.950m relates to contributions to and from earmarked reserves and cash limits to support specific projects in 2013/14 and 2014/15, including £4.350m transferred to the Demographics / Hyper Inflation Reserve to offset and delay MTFP pressures in future years; £0.306m transferred to the Continuous Professional Development reserve, relating to the trading account surplus at the year end; £0.114m transfer to the Tackling Troubled Families reserve which will fund planned commitments in 2014/15; £0.284m transfer to the Education reserve, relating to trading account surplus at the year end across a number of service areas within the Education service; and a £0.105m adjustment to previously forecast contribution to the Aycliffe Secure Reserve;
- a number of reserves totaling £1.817m, mainly in respect of adult care projects, were planned to be used in 2013/14 but these have been carried forward at year end to reflect revised spending profiles;
- £0.378m net contribution to reserves in relation to Direct Revenue Financing of Capital, ER/VR costs and Insurance recharges.
- £0.648m – relates to a range of adjustments associated with capital charges, centralised repairs and maintenance and central administration.

20 Taking the outturn position into account, the cash limit reserve to be carried forward for Children and Adults Services is £12.579m. There is pre-committed planned use of this reserve of £2.066m across the MTFP 4 period.

#### **Dedicated Schools Grant**

21 The Dedicated Schools Grant (DSG) allocation for 2013/14 was £349.409m, however due to schools converting to academies and reduction in high needs allocation for payments made direct by the Education Funding Agency the budget was reduced by £69.292m in year to £280.117m. This includes both the delegated schools budget and the centrally retained DSG budget.

22 The total revised delegated budget for maintained schools (including early years' providers) was £261.113m.

- 23 Where schools spent more than their delegated budgets, the overspend reduces their accumulated balance. Schools-related balances were £24.684m at 31 March 2014, an increase of £5.266m from the previous year.
- 24 This is due in part, to the balance on the equal pay provision being returned to schools amounting to £3.572m following the settlement of these claims in year. Schools will now be fully responsible for any further equal value claims going forward. The balance (£1.695m) results from general underspending across most schools and represents an improved position to that reported at quarter 3.
- 25 Members will be aware that over the last two years schools have been operating in an environment of uncertainty with regard to the impact of the National Fair Funding Formula changes the Government are implementing from 2015/16. Schools have been prudent and have tightly managed their expenditure in recent years to build up their balances to be able to better accommodate any adverse impacts from 2015/16. Additionally, reductions in Department for Education (DfE) grant to support capital investment has resulted in schools earmarking balances for investment in planned capital improvements in their schools, effectively “saving-up” to self-finance these schemes. The Council encourages schools to have retained balances of a minimum of 2.5% of their revenue budget but also challenges schools where balances exceed this level to ensure there is a strategic plan / reason for this.
- 26 2013/14 was the first year all schools have been requested to forecast their outturn position during each quarter throughout the year. Spending in schools has been impacted by the reluctance to commit to spending 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.
- 27 The level of school balances is being closely 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.
- 28 There has been greater scrutiny and challenge being put into schools budget plans to identify and address areas of concern and risk to the Council in 2013/14 and this is an ongoing process. Whilst the vast majority of schools continue to be well managed and are financially sound, termly updates have been required from all maintained schools on their projections for the year, with reports also provided to School Governors. The Council have worked constructively with schools to address any concerns and where appropriate take action to ensure the risk to the School and the Council is mitigated.
- 29 At 31 March 2014 there were 6 schools with a deficit balance carried forward totalling £0.960m, 12 schools holding a balance less than 2.5% of their overall funding and 240 schools with balances of more than 2.5% of their overall funding. This is an improved position from the 2012/13 outturn, where there were 15 schools with a deficit balance carried forward; 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.
- 30 The pressure areas for the centrally controlled element of the DSG in 2013/14 have been within the additional cost of High Needs Special Education Needs and Disabilities (SEND) children’s placements in maintained, academy and independent special schools and school redundancy costs. This has been offset by underspends within the Education Service Team dealing with SEND children, post 16 high needs provision, capitalised repair and maintenance, school improvement and early years provision.
- 31 The overall outturn position for the centrally retained element of the DSG shows an underspend of £1.744m. The earmarked reserve relating to centrally retained DSG carried forward at 31 March is £6.367m, of which £2.873 is earmarked for specific requirements (carry over commitments on SEND, post 16 high needs provision and 2 year old provision etc.), leaving a residual sum of £3.493m, of which £0.800m is required to fund long standing capital programme commitments in respect of schemes approved in 2012/13, the balance is earmarked to support spend and budget pressures in school improvement services.

## Neighbourhood Services

- 32 The 2013/14 outturn for Neighbourhood Services is a cash limit underspend of £0.966m. This takes into account adjustments for sums outside the cash limit such as redundancy costs which are met from an earmarked reserve, year-end capital accounting entries and use of / contributions to earmarked reserves.
- 33 The cash limit outturn position compares to the previously forecast Quarter 3 position of a cash limit underspend of £0.844m.
- 34 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. The main reasons accounting for the outturn position are as follows:
- There was an underspend of £0.600m within Technical Services, which was mainly due to a higher than anticipated surplus being generated within the Highways Services trading account. This was a result of increased levels of workload across the year partly due to the extremely mild winter, along with an improvement in efficiency as a result of the review of workforce levels at the end of 2012/13.
  - Within Direct Services, there was an underspend of £0.400m, due to savings in the running costs of council accommodation, and an increased surplus within the Building Services trading account.
  - An overspend of £0.500m within Strategic Waste was due to higher than anticipated one off costs associated with maintaining landfill gas power generation equipment, and also a continuing fall in income from the sale of dry recyclates. The fall in income is due to prevailing market conditions and higher than anticipated levels of contamination within the recyclable material that is collected.
  - The Library Service was £0.200m underspent due to savings associated with changes in opening hours and shift patterns brought about by the early implementation of a 2014/15 MTFP saving.
  - There was also an underspend of approximately £0.300m within the Environment, Health and Consumer Protection service due to savings in employees and supplies and services. A significant proportion of this is due to the early achievement of MTFP savings planned for 2014/15.
- 35 Further to the quarter 3 forecast outturn report, the following items have been excluded from the outturn in arriving at the cash limit:
- £3.840m – relates to contributions to and from earmarked reserves and cash limits to support specific projects in 2013/14 and 2014/15, including a £0.505m contribution to earmarked reserves to support one off expenditure in Culture and Sport; a £1.260m contribution to earmarked reserves in respect of Highways, Waste Disposal, and Environmental Health; a £1.725m contribution to earmarked reserves in respect of Buildings and Grounds Maintenance, and Street Cleaning; and a £0.350m contribution to earmarked reserves for Customer Services.
  - An additional underspend (against the quarter 3 forecast) on Winter Maintenance activities of £0.312m. In previous years, any overspends on Winter Maintenance have been treated as outside the cash limit. The 2014/15 budget has been increased by £1.300m and an earmarked reserve is being created corporately at year end to help manage these costs within the Neighbourhood's cash limit in future years. The Winter Maintenance Reserve established at year end is £1.000m and this will be utilised in future years in severe winter events should the increased budget be insufficient to meet the unavoidable costs in this area.
  - £1.755m net contribution to reserves in relation to Direct Revenue Financing of Capital, ER/VR costs and Insurance recharges.
  - £9.143m relates to a range of adjustments associated with capital charges, centralised repairs and maintenance and central administration.

36 Taking the outturn position into account, the Cash Limit Reserve to be carried forward for Neighbourhood Services is £2.782m. There is pre-committed planned use of this reserve of £0.360m across the MTFP 4 period.

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

37 The 2013/14 outturn for Regeneration and Economic Development is a cash limit overspend of £0.249m. This takes into account adjustments for sums outside the cash limit such as redundancy costs which are met from the strategic reserve, year end capital entries and use of / contributions to earmarked reserves including a contribution of £0.875m to the MTFP Redundancy and Early Retirement Reserve to assist in meeting the cost of future redundancy payments, which was actioned in quarter 3.

38 The cash limit outturn position compares to the previously forecast position of a cash limit overspend of £0.273m.

39 The outturn is a managed position, reflecting the proactive management of activity by Heads of Service across RED to bring spend within the cash limit. The main reasons accounting for the outturn position is as follows:

- £0.144m underspending in Strategy Programmes and Performance relates to savings on employee costs, including vacancies and the secondment of an employee to the Association of North East Councils, maternity savings and other general efficiency savings on supplies and services;
- Economic Development and Housing was £39k overspent, primarily due to additional spend on tourism activities;
- Planning and Assets returned a £0.646m underspend at year end due to a £0.863m underspend in the Planning Service and a £0.217m overspend on Asset Management. The underspend in the Planning service primarily relates to overachievement of planning fee income, employee savings from vacant posts and other efficiency savings on transport and supplies and services. The Assets Management Service experienced income pressures, mainly from Newgate Street in Bishop Auckland, the Brackenhill Centre in Peterlee and Millenium Square in Durham City where anticipated rental income is not being achieved;
- Transport Services were £0.139m overspent, which is primarily due to the increase in contract costs to NSL Limited for enforcement of parking policies throughout County Durham, offset by savings on bus contract payments due to new contracts being negotiated in 2013/14 and the effects of a mild winter;
- Central Costs were £0.861m overspent due to a £0.875m contribution to the MTFP Redundancy and Early Retirement Reserve, offset by a £14k underspend on central financing costs.

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

- £0.346m – relates to net contributions from earmarked reserves and cash limits to support specific projects in 2014/15;
- £1.646m net contribution to reserves in relation to Direct Revenue Financing of Capital, ER/VR costs and Insurance recharges.
- £15.442m – relates to a range of adjustments associated with capital charges, centralised repairs and maintenance, central administration and concessionary fares

41 Taking the outturn position into account, the Cash Limit reserve to be carried forward for Regeneration and Economic Development is £3.007m. There is pre-committed planned use of this reserve of £2.019m across the MTFP 4 period.

### **Resources**

42 The 2013/14 outturn for Resources is a cash limit underspend of £0.367m. This takes into account adjustments for sums outside the cash limit such as redundancy costs which are met from the strategic reserve, year end capital entries and use of / contributions to earmarked reserves including

a contribution of £2.573m to the MTFP Redundancy and Early Retirement Reserve to assist in meeting the cost of future redundancy payments, which was actioned in quarter 3.

43 The cash limit outturn position compares to the previously forecast position of a cash limit overspend position of £0.379m.

44 The underspend is a managed position, reflecting the proactive management of activity by Heads of Service across Resources to bring spend within the cash limit. The main reasons accounting for the final outturn position are as follows:

- Corporate Finance was £0.170m under budget due to £48k savings on employee costs and the balance coming from additional income arising from Service Level Agreements and VAT recovered;
- Financial Services was £1.360m under budget as a result of the early achievement of 2014/15 MTFP savings (£0.360m), underspending on employee related budgets (vacancies) in year of £0.438m and additional income of £0.522m from court cost fee income, which is also a 2014/15 MTFP saving, plus £30k from supplies and services savings and other areas;
- Human Resources was £0.216m underspent at year end arising from £0.272m savings in employee budgets as a result of the active management of vacant posts in advance of MTFP related restructuring in 2014/15 alongside a small overspend on running expenses of £56k;
- ICT was £0.256m underspent largely explained by a £0.250m underspend in employee budgets as a result of the active management of vacant posts in advance of MTFP related restructuring in 2014/15;
- Legal and Democratic Services was £0.734m under budget, explained by £0.123m savings on employee related budgets, additional income of £89k and general underspends on supplies and services of £0.522m;
- Internal Audit and Risk returned an underspend of £0.178m as a result of £0.198m savings against employee budgets as a result of the active management of vacant posts in advance of MTFP related restructuring in 2014/15 offset by a £20k overspend on supplies and services related expenditure;
- Service Management and Central Costs were £2.546m overspent due to a combination of the £2.573m contribution to the MTFP Redundancy and Early Retirement Reserve, offset by a £27k underspend due to additional income arising from rebate from Comensura contract.

45 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:

- £0.817m – relates to contributions to and from earmarked reserves and cash limits to support specific projects in 2014/15, including a contribution to the Corporate Procurement Reserve (£0.376m), a contribution to the Elections Reserve (£0.186m) and a contribution to the ICT Trading Account Reserve (£0.321m), offset by a range of other minor contributions to and from reserves.
- £0.104m net contribution from reserves in relation to Direct Revenue Financing of Capital, ER/VR costs and Insurance recharges.
- £2.787m – relates to a range of adjustments associated with capital charges, centralised repairs and maintenance and central administration.

46 Taking the final outturn position into account, including items outside the cash limit, transfers to and from earmarked reserves, the cash limit reserve to be carried forward for Resources is £3.563m. There is pre-committed planned use of this reserve of £0.358m across the MTFP period.

#### **Resources - Centrally Allocated Costs (Corporate Costs)**

47 Centrally Allocated Costs were £0.176m underspent in 2013/14. The outturn has been adjusted to take into account adjustments for the use of / contributions to earmarked reserves.

48 The outturn position compares to the previously forecast position of an underspend of £0.136m.

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



- Supplies and Services were underspent by £0.206m, primarily due to savings on audit fees, bank charges and subscriptions; offset by.
- Under-recovery of income by £30k from the VAT sharing arrangement with North Star Housing Group.

50 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:

- £0.115m – relates to a contribution from the Welfare Assistance Earmarked Reserve to support specific projects in 2013/14

### Central Budgets

#### Interest Payable and Similar Charges

51 The Revenue Summary at paragraph 2 shows a net £3.821m underspend at year end against this heading. This saving has been achieved due to lower than forecast interest rates on loans and delayed borrowing decisions due to higher levels of cash balances than forecast.

#### Interest and Investment Income

52 There has been an overachievement of investment income of £1.861m which is due to the higher than anticipated levels of cash balances held during 2013/14. 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 2013/14. In addition, a dividend of £0.279m has been received in respect of Newcastle International Airport from the Airport Company and a premium of £0.405m was received following a premature redemption of a loan.

#### Education Services Grant

53 The outturn reflects net additional grant income of £0.449m which was due to the actual grant notification being higher than the amount budgeted for in 2013/14.

#### Section 31 Grant – Small Business Rate Relief

54 Business properties with rateable values under £12,000 benefit from relief on their rates payable. It had been intended that the enhanced relief granted in recent years would be returned to standard rates for 2013/14. However the Government decided to extend the enhanced rates relief scheme for the whole of 2013/14. This meant that the income receivable under the new Business Rates Retention Scheme reduced and a special grant, 'Section 31 grant' has been awarded to recompense authorities for the shortfall produced as a result.

55 The Section 31 grant awarded against 2013/14 Business Rates bills was £8.942m. Of this, the Council will receive £2.191m and this has been accrued in the accounts for 2013/14.

#### Capitalisation Provision Redistribution Grant

56 The Government proposed in the illustrative 2014/15 settlement that £100m would be held back from Revenue Support Grant for capitalisation in 2014/15. Any provision not allocated would be distributed in accordance with the authorities' share of the 2013/14 Start-Up Funding Assessment. As there was limited take up in 2013/14, the Council's share of the redistribution was £0.881m. The Council was notified of this redistribution in March 2014.

### 2013/14 Capital Outturn

#### General Fund Capital Programme

57 The original General Fund (GF) capital budget for 2013/14, taking into account the budgets approved by Council on 26 February 2013 and adjustments for re-profiling of underspends at 2012/13 year end was £163.141m. This was agreed by Cabinet on 17 July 2013.

58 Throughout 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. Regular updates to the capital programme were reported and approved by Cabinet as part of the quarterly budgetary control reports in year. Requests for re-profiling capital programme underspends at 31 March 2014 have also been agreed by MOWG.

59 The following table summarises the revised capital budgets, taking into account revisions agreed by MOWG and Cabinet throughout the year, together with the outturn position for each service area. The table also details the action that has been taken with regard to re-profiling and other budget adjustments at year end, which were approved by MOWG on 22 May 2014.

**General Fund Capital Programme 2013/14**

	Revised 2013/14 Budget	2013/14 Outturn	Variance	Additions / Deletions from Budget	Reprofiling
	£m	£m	£m	£m	£m
Assistant Chief Executives	2.244	1.158	-1.086	-0.154	-0.932
Children and Adults Services	52.382	41.241	-11.141	0.556	-11.697
Neighbourhoods	30.722	26.090	-4.632	0.720	-5.352
Regeneration and Economic Development	37.172	34.725	-2.447	0.388	-2.835
Resources	5.267	3.892	-1.375	0.150	-1.525
<b>TOTAL</b>	<b>127.787</b>	<b>107.106</b>	<b>-20.681</b>	<b>1.660</b>	<b>-22.341</b>

60 In addition to underspends requested to be carried forward into 2014/15 to fund the completion of capital scheme / programmes, the variances in the table above also include some overspends on projects that span multiple financial years, which resulted from acceleration of project delivery timescales. In such instances the 2014/15 budgets have been reduced to offset the increased activity in 2013/14. All re-profiling agreed by MOWG has now been reflected in the 2014/15 revised capital budget.

61 The Capital Programme is financed via various funding sources including grants, capital receipts, revenue contributions, contributions from reserves and borrowing. The financing of the 2013/14 Outturn is detailed in the table below.

**Financing – General Fund Capital Programme 2013/14**

	2013/14 Outturn £m
<b>Financed by:</b>	
Grants	72.243
Direct Revenue Financing	
DSG	4.336
Other	6.516
Capital Receipts	6.857
Borrowing	17.154
<b>Total</b>	<b>107.106</b>

**Service Grouping Commentary**

62 The primary reasons for the net capital underspending of £20.681m (circa 16% under budget at year end) are set out below:

**Assistant Chief Executive (ACE)**

63 The underspend of £1.086m within ACE is mainly due to:

- **Members Budgets** – Underspend £1.260m.  
Elected members are encouraged to invest their annual allocation within each financial year. Current guidance states that uncommitted funds may be carried forward but not beyond an elected member's term of office.
- **Community Buildings** - Underspend £39k.  
Progress on the community assets transfer has been delayed due to the on-going negotiations between the Council and the relevant community groups regarding the lease agreements for the buildings.
- **Community Facilities in Crook** - Underspend £12k.  
Progress has been delayed pending the submission of business plans from the relevant community groups.

- **AAP – AAP Area Budgets - Overspend £0.225m.**

This reflects the capitalisation of some schemes approved and fully financed from AAP Area programmes revenue funding.

### Children and Adults Services (CAS)

64 The underspend of £11.141m for CAS is mainly due to:

- **BSF Schemes – Underspend £2.600m.**

Milestone payments for work at Consett Academy and North Durham Academy were delayed and some outstanding final accounts and asbestos claims have yet to be resolved.

- **Devolved Formula Capital – Underspend £2.600m.**

Work has been delayed whilst individual schools finalise capital investment plans.

- **Other School Related – Underspend £3.500m.**

Capital expenditure on Special Education Needs (SEN) has been deferred pending the outcome of the current SEN review which along with delays in starting several schemes have contributed to the underspend in this area.

- **Adult Care – Underspend £1.300m.**

Projected expenditure associated with in-house residential care was not committed whilst the outcome of the review of the in-house residential provision was determined. The recommendations from the review were not agreed by Cabinet until 16 April 2014.

- **Early Years – Underspend £0.700m.**

The two year programme to provide places for 2 year olds is still due for completion in 2014/15. However, the delivery of the scheme has been rescheduled with a greater element of the work committed in 2014/15 than originally anticipated.

- **Other areas – Underspend £0.441m.**

Delays to programmes associated with Children's Residential Homes, performance and planning systems development.

### Neighbourhood Services

65 The underspend of £4.632m for Neighbourhood Services is mainly due to:

- **Direct Services – Underspend £2.115m.**

The underspend primarily relates to a planned delay in the implementation of the Garden Waste scheme. This delayed the procurement of additional wheeled bins. There were also procurement issues which led to delays in the delivery of vehicles and plant. These issues resulted in underspend of £0.886m. Outstanding work on Bereavement and Environmental Improvement schemes which were expected to be completed in 2013/14 are now due for completion in 2014/15.

- **Culture and Sport – Underspend £0.440m.**

The delay in notification of Heritage Lottery Fund grant connected with the restoration of Wharton Park delayed progress and contributed to the majority of the Culture and Sport underspend.

- **Projects and Business Support – Underspend £0.481m.**

Improvements to the Waste Transfer Stations previously expected to be completed in 2013/14 are now scheduled for completion in 2014/15.

- **Technical Services – Underspend £1.582m.**

Primarily due to several projects where works have been committed in 2013/14 but which span multiple financial years and will not be completed until 2014/15.

- **Environmental Health and Consumer Protection – Underspend £14k.**

Development of a single integrated environmental health system was completed under budget – the residual budget is not required and has been released to capital contingencies in 2014/15.

## Regeneration and Economic Development (RED)

66 The underspend of £2.447m for RED is mainly due to:

- **Economic Development and Housing** – Net overspend £0.366m.

The outturn position results from an overspend of £1.077m due to work progressing more quickly than anticipated at the Gypsy, Roma and Traveller sites in 2013/14. This is offset by an underspend of £0.215m due to delays in contract finalisation for Durhamgate, together with an underspend on Stella Gill Industrial Estate and slower than expected progress with the Housing Renewal programme (£0.253m). In addition, there have been delays in the acquisition of properties and demolition costs associated with the Office Accommodation project (£0.109m). The residual budget for the Urban and Rural Renaissance Initiative (URRI) programme underspent by £0.134m and is to be reviewed in future years.

- **Planning and Assets** – Underspend £1.044m.

Underspends primarily related to capitalised maintenance (£0.552m), and projects associated with Drainage works (£0.151m) and renewable technologies (£0.318m).

- **Strategy and Performance** Underspend £78k –

This was a contingency figure, which was not required in year.

- **Transport** – Underspend £1.691m.

Delays in completion of schemes at Pelton / Ouston Junction and Belmont Business Park Junction following a traffic flow assessment.

## Resources

67 The underspend of £1.375m for Resources relates to ICT, details as follows:

- **ICT** - Underspend £1.375m

Procurement issues connected to the business continuity scheme has led to delays in completing this project which is now expected to be finalised in 2014/15. Installation work for the 'Dark Fibre' network has been rescheduled to 2014/15 leading to an underspend of £0.390m. The Infrastructure Environment Monitoring scheme has underspent in 2013/14 due to delays in completion and is now anticipated to be completed by September 2014.

## Annual Treasury Management Review

### Executive Summary

68 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.

69 The financial year 2013/14 continued to be the challenging investment environment of previous years of low investment returns, although levels of counterparty risk had subsided. The original expectation for 2013/14 was that Bank Rate would not rise during the year and for it only to begin to gradually rise from quarter 1 of 2015. Bank rates did stay the same and this forecast rise has now been revised to a delayed start of quarter 3 of 2015.

70 Economic growth (GDP) in the UK had been virtually flat during 2012/13 but grew strongly during 2013/14. Consequently, there was no additional quantitative easing during 2013/14 and Bank Rate ended the year unchanged at 0.5% for the fifth successive year. Consumer Price Index (CPI) inflation remained high and substantially above the 2% target during 2012, but by January 2014 it had fallen below the target rate to 1.9% and then fell further to 1.7% in February. It is also expected to remain slightly below the target rate for most of the two years ahead.

71 Gilt yields had been on a sharply rising trend during 2013 but volatility had returned in the first quarter of 2014.

72 The Government's Funding for Lending Scheme, announced in July 2012, resulted in cheap credit being made available to banks which resulted in money market investment rates falling significantly

in the second half of that year and continuing into 2013/14. That part of the Scheme which supported the provision of credit for mortgages was terminated in the first quarter of 2014 due to concerns over the impact on rising house prices.

- 73 The UK Government maintained its tight fiscal policy stance but recent strong economic growth has led to a cumulative, (in the Autumn Statement and the March Budget), reduction in the forecasts for total borrowing of £97bn over the next five years, culminating in a forecasted £5bn surplus in 2018/19.
- 74 The EU sovereign debt crisis subsided during the year and confidence in the ability of the Eurozone to remain intact increased substantially. Perceptions of counterparty risk improved after the European Central Bank statement in July 2012 that it would do “whatever it takes” to support struggling Eurozone countries; this led to a return of confidence in its banking system which has continued into 2013/14 and led to a move away from only very short term investing. However, the problems of the Eurozone, or its banks may not have ended as the zone faces the likelihood of weak growth over the next few years at a time when the total size of government debt for some nations is likely to continue rising. Future stress tests of Eurozone banks could also reveal some areas of concern.

### Treasury Position

- 75 The Treasury position at the beginning and end of 2013/14 is shown in the table below:

	31-Mar-13 (Restated)	Rate / Return	Average Life	31-Mar-14	Rate / Return	Average Life
	£m	%	yrs	£m	%	yrs
Total Debt	440	4.61		437	4.49	
Capital financing requirement (CFR)	603			607		
Over / (-) Under borrowing	-163			-170		
Total Investments	112	1.72	0.3	152	0.71	0.3
Net Debt	328			285		

- 76 Investments increased by £40m across the period as a result of re-profiling of the capital programme and a lower than anticipated use of reserves. Due to the reduction of interest rates offered by high quality counterparties by 1.00%, the average rate earned on those balances fell during 2013/14.
- 77 As a result of the favourable cash balances position no new borrowing was raised during the year.

### Investment Strategy

- 78 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 and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes .
- 79 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

- 80 The criteria for providing a pool of high quality investment counterparties are:
- 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	C-	-
Support	3	-	-

- 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**

81 The time and monetary limits for institutions on the Council's Counterparty List for 2013/14 were as follows:

	<b>Long Term Rating</b>	<b>Money Limit</b>	<b>Time Limit</b>
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

**Icelandic Deposits Update**

82 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>	

83 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.

84 The current situation concerning the recovery of sums deposited varies between each institution.

**Kaupthing Singer and Friedlander Ltd**

85 The current position on actual amounts received and estimated future receipts are as shown in the table. The Council has recognised an impairment based on it recovering 85.75p in the £ compared to 85.25p in the £ at 31 March 2013.

<b>Date</b>	<b>Repayment</b>
	<b>%</b>
Received to 31 March 2014	81.50
Received in June 2014	2.00
June 2015	2.25

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

**Landsbanki**

- 87 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.
- 88 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 December 2011. Further distributions were made in May 2012, October 2012 and September 2013 respectively.
- 89 An element of the distribution was in Icelandic Krona which was placed in an escrow account in Iceland and was earning interest of 4.17% as at 31 March 2013. This element of the distribution was retained in Iceland due to currency controls currently operating in Iceland and as a result was subject to exchange rate risk, over which the Council has no control.
- 90 During 2013/14, the Council sold its claims against the insolvent estate of Landsbanki through a competitive auction process. The price at which the claims were sold was based on a reserve price set by the Council, on the basis of legal advice received through the Local Government Association and its lawyers Bevan Brittan.
- 91 The administration of the insolvent estate of Landsbanki is likely to continue for several years given the complexity of the on-going issues in Iceland, which created uncertainty around the timings of future recoveries. The sale of the Council's claims has removed this uncertainty.
- 92 The sale included the Icelandic Kronur which had been held in an escrow account in Iceland since it was paid with the first distribution to priority creditors in December 2011.
- 93 The proceeds of the sale were paid in Pounds Sterling and were received in February 2014 so the Council is no longer a creditor of Landsbanki.

**Glitnir Bank hf**

- 94 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.
- 95 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.
- 96 An element of the distribution is in Icelandic Krona which has been placed in an escrow account in Iceland and earned interest of 3.4% up to 22 June 2012 and thereafter is earning 4.2%. 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.
- 97 The distribution has been made in full settlement, representing 100% of the claim.

## 9. Material Assets Acquired, Liabilities Incurred

The Council is involved in a number of major projects, known as capital works. The Council incurred £155.29m of capital expenditure in 2013/14. Included in this expenditure were the following major items:

	<b>Expenditure in 2013/14 £000</b>
Consett Academy	8,183
Greenland Community Primary School	1,551
Wellfield School	4,226
Structural maintenance of buildings - schools	3,114
Schools - schemes funded from capital budgets delegated to schools	2,578
Housing Capital Programme	42,946
Infrastructure - Street Lighting	2,914
Infrastructure - Other	25,836
Energy Efficiency/Renewable Energy Schemes	418
Structural maintenance of buildings (non schools)	5,085
Vehicles, Plant and Equipment	8,395
Revenue expenditure funded from capital under statute (REFCUS) (excluding school's delegated)	
Disabled Facilities Grants	4,041
Group Repair	1,083
Members' Neighbourhood Fund	796
Other REFCUS	19,238

## 10. 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.

	<b>2012/13 Actual £m</b>	<b>2013/14 Estimate £m</b>	<b>2013/14 Actual £m</b>
Non-HRA capital expenditure	117.09	135.74	107.11
Non-HRA PFI and Finance Lease	5.09	-	2.48
HRA capital expenditure	43.92	50.31	45.70
<b>Total capital expenditure</b>	<b>166.10</b>	<b>186.05</b>	<b>155.29</b>
Resourced by:			
Capital receipts	9.12	16.59	8.15
Capital grants	76.44	81.72	91.64
Capital reserves and Revenue	39.25	31.82	35.38
<b>Unfinanced capital expenditure</b>	<b>41.29</b>	<b>55.92</b>	<b>20.12</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 section 11 below.

At 31 March 2014, usable capital receipts of £0.219m and unapplied capital grants and contributions of £9.312m, (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 £194.086m were also held as at 31 March 2014 for General Fund purposes and another £8.198m in respect of Housing. These are detailed in the Notes to the Core Financial Statements.

## 11. 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 2013/14 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 in the following table, and represents one of the key prudential indicators. The 2012/13 CFR has been restated as follows:

- To correct the opening CFR, which was overstated.
- To recognise the impairment in 2012/13 of the Durham County Waste Management Company loan; this has reduced the CFR.
- To recognise HRA non-dwelling impairment, which can no longer be reversed to the Capital Adjustment account, and which has the effect of reducing the CFR.

	31-Mar-13 Actual (Restated) £m	31-Mar-14 Estimate £m	31-Mar-14 Actual £m
<b>CFR</b>			
Opening balance	579.135	604.828	603.431
Add unfinanced capital expenditure	41.293	55.921	20.117
Less MRP/VRP	-15.600	-16.005	-16.018
Adjustment:			
Restatement of Opening Balance	-0.573	-	-
Impairment of Loan	-0.801	-	-
HRA - non-dwelling revaluation/impairment losses	-0.023	-	-0.270
Closing balance	603.431	644.744	607.260

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 [PWL] 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. MRP is effectively a repayment of the non-HRA borrowing need (there is no statutory requirement to reduce the HRA CFR). The Council's 2013/14 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 2013/14 on 20 February 2013. 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).

## Explanatory Foreword

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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 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.

The following table demonstrates that during 2013/14 the Council has maintained gross borrowing within its authorised limit.

	<b>2013/14</b>
	<b>£m</b>
Authorised limit	746.000
Operational boundary	693.000
Maximum gross borrowing position	440.389
Average gross borrowing position	438.625

During the year, no new loans were taken from the Public Works Loans Board (PWLB).

Loan repayments of £3.56m were made in the year and the overall debt position of the Council decreased by £3.56m from £440.39m at 31 March 2013 to £436.83m at 31 March 2014 which is detailed in the following table.

The total borrowing at 31 March 2013 and 31 March 2014 is detailed in the following table:

<b>31-Mar-13</b>		<b>31-Mar-14</b>
<b>£m</b>		<b>£m</b>
	<b>Fixed Rate Funding</b>	
413.28	- PWLB	410.03
27.11	- Market	26.80
	<b>- Variable Rate Funding</b>	-
<u>440.39</u>		<u>436.83</u>

## 12. 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 £802.722m (£978.899m in 2012/13). 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 2014, valued using the projected unit method. Allowance is made for expected future increases in pay and pension.

The IASB issued an amended IAS19 accounting standard that came into force for accounting periods beginning on or after 1 January 2013. In applying this revised standard, the Council has identified that if it had been adopted for the period ending 31 March 2013 then this would increase the expenses recognised for funded benefits in the Comprehensive income and Expenditure Statement from £62.04m to £75.65m. Therefore the comparative figures have been restated in the 2013/14 Statement of Accounts. This adjustment has 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 18 years and the contributions payable to the Fund are calculated every three years by the Actuary to make good this deficit.

## 13. 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.

During 2013/14 the Council sold its claims against the insolvent estate of Landsbanki. The proceeds of the sale were received by the Council in February 2014 and the Council is no longer a creditor of Landsbanki.

All monies within Glitnir and Kaupthing, Singer and Friedlander 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 and are detailed in section 8 above and Note 51.

Since 2008/09 impairment of £1.870m (2012/13 £1.910m) to the asset values have been calculated in accordance with CIPFA's LAAP 82 Bulletins. During 2013/14, there has been a reduction of £0.040m in the impairment of these assets. This amount has been credited through the Comprehensive Income and Expenditure Statement (CI&E). This reduced impairment is as a result of the investments in Landsbanki (£0.028m) being written out of the accounts and a reduction in the impairment of the Kaupthing, Singer and Friedlander (£0.007m) investment due to the increased recovery anticipated. There has also been recognition of the exchange rate gain (£0.005m) on the Icelandic Kronur held in an escrow account in respect of deposits in Glitnir bank.

## 14. Significant Changes in Accounting Policies

The Code has introduced changes to the accounting treatment and disclosure requirements of post-employment benefits that have necessitated amendments to the accounting policies for 2013/14:

- **Post Employment Benefits** - The wording of accounting policy has been revised to more accurately reflect compliance with Code following changes to the classification, recognition, measurement and disclosure requirements of IAS19.

Two new accounting policies have been added to reflect the Council's approach, improve compliance with Code disclosure requirements and clarify principles being applied. The new accounting policies are:

- **Business Improvement District Scheme**
- **Voluntary Aided / Voluntary Controlled / Foundation Schools**

For all other areas, the accounting policies used in the preparation of the 2013/14 accounts are in line with those used in the preparation of the 2012/13 Statement of Accounts.

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

The Council's assets have been impaired by £132.404m in 2013/14, 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 £44.024m due to a decrease in the house price index.

Two schools have been established as Academies in County Durham during 2013/14, 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 £1.602m and has been charged to the CI&E below the Net Cost of Services.

## 16. Changes in Statutory Functions

The Health and Social Care Act 2012 gave responsibility for health protection to the Secretary of State and health improvement to upper tier and unitary local authorities.

In April 2013, the Council took over responsibility for some of the public health functions previously provided by NHS County Durham. The Council took on the role of improving and protecting the health of the county's residents, helping them to stay well and avoid illness.

As part of this role:

- We have a duty to ensure robust plans are in place to promote health and wellbeing across the county
- We work in partnership with Public Health England to protect the health of the public and will work with a range of partner organisations both locally and regionally to improve health and wellbeing.

We are responsible for commissioning a range of public health services, based on the health needs of our population.

The Public Health team, work with colleagues across all service areas to maximise and enhance opportunities to improve health and wellbeing locally.

On 1 April 2013 the role of Director of Public Health transferred from the NHS to Durham County Council, together with the specialist public health team.

The Council received a new specific grant in 2013/14 in relation to the transfer of Public Health functions to the council. The grant is ring fenced and must be spent on Public Health related functions.

The public health functions are a part of the Council's Children and Adults Services service grouping.

## 17. Subsequent Events

The Statement of Accounts was signed by the Corporate Director Resources on 27 June 2014.

One local authority school is due to convert to Academy status during 2014/15. This event will not have an impact in 2013/14. This change in status will lead to the removal of this school from the balance sheet in 2014/15 and the loss on disposal will be charged to the Comprehensive Income and Expenditure Statement below the Net Cost of Services. The estimated loss on disposal is £0.955m.

In April 2014, the Council's Cabinet agreed to the closure of the Councils' five remaining residential care homes for the elderly. There was no impact of this decision in the 2013/14 accounts.

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.

## 18. Future Plans

The [Council Plan](#) sets out what Durham County Council aims to achieve for the people of County Durham over the next three years. Our vision is to build an Altogether Better Durham, which is better for local people and provides better places to live and work. We share this vision with other public, private and voluntary sector partners in the county. The plan sets out the Council's approach to delivering on its part in this vision. The Council has a clear focus on economic growth and this is recognised as a priority within our plans.

The Council has developed its corporate, service and financial plans in a very challenging economic climate and at a time of significant change for local authorities. Unprecedented reductions in grant funding to local government will result in the Council's funding from the Government reducing by about 40% between 2011 and 2017. Reforms to the welfare system and the National Health Service impact both on the council and our communities. All of these changes are challenging. It is through effective planning that we manage these changes and strive to minimise the impact of austerity measures on our residents and service users.

The Council Plan sets out our corporate priorities for improvement and the key actions that the council will take in support of the delivery of the long-term goals in the Sustainable Community Strategy. It also identifies the improvements that the council wants to make in how it manages itself. This is achieved through organising our improvement actions into a structure comprised of five priority themes:

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

The actions for improvements that the council wants to make in how it manages itself are captured in a sixth priority theme of an Altogether Better Council.

The Government's main policy response to the recession has been to embark on a deficit reduction programme to be achieved mainly through cuts to public sector spending. Councils in the North East collectively have the largest percentage reduction in spending. To achieve the savings required to balance our budget the council has adopted an approach that seeks to minimise the effects on frontline services wherever possible. Significant savings are being achieved through reductions to management costs, and support services. 64% of savings to date have been made from non-frontline services, exceeding our initial aspiration that at least half would be from non-frontline services. However, this will become increasingly difficult to achieve in future years. The council also needs to absorb inflationary pressures at a time of increasing demand for services. These savings requirements have required us to fundamentally challenge each line of the budget for every service and explore more innovative approaches to service delivery. This work will continue to dominate our thinking over the course of the Council Plan.

The County Council approved its budget for 2014/15 and Medium Term Financial Plan to 2016/17 in February 2014.

It is apparent that the financial landscape for local authorities will remain extremely challenging until at least 2017/18. The challenges faced are exacerbated in Durham for a range of reasons:

- Government grant reductions are not evenly distributed across the country as evidenced by the Government's Spending Power figures. For 2014/15 and 2015/16 the cumulative Spending Power reduction for the council is 6.3% and for the twelve North East councils 7.5%. This compares with a national average reduction of 4.7%, whilst many affluent areas are seeing an actual increase in Spending Power e.g. Surrey +3% and Buckinghamshire +2.5%;
- Government funding is now inextricably linked to the performance of the local economy via Business Rate Retention and Local Council Tax Support Schemes. The link to a 'Needs Assessment' is no longer the key determinant of local authority funding. The current economic recovery is centred very much around the South and South East which is benefitting local authorities in those areas;
- Demand for services from local authorities is increasing with the impact of Welfare Reforms continuing to have an impact. Deprived areas are particularly impacted and this issue will continue to be a high priority as the Government plans to remove an additional £12bn from welfare budgets during 2016/17 and 2017/18.

The council's final finance settlement for 2014/15 was announced by the Government on 5 February 2014. The council's Settlement Funding Assessment (SFA) for 2014/15 is £252.085m which is £26.285m less than the 2013/14 SFA. Funding is forecast to reduce by a further £36.916m in 2015/16.

The main issues to note are as follows:

- RSG will reduce by 41% between 2013/14 and 2015/16;
- these reductions in RSG are partially offset by the inflationary increases (RPI) in Business Rates and Business Rates Top Up Grant;
- overall, the SFA will reduce by 22.7% between 2013/14 and 2015/16.

Overall as at February 2014, it was forecast that the council will need to save £224m over the 2011/12 to 2016/17 period. A sum of £113.9m was saved by 31 March 2014 resulting in a £110.1m savings requirement for the three year period 2014/15 to 2016/17. The 2014/15 budget required savings of £23m to be delivered to achieve a net budget requirement of £438.765m.

When the budget was set in February 2014, detailed savings plans needed to be developed to achieve the savings targets for 2015/16 and 2016/17.

The balanced MTFP Model is summarised in the following table:

**MTFP Summary Position**

	2014/15 £m	2015/16 £m	2016/17 £m	Total £m
Reduction in Resource Base	14.871	28.164	26.578	69.613
Budget Pressures	8.154	11.157	21.134	40.445
<b>Savings required</b>	<b>23.025</b>	<b>39.321</b>	<b>47.712</b>	<b>110.058</b>
<b>Savings to be identified</b>	<b>-</b>	<b>16.315</b>	<b>47.712</b>	<b>64.027</b>

Despite the difficulties posed by the unprecedented funding reductions on top of unavoidable budget pressures such as inflation, the budget proposals for 2014/15 include a number of investments, aligned to the core priorities of the council and the outcome of the public and stakeholder consultation:

- the council has decided to extend the current Local Council Tax Support Scheme for a further year into 2014/15. This will continue to protect 33,557 Working Age Council Tax Claimants who would otherwise have to start paying a proportion of their council tax due to the Government’s abolition of the national Council Tax Benefit scheme in April 2013;
- the council continues to prioritise capital investments which is seen as very important in maintaining employment levels within the county and improving infrastructure to assist in regenerating the local economy. The total capital programme for 2014/15 to 2016/17 is £261.090m with a key focus upon regeneration and economic development. Major investments include additional highways maintenance investment from the council of £4.756m to supplement Government grant funding, the redevelopment and relocation of Durham Bus Station and regeneration/site assembly projects in Bishop Auckland, Peterlee, Seaham and Crook;
- a £1.3m increase in the Winter Maintenance Budget is included in 2014/15. This will provide increased financial resilience in order to keep our highways and other roads open during inclement weather conditions;
- protection is afforded to the Benefits Service which has faced a further Government grant cut of £0.5m. This will enable the council to continue paying the 65,000 housing and Council Tax Support Scheme claimants their entitlements to benefit promptly.

The council’s strategy of the past three years has been to protect frontline services as far as possible and the proposals for 2014/15 are in line with that strategy, though this is becoming increasingly difficult to maintain over time.

**2014/15 Net Budget Requirement**

After taking into account base budget pressures, additional investment and savings targets, the council’s recommended Council Net Budget Requirement for 2014/15 is £438.765m. The financing of the Net Budget Requirement is detailed below:

**Financing of the 2014/15 Budget**

Financing Method	Amount £m
Revenue Support Grant	138.710
Business Rates	52.342
Business Rates - Top Up Grant	59.357
Council Tax	168.844
New Homes Bonus	6.784
New Homes Bonus - Re-imbusement	0.390
Education Services Grant	7.237
Section 31 - Small Business Rate Relief	2.194
Section 31 - Settlement Funding Adjustment	1.204
Section 31 - Empty Property and Retail Relief	1.703
<b>Total</b>	<b>438.765</b>

## Capital Funding

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.

The following value of schemes were approved for inclusion in the Capital Programme. The additional 2014/15 schemes are afforded by utilising unapplied capital grants and utilising the 2014/15 prudential borrowing allowance not already committed in MTFP for 2013/14. The new 2015/16 schemes are afforded by utilising capital grants, capital receipts and prudential borrowing.

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

The 2014/15 to 2016/17 capital budget is as follows:

### Capital Programme 2014/15 to 2016/17

	2014/15	2015/16	2016/17	Total
	£m	£m	£m	£m
Assistant Chief Executives	3.471	3.255	-	6.726
Children and Adults Services	56.839	20.890	0.087	77.816
Neighbourhoods	38.840	23.008	11.429	73.277
Regeneration and Economic Development	56.269	22.806	0.263	79.338
Resources	10.873	10.456	2.604	23.933
<b>TOTAL</b>	<b>166.292</b>	<b>80.415</b>	<b>14.383</b>	<b>261.090</b>
<b>Financed By</b>				
Grants and Contributions	69.055	28.342	1.515	98.912
Revenue and Reserves	4.993	-	-	4.993
Capital Receipts	10.000	-	-	10.000
Capital Receipts - BSF and Schools	10.474	11.600	-	22.074
Borrowing	71.770	40.473	12.868	125.111
<b>TOTAL</b>	<b>166.292</b>	<b>80.415</b>	<b>14.383</b>	<b>261.090</b>

## Financial Reserves

The Council holds reserves:

- as a working balance to help cushion the impact of any uneven cash flows and avoid unnecessary temporary borrowing – this forms part of the General Reserve.
- as a contingency to cushion the impact of any unexpected events or emergencies e.g. flooding and other exceptional winter weather – this also forms part of General Reserves;
- as a means of building up funds, earmarked reserves to meet known or predicted future liabilities.

The council's current reserves policy is to:

- set aside sufficient sums in Earmarked Reserves as is considered prudent. The Corporate Director Resources should continue to be authorised to establish such reserves as required, to review them for both adequacy and purpose on a regular basis reporting appropriately to the Cabinet Portfolio Member for Finance and to Cabinet;
- Aim to maintain General Reserves in the medium term of between 5% and 7.5% of the Net Budget Requirement which in cash terms equates between £22m and £33m.

## Risk

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 are exacerbated by the localism of business rates and the localisation of council tax support. All risks will be assessed continually throughout the MTFP period. Some of the keys risks identified include:

- ensure the achievement of a balanced budget and financial position across the MTFP period;
- ensure savings plans are risk assessed across a range of factors e.g. impact upon customers, stakeholders, partners and staff;

- Government funding reductions are based upon the 2015/16 indicative figures included in the Local Government Finance Settlement with the 2016/17 assumptions based upon Government funding cuts continuing in the future in line with recent years. This level of reduction will be required to achieve the £25bn of public expenditure reductions in 2016/17 and 2017/18 recently detailed by the Chancellor of the Exchequer.
- 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.
- the council retains 49% of all business rates collected locally but is also responsible for 49% of the cost of rating appeals including any liability prior to 31 March 2013. Increasing business rate reliefs and appeals settlements continue to make this income stream highly volatile and will require close monitoring to fully understand the implications upon the MTFP;
- the MTFP model builds in estimates of pay and price inflation. Although price inflation levels are reducing, there could be a significant impact if the Low Pay Commission agrees to large increases in the Minimum Wage. Many council contractors would be likely to request above inflation contract price increases if the Minimum Wage increased at a level above inflation;
- the Government has indicated that consideration is being given to introducing revised methodologies for apportioning health funding across the country. Whilst this could impact significantly upon Clinical Commissioning Groups (CCGs), there could also be a detrimental impact upon the council due to the significant health income streams but particularly the Public Health Grant.

Further details can be found in the [full report](#) presented to Council on 26 February 2014.

## 19. Housing Revenue Account

### **A Review of 2013/14**

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 2013/14 were as follows:

- Dwelling rents for 2013/14 were to increase in accordance with Government guidelines resulting in an overall average increase of 4.04%;
- Average rent per week was 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 were 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) were £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 had been identified for 2013/14, in addition to the £1.35m already delivered in 2012/13 to give a total saving of £3m 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.

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 at that time highlighted a shortfall of available capital resources against spending needs over the first nine years of the business plan. The deficit was 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 identified that the preferred option was a transfer of the housing stock out of the Council and into a



new registered social housing provider with a group structure based on the council's existing housing management organisational boundaries.

A further report to Cabinet on 30 October 2013 provided an update on progress with the stock transfer proposal including developments on Government policy on stock transfer and the provision of funding for housing revenue account debt write off. Also included in the report were the benefits and the financial implications on the General Fund should stock transfer be successful. An application was submitted to the Homes and Communities Agency (HCA) during the year and the Council was notified that the application had been approved in March 2014.

Throughout the appraisal process, the Council had also worked with key stakeholder groups to identify an alternative option for the housing stock, should the transfer proposal be rejected by council house tenants through a ballot process. Stakeholders selected the establishment of a single ALMO as the alternative option with area based arrangements to allow housing services to continue to operate as a business at arms-length from the authority, achieving further efficiency savings through reductions in overheads and the joining up of services, and simplifying housing management arrangements.

The HRA Business Plan was based on a stock retention scenario.

It is anticipated that subject to a 'yes' vote by council house tenants that transfer will be complete by 31 March 2015.

## Housing Revenue Account (HRA) – 2013/14 Revenue and Capital Outturn

### Revenue Outturn

1 The following table provides a detailed breakdown of the outturn position for the HRA, showing the actual position compared with the original budget. The following table summarises the HRA outturn position:

	2013-14 Budget	2013-14 Outturn	Variance
	£m	£m	£m
<b>Income</b>			
Dwelling Rents	-63.633	-63.295	0.338 a)
Non-dwelling rents	-1.075	-1.103	-0.028
Charges for Services and Facilities	-0.391	-0.569	-0.178 b)
<b>Total Income</b>	<b>-65.099</b>	<b>-64.967</b>	<b>0.132</b>
<b>Expenditure</b>			
ALMO Management and Outsourced Contract	16.469	16.469	-
Repairs and Maintenance	4.433	5.195	0.762 c)
Supervision and Management - General	4.417	4.706	0.289 d)
Supervision and Management - Special	0.411	0.408	-0.003
Rents, Rates, Taxes and other charges	0.310	0.530	0.220 e)
Depreciation and impairment of fixed assets	7.850	7.821	-0.029
Increase / Decrease in bad debt provision	0.968	0.407	-0.561 f)
Debt Management Costs	0.194	0.194	-
<b>Total Expenditure</b>	<b>35.052</b>	<b>35.730</b>	<b>0.678</b>
<b>Net Cost of HRA Services per Authority I &amp; E Account</b>	<b>-30.047</b>	<b>-29.237</b>	<b>0.810</b>
HRA services share of Corporate and Democratic Core	1.085	1.085	-
Net Cost of services but not allocated to specific services	0.402	0.385	-0.017
<b>Net Cost of HRA Services</b>	<b>-28.560</b>	<b>-27.767</b>	<b>0.793</b>
Interest Payable and Similar Charges	12.447	10.862	-1.585 i)
Direct Revenue Financing (Balancing item on HRA)	16.217	16.976	0.759 j)
Interest and Investment Income	-0.104	-0.071	0.033 k)
<b>Surplus (-) / Deficit for the year on HRA services</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>

- 2 In summary, it identifies a balanced outturn position on the revenue account after using a projected surplus of £0.759m towards financing the capital programme. The main variances are explained below:
- a) **Dwelling Rents £0.338m reduced income** – this results from an increase in “Right to Buy” sales where there were 80 sales in the year and an increase in the number of void properties across all three housing management areas, which providers are reporting is linked, at least in part, to the Government’s Welfare Reforms;
  - b) **Charges for Services and Facilities £0.178m additional income** – this results from the additional “Right to Buy” administrative income plus additional income resulting from backdating Intensive Housing Management charges;
  - c) **Repairs and Maintenance £0.762m over budget** – at the year end a review of the capital programme expenditure identified costs which needed to be aligned to revenue spend as opposed to capital, the higher spend has been offset by a corresponding reduction in the revenue contribution to the capital programme;
  - d) **General Supervision and Management £0.289m over budget** – this results from the Customer Service charge for Durham City Homes being higher than the original budget and additional asset management work relating to Housing Stock Transfer;
  - e) **Rents, Rates and Taxes £0.220m over budget** – this is an increase in Council Tax charges resulting from the increased numbers of void properties;
  - f) **Changes in Bad Debt Provision £0.561m under budget** – this results from lower than anticipated arrears compared to forecast, due to the delay by the Government in introducing Universal Credit and the work carried out by the three providers in maintaining rent arrears at a consistent level;
  - g) **Interest Payments £1.585m under budget** – this results from a lower interest rate and lower outstanding loan debt than originally anticipated, due in part to re-profiling of the capital programme in year;
  - h) **Revenue Support to Capital £0.759m over budget** – the balancing item on the HRA, which identifies the potential resources available to support the capital programme and reduce our reliance on borrowing.
- 3 The final position on HRA general and earmarked balances as at 31 March 2014 is as follows:
- Durham City Homes Improvement Plan - £0.650m
  - Welfare Reform - £0.393m
  - HRA Reserve - £7.155m

#### HRA Capital Outturn

- 4 The original HRA capital budget for 2013/14, taking into account the budgets approved by Council on 26 February 2013 and adjustments for re-profiling of underspends at 2012/13 year end was £55.583m. This was agreed by Cabinet on 17 July 2013.
- 5 As with the General Fund Capital Programme, throughout the year, the Capital Member Officer Working Group (MOWG) has continually reviewed progress in delivering the HRA capital programme, to take into account changes in planning and delivery timescales and analysis of changes in demands on resources. Regular updates to the capital programme were reported and approved by Cabinet as part of the quarterly budgetary control reports in year. The budget was reviewed throughout 2013/14 with the revised budget being £49.819m.
- 6 The following table summarises the revised capital budgets, taking into account revisions agreed by MOWG and Cabinet throughout the year, together with the outturn position for each service area. The table also details the action that has been taken with regards to re-profiling and other budget adjustments at year end, which were approved by MOWG on 22 May 2014.

### Housing Revenue Account Capital Programme 2013/14

	Revised 2013/14 Budget £m	2013/14 Outturn £m	Variance £m	Additions / Deletions from Budget £m	Reprofiling £m
Housing	49.819	45.698	-4.121	-4.121	-

7 The following table summarises the recommended financing of the HRA capital programme spend in 2013/14:

#### Financing – Housing Revenue Account Capital Programme 2013/14

	2013/14 Outturn £m
<b>Financed by:</b>	
Grants	19.400
Direct Revenue Financing	16.976
Capital Receipts	1.293
Major Repairs Allowance	7.550
Borrowing	0.479
<b>Total</b>	<b>45.698</b>

8 The 2013/14 outturn capital expenditure was £45.698m against a revised budget of £49.819m, resulting in a £4.121m underspend for the year.

9 Expenditure on assets such as communal halls and garages were found to be revenue rather than capital in nature, resulting in an underspend of £1.218m.

10 The majority of the underspend (£1.848m) relates to the East Durham Homes programme and is due to significant savings being achieved through the introduction of a new contract in July 2013 to deliver planned Decent Homes schemes, where work is being delivered at a cheaper rate.

11 There was also an underspend of £0.738m on Durham City Homes schemes, which is also due to more competitive rates being obtained, resulting in planned activity being completed below budget.

12 The remaining £0.317m is largely attributable to underspends in mortgage rescue and new build projects.

#### Future Plans - 2014/15 to 2016/17

In March 2014, the Council was notified that its application for a transfer of housing stock out of the Council and into a new registered social housing provider with a group structure based on the council's existing housing management organisational boundaries had been approved. This change is subject to a ballot of council house tenants. It is anticipated that if a 'yes' vote is received, the transfer of housing stock will be complete by 31 March 2015.

The HRA MTFP has been prepared on the basis of a stock retention scenario, with the proposed HRA budget for 2014/15 and three-year MTFP for revenue and capital being reported to the County Council in February 2014. .

The headline implications for 2014/15 are summarised below:

- Dwelling rents for 2014/15 to increase in accordance with Government guidelines which results in an overall average increase of 4.62%;
- Average rent per week to increase from £65.67 per week to £68.70 per week – an increase of £3.03 per week on average (on a 52 week basis);
- Increases in garage rents to be linked to September 2013 RPI of 3.2% and the proposed charges per week for 2014/15 (on a 52 week basis) are £8.52 (for private tenants where we need to charge VAT) and £7.10 (for council tenants who are exempt from VAT);
- A substantial capital investment programme of £50m in 2014/15.

The following broad assumptions have been used in the HRA MTFP:

## Explanatory Foreword

- Rent increases to follow national rent policy, with increases linked to the retail price index (RPI) as at September 2013 (3.2%) plus 0.5% and rent convergence by 2015/16;
- Opening Debt of £239m;
- Interest rate on debt assumed as 5.25%;
- Inflationary increase of 2.5% year on year for Housing Management expenditure and 3.5% year on year for Repairs expenditure;
- Void property levels at 2% on average which is an increase of 0.5% in the current HRA MTFP and reflects increasing void rates across the housing stock;
- Assumed bad debts provision for non payment of rent at 1.5% of gross rent due to the unknown and potential impact of Government Welfare Reforms;
- A further £0.5m saving (2015/16) in management costs based on retention of housing stock under a single ALMO model should the large scale voluntary transfer (LSVT) not proceed;
- Known adjustments to stock such as planned demolitions, new build properties and estimates of annual right to buy sales of 100 properties per year;
- Minimum level of HRA reserves of £7m.

Building in the above assumptions the HRA MTFP shows:

- A balanced revenue budget over the full HRA MTFP period;
- Housing debt of £245m at the end of HRA MTFP period;
- HRA reserves of at least £7m being maintained;
- A balanced Capital programme over the HRA MTFP period.

The following table provides forecasts for the three year Medium Term Financial Plan period 2014/15 to 2016/17 which have been taken directly from the 30 year HRA Business Plan. During this period, a rental stream of some £202m will be available to the Council to meet its management, repairs, investment and debt costs.

	2014/15 Year 1 £'000	2015/16 Year 2 £'000	2016/17 Year 3 £'000	Total All 3 years £'000
<b>Total Income</b>	65,582	67,133	68,727	201,442
<b>Total Revenue Expenditure</b>	-28,296	-28,633	-29,493	-86,422
Interest Paid	-12,646	-12,813	-12,862	-38,321
Debt Management	-156	-161	-176	-493
Interest Received	105	140	178	423
Depreciation	-7,872	-8,028	-8,188	-24,088
<b>Net Operating Income</b>	<b>16,717</b>	<b>17,638</b>	<b>18,186</b>	<b>52,541</b>
<b>Appropriations</b>				
Borrowing Repayment	-	-	-	-
Revenue Contribution to Capital	-16,717	-17,638	-18,186	-52,541
<b>Total Appropriations</b>	<b>-16,717</b>	<b>-17,638</b>	<b>-18,186</b>	<b>-52,541</b>
<b>Annual Cash Flow</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Opening Balance	7,000	7,000	7,000	n/a
Closing Balance	7,000	7,000	7,000	n/a

## HRA Capital Programme

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.

Stock investment requirements form a central part of the HRA capital spending requirement and these have been derived from information from a stock condition survey finalised in 2012 to identify the spending needs of the housing stock over a 30 year period.

The key focus for the Council is the medium term horizon and the next three years. The Council's projections show a balanced revenue budget with revenue support to the capital programme of £77m (comprising of major repairs reserve and revenue contributions). After taking into account other sources of funding, the total estimated resources are £107m.

A detailed two year capital programme covering the three geographical areas was approved as part of the 2013/14 budget setting process and a target of £50m was set for 2014/15. It was proposed to maintain a programme of £50m which is a significant level of investment in our housing stock.

## HRA Reserves

HRA reserves were anticipated to be around £7m by 31 March 2014 equivalent to approximately £379 per dwelling. Interest is receivable on HRA cash balances and £0.105m had been assumed for 2014/15.

The significant changes arising from the reform of Council housing finance including the transfer of some risks to the Council (such as interest payments on debt and fluctuations in interest rates) mean that an adequate level of reserves needs to be maintained. It is therefore prudent to ensure balances are maintained at broadly the same level to ensure the Council's financial position is not adversely affected.

## 20. Durham County Council 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 2014 the number of pensionable employees in the Pension Fund was 17,454, which is an increase of 617, from 16,837 at 31 March 2013. The number of pensioners during 2013/14 has increased by 314 from 16,386 to 16,700.

The Net Assets of the Pension Fund as at 31 March 2014 are £2,131m, an increase of £46m from £2,085m as at 31 March 2013.

The full detail of the Pension Fund's activities for 2013/14 can be found in the Pension Fund Accounts contained in this Statement of Accounts.

## 21. 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.

Section 18 details the future plans in place for the Council and for the Housing Revenue Account (HRA) in Section 19.

Those sections show that:

- The council has been able to set a balanced budget for 2014/15 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.

## **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 2014 and its expenditure and income for the year ended 31 March 2014.

Don McLure

Corporate Director, Resources

27 June 2014

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

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## Movement in Reserves Statement

2013/14:

	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 2013 brought forward (restated)</b>	24,410	105,874	7,155	1,150	137	-	1,060	139,786	292,462	432,248
<b>Movement in Reserves during 2013-14</b>										
Surplus or deficit on provision of services	-28,656	-	1,475	-	-	-	-	-27,181	-	-27,181
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	-	-	247,627	247,627
<b>Total Comprehensive Income and Expenditure</b>	<b>-28,656</b>	<b>-</b>	<b>1,475</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-27,181</b>	<b>247,627</b>	<b>220,446</b>
Adjustments between accounting basis and funding basis under regulations (Note 7)	92,459	-	-1,582	-	82	-	-338	90,621	-90,621	-
<b>Net Increase/Decrease before Transfers to Earmarked Reserves</b>	<b>63,803</b>	<b>-</b>	<b>-107</b>	<b>-</b>	<b>82</b>	<b>-</b>	<b>-338</b>	<b>63,440</b>	<b>157,006</b>	<b>220,446</b>
Transfers to/from Earmarked Reserves (Note 8)	-60,078	60,078	107	-107	-	-	-	-	-	-
<b>Increase/Decrease in Year</b>	<b>3,725</b>	<b>60,078</b>	<b>-</b>	<b>-107</b>	<b>82</b>	<b>-</b>	<b>-338</b>	<b>63,440</b>	<b>157,006</b>	<b>220,446</b>
<b>Balance at 31 March 2014 carried forward</b>	<b>28,135</b>	<b>165,952</b>	<b>7,155</b>	<b>1,043</b>	<b>219</b>	<b>-</b>	<b>722</b>	<b>203,226</b>	<b>449,468</b>	<b>652,694</b>

2012/13 balances have been restated as a result of prior period adjustments for revisions to IAS 19 disclosure and changes to the valuations of HRA day centres. Full details are disclosed at Note 53.

2012/13:

	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 2012 brought forward (restated)</b>	21,874	100,425	7,821	2,460	173	-	-	132,753	430,912	563,665
<b>Movement in Reserves during 2012-13</b>										
Surplus or deficit on provision of services	-52,861	-	-28,514	-	-	-	-	-81,375	-	-81,375
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	-	-	-50,042	-50,042
<b>Total Comprehensive Income and Expenditure</b>	<b>-52,861</b>	<b>-</b>	<b>-28,514</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-81,375</b>	<b>-50,042</b>	<b>-131,417</b>
Adjustments between accounting basis and funding basis under regulations (Note 7)	60,846	-	26,538	-	-36	-	1,060	88,408	-88,408	-
<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 (restated)</b>	<b>24,410</b>	<b>105,874</b>	<b>7,155</b>	<b>1,150</b>	<b>137</b>	<b>-</b>	<b>1,060</b>	<b>139,786</b>	<b>292,462</b>	<b>432,248</b>

2012/13 balances have been restated as a result of prior period adjustments for revisions to IAS 19 disclosure and changes to the valuations of HRA day centres. Full details are disclosed at Note 53.

# Comprehensive Income and Expenditure Statement

2012-13 (restated)			Note	2013-14		
Gross Expenditure £000	Gross Income £000	Net Expenditure £000		Gross Expenditure £000	Gross Income £000	Net Expenditure £000
493,037	383,473	109,564		471,751	373,414	98,337
204,228	69,375	134,853		209,370	62,347	147,023
66,303	14,973	51,330		71,743	18,880	52,863
40,173	17,188	22,985		49,670	15,459	34,211
44,130	13,636	30,494		45,751	12,542	33,209
71,199	10,657	60,542		71,599	12,119	59,480
1,255	171	1,084		1,050	173	877
14,587	5,493	9,094		8,387	1,336	7,051
69,978	66,445	3,533		18,484	16,823	1,661
-5,409	324	-5,733		1,843	368	1,475
91,900	61,718	30,182		73,022	65,465	7,557
224,154	192,894	31,260		218,646	190,630	28,016
-	-	-		39,485	45,018	-5,533
<b>1,315,535</b>	<b>836,347</b>	<b>479,188</b>		<b>1,280,801</b>	<b>814,574</b>	<b>466,227</b>
49,351		49,351	9	51,679		51,679
139,662	79,186	60,476	10	148,137	94,263	53,874
	507,640	-507,640	11		544,599	-544,599
		<b>81,375</b>				<b>27,181</b>
		<b>Items that will not be reclassified to Surplus or Deficit on Provision of Services</b>				
		<b>Surplus or deficit on revaluation of PPE / Heritage assets</b>				
		-2,839	12,13			-39,692
		2,761	12,13			4,884
		58,660	24			-212,380
		74				-439
		<b>Items that may be reclassified to Surplus or Deficit on Provision of Services</b>				
		-8,614	24			-
		<b>50,042</b>				<b>-247,627</b>
		<b>131,417</b>				<b>-220,446</b>

2012/13 comparative figures have been restated as a result of Code changes to the disclosures for IAS 19 Post Employment Benefits. Full details are disclosed at Note 53.

01 April 2012 £000 (restated)	31 March 2013 £000 (restated)		Notes	31 March 2014 £000
1,897,885	1,856,656	Property, Plant & Equipment	12	1,841,761
15,858	15,561	Heritage Assets	13, 48, 49	15,636
4,221	3,870	Investment Property	14	3,481
2,561	2,620	Intangible Assets	15	2,255
2,567	11,363	Long Term Investments	16	10,583
6,545	15,643	Long Term Debtors	16	14,335
<b>1,929,637</b>	<b>1,905,713</b>	<b>Long Term Assets</b>		<b>1,888,051</b>
69,010	56,900	Short Term Investments	16	69,832
1,263	350	Assets Held for Sale	20	940
5,337	2,708	Inventories	17	3,127
82,171	77,272	Short Term Debtors	18	69,266
42,874	31,261	Cash and Cash Equivalents	19	53,638
<b>200,655</b>	<b>168,491</b>	<b>Current Assets</b>		<b>196,803</b>
-12,189	-5,591	Cash and Cash Equivalents	19	-2,829
-13,597	-7,439	Short Term Borrowing	16	-8,308
-126,267	-104,501	Short Term Creditors	21	-114,826
-13,301	-15,661	Provisions	22	-1,666
-32,175	-25,595	Capital Grants Receipts in Advance	37	-7,354
<b>-197,529</b>	<b>-158,787</b>	<b>Current Liabilities</b>		<b>-134,983</b>
-7,470	-11,850	Provisions	22	-12,348
-410,999	-437,438	Long Term Borrowing	16	-432,986
-945,577	-1,027,436	Other Long Term Liabilities	40, 41, 45	-849,885
-5,052	-6,445	Capital Grants Receipts in Advance	37	-1,958
<b>-1,369,098</b>	<b>-1,483,169</b>	<b>Long Term Liabilities</b>		<b>-1,297,177</b>
<b>563,665</b>	<b>432,248</b>	<b>Net Assets</b>		<b>652,694</b>
132,753	139,786	Usable Reserves	23	203,227
430,912	292,462	Unusable Reserves	24	449,467
<b>563,665</b>	<b>432,248</b>	<b>Total Reserves</b>		<b>652,694</b>

2012/13 balances have been restated as a result of changes to the valuation of HRA day centres. Full details are disclosed at Note 53.

## Cash Flow Statement

2012-13 £000 (restated)	2013-14 £000
81,375 Net surplus (-) or deficit on the provision of services	27,181
-136,804 Adjustments to net surplus or deficit on the provisions of services for non-cash movements (Note 25)	-133,269
9,562 Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities (Note 26)	7,973
-45,867 Net Cash flows from Operating Activities (Note 27)	-98,115
60,991 Investing Activities (Note 28)	77,205
-10,109 Financing Activities (Note 29)	-4,229
5,015 Net increase (-) or decrease in cash and cash equivalents	-25,139
30,685 Cash and cash equivalents at 1 April	25,670
<b>25,670 Cash and cash equivalents at 31 March</b>	<b>50,809</b>

2012/13 comparative figures have been restated as a result of prior period adjustments for revisions to IAS 19 disclosure and changes to the valuation of HRA day centres. Full details are disclosed at Note 53.



## Notes to the Core Financial Statements

### Notes to the Core Financial Statements

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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.

## 1. Accounting Policies

### 1. General Principles

The Statement of Accounts summarises the Council's transactions for the 2013/14 financial year and its position at the year-end of 31 March 2014. The Council is required by the Accounts and Audit (England) Regulations 2011 to prepare an annual Statement of Accounts. In line with the Regulations the Statement of Accounts is prepared in accordance with proper accounting practices.

Those practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 (the Code) and the Service Reporting Code of Practice 2013/14 (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 County Council has a policy of not accruing for manual sundry creditor or sundry debtor provisions for less than £1,000 other than in exceptional circumstances.

### 3. Business Improvement District Schemes

A Business Improvement District (BID) scheme was applied across Durham City centre. The scheme is funded by a BID levy paid by city centre non-domestic ratepayers. The Council acts as the billing authority for the scheme (collecting and distributing the levy income). The BID levy income is revenue due to The Durham BID Company Limited (the BID body) and as such the Council has nothing to show in its Comprehensive Income and Expenditure Statement since it is collecting the BID levy income as an agent on behalf of the BID body.

### 4. 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.

## 5. 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.

## 6. 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 otherwise stated) 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.

## 7. 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.

## 8. 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 three 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).
- The NHS Pension Scheme, administered by the NHS Business Services Authority

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

However, the arrangements for the Teachers' and NHS schemes mean that liabilities for these benefits cannot ordinarily be identified specifically to the Council. The schemes are therefore accounted for as if they were defined contribution schemes 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 Public Health line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to the NHS Pension scheme 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 4.30% (based on the indicative rate of return on high quality corporate bond, Aon Hewitt GBP Select AA Curve).
- 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.
  4. Property – market value

The change in the net pensions liability is analysed into the following 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. Net interest on the net defined benefit liability (asset), i.e. net interest expense for the Council – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement. This is calculated by applying the discount rate used to

measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period, taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

4. 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.
5. Remeasurements, comprising:
  - the return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
  - 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 – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
6. 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.

### **9. 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.

### **10. 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).

### 11. 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.

### 12. 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.

### **13. 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.

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.

#### **Recognition and measurement**

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 County Council's approach is as follows:

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

## **14. 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.

### **15. 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.

### **16. 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.

### **17. 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.

### **18. 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.

### **19. Leases**

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

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

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

## The County Council as Lessee

### Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the 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 County 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.

### **20. Overheads and Support Services**

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2013/14 (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 net cost of services.

### **21. 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.

All valuations have been undertaken by or under the supervision of a fully qualified Chartered Surveyor (MRICS – Member of the Royal Institution of Chartered Surveyors). The effective date for valuations is 1 April of the financial year and assets are revalued on a five-year rolling programme. Council dwellings are reviewed annually. All valuations undertaken in 2013/14 were carried out by Council staff. In addition to this rolling programme, assets which have been subject to potentially material change as a result of transactions in any given year will be revalued as and when such changes occur.

### **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.

## **22. 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.

## **23. Service Concession Arrangements (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 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 charge of 10.15% on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- Contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- Payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease).
- Lifecycle replacement costs – proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out.

#### **24. 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.

#### **25. 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.

## **26. 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.

## **27. 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.

## **28. 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.

## **29. Revenue Expenditure Funded from Capital under Statute (REFCUS)**

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.

## **30. 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.

## **31. 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 lasts until 31 March 2014. The County Council is required to purchase and surrender allowances, currently retrospectively, on the basis of emissions i.e. carbon dioxide produced as energy is used. As carbon dioxide is emitted (i.e. as energy is used), a liability and an expense are recognised. The liability will be discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the Council is recognised and reported in the costs of the Council's services and is apportioned to services on the basis of energy consumption.

## **32. Other (Schools)**

The Council does not include Voluntary Aided, Voluntary Controlled or Foundation schools within its financial statements as the Council does not own the school assets. The issue of which types of school should be included is currently unresolved in the Code and CIPFA are working to produce guidance for local authorities. Until such time a decision has been made, each Council must apply its own interpretation of whether its Voluntary Aided, Voluntary Controlled and Foundation schools should be included or not. In the professional opinion of the Council's Valuer and Accountants, based on the Code as it currently stands,



these schools are not a resource controlled by the Council as a result of past events and from which future economic benefits or service potential are not expected to flow to the Council, and as such should not be included on the Balance Sheet.

## 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 2014, the following changes are not considered to have a significant impact on the Statement of Accounts:

- IAS 1 Presentation of Financial Statements. The change clarifies the disclosure requirements in respect of comparative information for the preceding period. The Statement of Accounts fully discloses comparative information for the preceding period; therefore this change will not have a material impact on the Statement of Accounts.
- IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures – The Statement of Accounts has been amended to conform with the changes in IFRS 10, IFRS 11 and IFRS 12. As there have been only disclosure changes as a result of the amendment to IFRS 10, IFRS 11 and IFRS 12, there is no impact as a result of changes to IAS 27 and IAS 28.
- IAS 32 Financial Instruments Presentation – The Code refers to amended guidance when offsetting a financial asset and a financial liability. This is a presentational change and will not have a material effect.
- IFRS 10 Consolidated Financial Statements - This standard introduces a new definition of control which is used to determine which entities are consolidated for the purposes of group accounts. The Council does have subsidiaries but has not produced group accounts for this financial year on the basis of materiality.
- IFRS 11 Joint Arrangements – This standard requires a range of disclosures about an entity's interests in joint arrangements which are in the future to be either a Joint Operation or a Joint Venture, each of which would be consolidated differently. The Council has no material joint arrangements.
- IFRS 12 Disclosures of Involvement in Other Entities – This standard requires further disclosure information that enables users of the Council's financial statements to evaluate:
  - The nature of, and risks associated with, its interest in other entities; and
  - The effects of those interests on its financial position, financial performance and cash flows.

The Council will need to consider its arrangements and further disclosures may be required.

## 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.
- Housing – impairment of capital expenditure. The Council judges that the value of the preceding year's capital expenditure, which does not enhance the value of the Council's housing stock is a reliable estimate for the current year's level of non-enhancing spend. This is subject to the capital programme remaining at a constant level. The Valuer's assessment, based on previous years' experience, is that it is a reasonable assumption to write off such non-enhancing capital expenditure one year in arrears.
- Academy and Foundation Trust Schools - two schools transferred to academy and foundation trust status in 2013/14. At the completion of a statutory process, the governing bodies of the relevant schools have agreed to change from Local Authority maintained schools. These assets are removed from the Council's Balance Sheet and a loss on disposal is recorded in the Comprehensive Income and Expenditure Account at the completion of the statutory process.
- 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 £16.151m. Further details can be found in Note 41.

- Accounting for Schools – Balance Sheet Recognition – a new accounting policy has been introduced which states the Council's position. The Council does not include Voluntary Aided, Voluntary Controlled or Foundation Schools within its financial statements. Further details can be found in Note 1, policy 32.
- 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 2013/14.
- 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.
- 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% (£0.740m) of the value of the total potential liability in the Scheme of Arrangement, after the initial levy payment of £0.838m was made in 2013/14. As provision is not for the total amount of the potential liability, 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, and a final report was received in May 2014. This report recommends proposals for the management of the retained sites, and over the next twelve months work will be undertaken to determine the financial liabilities associated with these proposals. As the value 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 2014 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 (PPE)	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 assess whether there is an indication of impairment. 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.	<p>The effects on the net pensions liability of changes in individual assumptions can be measured. For instance a 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £38.4m.</p> <p>In order to understand the magnitude of the possible volatility in the balance sheet position and to understand which assumptions are most important in determining the size of the liabilities, it is helpful to understand how sensitive the results are to key assumptions.</p> <p>IAS19 now requires entities to disclose information about the sensitivity of the defined benefit obligation to changes in key assumptions. The results from the sensitivity analysis are disclosed in Note 45 and indicate how the figures are sensitive to the assumptions used.</p>
Equal Pay	Provision has been made for the likely payments in respect of Equal Pay settlements. These are provided for in long term provisions and have been included at current prices.	As payments are unlikely to be made within 12 months, the provision will be reviewed annually and adjusted accordingly.

Item	Uncertainties	Effect if actual results differ from assumptions
Insurance Provision	The value of provisions that will be used in 2014/15 is uncertain. Based on previous experience, an amount of £1.6m has been classified as short term to reflect the likely use of this provision in 2014/15.	If the short term provision is not used during 2014/15, the annual review of the insurance provision will ensure that an appropriate amount is included in the 2014/15 accounts.
Arrears	At 31 March 2014, the Council had a balance of debtors of £89.10m. A review of significant balances suggested that an impairment of doubtful debts of 26.08% (£23.24m) 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 £23.24m to be set aside as an allowance.

## 5. Material Items of Income and Expense

There are no material items of Income and Expenditure to be disclosed separately in the Statement of Accounts.

## 6. Events After the Balance Sheet Date

The Statement of Accounts was authorised for issue by the Corporate Director Resources on 27 June 2014. 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 2014, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

### Academy Schools

One local authority school is due to convert to Academy status during 2014/15 which was a non adjusting event in 2013/14. This change in status will lead to the removal of this school from the Balance Sheet in 2014/15 and the loss on disposal will be charged to the Comprehensive Income and Expenditure Statement below the Net Cost of Services. The estimated loss on disposal is £0.955m.

### Residential Care Homes

In April 2014, the Council's Cabinet agreed to the closure of the Councils' five remaining residential care homes for the elderly. There was no impact of this decision in the 2013/14 accounts.

## 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.

2013/14:

	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	-55,363	-10,954	-	-	-	66,317
Revaluation losses on Property Plant and Equipment	-30,029	-32,149	-	-	-	62,178
Movements in the market value of Investment Properties	-243	-	-	-	-	243
Amortisation of intangible assets	-1,204	-26	-	-	-	1,230
Capital grants and contributions applied	55,451	19,400	-	-	-	-74,851
Revenue expenditure funded from capital under statute	-9,535	-45	-	-	-	9,580
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CI&E Statement	-45,947	-2,856	-	-	-	48,803
<b>Insertion of items not debited or credited to the CI&amp;E Statement:</b>						
Statutory provision for the financing of capital investment	16,018	-	-	-	-	-16,018
Capital expenditure charged against the General Fund and HRA Balances	10,852	16,976	-	-	-	-27,828
<b>Capital Grants Unapplied Account:</b>						
Capital grants and contributions unapplied credited to the CI&E Statement	-	-	-	-	-	-
Application of grants to capital financing transferred to the Capital Adjustment Account	-	-	-	-	338	-338
<b>Capital Receipts Reserve:</b>						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the CI&E Statement	4,706	3,296	-8,002	-	-	-
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals	-29	-	29	-	-	-
Use of the Capital Receipts Reserve to finance new capital expenditure	-	-	8,150	-	-	-8,150
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	-1,443	-	1,443	-	-	-
Transfer from Deferred Capital Receipts Reserve upon receipt of cash	-	-	-1,702	-	-	1,702
<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	971	-	-	-	-	-971
<b>Major Repairs Reserve:</b>						
Reversal of Major Repairs Allowance Credited to the HRA	-	7,550	-	-7,550	-	-
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	-	7,550	-	-7,550
<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	191	-	-	-	-	-191
<b>Pensions Reserve:</b>						
Reversal of items relating to the retirement benefits debited or credited to the CI&E Statement	-94,326	-344	-	-	-	94,670
Employer's pensions contributions and direct payments to pensioners payable in the year	57,294	734	-	-	-	-58,028
<b>Collection Fund Adjustment Account:</b>						
Amount by which council tax and non-domestic rating income credited to the CI&E Statement is different from council tax and non-domestic rating income calculated for the year in accordance with statutory requirements	-1,604	-	-	-	-	1,604
<b>Accumulated Absences Account:</b>						
Amount by which officer remuneration charged to the CI&E Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	1,780	-	-	-	-	-1,780
<b>Total Adjustments</b>	<b>-92,460</b>	<b>1,582</b>	<b>-82</b>	<b>-</b>	<b>338</b>	<b>90,622</b>

2012/13:

	<b>Usable Reserves</b>					
	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
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	-78,856	-274	-	-	-	79,130
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>-60,846</b>	<b>-26,538</b>	<b>36</b>	<b>-</b>	<b>-1,060</b>	<b>88,408</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 2013/14.

	Balance at 1 April 2012 £000	Transfers out 2012-13 £000	Transfers in 2012-13 £000	Balance at 31 March 2013 £000	Transfers out 2013-14 £000	Transfers in 2013-14 £000	Balance at 31 March 2014 £000
<b>General Fund:</b>							
Balances held by schools under a scheme of delegation	20,890	-5,663	4,191	19,418	-	5,266	24,684
AAP / Members Reserve	2,364	-1,571	1,062	1,855	-	1,422	3,277
AAP Reserve - Neighbourhoods	504	-477	39	66	-28	-	38
Assistant Chief Executive - Grant Reserve	233	-	-	233	-8	5	230
Assistant Chief Executive - Operational Reserve	140	-	-	140	-8	-	132
Aycliffe Young Peoples Centre Reserve	475	-47	-	428	-	959	1,387
Cabinet Reserve	498	-278	-	220	-	-	220
Capital Expenditure Reserve	-	-	-	-	-	2,797	2,797
Cash Limit Reserve	15,886	-3,189	7,205	19,902	-5,960	8,992	22,934
Community Safety Reserve	75	-53	-	22	-16	-	6
Continuing Professional Development Reserve	373	-	96	469	-	524	993
Corporate Reserve	1,164	-60	739	1,843	-	376	2,219
Customer Services Reserve	360	-300	50	110	-73	350	387
Dedicated Schools Grant and Education Reserve	4,003	-167	1,170	5,006	-	2,348	7,354
Direct Services Reserve	1,406	-96	1,284	2,594	-736	1,817	3,675
DWP Grant Reserve	159	-159	107	107	-1	593	699
Economic Development Reserve	843	-470	644	1,017	-163	46	900
Elections Reserve	800	-	-	800	-464	700	1,036
Employability and Training Reserve	855	-130	121	846	-281	79	644
Environmental Health and Consumer Protection Reserve	141	-	289	430	-93	179	516
Equal Pay Reserve	3,408	-131	3,834	7,111	-1,232	11,526	17,405
Funding and Programmes Management Reserve	239	-63	-	176	-44	-	132
Health and Wellbeing Reserve	1,347	-847	-	500	-500	-	-
Heritage and Culture Reserve	248	-248	-	-	-	-	-
Housing Benefit Subsidy Reserve	1,200	-	1,379	2,579	-381	-	2,198
Housing Solutions Reserve	1,321	-444	110	987	-72	164	1,079
Insurance Reserve	11,842	-4,154	145	7,833	-172	5,397	13,058
Land Search Fees Reserve	1,000	-	-	1,000	-	-	1,000
Legal Expenses	-	-	200	200	-	-	200
Leisure Reserves	52	-52	-	-	-	-	-
LSVT Reserve	122	-11	-	111	-11	-	100
MTFP Redundancy and Early Retirement Reserve	9,551	-4,713	-	4,838	-3,583	15,000	16,255
New Homes Bonus Reserve	206	-206	-	-	-	-	-
North Pennines Partnership Reserve	-	-	920	920	-282	-	638
Office Accommodation Reserve	-	-	-	-	-	1,000	1,000
Performance Reward Grant Reserve	1,319	-162	578	1,735	-427	-	1,308
Planning Reserve	1,774	-86	-	1,688	-540	25	1,173
Public Health Reserve	-	-	-	-	-	4,442	4,442
Regeneration Reserve	1,940	-923	111	1,128	-103	664	1,689
Restructure Reserve	1,000	-271	-	729	-	-	729
Social Care Reserve	9,329	-4,403	7,779	12,705	-3,352	10,012	19,365
Special Projects Reserve	60	-	-	60	-	-	60
Sport and Leisure Reserve	1,765	-695	1,222	2,292	-1,024	695	1,963
Strategic Waste Reserve	104	-	272	376	-150	199	425
System Development Reserve	700	-300	930	1,330	-309	1,000	2,021
Tackling Troubled Families Reserve	-	-	943	943	-	615	1,558
Technical Services Reserve	-	-	445	445	-445	1,619	1,619
Transport Reserve	364	-	-	364	-35	-	329
Transport Asset Management Programme Reserve	365	-47	-	318	-	-	318
Welfare Assistance	-	-	-	-	-	500	500
Welfare Reform Reserve	-	-	-	-	-	1,132	1,132
Welfare Rights Reserve	-	-	-	-	-	128	128
<b>Total</b>	<b>100,425</b>	<b>-30,416</b>	<b>35,865</b>	<b>105,874</b>	<b>-20,493</b>	<b>80,571</b>	<b>165,952</b>
<b>HRA:</b>							
Capital Reserve	2,000	-2,000	-	-	-	-	-
Stock Options Reserve	60	-	440	500	-500	-	-
DCH Improvements Reserve	400	-	250	650	-	-	650
Welfare Reform Reserve	-	-	-	-	-	393	393
<b>Total</b>	<b>2,460</b>	<b>-2,000</b>	<b>690</b>	<b>1,150</b>	<b>-500</b>	<b>393</b>	<b>1,043</b>

The significant earmarked reserves at 31 March 2014, together with a brief explanation of their purpose, 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 2014 comprised individual school balances totalling £24.684m, net of loans outstanding of £0.576m.

**AAP / Members Reserve**

To ensure the projects can be funded in 2014/15 where an agreed spending plan exists.

**Capital Expenditure Reserve**

To provide resources to fund capital expenditure items in 2014/15 and beyond.

**Cash Limit Reserve**

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

**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.

**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**

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.

**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.

**Public Health Reserve**

Mainly represents sums set aside to meet future costs associated with the decommissioning and recommissioning of various Public Health contracts.

**Social Care Reserve**

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

**System Development Reserve**

To provide resources to meet the costs associated with future ICT developments.



## 9. Other Operating Expenditure

2012-13 £000		2013-14 £000
12,409	Parish council precepts	9,982
400	Levies	395
1,024	Payments to the Government Housing Capital Receipts Pool	1,443
35,518	Gains/losses on the disposal of non-current assets	39,859
<b>49,351</b>	<b>Total</b>	<b>51,679</b>

## 10. Financing and Investment Income and Expenditure

2012-13 £000 (restated)		2013-14 £000
24,437	Interest payable and similar charges	24,112
40,480	Pensions net interest on the net defined benefit liability	41,560
-3,381	Interest receivable and similar income	-3,364
756	Impairment of Financial Investments	-40
163	Movement in market value of investment properties	243
-1,979	Other investment income	-8,637
<b>60,476</b>	<b>Total</b>	<b>53,874</b>

## 11. Taxation and Non-Specific Grant Income

2012-13 £000		2013-14 £000
-214,207	Council tax income *	-174,448
-219,007	Non domestic rates	-111,770
-13,779	Non-ringfenced government grants	-183,500
-60,647	Capital grants and contributions	-74,881
<b>-507,640</b>	<b>Total</b>	<b>-544,599</b>

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

## 12. Property, Plant and Equipment

Movement on Balance 2013/14:

	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 2013 (restated)	461,161	967,404	119,702	425,849	2,254	81,284	32,564	2,090,218
Additions	45,698	33,077	12,341	28,765	26	824	8,138	128,869
Revaluation increases/(decreases)	-41,951	-11,829	-	-	-	-19,562	-	-73,342
Derecognition - disposals	-2,935	-42,806	-5,245	-	-	-9,036	-	-60,022
Derecognition - other	-	-	-	-	-	-	-	-
Assets reclassified (to)/from Held for Sale	-	-782	-	-	-	-242	-	-1,024
Other reclassifications	-6,642	32,326	99	173	272	11,305	-37,393	140
Other movements in cost or valuation	-45	-451	-	-	-	-	-	-496
<b>At 31 March 2014</b>	<b>455,286</b>	<b>976,939</b>	<b>126,897</b>	<b>454,787</b>	<b>2,552</b>	<b>64,573</b>	<b>3,309</b>	<b>2,084,343</b>
<b>Accumulated Depreciation and Impairment</b>								
At 1 April 2013 (restated)	-7,579	-54,758	-77,026	-86,772	-87	-7,342	-	-233,564
Depreciation charge	-6,877	-26,300	-12,917	-10,710	-	-253	-	-57,057
Depreciation written out on revaluation	6,867	35,357	-	-	-	5,124	-	47,348
Impairment losses/(reversals)	-651	-10,052	-	-	-	-259	-	-10,962
Derecognition - disposals	676	4,964	5,106	-	-	904	-	11,650
Assets reclassified (to)/from Held for Sale	-	2	-	-	-	-	-	2
Other reclassifications	909	-308	-	-	-	-601	-	-
Other movements in cost or valuation	-	-	-	-	-	-	-	-
<b>At 31 March 2014</b>	<b>-6,655</b>	<b>-51,095</b>	<b>-84,837</b>	<b>-97,482</b>	<b>-87</b>	<b>-2,427</b>	<b>-</b>	<b>-242,583</b>
<b>Net Book Value</b>								
At 31 March 2014	448,631	925,844	42,060	357,305	2,465	62,146	3,309	1,841,760
At 31 March 2013 (restated)	453,582	912,646	42,676	339,077	2,167	73,942	32,564	1,856,654
The Revaluations / Impairments above:								
Revaluation increases/(decreases)	-41,951	-11,829	-	-	-	-19,562	-	-73,342
Depreciation written out	6,867	35,357	-	-	-	5,124	-	47,348
Impairment losses/(reversals)	-651	-10,052	-	-	-	-259	-	-10,962
	<b>-35,735</b>	<b>13,476</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-14,697</b>	<b>-</b>	<b>-36,956</b>
Are recognised as follows:								
In the Revaluation Reserve	-183	45,194	-	-	-	-10,272	-	34,739
In the Surplus/Deficit on the Provision of Services	-35,552	-31,718	-	-	-	-4,425	-	-71,695

## Comparative Movements in 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 (restated)	492,457	1,012,465	113,274	399,811	2,444	77,361	25,218	2,123,030
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 (restated)</b>	<b>461,161</b>	<b>967,404</b>	<b>119,702</b>	<b>425,849</b>	<b>2,254</b>	<b>81,284</b>	<b>32,564</b>	<b>2,090,218</b>
<b>Accumulated Depreciation and Impairment</b>								
At 1 April 2012 (restated)	-13,911	-59,347	-68,683	-76,428	-87	-6,690	-	-225,146
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 (restated)</b>	<b>-7,579</b>	<b>-54,758</b>	<b>-77,026</b>	<b>-86,772</b>	<b>-87</b>	<b>-7,342</b>	<b>-</b>	<b>-233,564</b>
<b>Net Book Value</b>								
At 31 March 2013 (restated)	453,582	912,646	42,676	339,077	2,167	73,942	32,564	1,856,654
At 31 March 2012 (restated)	478,546	953,118	44,591	323,383	2,357	70,671	25,218	1,897,884
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

**Depreciation**

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

- Council Dwellings – up to 50 years
- 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 2014, the Council had entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2014/15 and future years budgeted to cost £55.177m. Similar commitments at 31 March 2013 were £34.014m. The major commitments are:

• Building Schools for the Future	£29.671m
• Modernisation / PCP	£0.546m
• School Projects	£3.347m
• Capital Maintenance	£0.096m
• Highways Capitalised Maintenance	£2.915m
• ICT Schemes	£0.441m
• Digital Durham	£18.160m

### 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 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>
<b>Cost or valuation</b>					
At 1 April 2013	9,482	988	4,437	654	15,561
Additions	-	-	-	-	-
Disposals	-	-	-	-	-
Revaluations	12	-1	58	-	69
Impairment Losses/(reversals) recognised in the Revaluation Reserve	-	-	-	-	-
Impairment Losses/(reversals) recognised in Surplus or Deficit on the Provision of Services	-	-	-	-	-
Depreciation	-	-	-	-	-
Assets reclassified (to)/from Property Plant and Equipment	-	-	6	-	6
<b>At 31 March 2014</b>	<b>9,494</b>	<b>987</b>	<b>4,501</b>	<b>654</b>	<b>15,636</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:

2012-13 £000	2013-14 £000
4,221 Balance at start of the year	3,870
Additions:	
1 Enhancements	4
-189 Disposals	-
-163 Net gains/losses from fair value adjustments	-247
Transfers:	
- To/from Property, Plant and Equipment	-146
<b>3,870 Balance at end of the year</b>	<b>3,481</b>

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 for 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 which is 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
Accounting Software	Licence	December 2012	412	5	Straight Line
HRA Software	Licence	March 2013	10	5	Straight Line
BSF School Software	Licence	March 2013	1,020	5	Straight Line
Learning Gateway Software	Licence	January 2013	36	5	Straight Line
AccsMap Specific Software	Licence	September 2012	29	8	Straight Line
Planning Software	Licence	March 2013	63	5	Straight Line
BSF School Software	Licence	October 2013	150	5	Straight Line
Accounting Software	Licence	July 2013	241	5	Straight Line
Government Connects	Licence	November 2013	18	5	Straight Line
Learning Gateway	Licence	May 2013	3	5	Straight Line
Telephony System Software	Licence	March 2014	56	5	Straight Line
Planning Software	Licence	March 2014	381	5	Straight Line
ICT Business Continuity	Licence	March 2014	6	5	Straight Line
<b>Assets transferred due to LGR</b>					
Various software	Licence	2006	36	various	Straight line
Various software	Licence	2007	245	various	Straight line
Various software	Licence	2008	857	various	Straight line

The carrying amount of intangible assets is amortised on a straight-line basis. Of the amortisation of £1.230m charged to revenue in 2013/14 (£1.551m in 2012/13), £0.394m was charged to central administration and central services and then absorbed as an overhead across all the service headings in the Cost of Services (£0.845m in 2012/13). It is not possible to quantify exactly how much of the amortisation is attributable to each service heading.

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

2012-13			2013-14	
Software £000			Software £000	
<b>Balance at start of year:</b>				
5,785	Gross carrying amounts		7,395	
-3,224	Accumulated amortisation		-4,775	
<u>2,561</u>	<b>Net carrying amount at start of year</b>		<u>2,620</u>	
Additions:				
1,610	Purchases		875	
-	- Reclassification from Property, Plant and Equipment		-	
-	- Disposals		-297	
-	- Impairment losses recognised in the Surplus/Deficit on the Provision of Services		-10	
-1,551	Amortisation for the period		-1,230	
-	- Amortisation written out on disposal		297	
<u>2,620</u>	<b>Net carrying amount at end of year</b>		<u>2,255</u>	
<b>Comprising</b>				
7,395	Gross carrying amounts		7,963	
-4,775	Accumulated amortisation		-5,708	
<u>2,620</u>			<u>2,255</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:

2012-13			2013-14	
Long-term £000	Current £000		Long-term £000	Current £000
<b>Investments</b>				
803	56,900	Loans and receivables	22	69,831
10,558	-	Available-for-sale financial assets	10,558	-
-	-	Unquoted equity investment at cost	-	-
-	-	Financial assets at fair value through profit and Loss	-	-
<u>11,361</u>	<u>56,900</u>	<b>Total Investments</b>	<u>10,580</u>	<u>69,831</u>
<b>Debtors:</b>				
15,643	55,369	Loans and receivables	14,335	53,798
-	-	Financial assets carried at contract amounts	-	-
<u>15,643</u>	<u>55,369</u>	<b>Total Debtors</b>	<u>14,335</u>	<u>53,798</u>
<b>Borrowings:</b>				
-437,443	-7,439	Financial Liabilities at amortised cost	-432,986	-8,308
-	-	Financial Liabilities at fair value through profit and loss	-	-
<u>-437,443</u>	<u>-7,439</u>	<b>Total Borrowings</b>	<u>-432,986</u>	<u>-8,308</u>
<b>Other Long term Liabilities:</b>				
-48,300	-2,787	PFI and finance lease liabilities	-46,419	-3,266
<u>-48,300</u>	<u>-2,787</u>	<b>Total other long term liabilities:</b>	<u>-46,419</u>	<u>-3,266</u>
<b>Creditors:</b>				
-	-97,993	Financial liabilities at amortised cost	-	-109,803
-	-	Financial liabilities carried at contract amount	-	-
<u>-</u>	<u>-97,993</u>	<b>Total Creditors</b>	<u>-</u>	<u>-109,803</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 this 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 essentially 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 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 2014 was £0.085m (31 March 2013 £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 147 employees. These employees are in posts that require them to drive regularly on the Council'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 2014 was £0.278m (31 March 2013 £0.506m).

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 2014 was £0.145m (31 March 2013 £0.434m)

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 2013/14.

**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:

2012-13					2013-14					
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
24,437				24,437	Interest expense	24,113				24,113
				-	Losses on derecognition					-
				-	Reductions in fair value					-
	-40			-40	Impairment losses		40			40
				-	Fee expense					-
24,437	-40	-	-	24,397	<b>Total expense in Surplus or Deficit on the Provision of Services</b>	24,113	40	-	-	24,153
	3,282			3,282	Interest income		3,279			3,279
	99			99	Interest income accrued on impaired financial assets		85			85
				-	Increase in fair value					-
				-	Gains on derecognition					-
				-	Fee income					-
-	3,381	-	-	3,381	<b>Total income in Surplus or Deficit on the Provision of Services</b>	-	3,364	-	-	3,364
				-	Gains on revaluation					-
				-	Losses on revaluation					-
				-	Amounts recycled to the Surplus or Deficit on the Provision of Services after impairment					-
		-8,613		-8,613	Surplus/deficit arising on revaluation of financial assets in Other Comprehensive Income and Expenditure					-
24,437	-3,421	-8,613	-	12,403	<b>Net gain/(loss) for the year</b>	24,113	-3,324	-	-	20,789

**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 2013			31 March 2014		
Carrying Amount £000	Fair Value £000		Carrying Amount £000	Fair Value £000	
-542,870	-645,212	Financial liabilities	-551,096	-615,361	
-	-	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 2014) arising from a commitment to pay interest to lenders above current market rates.

31 March 2013			31 March 2014		
Carrying Amount £000	Fair Value £000		Carrying Amount £000	Fair Value £000	
112,269	112,269	Loans and receivables	123,625	123,625	
15,643	15,643	Long-term debtors	14,335	14,335	

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 2014</b>						
Consumable Stores	1,676	9,869	-9,216	-	-	2,329
Maintenance Materials	514	4,139	-4,174	-	-	479
Client Services Work in Progress	350	212	-350	-	-	212
Rechargeable Works	169	941	-1,003	-	-	107
<b>Total</b>	<b>2,709</b>	<b>15,161</b>	<b>-14,743</b>	<b>-</b>	<b>-</b>	<b>3,127</b>
<b>Year to 31 March 2013</b>						
Consumable Stores	2,929	6,869	-8,122	-	-	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>14,716</b>	<b>-17,344</b>	<b>-</b>	<b>-</b>	<b>2,709</b>

## 18. Short Term Debtors

<b>2012-13</b>		<b>2013-14</b>
<b>£000</b>		<b>£000</b>
26,615	Central government bodies	20,396
3,125	Other local authorities	2,141
2,851	NHS bodies	1,153
42	Public corporations and trading funds	-
59,567	Other entities and individuals	65,413
-18,878	Less: Impairment Allowance	-23,236
<b>73,322</b>		<b>65,867</b>
3,950	Payments in advance	3,399
<b>77,272</b>	<b>Total</b>	<b>69,266</b>

## 19. Cash and Cash Equivalents

<b>2012-13</b>		<b>2013-14</b>
<b>£000</b>		<b>£000</b>
6	Cash at bank	566
-5,591	Overdraft	-2,829
23,362	Cash held on demand (call accounts)	40,194
7,893	Deposits held for liquidity purposes	12,878
<b>25,670</b>	<b>Cash and Cash Equivalents balance</b>	<b>50,809</b>

## 20. Assets Held For Sale (Current)

<b>2012-13</b>		<b>2013-14</b>
<b>£000</b>		<b>£000</b>
1,263	<b>Balance outstanding at start of year</b>	350
Assets newly classified as held for sale:		
3,864	Property, Plant and Equipment	1,171
Assets declassified as Held for Sale:		
-1,262	Property, Plant and Equipment	-150
-3,515	Assets sold	-431
<b>350</b>	<b>Balance outstanding at year-end</b>	<b>940</b>

## 21. Short Term Creditors

2012-13 £000		2013-14 £000
-20,300	Central government bodies	-23,024
-668	Other local authorities	-379
-2,041	NHS bodies	-2,429
-31	Public corporations and trading funds	-
-74,953	Other entities and individuals	-83,971
-97,993		-109,803
-6,508	Receipts in Advance	-5,023
-104,501	<b>Total creditors</b>	-114,826

## 22. Provisions

The provisions at 31 March 2014 were as follows:

### 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.

	Insurance £000	Equal Pay £000	Other Provisions £000	Total £000
<b>Balance at 1 April 2013</b>	13,850	13,468	193	27,511
Additional provisions made in 2013-14	4,290	-	-	4,290
Amounts used in 2013-14	-3,773	-5,874	-129	-9,776
Unused amounts reversed in 2013-14	-4,341	-3,670	-	-8,011
Unwinding of discounting in 2013-14	-	-	-	-
<b>Balance at 31 March 2014</b>	10,026	3,924	64	14,014
<b>As shown in Balance Sheet</b>				
Long Term Provisions	8,424	3,924	-	12,348
Short Term Provisions	1,602	-	64	1,666
<b>Balance at 31 March 2014</b>	10,026	3,924	64	14,014

## 23. Usable Reserves

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

31 March 2013 £000	31 March 2014 £000
137 Usable Capital Receipts Reserve	219
1,061 Capital Grants and Contributions Unapplied	723
7,155 Housing Revenue Account	7,156
24,410 General Fund Balance	28,134
105,874 Earmarked Reserves	165,952
1,150 Earmarked Reserves - HRA	1,043
<b>139,787 Total</b>	<b>203,227</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 that has not been incurred at the Balance Sheet date.

### 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

01 April 2012 £000 (restated)	31 March 2013 £000 (restated)	31 March 2014 £000
408,596	383,107 Revaluation Reserve	393,396
936,588	892,798 Capital Adjustment Account	863,700
-2,500	-2,310 Financial Instruments Adjustment Account	-2,119
979	2,075 Deferred Capital Receipt	1,345
-15,369	-14,594 Short Term Accumulating Absences Account	-12,814
-897,886	-978,899 Pensions Reserve	-802,722
509	10,280 Available for Sale Financial Instruments Reserve	10,280
-5	5 Collection Fund	-1,599
<b>430,912</b>	<b>292,462 Total</b>	<b>449,467</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.

2012-13 £000	2013-14 £000
408,596 <b>Balance at 1 April (restated)</b>	383,107
22,689 Upward revaluation of assets	70,098
-22,611 Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	-35,290
78 Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	34,808
-11,211 Difference between fair value depreciation and historical cost depreciation	-12,377
-14,356 Accumulated gains on assets sold or scrapped	-12,142
-25,567 Historical cost impairment adjustment	-24,519
-25,567 Amount written off to the Capital Adjustment Account	-24,519
383,107 <b>Balance at 31 March (restated)</b>	393,396

### 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.

2012-13 £000	2013-14 £000
936,588 <b>Balance at 1 April (restated)</b>	892,798
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and	
-62,259 - Charges for depreciation and impairment of non-current assets	-66,317
-68,157 - Revaluation losses on Property, Plant and Equipment	-62,178
-1,551 - Amortisation of intangible assets	-1,230
-13,842 - Revenue expenditure funded from capital under statute	-9,580
-46,717 - 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	-48,803
-192,526	-188,108
25,568 Adjusting amounts written out of the Revaluation Reserve	24,519
-166,958 Net written out amount of the cost of non-current assets consumed in the year	-163,589
Capital financing applied in the year:	
9,114 - Use of Capital Receipts Reserve to finance new capital expenditure	8,150
7,692 - Use of the Major Repairs Reserve to finance new capital expenditure	7,550
60,647 - Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	74,851
- Application of grants and contributions to capital financing from the Capital Grants Unapplied account	337
15,600 - Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	16,018
31,571 - Capital expenditure charged against the General Fund and HRA balances	27,828
124,624	134,734
-299 Movements in the market value of Investment Properties debited or credited to the Comprehensive Income	-243
-1,157 Transfer Historic Available for Sale balance	-
892,798 <b>Balance at 31 March (restated)</b>	863,700

### 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.

2012-13 £000		2013-14 £000
-2,500	<b>Balance at 1 April</b>	-2,310
217	Premiums amortised to General Fund in year	216
-27	Discounts amortised to General Fund in year	-25
190	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	191
<b>-2,310</b>	<b>Balance at 31 March</b>	<b>-2,119</b>

### 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.

2012-13 £000		2013-14 £000
979	<b>Balance at 1 April</b>	2,075
1,662	Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	971
-566	Transfer to the Capital Receipts Reserve upon receipt of cash	-1,701
<b>2,075</b>	<b>Balance at 31 March</b>	<b>1,345</b>

### 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.

2012-13 £000		2013-14 £000
-15,369	<b>Balance at 1 April</b>	-14,594
15,369	Settlement or cancellation of accrual made at the end of the preceding year	14,594
-14,594	Amounts accrued at the end of the current year	-12,814
775	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	1,780
<b>-14,594</b>	<b>Balance at 31 March</b>	<b>-12,814</b>

### 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.

2012-13 £000 (restated)		2013-14 £000
-897,886	<b>Balance at 1 April</b>	-978,899
-58,660	Remeasurements of the net defined benefit liability	212,380
-74	Difference between Actuary's estimate and Actual Employers' Pension Contributions	439
-79,130	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	-94,670
56,851	Employer's pensions contributions and direct payments to pensioners payable in the year	58,028
-978,899	<b>Balance at 31 March</b>	-802,722

### 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.

2012-13 £000		2013-14 £000
509	<b>Balance at 1 April</b>	10,280
1,157	Transfer of historic Available for Sale balance to Available for Sale Reserve	-
9,771	Upward revaluation of investments	-
-1,157	Downward revaluation of investments not charged to the Surplus/Deficit on the Provision of Services	-
10,280		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	-
10,280	<b>Balance at 31 March</b>	10,280

### Collection Fund - Council Tax Adjustment Account

The Collection Fund - Council Tax 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.

2012-13 £000		2013-14 £000
-5	<b>Balance at 1 April</b>	5
10	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	-3
5	<b>Balance at 31 March</b>	2

**Collection Fund - Business Rates Adjustment Account**

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

2012-13 £000	2013-14 £000
- Balance at 1 April	-
- 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	-1,601
- Balance at 31 March	-1,601

**25. Cash Flow Statement – Non-Cash Movements**

2012-13 £'000 (restated)	2013-14 £'000
-56,937 Depreciation	-57,057
-73,637 Impairment and downward revaluation	-71,708
-1,551 Amortisations	-1,230
40 Impairment of Icelandic assets	40
-775 Transfer to/from Accumulated Absences account	-1,780
-952 Increase/decrease in the provision for bad debts	185
22,541 Increase/decrease in creditors	-8,545
-3,947 Increase/decrease in debtors	-8,191
-2,629 Increases/decrease in stock	419
-22,279 Pension liability	-36,642
-46,717 Carrying amount of non-current assets sold	-48,803
50,039 Other non-cash items	100,043
-136,804	-133,269

**26. Cash Flow Statement – Items Included in Investing Activities**

2012-13 £000	2013-14 £000
9,562 Proceeds from the sale of property, plant and equipment, investment property and intangible assets	7,973
9,562 <b>Net cash flows from investing activities</b>	7,973

**27. Cash Flow Statement – Operating Activities**

The cash flows for operating activities include the following items:

2012-13 £000	2013-14 £000
22,130 Interest paid	22,237
-2,708 Interest received	-1,144
- Dividends received	-279

**28. Cash Flow Statement – Investing Activities**

2012-13 £000	2013-14 £000
130,215 Purchase of property, plant and equipment, investment property and intangible assets	125,878
142,154 Purchase of short-term (not considered to be cash equivalents) and long-term investments	265,857
-9,562 Proceeds from the sale of property, plant and equipment, non-current assets held for sale, investment property and intangible assets	-7,973
-191,542 Proceeds from short-term (not considered to be cash equivalents) and long-term investments	-305,824
-10,274 Other receipts from investing activities	-733
60,991 <b>Net cash flows from investing activities</b>	77,205



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**29. Cash Flow Statement – Financing Activities**

<b>2012-13</b>		<b>2013-14</b>
<b>£000</b>		<b>£000</b>
-30,000	Cash receipts of short-term and long-term borrowing	-
8,626	Other receipts from financing activities	-11,671
3,748	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	3,886
7,517	Repayments of short-term and long-term borrowing	3,556
<u>-10,109</u>	<b>Net cash flows from financing activities</b>	<u>-4,229</u>

## 30. Amounts Reported for Resource Allocation Decisions (SEGMENTAL)

The tables below are a reconciliation of the 2013/14 internal management reports (monitoring and outturn) used by the Council's Cabinet to make decisions and the 2013/14 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	-144,739	-145,536	-29,695	-65,261	-3,623	-388,854
Government grants	-368,234	-762	-6,515	-187,107	-92	-562,710
<b>Total Income</b>	<b>-512,973</b>	<b>-146,298</b>	<b>-36,210</b>	<b>-252,368</b>	<b>-3,715</b>	<b>-951,564</b>
Employee Expenses	346,398	85,180	29,497	40,450	6,953	508,478
Other operating expenses	377,869	137,187	57,287	215,467	6,575	794,385
Support recharges	34,549	19,969	5,169	10,607	1,330	71,624
<b>Total Operating Expenses</b>	<b>758,816</b>	<b>242,336</b>	<b>91,953</b>	<b>266,524</b>	<b>14,858</b>	<b>1,374,487</b>
<b>Net Cost of Services</b>	<b>245,843</b>	<b>96,038</b>	<b>55,743</b>	<b>14,156</b>	<b>11,143</b>	<b>422,923</b>

## Reconciliation to cost of services in the CIES

£000

Net cost of services in service analysis	422,923
Add services not included in the main analysis	-4,544
Add amounts not reported to management	9,524
Remove amounts not included in the CIES	38,324

## Cost of Services in CIES

466,227

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	-388,854	-	-	-	-388,854	-	-388,854
Interest and investment income	-	-	-	-	-	-3,364	-3,364
Income from Council Tax	-	-	-	-	-	-174,448	-174,448
Government Grants and Contributions	-562,710	-	-	39,597	-523,113	-370,151	-893,264
<b>Total Income</b>	<b>-951,564</b>	<b>-</b>	<b>-</b>	<b>39,597</b>	<b>-911,967</b>	<b>-547,963</b>	<b>-1,459,930</b>
Employee Expenses	508,478	-	-	-	508,478	-	508,478
Other service expenses	794,385	-	-	-4,397	789,988	-	789,988
Support Service recharges	71,624	-	-	-	71,624	-	71,624
Contribution to Housing Capital Receipts Pool	-	-	-	-	-	1,442	1,442
Interest Payable	-	-	-	-	-	24,112	24,112
Impairment of Financial Investments	-	-	-	-	-	-40	-40
Net Trading	-	-	-	8,592	8,592	-8,637	-45
Precepts and Levies	-	-	-	-395	-395	10,377	9,982
HRA	-	-	7,557	-	7,557	-	7,557
Gain or Loss on the disposal of non-current assets	-	-	-	-	-	39,860	39,860
Centrally Administered Costs	-	-	1,609	-	1,609	-	1,609
Centrally Held Budgets - Supplies and Services	-	-	358	-	358	-	358
Direct Revenue Funding	-	-	-	-4,903	-4,903	-	-4,903
Change in Fair Value of Investment Properties	-	-	-	-243	-243	243	-
Other Adjustments	-	-	-	73	73	-	73
IAS19	-	-4,544	-	-	-4,544	41,560	37,016
Total Operating Expenses	1,374,487	-4,544	9,524	-1,273	1,378,194	108,917	1,487,111
<b>Surplus or deficit on provision of services</b>	<b>422,923</b>	<b>-4,544</b>	<b>9,524</b>	<b>38,324</b>	<b>466,227</b>	<b>-439,046</b>	<b>27,181</b>

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).

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>

#### Reconciliation to cost of services in the CIES

	£000 (restated)
Net cost of services in service analysis	436,342
Add services not included in the main analysis	-20,427
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>479,188</b>

Reconciliation to Subjective Analysis restated	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
Income from Council Tax	-	-	-	-	-	-214,207	-214,207
Government Grants and Contributions	-605,436	-	-	60,647	-544,789	-293,433	-838,222
<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	-1,979	-159
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	-	-20,427	-	-	-20,427	40,480	20,053
<b>Total Operating Expenses</b>	<b>1,386,787</b>	<b>-20,427</b>	<b>33,710</b>	<b>-30,025</b>	<b>1,370,045</b>	<b>113,208</b>	<b>1,483,253</b>
<b>Surplus or deficit on provision of services</b>	<b>436,342</b>	<b>-20,427</b>	<b>33,710</b>	<b>29,563</b>	<b>479,188</b>	<b>-397,813</b>	<b>81,375</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.

	2011-12 £000	2012-13 £000	2013-14 £000
<b>Highways Operations</b>			
The Authority runs a highways operations team which maintains the network of roads, footpaths and street lighting throughout 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: £6,919,000			
Turnover	-31,373	-27,677	-38,581
Expenditure	30,980	27,187	32,545
Surplus(-)/Deficit	-393	-490	-6,036
<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 1124 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 surplus over the last three financial years: £249,000			
Turnover	-17,912	-17,519	-17,914
Expenditure	18,105	17,690	17,301
Surplus(-)/Deficit	193	171	-613
<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 : £1,040,000			
Turnover	-2,529	-2,079	-2,088
Expenditure	2,651	2,647	2,438
Surplus(-)/Deficit	122	568	350
<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: £3,754,000			
Turnover	-21,614	-17,520	-17,811
Expenditure	20,704	15,805	16,682
Surplus(-)/Deficit	-910	-1,715	-1,129
<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: £1,874,000			
Turnover	-6,109	-7,159	-10,754
Expenditure	5,851	6,645	9,652
Surplus(-)/Deficit	-258	-514	-1,102
<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 £66,000			
Turnover	-3,163	-3,003	-2,934
Expenditure	3,693	2,886	2,587
Surplus(-)/Deficit	530	-117	-347

	2011-12 £000	2012-13 £000	2013-14 £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 £979,000	Turnover	-853	-741
	Expenditure	1,270	1,018
	Surplus(-)/Deficit	417	277
		285	

Trading operations are incorporated into the Comprehensive Income and Expenditure Statement. Some are an integral part of one of the Council's services to the public (e.g. highways), whilst others are support services to the Council'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 2013/14 £7.707m (£7.318m in 2012/13) 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 2012/13 to 2013/14, 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.

2012-13 £000		2013-14 £000
1,669	Salaries	1,672
287	Allowances	294
102	Expenses	102
<b>2,058</b>	<b>Total</b>	<b>2,068</b>

### 34. Officers' Remuneration

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

Name	Period	Salary, Fees and Allowances		Bonuses £	Expenses Allowances £	Compensation for Loss of Office £	Pensions Contribution £	Total £
		£	£					
Chief Executive - George Garlick	2013-14	200,000			125		15,283	215,408
	2012-13	200,000			529		26,200	226,729
Corporate Director - Resources	2013-14	140,000			371		12,522	152,893
	2012-13	140,000			211		18,340	158,551
Corporate Director - Children's and Adults' services	2013-14	140,000			338		18,340	158,678
	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
Corporate Director - Neighbourhood Services	2013-14	140,000			-		18,340	158,340
	2012-13	140,000			61		18,340	158,401
Corporate Director - Regeneration and Economic Development	2013-14	140,000			-		18,340	158,340
	2012-13	140,000			108		18,340	158,448
Assistant Chief Executive	2013-14	120,000			-		15,720	135,720
	2012-13	120,000			93		15,720	135,813
Monitoring Officer	2013-14	110,000			55		14,410	124,465
	2012-13	110,000			90		14,410	124,500

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

Remuneration	2012-13			2013-14		
	School Staff	Other Staff	Total	School Staff	Other Staff	Total
£50,000 - £54,999	136	66	202	128	68	196
£55,000 - £59,999	83	37	120	93	39	132
£60,000 - £64,999	37	11	48	33	21	54
£65,000 - £69,999	18	8	26	24	10	34
£70,000 - £74,999	6	1	7	8	4	12
£75,000 - £79,999	6	9	15	8	10	18
£80,000 - £84,999	3	1	4	4	5	9
£85,000 - £89,999	6	1	7	2	3	5
£90,000 - £94,999	3	-	3	5	-	5
£95,000 - £99,999	-	8	8	-	7	7
£100,000 - £104,999	-	2	2	-	3	3
£105,000 - £109,999	-	-	-	-	-	-
£110,000 - £114,999	1	6	7	1	5	6
£115,000 - £119,999	-	1	1	-	1	1
£120,000 - £124,999	-	-	-	-	1	1
£125,000 - £129,999	-	1	1	-	-	-
£130,000 - £134,999	-	1	1	-	1	1
	299	153	452	306	178	484

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	
	2012-13	2013-14	2012-13	2013-14	2012-13	2013-14	2012-13 £000	2013-14 £000
£0 - £20,000	138	77	136	102	274	179	1,815	1,536
£20,001 - £60,000	19	15	92	95	111	110	3,535	3,531
£60,001 - £120,000	-	-	3	4	3	4	284	279
<b>Total</b>	<b>157</b>	<b>92</b>	<b>231</b>	<b>201</b>	<b>388</b>	<b>293</b>	<b>5,634</b>	<b>5,346</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 and 2013/14 is Mazars LLP.

2012-13 £000	2013-14 £000
333 Fees payable with regard to external audit services carried out by the appointed auditor for the year	333
53 Fees payable in the year for the certification of grant claims and returns by the appointed auditor	33
386 <b>Net cash flows from investing activities</b>	366

In addition to the fees paid to Mazars LLP as per the above table, a rebate from the Audit Commission of £0.046m has also been received in respect of 2012/13 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 2013/14 are as follows:

	Central Expenditure £000	ISB £000	Total £000
A Final DSG for 2013/14 before Academy Recoupment			349,003
B Academy figure recouped for 2013/14			68,886
C Total DSG after Academy Recoupment for 2013/14			280,117
D Plus			
Brought forward from 2012/13			4,623
E Less			
Carry forward to 2014/15 agreed in advance			2,565
F Agreed budgeted distribution in 2013/14	42,528	239,646	282,175
G In year adjustments	-21,467	21,467	-
H Final budgeted distribution for 2013/14	21,061	261,113	282,175
I Less			
Actual central expenditure	17,260		17,260
J Less			
Actual ISB deployed to schools		261,113	261,113
K Plus			
Local authority contribution for 2013/14	-	-	-
L Carry forward to 2014/15	3,801	-	6,366 *

\* Total carry-forward (L) on central expenditure less carry forward on ISB (L) plus carry forward 2014/15 already agreed (E).

A: DSG figure as issued by the Department in July 2013 (This does not include the Early Years 2014 adjustment).

B: Figure recouped from the authority in 2013/14 by the DfE for the conversion of maintained schools into Academies (including reductions to the Early Years and High Needs allocation recouped by the DfE).

C: Total figure after DfE Academy recoupment for 2013/14.

D: Figure brought forward from 2012/13 as agreed with the Department.

E: Any amount which the authority decided after consultation with the schools forum to carry forward to 2014/15 rather than distribute in 2013/14 – this will be the difference between estimated and final DSG



for 2013/14, or a figure (positive or negative) brought forward from 2012/13 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, for example, adjustments for exclusions.

H: Budgeted distribution of DSG as at the end of the financial year.

I: Actual amount of central expenditure items in 2013/14.

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 2013/14 which will have the effect of substituting for DSG in funding the Schools Budget.

L: Carry forward to 2014/15:

- 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 on central expenditure (L) less carry forward on ISB (L) plus carry forward 2014/15 already agreed (E).

£3.114m 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 2013/14:

2012-13 £000		2013-14 £000
	<b>Credited to Taxation and Non Specific Grant Income:</b>	
-214,207	Council Tax Income	-174,448
	Non Domestic Rates:	
-219,007	- Redistributed Business Rates	-
	- Retained Business Rates	-51,356
	- Top Up Grant	-58,223
	- Small Business Rate Relief Section 31 Grant	-2,191
	Non Ring-fenced Government Grants:	
-4,245	- Revenue Support Grant	-167,162
-2,144	- LACSEG (Local Authority Central Spend Equivalent Grant)	-
	- Education Funding Agency Grant	-7,685
-5,045	- Council Tax Freeze Grant	-2,029
-2,345	- New Homes Bonus Scheme Grant	-4,800
	- New Homes Bonus Scheme Topslice Reimbursement	-943
	- Capitalisation Provision Redistribution Grant	-881
-60,647	Capital Grants and Contributions	-74,881
-507,640		-544,599

**Grant and Contribution Income Credited to Services**

2012-13 £000		2013-14 £000
	<b>Credited to Services:</b>	
-262	Arts Council Eng - NE	-357
-92	Arts Projects	-140
-108	Asylum Seekers Grant	-75
-126	CDENT Grant	-303
-378	Darlington Borough Council	-367
-358	DCSF Grant	-50
-277,943	Dedicated Schools Grant (DSG)	-280,117
-352	DEFRA Grant	-329
-1,501	Department for Transport Grant	-2,692
-24,810	Early Intervention Grant	-
-276	Education Authorities-other	-181
-216	Educational Visits	-399
-63	English heritage Grants	-23
-161	ERDF Grant	-79
-393	Health Commercial Placements	-5
-825	Heritage Lottery Fund Grant	-1,761
-134	Home Office - Positive Futures Grant	-
-4,842	Housing Benefit - Admin Grant	-4,597
-54,980	Housing Benefit Grant - Council Tax	-
-140,922	Housing Benefit Grant - Rent Allowance	-139,802
-42,584	Housing Benefit Grant - Rent Rebate	-41,463
-	LCTSS New Burdens Grant	-430
-	LCTSS - Transition Grant	-1,094
-10,047	Learning Disability and Health Reform Grant	-
-16,325	Learning and Skills Council Grant	-12,594
-134	Natural England	-186
-13,606	NHS - Care Costs	-15,839
-1,034	NHS - Integrated Services	-402
-1,780	NHS - Joint Arrangements	-6,534
-605	NNDR Cost of Collection Allowance	-604
-807	Other Local Authorities	-782
-240	PCT's	-
-5,519	PFI Grants	-5,519
-307	Police Authority	-807
-3	Probation Service	-56
-	Public Health Grant	-44,533
-10,749	Pupil Premium Grant	-16,196
-2,794	Social Care Reform Grant	-
-10	Sports Council Grant	-83
-379	Supporting People 18 to 21	-382
-214	Teacher Development Agency Grant	-25
-44	TSI	-71
-	Welfare Assistance Programme Funding	-1,928
-3	YJB - ISSP Grant	-
-3	Youth Justice Grant	-
-17	Youth Music Grant	-112
-966	Youth Offending Teams Grant	-817
-21,037	Other Grants and Contributions	-19,201
-637,949		-600,935

### 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:

2012-13			2013-14	
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>				
-1,273	-1,250	Transit 15	-1,607	-400
-1,435	-2,299	Home and Community Agency	-	-2,227
-	-45	Heritage Lottery Fund Grant - Biomass Boilers	-	-
-	-	Heritage Lottery Fund Grant - Horden Dene	-14	-5
-	-	Heritage Lottery Fund Grant - Wharton Park	-	-3
-	-312	Department for Environment, Food & Rural Affairs	-	-8
-	-1,820	Department for Transport - Highways	-	-1,242
-	-	Department for Transport - LTP3	-326	-
-	-	Public Health	-	-200
-	-2,231	Basic Need	-	-
-3,700	-7,404	Capital Maintenance	-	-
-	-3,735	Devolved Capital	-	-2,890
-	-3,528	Building Schools for the Future (BSF)	-	-
-	-279	AHDC Capital	-	-
-	-903	2 Year Old Provision	-	-
-	-43	Studio Schools	-	-
-	-180	Peterlee St. Bede's - School Contribution to BSF Project	-	-
-	-	Shotton Hall - School Contribution to BSF Project	-	-8
-	-	Living Streets	-	-45
-	-	Broadband Delivery UK	-	-11
-	-47	Environment Agency	-	-
-	-81	PCT	-	-
-37	-1,438	Other	-11	-315
<u>-6,445</u>	<u>-25,595</u>	<b>Total Capital Grants and Contributions Receipts in Advance</b>	<u>-1,958</u>	<u>-7,354</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 2013/14 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 £0.364m in 2013/14 ( £0.487m in 2012/13). 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 £0.471m in 2013/14 (£0.497m in 2012/13).
- VISIT County Durham, the tourism management board for County Durham for which there were transactions to the value of £0.132m in 2013/14 (£0.189m in 2012/13) with the Council;
- 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 2013/14.
- Groundwork North East, carrying out environmental works for which there were transactions of £0.597m in 2013/14 (£0.600m in 2012/13).
- Durham Community Action, formerly Durham Rural Community Council, providing support to communities throughout County Durham £0.303m (£0.534m in 2012/13)
- Consett YMCA for work done with various schools including the Pupil Referral Unit £0.180m (£0.228m in 2012/13)
- The Bowes Museum for services to schools £0.401m (£0.677m in 2012/13)
- Leisureworks £2.543m (£2.410m in 2012/13)

During 2013/14, works and services to the value of £0.088m (£0.020m in 2012/13) were commissioned from companies in which five members had an interest. Contracts were entered into in full compliance with the Council's Standing Orders.

#### Chief Officers

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:

Corporate Director	Related party declaration
Chief Executive	Director of County Durham Foundation
Neighbourhood Services	Non-Executive Member on the Board of the Durham County Waste Management Company (incorporating Premier Waste Management Limited) (now in liquidation)
Regeneration and Economic Development	Non-Executive Member on the Board of the Durham County Waste Management Company (incorporating Premier Waste Management Limited) (now in liquidation) 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 held 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.

**Dale and Valley Homes Limited**

Dale and 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 and 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 2013/14 was £5.406m (£5.511m in 2012/13). The Company accounts for 2013/14 are not yet available. The deficit for the year ended 31 March 2013 was £0.445m. The defined benefit pension liability at 31 March 2013 was £3.550m.

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 Council. The Board of East Durham Homes Limited has a total of 15 members of which 5 are also members of the Council. East Durham Homes Limited 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 2013/14 totalled £11.063m (£11.755m in 2012/13). 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 2014 is £11.479m (31 March 2013: £14.758m) and the deficit for the year to 31 March 2014 was £0.151m (31 March 2013: £0.288m surplus). The debtors of East Durham Homes as at 31 March 2014 are valued at £0.618m (£1.516m in 2012/13) of which £0.429m is owed by the Council (£1.154m in 2012/13). Creditors at 31 March 2014 are valued at £1.945m (£3.041m in 2012/13). Of the creditor balance £0.200m is due to the Council (£0.231m in 2012/13). The defined benefit pension liability at 31 March 2014 was £14.010m. (£17.520m at 31 March 2013).

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") created NIAL Holdings Limited, which is 51% owned by LA7 and 49% owned by AMP Capital Investors Limited following their purchase on 16 November 2012. The 51% holding is held in the Newcastle Airport Local Authority Holding Company Limited (NALAHCL), a company wholly owned by the seven authorities. NALAHCL has a called up share capital of 10,000 shares with a nominal value of £1 each. Durham County Council holds a 12.15% interest in NALAHCL, valued at £10.558m. 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 valuation is based on the sale of shares to AMP Capital Investors Limited. As no such events have occurred during 2013/14, the valuation has remained unchanged.

Through its shares in NALAHCL the Council has an effective shareholding of 6.20% in NIAL (and the group companies of NIAL Group Limited and NIAL Holdings Limited). The principal activity of NIAL (Registered Number 2077766) is the provision of landing services for both commercial and freight operators. A dividend of £0.279m was received for the year ended 31 December 2013 (nil for the year ended 31 December 2012).

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 with interest being received up to that date on a six monthly basis. Otherwise 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 £11.134m and a loss after tax of £3.615m for the year ended 31 December 2013. In the previous year, the Group made a loss before tax of £3.296m (as restated) and a profit after tax of £0.782m (as restated).

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, Woosington, 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 2013/14 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 2014 are £2.748m (31 March 2013: £2.877m). 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 2014 are £0.638m (31 March 2013: £0.587m). 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

#### **Beamish Museum Joint Committee and related companies**

Beamish Museum was established in 1970 and the Council has been a constituent member authority of Beamish North of England Open Air Museum Joint Committee since its inception. The Council makes an annual contribution towards the running costs of the Joint Committee, totalling £0.033m in 2013/14 (£0.045m in 2012/13).

Until 31 March 2014 the Joint Committee was responsible for the assets of the Museum and made all decisions on capital schemes and procuring grants for capital development. Beamish Museum (a charitable company limited by guarantee) is responsible for managing and operating the Museum on behalf of the Joint Committee. A subsidiary of Beamish Museum (BM), Beamish Museum Trading Limited (BMTL) manages all of the retailing and catering operations of the Museum.

In 2013/14, the Joint Committee made an operating loss of £0.365m (2012/13 £0.326m loss) and had net assets of £23.156m (2012/13 £22.719m). However the Museum has agreed and had approved a full restructure of both its corporate and governance arrangements. The impact of this sees a revised Company Board structure being put in place, and although both companies remain, the Joint Committee was agreed to

be dissolved from 1 April 2014, with all of its assets and liabilities transferring to Beamish Museum in accordance with the agreed recommendations made by the Joint Committee at its final meeting held on 28 March 2014.

In 2013/14 the BM and BMTL group made an operating profit of £0.549m (2012/13 £0.460m loss) and had net liabilities of £0.721m (2012/13 £1.282m). The Council receives no income or contributions from the above reported arrangements. Copies of the Joint Committee's and BM Group Accounts can be obtained from the Museum Director, Regional Resource Centre, Beamish, County Durham, DH9 0RG.

### Durham County Council Pension Fund

Durham County Council administers the Durham County Council Pension Fund on behalf of 110 bodies, including borough, parish and town councils, colleges, academy schools, statutory bodies and admitted bodies. During 2013/14, the Pension Fund had an average balance of £14.932m (£20.395m in 2012/13) of surplus cash deposited with the Council. In 2013/14 the Council paid the fund a total of £0.068m (£0.303m in 2012/13) 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.

The 2012/13 has been restated as follows:

- To correct the opening CFR, which was overstated
- To recognise the impairment in 2012/13 of the Durham County Waste Management Company loan, which reduced the CFR
- To recognise HRA non-dwelling impairment, which can no longer be reversed to the Capital Adjustment Account, and which has the effect of reducing the CFR

2012-13 £000 (restated)		2013-14 £000
579,136	<b>Opening Capital Financing Requirement</b>	603,431
-573	Capital Financing Requirement restatement	-
	Capital investment:	
130,371	Property, Plant and Equipment	126,385
5,092	Property, Plant and Equipment - Finance Leases	2,484
32	Heritage Assets	-
1,645	Intangible Assets	875
-	Investment Properties	4
278	Acquisition of share capital	-
28,678	Revenue Expenditure Funded from Capital under Statute	25,541
	Sources of finance:	
-9,114	Capital receipts	-8,151
-76,442	Government grants and other contributions	-91,643
-7,692	Major Repairs Allowance	-7,550
	Sums set aside from revenue:	
-31,556	- Direct revenue contributions	-27,828
-15,600	- Minimum Revenue Provision	-16,018
	Adjustment to Capital Financing Requirement:	
-801	Impairment of Waste Management Company Loan	-
-23	Housing Revenue Account non-dwelling revaluation/impairment losses	-270
603,431	<b>Closing Capital Financing Requirement</b>	607,260
	<b>Explanation of movements in year</b>	
-12,525	Increase/(decrease) in underlying need to borrow (supported by government financial assistance)	-10,704
31,728	Increase/(decrease) in underlying need to borrow (unsupported by government financial assistance)	12,049
5,092	Assets acquired under finance leases	2,484
24,295	<b>Increase/(decrease) in Capital Financing Requirement</b>	3,829

## 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 2013 £000		31 March 2014 £000
	- Other Land and Buildings	-
9,441	Vehicles, Plant, Furniture and Equipment	8,941
<u>9,441</u>		<u>8,941</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:

31 March 2013 £000		31 March 2014 £000
	Finance lease liabilities (net present value of minimum lease payments):	
2,550	Current	2,521
5,200	Non-Current	4,561
1,292	Finance costs payable in future years	1,411
<u>9,042</u>	<b>Minimum lease payments</b>	<u>8,493</u>

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

31 March 2013			31 March 2014	
Minimum Lease Payments £000	Finance Lease Liabilities £000		Minimum Lease Payments £000	Finance Lease Liabilities £000
2,926	2,550	Not later than one year	3,427	2,521
5,958	5,073	Later than one year and not later than five years	4,917	4,437
158	127	Later than five years	149	124
<u>9,042</u>	<u>7,750</u>		<u>8,493</u>	<u>7,082</u>

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 2013 £000 (restated)		31 March 2014 £000
835	Not later than one year	1,496
1,862	Later than one year and not later than five years	2,716
5,816	Later than five years	5,983
<u>8,513</u>		<u>10,195</u>

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



31 March 2013 £000	31 March 2014 £000
259 Minimum lease payments	348
- Contingent rents	-
-264 [Sublease payments receivable]	-375
-5	-27

## 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 2013 £000	31 March 2014 £000
2,296 Not later than one year	3,127
3,098 Later than one year and not later than five years	4,311
6,757 Later than five years	6,558
12,151	13,996

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 2013/14 no rents were received by the authority in respect of contingent rents (2012/13 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 and 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

31 March 2013 £000		31 March 2014 £000
13,310	Net book value at 1 April	13,154
-	Additions	-
-299	Depreciation	-365
143	Revaluations	1,579
<u>13,154</u>	Net book value at 31 March	<u>14,368</u>

In addition to the net book value of £14.368m 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 and buildings for these schools carried forward is £16.151m.

### Value of Liabilities

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 2013/14 are summarised below:

31 March 2013 £000		31 March 2014 £000
44,042	<b>Balance outstanding at start of year</b>	43,338
-704	Payments during the year	-734
	- Capital expenditure incurred in the year	-
	- [other movements]	-
<u>43,338</u>	<b>Balance outstanding at year-end</b>	<u>42,604</u>

### Estimates of Future Payments Due

	Payments for Services £000	Reimbursement of Capital Expenditure £000	Interest £000	Total £000
Payable in 2014-15	2,166	744	4,322	7,232
Payable within two to five years	9,420	3,677	16,458	29,555
Payable within six to ten years	13,933	6,290	18,248	38,471
Payable within eleven to fifteen years	16,073	9,989	14,312	40,374
Payable within sixteen to twenty years	19,628	14,435	8,465	42,528
Payable within twenty-one to twenty-two years	6,958	7,469	1,113	15,540
<b>Total</b>	<u>68,178</u>	<u>42,604</u>	<u>62,918</u>	<u>173,700</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 2014/15 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 £132.404m in 2013/14, 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 £44.024m 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 2013/14. The value of the redundancy payments charged to services in 2013/14 was £4.605m and in 2012/13 was £5.888m. The table below analyses the payments made in the relevant financial years. The majority of the payments made in 2013/14 were due to the rationalisation of services within the Authority.

2012-13 £000		2013-14 £000
2,250	Children's and Education Services	1,946
490	Adult Social Care	595
796	Highways and Transportation	145
100	Planning and Development	196
227	Cultural and Related Services	166
481	Environmental Services	342
1,081	Central Services	711
	- Local Authority Housing - HRA	34
124	Housing General	179
339	Trading	231
	- Corporate and Democratic Core	60
5,888	<b>Total</b>	4,605

In addition to the above redundancy payments, the pension enhancement value in 2013/14 was £0.730m and in 2012/13 was £0.714m.

## 44. Pension Schemes Accounted for as Defined Contribution Schemes

### Teachers' Pension Scheme

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 2013/14, the Council paid £16.971m to Teachers' Pensions in respect of teachers' retirement benefits, representing 14.1% of pensionable pay. The figures for 2012/13 were £17.521m and 14.1%. There were no contributions remaining payable at the year-end.

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. The costs are accounted for on a defined benefit basis and detailed in Note 45.

### **NHS Pension Scheme**

During 2013/14, NHS Staff transferred to the Council. These staff have maintained their membership in the NHS Pension Scheme, administered by the NHS Business Services Authority. The Scheme provides these staff 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 an unfunded defined benefit scheme. However, the Council is not able to identify its share of the 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 2013/14, the Council paid £0.217m to the NHS Pension Scheme in respect of former NHS staff retirement benefits, representing 14.0% of pensionable pay. 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 for those benefits and to disclose them at the time that employees earn their future entitlement.

The Council participates in two post employment schemes:

- The Local Government Pension Scheme (LGPS), 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.
- The Durham County Council Pension Fund is operated under the regulatory framework for the LGPS and responsibility for the Pension Fund has been delegated from Durham County Council to the Pension Fund Committee. The Corporate Director Resources has a statutory duty to ensure the Pension Fund remains solvent and is administered effectively, adhering to the LGPS regulations in order to meet any current and future liabilities. The Pension Fund has five investment managers who are appointed by the committee to invest the Fund's assets in compliance with constraints imposed by the Fund's Statement of Investment Principles and in compliance with applicable legislation. Further information on Durham County Council's Pension Fund can be found in the Pension Fund Accounts later in this document.
- The principal risks to the authority of the scheme are the longevity assumptions, statutory changes to the scheme, structural changes to the scheme (i.e. large-scale withdrawals from the scheme), changes to inflation, bond yields and the performance of the equity investments held by the scheme. These are mitigated to a certain extent by the statutory requirements to charge to the General Fund and Housing Revenue Account the amounts required by statute as described in the accounting policies note.

### Discretionary Post-retirement Benefits

Discretionary post-retirement benefits on early retirement are an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. There are no plan assets built up to meet these pension liabilities.

### Transactions Relating to Post-employment Benefits

The Council recognises 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 the Council is 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:

2012-13			2013-14	
Local Government Pension Scheme £000 (restated)	Discretionary Benefits Arrangements £000 (restated)		Local Government Pension Scheme £000	Discretionary Benefits Arrangements £000
		Cost of services:		
		Service cost comprising:		
43,849	-	- Current service cost	47,884	-
1,000	-	- Past service cost (including curtailments)	1,800	-
-8,120	-	- Settlement cost	-	-
		Other operating expenditure		
1,921	-	- Current service cost	3,426	-
		Financing and Investment Income and Expenditure:		
37,000	3,480	- Net interest on net defined benefit liability	38,370	3,190
<u>75,650</u>	<u>3,480</u>	Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	<u>91,480</u>	<u>3,190</u>
		Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement:		
		Remeasurement of the net defined benefit liability comprising:		
-78,750	-	- Return on plan assets (excluding the amount included in the net interest expense)	11,690	-
135,520	4,750	- Actuarial gains and losses due to changes in financial assumptions	-135,720	-3,410
-	-	- Actuarial gains and losses due to changes in demographic assumptions	-30,200	1,190
-2,710	-150	- Actuarial gains and losses due to liability experience	-56,010	80
<u>129,710</u>	<u>8,080</u>	Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	<u>-118,760</u>	<u>1,050</u>
		<b>Movement in Reserves Statement</b>		
-75,650	-3,480	Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post employment benefits in accordance with the Code	-91,480	-3,190
		Actual amount charged against the General Fund Balance for pensions in the year:		
50,900	-	- Employer's contributions payable to the scheme	52,138	-
-	5,951	- Direct retirement benefits payable to pensioners	-	5,890

### Pensions Assets and Liabilities Recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the Council's obligation in respect of its defined benefit plans is as follows:

2012-13			2013-14		
Funded Liabilities: Local Government Pension Scheme £000 (restated)	Unfunded Liabilities: Discretionary Benefits Arrangements £000 (restated)		Funded Liabilities: Local Government Pension Scheme £000	Unfunded Liabilities: Discretionary Benefits Arrangements £000	
-2,312,270	-80,760	Present value of the defined benefit obligation	-2,179,340	-75,850	
1,414,570	-	Fair value of plan assets	1,452,460	-	
-897,700	-80,760	<b>Net liability arising from defined benefit obligation</b>	-726,880	-75,850	
-898,090	-80,809	<b>Adjusted Total *</b>	-726,802	-75,920	

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

### Reconciliation of the Movements in the Fair Value of Scheme (Plan) Assets

2012-13			2013-14		
Funded Liabilities: Local Government Pension Scheme £000 (restated)	Unfunded Liabilities: Discretionary Benefits Arrangements £000 (restated)		Funded Liabilities: Local Government Pension Scheme £000	Unfunded Liabilities: Discretionary Benefits Arrangements £000	
1,301,660	-	<b>Opening fair value of scheme assets</b>	1,414,570	-	
60,680	-	Interest Income	61,990	-	
78,750	-	Remeasurement gain/loss (-)	-11,690	-	
51,290	6,000	Contributions from employer	52,060	5,960	
13,650	-	Contributions from employees into the scheme	13,770	-	
-86,430	-6,000	Benefits paid	-78,240	-5,960	
-5,030	-	Settlements	-	-	
1,414,570	-	<b>Closing fair value of scheme assets</b>	1,452,460	-	

### Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation)

2012-13			2013-14		
Funded Liabilities: Local Government Pension Scheme £000 (restated)	Unfunded Liabilities: Discretionary Benefits Arrangements £000 (restated)		Funded Liabilities: Local Government Pension Scheme £000	Unfunded Liabilities: Discretionary Benefits Arrangements £000	
2,120,940	78,680	<b>Opening balance at 1 April</b>	2,312,270	80,760	
45,770	-	Current service cost	51,310	-	
97,680	3,480	Interest cost	100,360	3,190	
13,650	-	Contributions by scheme participants	13,770	-	
135,520	4,750	Remeasurement gains (-) and losses:	-135,720	-3,410	
-	-	Actuarial gains and losses due to changes in financial assumptions	-30,200	1,190	
-2,710	-150	Actuarial gains and losses due to changes in demographic assumptions	-56,010	80	
1,000	-	Actuarial gains and losses due to liability experience	1,800	-	
-86,430	-6,000	Past service cost (including curtailments)	-78,240	-5,960	
-13,150	-	Benefits paid	-	-	
2,312,270	80,760	Settlements	2,179,340	75,850	
		<b>Closing balance at 31 March</b>			

**Local Government Pension Scheme Assets comprised:**

The Discretionary Benefits arrangements have no assets to cover its liabilities. The Local Government Pension Scheme's assets consist of the following categories:

<b>31 March 2013</b>		<b>31 March 2014</b>		
Fair Value of scheme assets £000		Fair Value of scheme assets £000		
Total		Quoted	Unquoted	Total
745,478	Equity investments	334,066	445,905	779,971
103,264	Property	15,977	82,790	98,767
384,763	Government bonds	297,754	82,790	380,544
142,872	Corporate bonds	2,905	124,912	127,817
38,193	Cash	62,456	-	62,456
-	Other	2,905	-	2,905
<b>1,414,570</b>	<b>Total</b>	<b>716,063</b>	<b>736,397</b>	<b>1,452,460</b>

**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, 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 2013. The principal assumptions used by the actuary have been:

<b>2012-13</b>				<b>2013-14</b>			
Local Government Pension Scheme	Discretionary Benefits Arrangements			Local Government Pension Scheme	Discretionary Benefits Arrangements		
<b>Mortality assumptions:</b>							
Standard	SAPS	Normal Health	All	Standard	SAPS	Normal Health	All
		Year of Birth base table				Year of Birth base table	
Amounts				Amounts			
105%	105%	Scaling to above base table rates		105%	105%	Scaling to above base table rates	
Longevity at 65 for current pensioners:				Longevity at 65 for current pensioners:			
22.1	22.1	- Men		22.5	22.5	- Men	
24.3	24.3	- Women		25.0	25.0	- Women	
Longevity at 65 for future pensioners:				Longevity at 65 for future pensioners:			
23.9	n/a	- Men		24.7	n/a	- Men	
26.2	n/a	- Women		27.3	n/a	- Women	
<b>Principal financial assumptions (% per annum)</b>							
3.6	3.5	- Rate of inflation (RPI)		3.4	3.2	- Rate of inflation (RPI)	
2.7	2.6	- Rate of inflation (CPI)		2.4	2.2	- Rate of inflation (CPI)	
4.6	n/a	- Rate of increase in salaries		3.9	n/a	- Rate of increase in salaries	
2.7	2.6	- Rate of increase in pensions		2.4	2.2	- Rate of increase in pensions	
4.4	4.1	- Rate for discounting scheme liabilities		4.3	4.2	- Rate for discounting scheme liabilities	
<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		n/a	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	
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		n/a	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	
n/a	n/a	- Each member is assumed to surrender pension on retirement, such that the total cash received (including any accrued lump sum from pre 2008 service) is x% of the permitted maximum		80.0	n/a	- Each member is assumed to surrender pension on retirement, such that the total cash received (including any accrued lump sum from pre 2008 service) is x% of the permitted maximum	

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below based on reasonably possible changes to the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice this is unlikely to occur, and changes in

some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit cost method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in 2012/13.

The approximate impact of changing the key assumptions on the present value of the funded defined benefit obligation as at 31 March 2014 and the projected service cost for the year ending 31 March 2015 is set out below:

**Discount rate assumption**

	+ 0.1% per annum	- 0.1% per annum
Adjustment to discount rate		
Present value of total obligation (£000)	2,140,940	2,218,450
Change in present value of total obligation	-1.8%	1.8%
Projected service cost (£000)	43,160	45,900
Approximate change in projected service cost	-3.0%	3.1%

**Rate of general increase in salaries**

	+ 0.1% per annum	- 0.1% per annum
Adjustment to salary increase rate		
Present value of total obligation (£000)	2,189,960	2,169,930
Change in present value of total obligation	0.5%	-0.5%
Projected service cost (£000)	44,520	44,520
Approximate change in projected service cost	0.0%	0.0%

**Rate of increase to pensions in payment and deferred pensions assumption, and rate of revaluation of pension accounts assumption**

	+ 0.1% per annum	- 0.1% per annum
Adjustment to pension increase rate		
Present value of total obligation (£000)	2,207,420	2,151,950
Change in present value of total obligation	1.3%	-1.3%
Projected service cost (£000)	45,950	43,120
Approximate change in projected service cost	3.2%	-3.1%

**Post retirement mortality assumption**

	- 1 year	+ 1 year
Adjustment to mortality age rating assumption *		
Present value of total obligation (£000)	2,230,740	2,127,760
Change in present value of total obligation	2.4%	-2.4%
Projected service cost (£000)	45,750	43,280
Approximate change in projected service cost	2.8%	-2.8%

\* a rating of + 1 year means that members are assumed to follow the mortality pattern of the base table for an individual who is 1 year older than them.

**Impact on the Authority's Cash Flows**

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The Council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over 18 years from 1 April 2014. Funding levels are monitored on an annual basis. The next triennial valuation is due to be completed on 31 March 2016.

The scheme will need to take account of the national changes to the scheme under the Public Pensions Services Act 2013. Under the Act, the Local Government Pension Scheme in England and Wales and other main existing public service schemes may not provide benefits in relation to service after 31 March 2014 (or service after 31 March 2015 for other main existing public service pension schemes in England and Wales). The Act provides for scheme regulations to be made within a common framework, to establish new career average revalued earnings schemes to pay pensions and other benefits to certain public servants.

The Council anticipates paying £52.410m contributions to the scheme in 2014/15.

The weighted average duration of the defined benefit obligation for scheme members is 18.1 years at 31 March 2014 (17.3 years 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) Equal Value Claims**

Solicitors representing a number of individuals have lodged claims under the Equality Act 2010 in relation to "work of equal value". These types of cases are complex and so far only partial information has been supplied by the claimants' solicitors. It is not currently clear whether the Council will have to make settlement payments in respect of these claims or what the amount of the claims will be if payments are required.

**d) 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.

**e) Municipal Mutual Insurance**

Historically, the Municipal Mutual Insurance Company (MMI) was the principal provider of insurance to the 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 £5.6m.

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% (£0.740m) of the value of the total potential liability in the Scheme of Arrangement, after the initial levy payment of £0.838m was made in 2013/14. 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.

**f) 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, and a final report was received in May 2014. This report recommends proposals for the management of the retained sites, and over the next twelve months work will be undertaken to determine the financial liabilities associated with these proposals. As the value and timing of this liability remains uncertain, it has been included in the accounts as a contingent liability.

**g) 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.

#### 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 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 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.

	2011-12 £000	2012-13 £000	2013-14 £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>	-	32	-
<b>Revaluation of Heritage Assets</b>			
Museum Collections and Artefacts	-	-	12
Artwork, Public Art and Sculptures	-	-	-1
Monuments, Statues and Historic Buildings	-	-	58
<b>Total Revaluation</b>	-	-	69
<b>Impairment Recognised in the Period</b>			
Artwork, Public Art and Sculptures	-	-320	0
<b>Total Impairment</b>	-	-320	0
<b>Assets Reclassified from Property, Plant and</b>			
Monuments, Statues and Historic Buildings	-	-	6
<b>Total Assets Reclassified from Property, Plant and Equipment</b>	-	-	6

### 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 September. 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 46 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.

2012-13 £000	2013-14 £000
357 Balance at 1st April	370
- New Funds opened in year	-
- Funds closed in year	-47
17 Interest on balances, dividends etc, received	16
-4 Expenditure on prizes etc	-30
370 <b>Balance at 31st March</b>	309

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 20 February 2013 and is available on the Council's website.

The key issues within the strategy were:

- The Authorised Limit for 2013/14 was set at £746.000m. This is the maximum limit of external borrowings or other long term liabilities.
- The Operational Boundary was set at £693.000m. 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 and 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, Moodys 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 £122.895m 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 2014 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, although £16.420m of the £65.413m balance is past its due date for payment. The amount past its due date for payment can be analysed by age as follows:

31 March 2013	31 March 2014
£000	£000
9,110 Less than three months	11,422
2,498 Between three and six months	783
1,272 Between six months and one year	1,440
2,951 More than one year	2,775
15,831 <b>Total</b>	16,420

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 2014 was £2.424m.

### 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	43	254
Landsbanki [1]	12/04/07	13/10/08	1,000	6.010	-	368
Landsbanki [2]	12/04/07	14/04/09	1,000	6.040	-	362
Glitnir Bank [1]	25/10/06	24/10/08	3,000	5.620	702	645
Glitnir Bank [2]	18/12/07	16/12/08	1,000	6.290	224	241
<b>Total</b>			<b>7,000</b>		<b>969</b>	<b>1,870</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 Council 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 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 85.75p in the £. This reflects an improvement from the position reported as at 31 March 2013 of 85.25p in the £.

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

Date	Repayment %
Received to 31 March 2014	81.50
June 2014	2.00
June 2015	2.25

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 December 2011. Further distributions were made in May 2012, October 2012 and September 2013 respectively.

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

During 2013/14, the Council sold its claims against the insolvent estate of Landsbanki through a competitive auction process. The price at which the claims were sold was based on a reserve price set by the Council, on the basis of legal advice received through the Local Government Association and its lawyers Bevan Brittan.

The administration of the insolvent estate of Landsbanki is likely to continue for several years given the complexity of the on-going issues in Iceland, which created uncertainty around the timings of future recoveries. The sale of the Council's claims has removed this uncertainty.

The sale included the Icelandic Kronur which had been held in an escrow account in Iceland since it was paid with the first distribution to priority creditors in December 2011.

The proceeds of the sale were paid in Pounds Sterling and were received in February 2014, so the Council is no longer a creditor of Landsbanki.

#### **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 Krona which has been placed in an escrow account in Iceland and is earning interest of 4.2% as at 31 March 2014. 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. This is being held in Icelandic krona 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 Comprehensive Income and Expenditure Statement in 2013/14, 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 Council until monies are recovered.

Interest credited to the Comprehensive Income and Expenditure Statement in 2013/14 was £0.085m 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.

Since 2008/09 impairment of £1.870m (2012/13 £1.910m) (principal plus interest not received) to the asset values have been calculated in accordance with CIPFA's LAAP Bulletin 82. During 2013/14, there has been a reduction of £0.040m in the impairment of these assets. This amount has been credited through the Comprehensive Income and Expenditure Statement (CI&E). This reduced impairment is as a result of the investments in Landsbanki (£0.028m) being written out of the accounts and a reduction in the impairment of the Kaupthing, Singer and Friedlander (£0.007m) investment due to the increased recovery anticipated. There has also been recognition of the exchange rate gain (£0.005m) on the Icelandic Kronur held in an escrow account in respect of deposits in Glitnir bank.

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 (£151.300m) 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 2013 £000	31 March 2014 £000
3,546 Less than one year	4,447
4,447 Between one and two years	223
27,039 Between two and five years	40,800
70,638 Between five and ten years	79,229
101,340 Between ten and fifteen years	110,386
119,862 Between fifteen and twenty years	88,249
10,801 Between twenty and twenty five years	20,809
102,716 More than twenty five years	92,691
<b>440,389 Total</b>	<b>436,834</b>

## 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 of Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund Balance. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in Other Comprehensive Income and Expenditure.

The 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 2014, if interest rates had been 1% higher with all other variables held constant, the financial effect would be a decrease of £52.050m 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 (£10.558m in 2012/13) 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.

## **52. Exceptional Items**

There are no exceptional items in 2013/14.

## **53. Prior Period Adjustments (PPAs)**

### **Valuation of HRA day centres**

During the 2013/14 valuation process it was identified that a number of HRA day centres had been overvalued at their last valuation in 2008/09. This was due to the floor area of the whole building being valued in the Land and Buildings category when part was already recorded in Dwellings. The effect of this error is that the value of Property, Plant and Equipment was overstated by £8.114m at the beginning of the previous accounting period (1 April 2012). Whilst this amount is not considered to be material, the Council has decided to restate its accounts in accordance with accounting rules at the time of the error, in order to avoid any impact in 2013/14, as current rules no longer allow for HRA non-dwelling impairment and revaluation losses to be reversed to the Capital Adjustment Account. The adjustment has resulted in no restatement of the Comprehensive Income and Expenditure Statement in 2012/13.

### **Adoption of revised accounting standard IAS 19 (Employee Benefits)**

There have been several significant changes in relation to IAS 19 Employee Benefits. A revised IAS 19 came into force for accounting periods beginning on or after 1 January 2013. In applying this revised standard, the Council has identified that if it had been adopted for the period ending 31 March 2013 it would increase the expenses recognised for funded benefits in the Comprehensive Income and Expenditure Statement from £62.040m to £75.650m. Therefore the 2012/13 comparative figures have been restated in the 2013/14 Statement of Accounts. This adjustment has no effect on the Balance Sheet.

In addition, IAS 19 now requires revised and more detailed disclosures. In order to be consistent with the new requirements of IAS 19 the disclosures in relation to the Council's defined benefit pension scheme have changed from those published in 2012/13 (see Note 45).

The effects of these restatements are set out below:

**Effect on Opening Balance Sheet – 1 April 2012**

The adjustments that have been made to the balance sheet over the version published in the 2012/13 Statement of Accounts are as follows:

	<b>Balances at 1 April 2012 (as reported) £000</b>	<b>Restatement (HRA day centres) £000</b>	<b>Balances at 1 April 2012 (restated) £000</b>
Property, Plant & Equipment	1,905,999	-8,114	1,897,885
<b>Long Term Assets</b>	<b>1,937,751</b>	<b>-8,114</b>	<b>1,929,637</b>
<b>Net Assets</b>	<b>571,779</b>	<b>-8,114</b>	<b>563,665</b>
Unusable Reserves	439,026	-8,114	430,912
<b>Total Reserves</b>	<b>571,779</b>	<b>-8,114</b>	<b>563,665</b>

**Effect on Comprehensive Income and Expenditure Statement 2012/13**

The effect of the IAS 19 adjustment is as follows:

	<b>Net Expenditure as previously stated 2012/13 £000</b>	<b>Restatement 2012/13 (IAS 19) £000</b>	<b>Net Expenditure as restated 2012/13 £000</b>
Children's and Education Services	108,699	865	109,564
Adult Social Care	134,510	343	134,853
Highways and Transportation	51,180	150	51,330
Planning and Development	22,875	110	22,985
Cultural and Related Services	30,394	100	30,494
Environmental Services	60,368	174	60,542
Courts and Probation	1,083	1	1,084
Corporate and Democratic Core	9,076	18	9,094
Central Services to the Public	3,483	50	3,533
Local Authority Housing (HRA)	30,169	13	30,182
Other Housing Services (including Supporting People)	31,188	72	31,260
<b>Cost of Services</b>	<b>477,292</b>	<b>1,896</b>	<b>479,188</b>
Financing and Investment Income and Expenditure	48,762	11,714	60,476
<b>Surplus or Deficit on Provision of Services</b>	<b>67,765</b>	<b>13,610</b>	<b>81,375</b>
Actuarial gains/losses on pension assets/liabilities	72,270	-72,270	
Re-measurements of the defined benefit liability		58,660	58,660
<b>Other Comprehensive Income and Expenditure</b>	<b>63,652</b>	<b>-13,610</b>	<b>50,042</b>

The £0.013m restatement affecting the Housing Revenue Account (HRA) has also been reflected in the HRA Income and Expenditure Statement (Supervision and Management).

**Movement in Reserves Statement 2012/13**

The restatement of the relevant lines of the Movement in Reserves Statement as at 31 March 2013, as a result of the adjustments is presented below:

Usable Reserves	31 March 2013	Restatement	Restatement	31 March 2013
	(as reported)	(HRA day centres)	(IAS 19)	(restated)
	£000	£000	£000	£000
<b>Balance at 31 March 2012 brought forward</b>	<b>132,752</b>	-	-	<b>132,752</b>
Surplus or deficit on provision of services	-67,765	-	-13,610	-81,375
<b>Total Comprehensive Income and Expenditure</b>	<b>-67,765</b>	-	<b>-13,610</b>	<b>-81,375</b>
Adjustments between accounting basis and funding basis under regulations	74,798	-	13,610	88,408
<b>Balance at 31 March 2013 carried forward</b>	<b>139,785</b>	-	-	<b>139,785</b>
Unusable Reserves	31 March 2013	Restatement	Restatement	31 March 2013
	(as reported)	(HRA day centres)	(IAS 19)	(restated)
	£000	£000	£000	£000
<b>Balance at 31 March 2012 brought forward</b>	<b>439,026</b>	<b>-8,114</b>	-	<b>430,912</b>
Other Comprehensive Income and Expenditure	-63,652	-	13,610	-50,042
<b>Total Comprehensive Income and Expenditure</b>	<b>-63,652</b>	-	<b>13,610</b>	<b>-50,042</b>
Adjustments between accounting basis and funding basis under regulations	-74,798	-	-13,610	-88,408
<b>Balance at 31 March 2013 carried forward</b>	<b>300,576</b>	<b>-8,114</b>	-	<b>292,462</b>

**Effect on Balance Sheet 31/03/2013**

The adjustments that have been made to the balance sheet over the version published in the 2012/13 Statement of Accounts are as follows:

	Balances at 31 March 2013 (as reported)	Restatement (HRA day centres)	Balances at 31 March 2013 (restated)
	£000	£000	£000
Property, Plant & Equipment	1,864,770	-8,114	1,856,656
<b>Long Term Assets</b>	<b>1,913,827</b>	<b>-8,114</b>	<b>1,905,713</b>
<b>Net Assets</b>	<b>440,362</b>	<b>-8,114</b>	<b>432,248</b>
Unusable Reserves	300,576	-8,114	292,462
<b>Total Reserves</b>	<b>440,362</b>	<b>-8,114</b>	<b>432,248</b>

**Effect on Cash Flow Statement 2012/13**

The effect of the IAS 19 adjustment is as follows:

	As previously stated 2012/13	Restatement 2012/13 (IAS 19)	As restated 2012/13
	£000	£000	£000
Net surplus (-) or deficit on the provision of services	67,765	13,610	81,375
Adjustments to net surplus or deficit on the provision of services for non-cash movements	-123,194	-13,610	-136,804

## The Housing Revenue Account

The Housing Revenue Account (HRA) 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

2012-13 £000 (restated)		Notes	2013-14 £000
	Income		
-60,173	Dwelling Rents (Net of voids)	6	-63,295
-1,005	Non Dwelling Rents (Net of voids)		-1,103
-127	Charges for Services and Facilities		-156
-413	Contributions towards Expenditure		-413
-61,718	Total Income		-64,967
	Expenditure		
12,717	Repairs and Maintenance	8	13,139
13,940	Supervision and Management	8	13,356
111	Rent, Rates, Taxes and Other Charges	9	530
-94	Negative HRA Subsidy Payable	5	-
175	Debt Management Costs		175
63,115	Depreciation and Impairment of Non-Current Assets	10 & 11	43,399
402	Movement in the Allowance for Bad Debts	7	407
63	Sums directed by the Secretary of State that are expenditure in accordance with the Code		45
90,429	Total Expenditure		71,051
28,711	Net Expenditure of HRA Services as included in the whole authority Comprehensive Income and Expenditure Statement		6,084
1,085	HRA Services Share of Corporate and Democratic Core		1,085
387	HRA share of other amounts included in the whole authority net expenditure of continuing operations but not allocated to specific services		385
30,183	Net Expenditure for HRA Services		7,554
371	Gain (-) or Loss on Sale of HRA Non-Current Assets		-439
11,314	Interest Payable and Similar Charges		10,881
-266	Interest and Investment Income		-71
-13,088	Capital Grants & Contributions Receivable		-19,400
28,514	Deficit for the Year on HRA Services		-1,475

### 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.

2012-13 £000 (restated)		2013-14 £000	£000
7,820	Balance on the HRA at the end of the previous year		7,154
-28,514	Deficit for the year on the HRA Income and Expenditure Statement	-1,475	
26,538	Adjustments between accounting basis and funding basis under statute	1,582	
-1,976	Net Increase before transfer to or from reserves	107	
1,310	Transfers to (-) or from reserves	-107	
-666	Increase or decrease (-) in the year on the HRA		-
7,154	<b>Balance on the HRA at the end of the current year</b>		7,154

**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.

2012-13 £000 (restated)		2013-14 £000
7,692	Transfer to/from the Major Repairs Reserve	7,550
-49,932	Transfer to/from the Capital Adjustment Account	-23,773
-371	Gain or loss (-) on sale of HRA Non-Current Assets	439
402	HRA Share of Contributions to or from the Pension Reserve	390
15,671	Capital expenditure funded by the HRA	16,976
-	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>-26,538</b>	<b>Adjustments between accounting basis and funding basis under statute</b>	<b>1,582</b>

**Notes to HRA Income and Expenditure Account****1. Housing Stock**

The Council was responsible for managing an average of 18,584 dwellings during 2013/14. 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, 2013	11,323	1,873	5,451	18,647
Add:				
Additions	-	-	-	-
Less:				
Sales	71	35	5	111
Demolitions	12	4	-	16
Other Disposals	-	-	-	-
Stock at 31 March, 2014	11,240	1,834	5,446	18,520

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 (4,256 dwellings) and East Durham Homes (8,324 dwellings), and one in-house provider – Durham City Homes (5940 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 Council 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 2013 £000 (restated)	Asset Type	Valuation at 31 March 2014 £000
447,772	Operational Assets Dwellings	405,682
5,810	Garages	-
453,582	Total Dwellings including Garages	405,682
-	<b>Garages</b>	8,051
7,918	<b>Other Land and Buildings</b>	7,447
71	<b>Vehicles, Plant &amp; Equipment</b>	47
5,559	<b>Non-Operational Assets</b>	4,656
467,130	<b>Balance Sheet Valuation</b>	425,883

## The Housing Revenue Account

The Vacant Possession value of the dwellings held in the Housing Revenue Account as at 1 April 2013 was £1.121m (£1.123m at 1 April 2012). 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 £45.698m during 2013/14 on its HRA Assets:

2012-13 £000		2013-14 £000
	<b>Expenditure</b>	
43,919	Improvements to Council Housing	45,698
<u>43,919</u>	<b>Total Expenditure</b>	<u>45,698</u>

This expenditure was financed as follows:

2012-13 £000		2013-14 £000
	<b>Financing</b>	
7,692	Majors Repairs Reserve	7,550
960	Capital Receipts	1,293
1,223	Prudential Borrowing (HCA New Build)	-
5,285	Prudential Borrowing (Housing Improvements)	479
13,088	Capital Grants	19,400
13,671	Revenue Contributions	16,976
2,000	Reserves and Balances	-
<u>43,919</u>	<b>Total Financing</b>	<u>45,698</u>

### 4. Capital Receipts

During 2013/14 the Council generated £3.336m gross capital receipts from the sale of its Housing assets as shown in the following table:

2012-13 £000		2013-14 £000
	<b>Source of Receipt</b>	
1,625	Council House Sales (RTB Legislation)	2,647
396	Qualifying Council House Disposals	601
11	Council House Mortgage Repayments	38
343	Housing Land & Other Sales	50
<u>2,375</u>	<b>Total Capital Receipts</b>	<u>3,336</u>

Under the Capital Receipts Pooling Arrangements the Council had to pay over to the Government £1.443m of the above sale proceeds in 2013/14. This is shown in the following table:

<b>Source of Receipt</b>	<b>Capital Receipt £000</b>	<b>Usable Element £000</b>	<b>Poolable Element £000</b>
Council House Sales (RTB Legislation)	2,647	1,233	1,414
Qualifying Council House Disposals	601	601	-
Council House Mortgage Repayments	38	10	29
Housing Land & Other Sales	50	50	-
<b>Total</b>	<u>3,336</u>	<u>1,894</u>	<u>1,443</u>

### 5. HRA Subsidy

On the 31 March 2012 the HRA subsidy system was abolished, a payment of £0.094m was received in 2012/13, which related to an adjustment from 2011/12.

## 6. Dwelling Rents

This sum represents the gross rental income due for the year after allowance is made for empty properties. During the year 1.84% (1.35% in 2012/13) of properties available for rent were vacant, which is less than the Government's target of 2% for empty properties. The average rent in 2013/14 was £65.67 (£63.13 in 2012/13) 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 2014 was £3.625m (£3.631m at 1 April 2013).

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 2014 is £2.920m (£2.880m at 1 April 2013).

The actual charge to the HRA in respect of bad debts provision and debts written off in 2013/14 was £0.407m. This charge relates to write-offs of uncollectable rent of £0.367m and an increase in provision of £0.040m 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 £5.406m and £11.063m respectively. This is broken down as follows:

	East Durham Homes £	Dale & Valley Homes £	Total £
Repairs and Maintenance	5,347,288	2,596,662	7,943,950
Supervision and Management	5,715,712	2,809,338	8,525,050
<b>Total Management Fee</b>	<b>11,063,000</b>	<b>5,406,000</b>	<b>16,469,000</b>

## 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 2013/14 the total charge made for depreciation of HRA assets was £7.576m as shown below: -

2012-13 £000	Asset type	2013-14 £000
7,196	Operational Assets: Dwellings	6,877
495	Operational Assets: Other Buildings e.g. Garages	673
185	Operational Assets: Vehicles, Plant & Equipment	26
<b>7,876</b>	<b>Total Depreciation Charge</b>	<b>7,576</b>

## 11. Impairment of Property, Plant and Equipment

During 2013/14, £47.038m (£59.046m in 2012/13) 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. 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:

2012-13 £000		2013-14 £000
	<b>Movement on Reserve</b>	
-	<b>Balance as at 1st April</b>	-
-7,692	Depreciation on HRA Assets	-7,550
7,692	HRA Capital Expenditure funded from MRR	7,550
<u>-</u>	<b>Balance as at 31st March</b>	<u>-</u>



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

2012-13		Notes	2013-14		
			Council Tax £000	NNDR £000	Total £000
£000					
	<b>Income</b>				
-202,636	Council Tax due from Taxpayers	2.1	-211,969		-211,969
-54,010	Council Tax Benefit		-		-
-105,301	Income from Business Ratepayers	3		-112,365	-112,365
<u>-361,947</u>	Total Income		<u>-211,969</u>	<u>-112,365</u>	<u>-324,334</u>
	<b>Expenditure</b>				
	<b>Precepts and Demands</b>				
214,197	Durham County Council (including 112 Parishes of £9.982m)	2.1	174,452		174,452
24,131	Durham Police Authority		20,060		20,060
14,227	County Durham & Darlington Fire & Rescue Authority		11,596		11,596
	<b>Business Rates</b>				
104,696	Payment to National Pool			-	-
-	Payment to Central Government	3		54,037	54,037
-	Payment to County Durham & Darlington Fire & Rescue Authority			1,081	1,081
-	Payment to Durham County Council, including Renewable Energy			52,957	52,957
605	Costs of Collection- Business Rates	3		604	604
	<b>Bad &amp; Doubtful Debts</b>				
82	Write Offs		891	1,420	2,311
3,997	Change in Provision for Bad Debts	2.2 & 3.1	4,974	349	5,323
-	Provision for Appeals	3		5,192	5,192
-	Distribution of Previous Years Estimated Surplus			-	-
<u>361,935</u>	Total Expenditure		<u>211,973</u>	<u>115,640</u>	<u>327,613</u>
-12	Movement on Fund Balance		4	3,275	3,279
6	Surplus on Fund Brought Forward		-6	-	-6
<u>-6</u>	<b>Fund Balance Carried Forward</b>		<u>-2</u>	<u>3,275</u>	<u>3,273</u>
	Allocated to :	2.4 & 3.3			
-5	Durham County Council		-2	1,608	1,606
-1	Durham Police Authority		-	-	-
-	County Durham & Darlington Fire & Rescue Authority		-	33	33
-	Central Government		-	1,641	1,641
-	Durham County Council- Renewable Energy		-	-7	-7
<u>-6</u>			<u>-2</u>	<u>3,275</u>	<u>3,273</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 1 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 classified into Bands A to H. Adjustments are made to the number of properties in each Band by taking into account those occupied by a

## Collection Fund

single Council Taxpayer (25% discount), long-term empty (50% premium) and other discounts and exemptions. A factor is then applied to each band to convert the properties into Band D equivalents and finally an allowance for non-collection to give the Taxbase. Dividing the Council's Council Tax requirement by the taxbase gives the Band D charge for the year.

In 2013/14, a major change to Council Tax billing was the removal of Council Tax Benefit, which when resulting in a reduction in the amount collectable, had been reimbursed in full by Central Government. Instead of this, Council's were required to set up a scheme to replace the benefit. Durham County Council's policy was to replace the Benefit in full with a relief against charges (Local Council Tax Reduction Scheme). The effect of this was to suppress the taxbase from 157,295.3 in 2012/13 to 128,204.9 in 2013/14.

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	143,263	6/9ths	95,509
Over £ 40,000 up to £ 52,000	Band B	29,476	7/9ths	22,926
Over £ 52,000 up to £ 68,000	Band C	28,467	8/9ths	25,304
Over £ 68,000 up to £ 88,000	Band D	19,384	9/9ths	19,384
Over £ 88,000 up to £120,000	Band E	9,513	11/9ths	11,627
Over £120,000 up to £160,000	Band F	3,608	13/9ths	5,212
Over £160,000 up to £320,000	Band G	2,011	15/9ths	3,352
Over £320,000	Band H	260	18/9ths	520
		235,982		183,834
Net effect of discounts, reliefs, exemptions and premiums				-55,629
<b>Chargeable Properties (Taxbase) 2013-14:</b>				<b>128,204.9</b>

The Council Tax base for 2012/13 was £157,295.3

The average Band D Council Tax for the year was made up as follows:

Authority	2012-13 £	2013-14 £
Durham County Council	1,282.86	1,282.86
Durham Police Authority	153.41	156.47
County Durham & Darlington Fire & Rescue Authority	90.45	90.45
<b>Band D Tax</b> (Plus Town/ Parish precept as applicable)	<b>1,526.72</b>	<b>1,529.78</b>

Council Tax due from Taxpayers of £211.969m is made up of the following charges and reliefs:

	2012-13 £000	2013-14 £000
Property charges	295,014	297,545
less:		
Disabled relief	-292	-300
Property exemptions	-12,624	-7,688
Discounts	-24,367	-24,057
Personal disregard	-1,086	-1,111
Transitional relief	1	1
Benefits	-54,010	-
Local Council Tax Reduction Scheme	-	-52,421
Council Tax due from Taxpayers	<b>202,636</b>	<b>211,969</b>

Adjusting for bad debts written off and a change in the provision for bad debts (and adding income from Council Tax Benefits 2012/13) enables a comparison to be made with the chargeable properties (Taxbase).

	2012-13 £000	2013-14 £000
Council tax due from Taxpayers	202,636	211,969
Add back Benefits receivable	54,010	-
less: Parishes	-12,409	-9,982
Write-offs	-82	-891
Increase in provision for Bad and Doubtful Debts	-3,997	-4,974
Net Income due from Council Taxpayers	240,158	196,122

Dividing the Net Income due by the Band D Council Tax £1,529.78 gives an average Taxbase of 128,202.7, compared with 128,204.9 at Budget Setting. (2012/13 average Taxbase of 157,303.2 compared with 157,295.3 at Budget Setting).

## 2.1 Precepts and Demands

The following authorities made a Precept or Demand on the Fund in 2013/14.

Authority	2012-13 £000	2013-14 £000
Durham County Council	214,197	164,469
Durham Police Authority	24,131	20,060
County Durham & Darlington Fire & Rescue Authority	14,227	11,596
<b>Total</b>	252,555	196,125

In 2013/14 the County Demands include Town and Parish precepts totalling £9.982m (£12.409m in 2012/13)

The reduction in Town and Parish precepts was caused by the large decrease in the Taxbase brought about by the replacement of Council Tax Benefit by Local Council Tax Reduction Scheme. In part, the reduction in income suffered by Town and Parish Councils was mitigated by payments of Local Council Tax Support Scheme Grant from the General Fund.

A total of 112 Town and Parish Councils levied a Precept in 2013/14. In addition, the 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 area.

The Band D Town or Parish precept ranged from £nil to £263.70. 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 shown in the table below:

Authority	2012-13 £	2013-14 £
Barnard Castle	148,642	147,791
Chilton	206,524	154,639
Easington Colliery	320,000	242,841
Ferryhill	626,030	449,910
Great Aycliffe	1,624,400	1,271,600
Horden	475,614	363,161
Monk Hesleden	260,580	213,000
Murton	325,000	260,000
Peterlee	1,468,466	1,097,106
Seaham	1,117,818	857,398
Sedgefield	238,950	232,419
Sildon	669,630	474,570
Spennymoor	1,234,720	1,000,140
Stanley	800,000	587,190
Trimdon	156,816	143,026
<b>Sub Total</b>	9,673,190	7,494,791
<b>Other Town and Parish Precepts</b>	2,735,794	2,487,675
<b>Total</b>	12,408,984	9,982,466

## 2.2 Provision for Bad Debts

Each year the provision made for uncollectable amounts on Council Tax is revised by examining the aged debt analysis and applying the basis outlined below:

Arrears at 31 March 2014 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	2013/14	5%
	2011/12 and 2012/13	25%
	2008/09, 2009/10 and 2010/11	50%
	2007/08 and older	100%
Category 2- First, second or final reminder	2013/14	25%
	2011/12 and 2012/13	50%
	2008/09, 2009/10 and 2010/11	75%
	2007/08 and older	100%
Category 3- Summons etc	2013/14	30%
	2011/12 and 2012/13	70%
	2008/09, 2009/10 and 2010/11	75%
	2007/08 and older	100%

This is the third stage of the review of the overall debtors' provision. At 31 March 2014, the provision covered 61% of arrears (45% at 31 March 2013).

## 2.3 Previous Year's Surplus

Any surplus or deficit on the Collection Fund – Council Tax estimated in mid-January each year must be taken into account when setting the following year's Council Tax by those authorities precepting upon the fund and either collected from or paid over to those bodies during the following financial year.

The Collection Fund - Council tax has been estimated at a NIL balance for both 2012/13 and 2013/14. Therefore there has been neither distribution, nor recovery from major preceptors during those years.

## 2.4 Collection Fund – Council Tax Balance

The Collection Fund – Council Tax balance at the end of the 2013/14 financial year amounted to a surplus of £1,596, allocated as follows:

Authority	2012-13 £	2013-14 £
Durham County Council	-4,726	-1,338
Durham Police Authority	-589	-164
County Durham & Darlington Fire & Rescue Authority	-333	-94
<b>Total Distributed</b>	<b>-5,648</b>	<b>-1,596</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.

The following table shows how the Council Tax balances have been allocated between Durham County Council and the major precepting authorities:

<b>Authority</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	-13,997	22,970	-3,020
Durham Police Authority	-1,707	2,801	-368
County Durham & Darlington Fire & Rescue Authority	-986	1,618	-213
<b>Total Allocated</b>	<b>-16,690</b>	<b>27,389</b>	<b>-3,601</b>

### 3. Business Rates (National Non Domestic Rates)

Business Rates are determined on a national basis by Central Government, which sets an annual non-domestic multiplier each year. This multiplier is applied to the rateable value of the property to give, subject to various reliefs and exemptions, the rates payable for the year.

In previous financial years, the total amount due, less certain allowances, was paid to a central pool administered by Central Government. In 2013/14 the administration of Business Rates changed following the introduction of the Business Rates Retention Scheme (BRRS) which aims to give Authorities a greater incentive to grow businesses but also increases the financial risk due to volatility and non-collection of rates. Instead of paying all receivable income to a central pool, the business rates income for the Durham County Council administrative area is shared as follows:

Central Government	50%
Durham County Council	49%
County Durham and Darlington Fire & Rescue Authority	1%

The business rates shares payable for 2013/14 were estimated before the start of the financial year on the NNDR1, a statutory document submitted in January 2013. This was similar to the NNDR1 submitted in previous years, but with the addition of a provision against the repayment of rates already collected brought about by successful appeal by businesses for reduction in rateable value.

The sums due to be paid over during 2013/14 were as follows:

<b>Authority</b>	<b>2012-13 £000</b>	<b>2013-14 £000</b>
Durham County Council	-	52,957
Central Government	-	54,037
County Durham & Darlington Fire & Rescue Authority	-	1,081
<b>Total</b>	<b>-</b>	<b>108,075</b>

In January 2014, when the NNDR1 for 2014/15 was submitted, the estimated outturn for the year's income was calculated, and the resultant surplus or deficit notified to the shareholders for inclusion in the following year's budget – a deficit being netted off the 2014/15 BRRS payments and a surplus being added to them. The deficit for the Durham County Council administrative area was estimated at £3.247m, of which Durham County Council's share was £1.591m.

At the year end the BRRS outturn is calculated, taking into account variations on the bills due for the year, e.g. void periods, change of occupation by charitable organisations, and adjustments for previous years' bills e.g. successful appeal for reduction in rateable value. The provisions for non-payment of arrears and successful appeal against rateable value are re-assessed. The movement in the deficit from January's estimate was an increase of £0.035m to £3.282m of which Durham County Council's share was £1.608m.

In addition, Durham County Council benefitted from income from Renewable Energy schemes which are not shared with Central Government or County Durham and Darlington Fire and Rescue Authority (£0.007m).

Although the outturn figures form part of the statutory accounts, the resultant deficit, or surplus where applicable, does not affect the sums payable in 2014/15. This will remain at the sums determined by the NNDR1 in January 2014. The difference between the estimated surplus or deficit and the outturn will be carried forward to January 2015, when it will be taken into account in estimating the surplus or deficit for

## Collection Fund

2014/15. All of the balances relating to BRRS - ratepayers arrears, prepayments, provisions for bad debts and appeals - are shared out in the proportions shown above and notified to the shareholders for inclusion in their balance sheets.

Transitional arrangements, which ensure that large increases or decreases in rates payable caused by significant change in rateable value are phased in, are outside BRRS. The net effect of such transactions are either payable to or from Central Government, leading to a neutral effect on the Collection Fund - Business Rates.

In 2013/14, the general multiplier was £0.471 (£0.458 in 2012/13) and the small business multiplier was £0.462 (£0.45 in 2012/13). The total non-domestic rateable value for Durham County Council at 31 March 2014 was £301.771m (VO schedule dated 26 March 2014) (£296.956m at 31 March 2013).

Business Rates due from Ratepayers of £112.365m is made up of the following charges and reliefs:

	2012-13 £000	2013-14 £000
Property charges	121,184	127,476
Less:		
Charitable relief (net of Council contribution in 2012/13)	-8,542	-10,012
Small business relief	-6,703	-7,097
Property exemptions	-5,147	-5,088
Voids	8,266	7,902
Interest payable	-30	-15
Bad Debts written off	-1,960	-
Increase in Bad Debts Provision	-1,321	-
Rates deferral Scheme	-446	-
Transitional adjustments	-	-801
Income due from Ratepayers	<u>105,301</u>	<u>112,365</u>

Adjusting for bad debts written off, changes in provisions for Bad debts and Appeals and cost of collection allowance gives the net BRRS income.

	2012-13 £000	2013-14 £000
Increase in Bad Debts' Provision	-	-349
Bad debts written off	-	-1,420
Increase in Appeals provision	-	-5,192
Changes in respect of renewable Energy businesses (Durham County Council only)	-	-7
Cost of Collection Allowance (Durham County Council only)	-	-604
	<u>105,301</u>	<u>104,793</u>

### 3.1 Provision for Bad debts

Each year the provision made for uncollectable amounts on Business Rates is revised by examining the aged debt analysis and applying the basis outlined below:

Arrears at 31 March 2014 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 and final reminder
- 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	2013/14	12.5%
	2012/13	25%
	2011/12 and older	100%
Category 2- First, second or final reminder	2013/14	25%
	2012/13	50%
	2011/12 and older	100%
Category 3- Summons etc	2013/14	45%
	2012/13	90%
	2011/12 and older	100%

The percentages applied are unchanged from 2012/13 and cover 57% of arrears (53% in 2012/13).

### 3.2 Provision for Appeals

Business Ratepayers are entitled to appeal to the Valuation Office against the rateable Value applied to their property at any time during the validity of the Rating List. Such appeals, if successful, may be back dated to 1 April 2010. Prior to 1 April 2013, the cost of all such appeals would have been borne by Central Government. However, under BRRS, the cost is also shared by Durham County Council and County Durham and Darlington Fire and Rescue Authority. In an attempt to stabilise the expected income from Business Rates, a provision against successful appeal has been introduced. Based on previous success of appeals, an estimate of the expected future repayment of reduction of bills already raised is made and charged to the Collection Fund - Business Rates

At 31 March 2014, the provision for Appeals was estimated at £5.192m.

### 3.3 Collection Fund Balance - Business Rates

The Collection Fund – Business Rates balance at the end of the 2013/14 financial year amounted to a deficit of £3.275m, allocated as follows:

Authority	2012-13 £000	2013-14 £000
Durham County Council	-	1,608
Durham County Council (Renewable Energy - not shared)	-	-7
Central Government	-	1,641
County Durham & Darlington Fire & Rescue Authority	-	33
<b>Total Allocated</b>	-	<b>3,275</b>

Durham County Council, Central Government and County Durham and Darlington Fire and Rescue Authority each account for a share of the Collection Fund - Business Rates in proportion to their allocated share of Business Rates income under BRRS. This also applies to the balances for arrears and prepayments on the Business Ratepayers accounts, the provision for bad debts and the provision for appeals.

The following table shows how Business Rates balances have been allocated at 31 March 2014.

Authority	Provision for Bad debts- NDR Arrears £000	Business Rates Arrears £000	Business Rates Overpayments and Prepayments £000	Provision for Appeals £000
Durham County Council	-2,230	3,916	-496	-2,544
Central Government	-2,276	3,996	-506	-2,596
County Durham & Darlington Fire & Rescue Authority	-45	80	-10	-52
<b>Total Allocated</b>	<b>-4,551</b>	<b>7,992</b>	<b>-1,012</b>	<b>-5,192</b>

**Fund Account**

2012-13			2013-14	
£000	£000		£000	£000
<b>DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED IN THE FUND</b>				
-93,884		Contributions receivable	7	-96,800
-6,723		Transfers in from other pension funds	8	-2,623
-5		Other income		-5
	-100,612			-99,428
95,978		Benefits payable	9	96,669
9,053		Payments to and on account of leavers	10	32,300
1,302		Administrative expenses	11	1,266
	106,333			130,235
	<b>5,721</b>	<b>Net withdrawals/ -additions from dealings with members</b>		<b>30,807</b>
<b>RETURN ON INVESTMENTS</b>				
-32,216		Investment income	12	-30,334
-175,578		Profit and losses on disposal of investments and change in market value of investments	15	-50,990
5,499		Investment management fees	14	5,122
	<b>-202,295</b>	<b>Net returns on investments</b>		<b>-76,202</b>
<b>-196,574</b>		<b>NET INCREASE IN THE NET ASSETS AVAILABLE FOR BENEFITS DURING THE YEAR</b>		<b>-45,395</b>



## Net Assets Statement

2012-13				2013-14	
£000	£000		Notes	£000	£000
<b>INVESTMENT ASSETS</b>					
73,341		Fixed interest securities	15	62,934	
435,804		Equities	15	500,898	
410,966		Index linked securities	15	384,175	
<u>1,117,793</u>	2,037,904	Pooled investment vehicles	15	<u>1,128,807</u>	2,076,814
408		Loans	15	390	
		Other cash deposits:			
14,091		Fund Managers	15	49,850	
20,882		Short term investments	15	26,241	
<u>13,739</u>	49,120	Derivative contracts	15	<u>47,205</u>	123,686
	<u>2,087,024</u>				<u>2,200,500</u>
<b>Other Investment Assets</b>					
4,974		Dividend accruals	15,18	4,813	
527		Tax recovery	15,18	378	
<u>41,709</u>	47,210	Other investment balances	15,18	<u>8,931</u>	14,122
	<b>2,134,234</b>	<b>Total Investment Assets</b>			<b>2,214,622</b>
<b>INVESTMENT LIABILITIES</b>					
-11,984		Derivative contracts	15	-40,936	
<u>-39,881</u>		Other investment balances	19	<u>-18,387</u>	
	<b>-51,865</b>	<b>Total Investment Liabilities</b>			<b>-59,323</b>
	<b>2,082,369</b>	<b>NET INVESTMENT ASSETS</b>			<b>2,155,299</b>
	1,458	<b>Long Term Assets</b>	18		1,250
<b>Current assets</b>					
6,433		Contributions due from employers	18	6,301	
<u>974</u>	7,407	Other current assets	18	<u>922</u>	7,223
		<b>Current liabilities</b>			
-538		Unpaid benefits	19	-	
<u>-5,236</u>	-5,774	Other current liabilities	19	<u>-32,917</u>	-32,917
		<b>NET ASSETS OF THE SCHEME AVAILABLE TO FUND BENEFITS AT 31 MARCH</b>			<b>2,130,855</b>
	<b><u>2,085,460</u></b>				<b><u>2,130,855</u></b>

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 Note 24.

These accounts should therefore be read in conjunction with the information contained within these note.

## 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 2013 (as amended)
- LGPS (Administration) Regulations 2013 (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 is administered effectively and remains solvent.

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.

The following table provides a summary of contributing members, pensioners in payment and deferred pensioners over the last five years.

	2009/10	2010/11	2011/12	2012/13	2013/14
Contributing Members	19,405	18,526	17,235	16,837	17,454
Pensioners in Payment	14,922	15,341	16,049	16,386	16,700
Pensioners Deferred	9,715	10,595	11,573	12,211	13,040

When comparing the numbers at 31 March 2014 to those at 31 March 2013, the number of pensionable employees in the Fund has increased by 617, the number of pensioners has increased by 314 and deferred pensioners have increased by 829.

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:

2012-13 (restated)			2013-14	
Benefits	Contributions		Benefits	Contributions
£000	£000		£000	£000
77,649	-64,694	Administering Authority	76,488	-65,776
16,570	-25,714	Scheduled Bodies	17,755	-26,962
1,759	-3,476	Admitted Bodies	2,426	-4,062
<b>95,978</b>	<b>-93,884</b>		<b>96,669</b>	<b>-96,800</b>

The names of all 110 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  
Bishop Auckland Town Council  
Ferryhill Town Council  
Great Aycliffe Town Council  
Greater Willington 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:***

BRandH Academy Limited  
Carmel Education Trust  
Central Durham Joint Crematoria Committee  
Cleves Cross Primary School  
Dale and Valley Homes Ltd  
Durham & Darlington Fire and Rescue Authority  
Police and Crime Commissioner for Durham  
Easington Academy  
East Durham Homes Ltd  
Education Village  
Excel Academy Partnership (Framwellgate School)  
Federation of Abbey Schools Academy Trust  
Federation of Mowden Schools Academy Trust  
Firthmoor Primary School  
Glendene Arts Academy

***Statutory Bodies (continued):***

Heathfield Academy Trust  
Hummersknott Academy Trust  
Hurworth Primary  
Hurworth School Limited  
IT Systems & EVAT Partnership Ltd  
King James I Academy  
Longfield Academy Trust  
Ribbon Academy (formerly Murton Community School)  
New College Durham Academies Trust  
New Seaham Primary School  
Park View Academy  
Parkside Academy  
Reid Street Primary School  
Shotton Hall Academy Trust  
St Aidans C of E Academy  
St Bede's Catholic School & Sixth Form College  
St Bedes RC Primary  
St George's CE Academy  
St John's Catholic School & Sixth Form College  
St John's CE Primary School  
Staindrop School  
Teesdale School  
The Hermitage Academy Trust  
Tudhoe Learning Trust  
West Park Academy  
Woodham Academy

**Admitted Bodies:**

Barnard Castle School  
Blackwell Grange Golf Club Ltd  
Bowes Museum  
Bulloughs Cleaning Services Ltd  
Carillion (AMBS) Limited  
Carillion Services Limited  
Catering Academy Limited  
Cestria Community Housing  
Churchill Contract Services Limited  
Compass Group UK  
Creative Management Services  
Derwentside Homes  
Future Leisure in Coxhoe  
Harbour Support Services  
Investing in Children CIC  
KGB Cleaning & Support Services  
Leisureworks  
Livin plc (formerly Sedgefield Borough Homes)  
Mears Ltd  
Mellors Catering Services Limited  
Mitie Cleaning  
Mitie PFI Ltd  
Morrison Facilities Management Ltd  
Murton Welfare Association  
North East Council of Addiction (NECA)  
Taylor Shaw Longfield  
Taylor Shaw Primaries  
Teesdale Housing Association  
The Forge  
Three Rivers Housing Group  
Wates Construction Limited

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, 2013/14 (the Code)
- Financial Reports of Pension Schemes – A Statement of Recommended Practice (Revised 2007)

The accounts have been prepared on an accruals and going concern basis.

The financial statements summarise the transactions and the net assets of the Pension Fund available. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial valuations of the Fund, which do take account of such obligations, are carried out every three years. The Actuary completed a valuation during 2013/14, the results of which determined the contribution rates from 1 April 2014 to 31 March 2017. Details of the latest valuation are included in Note 23.

## 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.

### **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 unitised 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. Investment Managers use valuation techniques 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. All purchases and sales of investments in foreign currency are accounted for in sterling at the prevailing rate on the transaction date.

#### **Acquisitions costs of investments**

Acquisition costs of investments are added to book cost at the time of purchase.

#### **Financial liabilities**

The Fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the Net Assets Statement on the date the Fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

#### **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 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, the nature of estimation means that actual results may differ from the 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 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 Valuation	Estimation of the net liability to pay pensions depends on a number of complex judgements including the discount rate used, the salary increase projections, expected changes in retirement ages, mortality rates and 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 23 summarises the results of the actuarial valuation.	The Actuary calculated the funding ratio to be 84% as at 31 March 2013 (the last triennial valuation). If the following figures were to differ from the assumptions used in the calculation, there would be a reduction in the funding ratio to: <ul style="list-style-type: none"> <li>• 79% if life expectancy increases by 3 years</li> <li>• 70% if discount rate falls by 1%</li> <li>• 70% if inflation increases by 1%</li> <li>• 73% if equities fall by 25%</li> <li>• 80% if pensionable pay increases by 1%</li> </ul>
Fair Value of investments	The Accounts are as at 31 March 2014 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 which means there is a risk that these investments may be over/under-stated in the accounts. The total value of Level 3 investments (explained in Note 16) is £96.8m at 31 March 2014. Every 1% increase/decrease in fair value would result in an increase/decrease in the value of the Fund by £0.968m.

## 6. Post Net Assets Statement (Balance Sheet) Event

There have been no events after 31 March 2014 which require any adjustments to these accounts.



## 7. Contributions Receivable

2012-13 £000		2013-14 £000
	<b>Employer contributions:</b>	
-43,861	Normal	-45,014
-120	Early release/ augmentation	-490
-28,306	Deficit funding	-29,630
	<b>Member contributions:</b>	
-21,257	Normal	-21,535
-340	Additional contributions	-131
<b>-93,884</b>		<b>-96,800</b>
-64,694	Administering Authority	-65,776
-25,714	Scheduled Bodies	-26,962
-3,476	Admitted Bodies	-4,062
<b>-93,884</b>		<b>-96,800</b>

## 8. Transfers in From Other Pension Funds

2012-13 £000		2013-14 £000
-3,441	Group Transfers	-
-3,282	Individual Transfers	-2,623
<b>-6,723</b>		<b>-2,623</b>

## 9. Benefits Payable

2012-13 £000 (restated)		2013-14 £000
81,656	Pensions	84,383
17,484	Commutations and lump sum retirement benefits	15,454
1,815	Lump sum death benefits	1,763
-4,977	Recharged benefits	-4,931
<b>95,978</b>		<b>96,669</b>
77,649	Administering Authority	76,488
16,570	Scheduled Bodies	17,755
1,759	Admitted Bodies	2,426
<b>95,978</b>		<b>96,669</b>

## 10. Payments To and On Account of Leavers

2012-13 £000		2013-14 £000
4	Refunds to members leaving service	4
1	Payments for members joining state scheme	-
4,491	Individual transfers to other schemes	4,579
4,557	Group transfers to other schemes	27,717
<b>9,053</b>		<b>32,300</b>

The Group Transfers figure of £27.717m for 2013/14, relates to a provision for the anticipated transfer value payable to Teesside Pension Fund, for the bulk transfer of Durham Probation Service staff who transferred out on 1 April 2010. At the current time, DCC Pension Fund's Actuary's letter is with the Teesside Pension Fund Actuary awaiting agreement of the proposed terms.

## 11. Administration Expenses

2012-13 £000		2013-14 £000
1,054	DCC support costs	1,085
37	Legal fees	63
26	External Audit fees	21
25	Internal Audit fees	12
160	Actuary fees	85
<u>1,302</u>		<u>1,266</u>

## 12. Investment Income

2012-13 £000		2013-14 £000
-4,286	Interest from fixed interest securities	-2,603
-2,307	Income from index-linked securities	-2,941
-18,855	Dividends from equities	-17,300
-39	Interest on cash deposits	-35
-6,729	Income from pooled investment vehicles	-7,455
<u>-32,216</u>		<u>-30,334</u>

## 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 Section 1(1) Schedule 36 of the Finance Act 2004, 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. A performance related fee, derived from a base fee plus a percentage of out-performance, is paid to three of the Fund's investment managers; an ad-valorem fee is payable to the other managers. 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.

2012-13 £000		2013-14 £000
5,164	Manager Fees	4,834
158	Custody Fees	122
177	Adviser Fees	166
<u>5,499</u>		<u>5,122</u>

## 15. Investments

### Analysis by Investment Manager

The following Investment Managers were employed in 2013/14 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)
- Royal London Asset Management (RLAM)

The long-term strategic allocation as at 31 March was as follows:

31 March 2013 %	Investment Manager	Asset Class	31 March 2014 %
0	Aberdeen	Global equities	15
15	AllianceBernstein	Global Bonds	15
0	BNYM	Global equities	15
20	Barings	Dynamic Asset Allocation	20
37	Blackrock	Global equities	0
8	CBRE	Global property	8
0	Mondrian	Emerging Market Equities	7
20	Royal London	Investment grade sterling bonds	20
<b>100</b>			<b>100</b>

The Pension Fund Committee approved the appointment of three new Investment Managers on 1 May 2013, namely Bank of New York Mellon Investment Management Ltd (BNYM), Aberdeen Asset Management (Aberdeen) and Mondrian Investment Partners Ltd (Mondrian). The first two Managers will have responsibility for global equity mandates and the latter will manage an emerging market equity mandate. The re-allocation of the Fund's equity assets is due to start in July 2014.

In anticipation of the commencement of the new Investment Managers, the actual allocation varies from the long-term strategic allocation at 31 March 2014. The actual market values of investments held by each Investment Manager as at 31 March were as follows:

31 March 2013 £000	%		31 March 2014 £000	%
301,217	14.67	AllianceBernstein	305,405	14.32
397,393	19.35	Barings	418,159	19.60
807,330	39.31	Blackrock	864,856	40.55
135,285	6.59	CBRE	145,432	6.82
0	0.00	Edinburgh Partners	0	0.00
99	0.00	Other - NEL	71	0.00
412,426	20.08	RLAM	399,010	18.71
<b>2,053,750</b>	<b>100.00</b>		<b>2,132,933</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 2014 excludes loans of £0.390m, cash invested by the administering authority of £26.241m, other investment assets of £14.122m and other investment liabilities of £18.387m (£0.408m, £20.882m, £47.210m and £39.881m respectively as at 31 March 2013).

Of the total value of net investment assets reported in the Net Assets Statement as at 31 March 2014, £2.133m (98.96%) is invested through Investment Managers (£2.054m or 98.63% of the total in 2012/13).

**Reconciliation of Movements in Investments 2013/14**

Investment category	Value at 31 March 2013	Purchases at cost	Sales proceeds	Change in market value	Value at 31 March 2014
	£000	£000	£000	£000	£000
Fixed interest securities	73,341	427,802	-434,412	-3,797	62,934
Equities	435,804	188,238	-154,723	31,579	500,898
Index linked securities	410,966	1,994,319	-2,005,361	-15,749	384,175
Pooled investment vehicles	1,117,793	41,133	-63,365	33,246	1,128,807
	2,037,904	2,651,492	-2,657,861	45,279	2,076,814
Derivative contracts:					
Futures, margins & options	1,340	1,095	-472	2,753	4,716
Forward foreign currency	415			1,138	1,553
	<b>2,039,659</b>	<b>2,652,587</b>	<b>-2,658,333</b>	<b>49,170</b>	<b>2,083,083</b>
Other investment balances:					
Loans	408				390
Other cash deposits	34,973			1,820	76,091
Dividend accruals	4,974				4,813
Tax recovery	527				378
Other investment balances	1,828				-9,456
<b>Net Investment Assets</b>	<b>2,082,369</b>			<b>50,990</b>	<b>2,155,299</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 investments during the year.

**Reconciliation of Movements in Investments 2012/13**

Investment category	Value at 31 March 2012	Purchases at cost	Sales proceeds	Change in market value	Value at 31 March 2013
	£000	£000	£000	£000	£000
Fixed interest securities	44,332	339,972	-313,115	2,152	73,341
Equities	814,163	2,085,867	-2,352,246	-111,980	435,804
Index linked securities	367,949	1,642,392	-1,638,844	39,469	410,966
Pooled investment vehicles	585,487	1,642,480	-1,360,844	250,670	1,117,793
	1,811,931	5,710,711	-5,665,049	180,311	2,037,904
Derivative contracts					
Futures, margins & options	2,628		-141	-1,147	1,340
Forward foreign currency	969			-554	415
	<b>1,815,528</b>	<b>5,710,711</b>	<b>-5,665,190</b>	<b>178,610</b>	<b>2,039,659</b>
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>

**Analysis of Investments**

2012-13			2013-14	
£000	£000		£000	£000
<b>ASSETS INVESTED THROUGH FUND MANAGERS</b>				
<b>Fixed interest securities</b>				
22,932		UK - Public sector - quoted	24,899	
22,256		UK - other - quoted		
28,153		Overseas - Public sector - quoted	38,035	
	73,341			62,934
<b>Equities</b>				
402,039		UK quoted	444,881	
99		UK unquoted	71	
33,666		Overseas quoted	55,946	
	435,804			500,898
<b>Index linked securities</b>				
373,587		UK quoted - Public sector	353,366	
37,379		Overseas quoted -Public sector	30,809	
	410,966			384,175
<b>Pooled Investment Vehicles</b>				
24,875		Managed funds - non property - UK - unquoted	40,775	
944,643		Managed funds - non property - Overseas - unquoted	946,179	
1,023		Unit Trusts - property - UK quoted	2,087	
41,798		Unit Trusts - property - UK unquoted	30,438	
28,851		Unit Trusts - property - Overseas quoted	22,346	
76,603		Unit Trusts - property - Overseas unquoted	86,982	
	1,117,793			1,128,807
<b>Derivative Contracts</b>				
13,739		Assets	47,205	
-11,984		Liabilities	-40,936	
	1,755			6,269
14,091	14,091	<b>Fund Managers' cash</b>	49,850	49,850
<b>2,053,750</b>		<b>NET ASSETS INVESTED THROUGH FUND MANAGERS</b>		<b>2,132,933</b>
<b>OTHER INVESTMENT BALANCES</b>				
20,882		Short term investments (via DCC Treasury Management)		26,241
408		Loans		390
47,210		Other investment assets		14,122
-39,881		Other investment liabilities		-18,387
<b>2,082,369</b>		<b>NET INVESTMENT ASSETS</b>		<b>2,155,299</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:

Notes to Durham County Council Pension Fund Accounts

2012-13		Derivative Contracts	2013-14	
£000	£000		£000	£000
		<b>Forward foreign currency</b>		
2,942		Assets	1,688	
<u>-2,527</u>		Liabilities	<u>-135</u>	
	415	<b>Net Forward foreign currency</b>		1,553
		<b>Futures</b>		
9,493		Assets	40,945	
<u>-9,457</u>		Liabilities	<u>-40,800</u>	
	36	<b>Net Futures</b>		145
		<b>Options</b>		
-		Assets	165	
<u>-</u>		Liabilities	<u>-</u>	
	-	<b>Net Options</b>		165
		<b>Margins</b>		
1,304		Assets	4,406	
<u>-</u>		Liabilities	<u>-</u>	
	1,304	<b>Net Margins</b>		4,406
	<u>1,755</u>	<b>Net market value of derivative contracts</b>		<u>6,269</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
less than 1 mth	GBP	3,483,821	CHF	-5,100,000	19	
1 to 6 mths	GBP	24,009,647	JPY	-4,052,000,000	399	
1 to 6 mths	GBP	52,041,910	USD	-86,700,000	16	
1 to 6 mths	GBP	8,586,510	USD	-14,250,000	36	
1 to 6 mths	GBP	5,756,845	USD	-9,600,000		-4
1 to 6 mths	GBP	1,926,371	USD	-3,178,077	19	
1 to 6 mths	GBP	15,028,380	EUR	-18,000,000	143	
1 to 6 mths	USD	72,050,260	GBP	43,549,110	304	
1 to 6 mths	EUR	25,177,669	GBP	21,127,111	301	
1 to 6 mths	AUD	9,457,448	GBP	5,180,176		-50
1 to 6 mths	JPY	1,127,648,685	GBP	6,724,202	149	
1 to 6 mths	AUD	1,246,853	GBP	674,266		-15
1 to 6 mths	USD	1,217,987	GBP	731,744	1	
1 to 6 mths	JPY	213,182,154	GBP	1,245,441	2	
1 to 6 mths	GBP	8,904,627	EUR	-10,640,000	104	
1 to 6 mths	GBP	6,815,450	USD	-11,255,000	60	
1 to 6 mths	GBP	3,534,268	USD	-5,822,000	40	
1 to 6 mths	EUR	7,953,000	GBP	-6,644,732		-66
1 to 6 mths	GBP	8,717,483	USD	-14,410,000	68	
1 to 6 mths	GBP	8,776,493	USD	-14,576,000	27	
					<b>1,688</b>	<b>-135</b>
<b>Net forward foreign currency contracts at 31 March 2014</b>						<b>1,553</b>

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>

**ii. Futures**

When there is a requirement to hold cash assets, but the Investment 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:

Type	Expires	Product Description	Currency	Market Value at 31 March 14	
				£000	£000
<b>Assets</b>					
Overseas equity	1 to 3 mths	SGX NIKKEI 225	JPY	8,709	
UK equity	1 to 3 mths	FTSE 100 (LIFFE)	GBP	13,634	
Overseas equity	1 to 3 mths	E MINI INDEX (CME)	USD	8,106	
Overseas equity	1 to 3 mths	EURO STOXX 50	EUR	10,496	
<b>Total assets</b>					40,945
<b>Liabilities</b>					
Overseas equity	1 to 3 mths	SGX NIKKEI 225	JPY	-8,633	
UK equity	1 to 3 mths	FTSE 100 (LIFFE)	GBP	-13,645	
Overseas equity	1 to 3 mths	E MINI INDEX (CME)	USD	-8,047	
Overseas equity	1 to 3 mths	EURO STOXX 50	EUR	-10,475	
<b>Total liabilities</b>					-40,800
<b>Net Futures Contracts at 31 March 2014</b>					<u><u>145</u></u>

Type	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>

**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. These option contract are 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 14	£000
UK equity	1 to 6 months	FTSE 100 (LIFFE)	GBP	165	
<b>Net Options at 31 March 2014</b>					<u><u>165</u></u>

Type	Expires	Product Description	Currency	Market Value at 31	
				March 13	£000
NIL				-	
<b>Net Options at 31 March 2013</b>					<u><u>-</u></u>



**iv. Margins**

The value of margin amounts outstanding at 31 March, held by Barings are as follows:

	Product Description	Currency	Market Value at 31 March 14	
			£000	£000
<b>Assets</b>	UBS	GBP	1,383	
	UBS	EUR	907	
	UBS	JPY	1,196	
	UBS	USD	920	
<b>Net Margins at 31 March 2014</b>				<u><u>4,406</u></u>

Type	Product Description	Currency	Market Value at 31 March 13	
			£000	£000
<b>Assets</b>	UBS	GBP	173	
	UBS	EUR	1,131	
<b>Net Margins at 31 March 2013</b>				<u><u>1,304</u></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 - a pooled fund managed by Blackrock, valued at £508.117m at 31 March 2014 which equates to 23.85% of the net assets available for benefits (£480.022m or 23.02% at 31 March 2013);
- Diversified Yield Plus fund - a pooled fund of broad bonds through AllianceBernstein. The value of this investment at 31 March 2014 was £305.405m i.e. 14.33% (£301.217m or 14.44% at 31 March 2013).

## 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:

Designated as fair value through profit and loss £000	2012-13		Financial assets	Designated as fair value through profit and loss £000	2013-14	
	Loans and receivables £000	Financial liabilities at amortised cost £000			Loans and receivables £000	Financial liabilities at amortised cost £000
73,341			Fixed interest securities	62,934		
435,804			Equities	500,898		
410,966			Index linked securities	384,175		
1,117,793			Pooled investment vehicles	1,128,807		
13,739			Derivative contracts	47,205		
	408		Loans		390	
	14,091		Cash held by Fund Managers		49,850	
	20,882		Short term investments		26,241	
47,210			Other investment assets	14,122		
	8,865		Debtors		8,473	
<u>2,098,853</u>	<u>44,246</u>	<u>-</u>		<u>2,138,141</u>	<u>84,954</u>	<u>-</u>
			<b>Financial liabilities</b>			
-11,984			Derivative contracts	-40,936		
-39,881		-5,774	Creditors	-18,387		-32,917
-			Borrowings	-		
<u>-51,865</u>	<u>-</u>	<u>-5,774</u>		<u>-59,323</u>	<u>-</u>	<u>-32,917</u>
<u><b>2,046,988</b></u>	<u><b>44,246</b></u>	<u><b>-5,774</b></u>		<u><b>2,078,818</b></u>	<u><b>84,954</b></u>	<u><b>-32,917</b></u>
		<b>2,085,460</b>	<b>Net Assets at 31 March</b>			<b>2,130,855</b>

**Net Gains and Losses on Financial Instruments**

31 March 2013 £000		31 March 2014 £000
	<b>Financial Assets</b>	
178,610	Fair Value through profit and loss	49,170
-3,032	Loans and receivables	1,820
	<b>Financial Liabilities</b>	
-	Fair Value through profit and loss	-
-	Loans and receivables	-
-	Financial liabilities measured at amortised cost	-
<u>175,578</u>	<b>Total</b>	<u>50,990</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 Fund as at 31 March 2014 and 31 March 2013, grouped into Levels 1, 2 and 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 2014	Level 1	Level 2	Level 3	
	£000	£000	£000	£000
<b>Financial Assets</b>				
Financial Assets at fair value through profit and loss	986,491	1,054,850	96,800	2,138,141
Loans and receivables	84,954			84,954
<b>Total Financial Assets</b>	<b>1,071,445</b>	<b>1,054,850</b>	<b>96,800</b>	<b>2,223,095</b>
<b>Financial Liabilities</b>				
Financial Liabilities at fair value through profit and loss		-59,323		-59,323
Financial Liabilities at amortised cost	-32,917			-32,917
<b>Total Financial Liabilities</b>	<b>-32,917</b>	<b>-59,323</b>	<b>-</b>	<b>-92,240</b>
<b>Net Financial Assets</b>	<b>1,038,528</b>	<b>995,527</b>	<b>96,800</b>	<b>2,130,855</b>

	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	997,047	1,000,282	101,524	2,098,853
Loans and receivables	44,246			44,246
<b>Total Financial Assets</b>	<b>1,041,293</b>	<b>1,000,282</b>	<b>101,524</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	-5,774			-5,774
<b>Total Financial Liabilities</b>	<b>-5,774</b>	<b>-51,865</b>	<b>-</b>	<b>-57,639</b>
<b>Net Financial Assets</b>	<b>1,035,519</b>	<b>948,417</b>	<b>101,524</b>	<b>2,085,460</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. By dividing the management of the assets between all managers controls risk further. 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.

In line with its Treasury Management Policy, Durham County Council as administering authority, invests the short term cash balances on behalf of the Pension Fund. Interest is paid over to the Fund on a quarterly basis.

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 Fund to ensure it is within limits specified in the Fund Investment Strategy.

### Other Price Risk – Sensitivity Analysis

In consultation with the Fund's investment advisers, an analysis of historical volatility, Investment Manager volatility and expected investment return movements during the financial year has been completed. From this, the Fund has determined that the potential market movements in market price risk, as shown in the following table, are reasonably possible for the 2014/15 reporting period and are consistent with one standard deviation in market prices. The analysis assumed 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 would vary as illustrated in the following table (the prior year comparator is also shown below):

Manager	Asset type	Asset value at 31 March 2014	Potential market movements	Value on increase	Value on decrease
		£000	%	£000	£000
Alliance Bernstein	Broad Bonds	305,405	6%	323,729	287,081
Barings	DAA	396,025	8%	427,707	364,343
BlackRock	Active UK Equity	350,878	16%	407,018	294,738
BlackRock	Passive UK Equity	508,117	15%	584,335	431,899
CBRE	Unlisted property	96,800	10%	106,480	87,120
CBRE	Listed property	24,433	22%	29,808	19,058
RLAM	UK Index Linked Gilts	395,085	9%	430,643	359,527
Other	UK Equity	71	22%	87	55
	Loans	390	0%	390	390
	Cash	76,091	0%	76,091	76,091
	Net derivative assets	6,269	0%	6,269	6,269
	Net investment balances	-4,265	0%	-4,265	-4,265
<b>Total change in net investment assets available</b>		<b>2,155,299</b>		<b>2,388,292</b>	<b>1,922,306</b>

Manager	Asset type	Asset value at	Potential market	Value on	Value on
		31 March 2013	movements	increase	decrease
		£000	%	£000	£000
Alliance Bernstein	Broad Bonds	301,217	6%	319,290	283,144
Barings	DAA	390,795	8%	422,059	359,531
BlackRock	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	Global 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>

### 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 2014 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 2014	Change in year in the net assets available to pay benefits	
		+50 BPS	-50 BPS
		£000	£000
Cash and cash equivalents	76,091	380	-380
Fixed interest securities	62,934	315	-315
<b>Total change in net investment assets available</b>	<b>139,025</b>	<b>695</b>	<b>-695</b>

  

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>

### 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 GBP (the functional currency of the Fund). 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 14%. For prudence, the Fund has applied a 14% 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 Investment Manager, to what extent a 14% 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 March 14	Value on increase	Value on decrease
				£000	£000	£000
Alliance Bernstein	Broad Bonds	0%	0%	305,405	305,405	305,405
Barings	DAA	20%	3%	396,025	407,906	384,144
BlackRock	UK Equity	0%	0%	350,878	350,878	350,878
BlackRock	Global Equity	90%	13%	508,117	574,172	442,062
CBRE	Global Property	15%	2%	121,233	123,658	118,808
RLAM	UK Index Linked Gilts	0%	0%	395,085	395,085	395,085
Other	UK Equity	0%	0%	71	71	71
	Loans	0%	0%	390	390	390
	Cash	0%	0%	76,091	76,091	76,091
	Net derivative assets	0%	0%	6,269	6,269	6,269
	Net investment balances	0%	0%	-4,265	-4,265	-4,265
<b>Total change in net investment assets available</b>				<b>2,155,299</b>	<b>2,235,660</b>	<b>2,074,938</b>

Manager	Currency exposure by asset type	Level of unhedged exposure	Total Volatility	Asset value at 31 March 13	Value on increase	Value on decrease
				£000	£000	£000
Alliance Bernstein	Broad Bonds & PPIP	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	Global 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>

### 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.

Investment Managers adopt procedures to reduce credit risk related to its dealings with counterparties on behalf of its clients. Before transacting with any counterparty, the Investment 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 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 2014, this level of exposure to the Custodian is only 2.3% 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 Council's 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 was £26.241m as at 31 March 2014 (£20.882m at 31 March 2013). This was held with the following institutions:

	Rating	Balances	Rating	Balances
		as at 31 March 2014		as at 31 March 2013
		£000		£000
<b>Bank Deposit Accounts</b>				
Bank of Scotland			A	11,355
Barclays	F1	4,336	A	4,731
The Co-operative Bank			BBB+	444
Natwest Bank	F1	2,601	A	2,271
Santander UK Plc	F1	4,309		
<b>Fixed Term Deposits</b>				
Barclays				
Bank of Scotland	F1	10,407		
Nationwide Building Society	F1	4,336		
Natwest Bank			A	1,892
UK Local Authorities	N/A	78		
<b>Income Bond</b>				
National Savings & Investments	N/A	174	N/A	189
<b>Total</b>		<b>26,241</b>		<b>20,882</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 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

2012-13 £000		2013-14 £000
1,680	Central government bodies	1,556
5,649	Other local authorities	5,390
48,746	Other entities and individuals	15,649
<u>56,075</u>	<b>Total debtors</b>	<u>22,595</u>
	<b>Included in the Net Assets Statement as:</b>	
1,458	Long Term Assets	1,250
47,210	Other Investment Balances	14,122
7,407	Current Assets	7,223
<u>56,075</u>		<u>22,595</u>

The long term assets relate to the portion of the transfer value in from the Ministry of Justice for Magistrates' Courts staff which are repayable more than 12 months after the year end.

## 19. Analysis of Creditors

2012-13 £000		2013-14 £000
-	NHS Bodies	-39
-706	Central government bodies	-742
-1,343	Other local authorities	-29,132
-43,606	Other entities and individuals	-21,391
<u>-45,655</u>	<b>Total creditors</b>	<u>-51,304</u>
	<b>Included in the Net Assets Statement as:</b>	
-39,881	Other Investment Liability Balances	-18,387
-5,774	Current Liabilities	-32,917
<u>-45,655</u>		<u>-51,304</u>

Included in the amount due to Other Local Authorities in 2013/14 is £27.717m. This relates to the transfer value payable to Teesside Pension Fund for Durham Probation Service staff who have already transferred out of the Pension Fund.

All of the £51.304m 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 Equitable Life, 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 2013	* Purchases	Sales	Change in Market Value	Value at 31 March 2014
	£000	£000	£000	£000	£000
Equitable Life	2,233	71	-	-90	2,214
Prudential	2,864	824	356	106	3,438
Standard Life	1,339	172	111	110	1,510
<b>Total</b>	<b>6,436</b>	<b>1,067</b>	<b>467</b>	<b>126</b>	<b>7,162</b>

\* Purchases represent the amounts paid to AVC providers in 2013/14.

The financial information relating to money purchase AVCs, as set out above, 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	
		2012/13	2013/14
Contributions receivable	Amounts received from employers in respect of contributions to the Pension Fund	£93.884m	£96.800m
Debtors	Amounts due in respect of employers and employee contributions	£7.891m	£5.920m
Creditors	Amounts due to the Administering Authority in respect of administration and investment management expenses	£1.343m	£1.356m
Administration & Investment Management Expenses	The administration, and a small proportion of the investment management, 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	£1.343m	£1.356m
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 £0.274m	Loans outstanding £0.263m
Investment Income	Part of the Pension Fund's cash holding is invested in money markets by Durham County Council. The average surplus cash balance and interest earned were:	Balance= £20.395m Interest = £0.303m	Balance= £14.932m Interest = £0.068m

#### 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, an element of choice has since 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 dividends 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.

As a result of a precedent for the change in WHT has been set by the Netherlands, other Member States have now reduced the level of WHT of non-residents; recovery is therefore probable, but the timing and amount of income is uncertain.

## 23. Funding Arrangements

In line with the LGPS (Administration) Regulations 2008, the Fund's independent qualified 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 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.

At the 31 March 2013 actuarial valuation, the Fund was assessed as being 84% funded (80% at 31 March 2010). This corresponded to a deficit of £379.2m (£418.1m at 31 March 2010).

The aim is to achieve 100% solvency over a period of 18 years and to provide stability in employer contribution rates by spreading any increases in rates over a period of time. The required level of contributions to be paid into the Fund by participating bodies (in aggregate) with effect from 1 April 2014 is 13.7% of pensionable pay plus additional monetary amounts of £24.3m in 2014/15 and increasing by 3.9% p.a. thereafter. (In 2013/14 the aggregate employer contribution rate was 13.1% of pensionable pay plus an additional sum of £29.9m).

The key assumptions used by the actuary to calculate the past service liabilities and the cost of future benefit accrual are set out in the following table:

	Valuation as at 31 March 2013	Valuation as at 31 March 2010
<b>Financial Assumptions</b>		
Discount rate for periods in service	5.4% pa	6.8% pa
Discount rate for periods after leaving service	5.4% pa	6.8% pa
Rate of revaluation of pension accounts	2.4% pa	n/a
Rate of pension increases on:		
non Guaranteed Minimum Pensions	2.4% pa	3.3% pa
post 1988 Guaranteed Minimum Pensions	2.0% pa	2.7% pa
Pensionable pay increases	3.9% pa	5.3% pa
<b>Demographic Assumptions</b>		
Post-retirement mortality assumption (normal health) - base table	SAPS normal tables with scaling factors of 105% for men and women	SAPS normal tables with scaling factors of 105% for men and women
Post-retirement mortality assumption - future improvements	CMI 2012 core projections with long term annual improvement rate of 1.5%	CMI 2009 core projections with long term annual improvement rate of 1.25%
Retirement cash sum	Each member is assumed to surrender pension on retirement, so total cash received is 80% of the maximum amount permitted	Each member assumed to exchange 80% of their future service pension rights and 60% of their past service pension rights for additional lump sum of the maximum amount permitted

## 24. Actuarial Present Value of Promised Retirement Benefits

The CIPFA Code of Practice indicates that Pension Fund accounts should disclose the actuarial present value of promised retirement benefits as set out in the accounting standard IAS 26 and that the actuarial present value should be calculated on assumptions set in accordance with IAS 19 rather than on funding assumptions (set out in Note 23 to these accounts).

The Pension Fund Accounts do not take account of the liabilities to pay pensions and other benefits in the future. Instead, 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. This requires the actuarial valuation of the liabilities on an IAS 19 basis to be prepared at triennial valuations only, the most recent being as at 31 March 2013.

The actuarial present value of promised retirement benefits has been calculated based on projected salaries and is included in the table below. The corresponding fair value of Fund Assets is also shown to indicate the level of deficit within the Fund when the liabilities are valued using IAS 19 assumptions. The figures for 2010 are provided for comparison purposes.

	Value as at 31 March 2013 £m	Value as at 31 March 2010 £m
Fair value of net assets	2,085	1,682
Actuarial present value of the promised retirement benefits	2,905	2,833
Surplus / -deficit in the Fund as measured for IAS26 purposes	-820	-1,151

As the liabilities above are calculated on an IAS 19 basis, they differ from those calculated for the triennial valuation because different assumptions are applied. The main IAS19 assumptions used are as follows:

	31 March 2013 (% p.a.)	31 March 2010 (% p.a.)
Discount rate	4.4	5.5
RPI Inflation	3.4	3.9
CPI Inflation	2.4	3.0
Rate of increase to pensions in payment *	2.4	3.9
Rate of increase to deferred pensions *	2.4	3.9
Rate of general increase in salaries **	3.9	5.4

\* 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 used in the actuarial valuation of the Fund at the appropriate date

## 25. 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 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 County Council's website at [durham.gov.uk](http://durham.gov.uk). The Funding Strategy Statement has been reviewed by the Pension Fund Committee during 2013/14 and will be amended during 2014/15 to incorporate the new Pensions Regulations 2014.

The purpose of the Funding Strategy Statement is to:

- establish a clear and transparent fund specific strategy which will identify how employers' pension liabilities are best met going forward;
- support the regulatory requirement to maintain as nearly constant employer contribution rates as possible;
- take a prudent longer term view of funding the Fund's liabilities.

## 26. Statement of Investment Principles

In accordance with the Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2009, the Pension Fund has prepared and reviewed a written statement of its investment policy. 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). The Statement of Investment Principles sets out the principles for investing Fund monies.

## **Annual Governance Statement 2013/14**

### **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 Accounts and Audit (England) Regulations 2011 require the Council to prepare an annual governance statement, which must accompany the statement of accounts. 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 2014 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 Council considers the governance implications of its actions, and revised its Local Code of Corporate Governance in January 2014 to ensure that it remains consistent with the principles of the CIPFA/SOLACE



Framework – “Delivering Good Governance in Local Government”. The Code also aims to ensure that the corporate governance arrangements help the Council to appropriately respond to sustained pressures from a variety of sources.

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 2013/14.

### **The Six Principles of Good Governance**

#### **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 \(SCS\) 2014 – 2030](#) which has been produced by the Council in conjunction with its partners on the County Durham Partnership, 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 – focusing on creating a vibrant economy and putting regeneration and economic development at the heart of all our plans. This theme is supported by the [Regeneration Statement 2012 – 2022](#) and the [County Durham Plan](#);
- Altogether better for children and young people – ensuring children and young people are kept safe from harm and that they can ‘believe, achieve and succeed’. This theme is supported by the [Children, Young People and Families Plan 2014 - 2017](#);
- Altogether healthier – improving health and wellbeing, supported by the [Joint Health and Wellbeing Strategy 2013 – 17](#);
- Altogether greener – ensuring an attractive and ‘liveable’ local environment and contributing to tackling global environmental challenges. This theme is supported by the [County Durham Plan](#);
- Altogether safer – creating a safer and cohesive county, supported by the [Safe Durham Partnership Plan 2011 – 2014](#).

The latest three-yearly update of the SCS was approved by the Council in April 2014. This refreshed version of the strategy reflects changes in local priorities and the need to deliver services with fewer resources.

The County Durham Partnership, 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, 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 2014 – 2017](#) was approved in April 2014 and 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.

The [Medium Term Financial Plan 2014 – 2017 \(MTFP4\)](#) was approved by the Council in February 2014. This provides a financial framework associated with the [Council Plan](#) that enables members and officers to ensure policy initiatives can be planned for delivery within available resources and can be aligned to priority outcomes. It also enables the continued provision of value for money (VFM). The key risk facing the Council continues to be the challenge of managing unprecedented budget reductions in the current period of economic austerity. To meet this challenge, a comprehensive schedule of savings targets has 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 £20.9m for 2013/14 have been delivered. These arrangements will equip the Council well for dealing with further austerity measures announced as part the latest central government spending review. The Council has maintained prudent levels of reserves enabling us to meet unanticipated expenditure as necessary whilst still achieving planned savings targets and meeting service level expectations.

Through good governance, the Council continues to improve the quality of services, and this is confirmed by external independent sources of assurance, including Ofsted, the Care Quality Commission, Housing Inspections and accreditation to professional standards. Further assurance on the performance and direction of travel of the Council was gained by winning the Council of the Year category at the 2014 Local Government Chronicle Awards, described as “the biggest celebration of innovation and talent across British councils”. Judges were impressed by relations with local businesses, support for small and medium enterprises, real progress in community asset transfer and the contribution made to the wider area.

Assurance can also be taken from the positive conclusions of the [Peer Review](#) by the Local Government Association which was undertaken in 2012 and the actions taken since based on their findings and recommendations.

To manage and measure service improvement, the Council has a locally led performance management framework that links to the SCS and the [Council Plan](#), and ensures that attention is focused on Council priorities. Key target indicators are used in areas where improvements can be measured regularly and can be actively influenced by the Council and its partners. Where possible, performance is compared with that of other Councils using a recognised, online tool.

The Council continues to seek value for money (VFM) through its high level objective ‘effective use of resources’ under the Altogether Better Council theme. In this way, pursuit of VFM is built into the all of the Council’s plans and activities, and numerous reviews have been undertaken across the Council to provide assurance that VFM services are being provided. 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 Chartered Institute of Public Finance Accountants, 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 for our 2012/13 Accounts.

The Council’s Cabinet is responsible for monitoring performance and ensures that effective arrangements are put in place to deal with any failures in service delivery. Assurance is gained through quarterly performance reporting to Cabinet and through performance clinics between the Chief Executive and individual Directors during the year. Members have robustly scrutinised the performance of the Council, demonstrated by a number of key scrutiny reviews of Council services during 2013/14, which are outlined in the [Overview and Scrutiny Annual Report](#).

The Annual Statement of Accounts was approved by the Audit Committee in September 2013, taking account of the views of the External Auditor, in line with the Accounts and Audit Regulations 2011. 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, who carried out a number of audits during the year.

To enable better use of resources, the Council has further strengthened its governance arrangements as follows:

- The framework for managing the Council’s financial affairs, namely the Financial Procedure Rules, was reviewed and reported to Council in April 2014;
- Financial Awareness training was given to budget holders;

- Business Intelligence software was implemented, providing budget holders with immediate access to tailored financial management information and improving budgetary control;
- ICON, the income management software, was rolled out, enabling the Council to comply with the Payment Card Industry Data Security Standards;
- A new role of Chief Internal Auditor and Corporate Fraud Manager was created to strategically align fraud and internal audit, and a Corporate Fraud Team was formed in December 2013, to provide access to trained investigators and allow greater coverage of counter fraud work;
- A new governance and performance framework to improve financial control of the capital portfolio was implemented;
- A corporate protocol for the governance of insurance and insurable risk was implemented;
- We utilised specialist independent actuaries in September 2013 to provide assurance that we are achieving value-for-money between external insurance cover and self-funding arrangements, and for those risks which we self-insure, providing assurance that the funds we have set aside to meet estimated future claims are appropriate.

A programme management approach for key corporate projects has been established and embedded including project management training across the Council. Examples which demonstrate that rigorous programme management has enabled effective delivery of major projects include the Council Tax Support Scheme and the transfer of Community Buildings. Moreover, a programme management approach to the changes introduced by the Welfare Reform Act has been put in place. Assurance is gained by regular monitoring of the delivery of these projects by Corporate Management Team. The effectiveness of these arrangements is also demonstrated by the Council being highly commended in the Local Government Chronicle awards for its programme on waste management, recycling and rubbish collection. The judges said:

*“In June 2013, the Council completed one of its biggest transformational programmes – the Durham County Council Waste Programme. This has successfully transformed services to become more responsive and high-quality, while massively reducing cost, increasing value for money and introducing improved ways of working. The new arrangements generated £4m of savings and significantly increased landfill diversion and recycling performance”.*

The Council's [Corporate Asset Management Plan \(CAMP\)](#) and Property Strategy were approved by Cabinet in July 2013. The [CAMP](#) sets out the Council's approach to ensuring that it makes best use of its assets in terms of service benefit, financial benefit and value for money. The Property Strategy sets out the main principles to ensure that opportunities to share the use of property are identified, and to make sure that assets are fit for purpose, cost effective and used to support regeneration and economic development. A major programme was undertaken to transfer control of around 100 public buildings to the local community, which has ensured continued provision of community facilities, significant reductions in maintenance costs, and continued support to and engagement from members of the community. Service Asset Management Plans are also in place and these include any heritage assets of the holding service.

## **Principle 2: Members and Officers working together to achieve a common purpose with clearly defined functions and roles**

The key governance documents supporting this principle are contained in the [Constitution](#). These arrangements are further strengthened by a number of formal member and officer working groups.

The [Constitution](#) sets out how the Executive is made up and how appointments to this committee are made. The roles and responsibilities allocated by the Leader under the terms of the [Constitution](#), to individual members and the committee as a whole, are set out in detail in the [Constitution](#) as well as the Scheme of Delegation for Senior Officers. The [Constitution](#) allows joint arrangements to be established for specific purposes such as the provision and maintenance of crematoria, and sets out details of existing joint arrangements, including purpose, parties and effective dates.

The Constitution Working Group, which consists of the lead members of each political party, and is chaired by the Leader of the Council, proposed amendments to the [Constitution](#) during the year which were approved by the Council. Changes following the annual review of the [Constitution](#) were approved by the Council in May 2014. Key changes include the transfer of the overview of customer complaints from the Standards Committee to the Corporate Issues Overview and Scrutiny Committee, and amendments to the Overview and Scrutiny Procedure Rules and the Petition Scheme to reflect changes in legislation.

The Health and Wellbeing Board, a Committee of the Council, was established as a consequence of the transfer of public health responsibilities from the NHS to the Council. Its functions include:

- Developing and agreeing the Joint Strategic Needs Assessment and Joint Health and Wellbeing Strategy; and
- Promoting integrated working between commissioners of health services, public health and social care services, for the purpose of advancing the health and wellbeing of people in its area.

The arrangements and rules of procedure for the Overview and Scrutiny function, including the membership, functions and scope of the Overview and Scrutiny Board and each Committee is set out in detail in the [Constitution](#). Terms of Reference for the Board and Committees are set within the context of the [Council Plan](#) and the [Sustainable Community Strategy](#).

Following the Council election in May 2013, under the terms of the [Constitution](#), the Council elected a Leader and made appointments to a number of committees with various regulatory and scrutiny responsibilities. The Leader has nominated nine other councillors, including a Deputy Leader, with specific responsibilities to form the Cabinet.

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.

Member remuneration is overseen by an independent panel, and their report was approved by Council in February 2014.

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 County Council, which Members considered when setting the budget.

### **Principle 3: Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour**

The key governance documents supporting this principle are the [Constitution](#), the [Council Plan](#) and the Register of 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 key elements of the Council's approach to communicating and embedding the expected standards of behaviour for Members and staff are also detailed in the Council [Constitution](#). The Council's Codes of Conduct included in the [Constitution](#) also apply to its partnership working, and the revised Code of Conduct for Employees was implemented in May 2014. The

[Constitution](#) also sets out a protocol for the Chairman and Vice-Chairman of the Council that includes an expectation of political neutrality and acting as the conscience of the Council

The values of the Council are further promoted in the revised Equality Policy, which was approved in January 2014 and includes 'protected characteristics' covered by the Equality Act. Supporting this scheme is an impact assessment process, which ensures that the impact on equality is considered in the Council's decision making. For example, in 2013/14, the [MTFP](#) was fully equality impact assessed. A schedule of impact assessments is monitored through the Equality, Diversity and Cohesion Working Group. The implementation of the Access Strategy is monitored by the Equality, Diversity and Cohesion Working Group and a programme is in place for making access improvements to identified priority buildings.

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 introduced a new duty to promote and maintain high standards of conduct and a new ethical framework was adopted in July 2012. The [Annual Report of the Standards Committee](#) was presented to the Full Council in September 2013.

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.

In response to amendments to the Protection of Freedoms Act 2012, the corporate guidance on investigations under the Regulation of Investigatory Powers Act has been updated.

#### **Principle 4: Taking informed and transparent decisions which are subject to effective scrutiny and managing risk**

The key governance documents supporting this principle are the [Constitution](#); the Corporate Complaints Policy and Procedure; the Risk Management Strategy and Policy; the Counter Fraud and Corruption Strategy; and the [Confidential Reporting Code \(Whistleblowing policy\)](#).

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](#). For example, an amendment was made to the [Constitution](#) to reflect the revised scheme of delegation to officers for the Corporate Director, Resources.

All major decisions as identified in the officer delegations scheme are documented, with the reports and decisions made for those that are in the public domain being available on the website. All Cabinet reports must state that legal advice on proposals has been sought, as well as the source of the advice, and Chief Officers and Heads of Service were briefed on this by way of a refresher in February 2014 by the Head of Legal and Democratic Services.

A notice of key decisions covering a rolling period of four months is published on the Council's website. Decisions made by the Executive are published on the Council's website within two days of the respective meeting. Assurance over the adequacy and effectiveness of the control framework for the Committee Management System was provided by Internal Audit.

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 2013/14. For example:

- Face to face data protection training was provided to 130 officers in November 2013 to address identified training needs, in addition to all staff being covered by online training.

- The Potential Data Breach policy was updated and circulated;
- A training and awareness session was held in November 2013 for Records Champions.

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 \(Whistleblowing policy\)](#), which is part of the Council's [Constitution](#), and is monitored by the Audit Committee. The policy is referenced in the Scheme of Financing of Schools, and the School Financial Value Standard requires schools to have appropriate whistleblowing procedures. A revised [Confidential Reporting Code](#) was approved by Audit Committee on 20 May 2014.

To further strengthen fraud awareness across the Council, 250 managers and staff have successfully completed fraud awareness training, and work has also progressed during the year to improve the effectiveness of the Council's Counter Fraud Strategy. This has been strengthened by the formation of the Corporate Fraud Team in December 2013.

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. 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:

- Stock Transfer proposals;
- The [County Durham Plan](#);
- Joint Health and Wellbeing Strategy;
- The Combined Authority proposals for the North East Local Enterprise Partnership; and
- The Council's [Medium Term Financial Plan](#).

A number of key projects and reviews have also been carried out by Overview and Scrutiny Committees including:

- Neighbourhood Wardens;
- Impact of Government Policy and Funding changes to the County Durham economy;
- The impact of flooding on our local communities;
- Customer First Strategy and customer services; and
- Alcohol and substance misuse by young people.

Further assurance on the effectiveness of the Overview and Scrutiny function can also be gained from the [Peer Review](#) in 2012, which concluded that it is making a useful contribution through influencing policy development in areas related to the [Council Plan](#).

As part of the annual review of the [Constitution](#), the Terms of Reference of the Overview and Scrutiny Management Board and Committees were updated in line with the refresh of the [Sustainable Community Strategy](#) and [Council Plan](#) priorities and actions. This demonstrates that the work of Overview and Scrutiny contributes to the strategic priorities of the Council and its partners, and reflects the legislative requirements placed on the Council in respect of scrutiny arrangements.

With regard to the Overview and Scrutiny Committees, key points to note during 2013/14 include:

- Following the Council elections in May 2013, 55 new Councillors were elected. To ensure continued effectiveness of the Council's Overview and Scrutiny function, a series of bespoke induction sessions were held across all Overview and Scrutiny Committees engaging all Councillors and co-opted members;
- The Adults Wellbeing and Health Overview and Scrutiny Committee has been conferred with the Council's powers of review and scrutiny in respect of NHS Service changes in accordance with the Health and Social Care Act 2012;

- Through the Council's various publications and regular updating of web pages, the profile and awareness of the Overview and Scrutiny function was raised;
- Cross party representation on all Overview and Scrutiny Committees serves to promote an independent, non-partisan approach in their activities;
- Established a Joint Health Scrutiny Committee with Hartlepool and Stockton Borough Councils to formally engage and respond to proposals to reconfigure emergency medical and critical care services at North Tees and Hartlepool NHS Foundation Trust.

The Police and Crime Panel has now reviewed the first annual report of the Police and Crime Commissioner, as well as the [Police and Crime Plan 2013 – 2017](#), to fulfil its legal requirements. An update on activity from the Panel is now presented to each meeting of the Council's Safer and Stronger Communities Overview and Scrutiny Committee.

The Council's Monitoring Officer oversees the arrangements for conflicts of interest, gifts and hospitality. Members are required to review their declarations of gifts and hospitality annually. Officers and members are required to declare annually any conflicts of interest.

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; and
- 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.

During the year, a new Audit Charter was approved in line with Public Sector Internal Audit Standards. The Council's self-assessment against both the principles of the CIPFA Statement on the Role of Head of Internal Audit and the new Public Sector Internal Audit Standards, which were presented to Audit Committee in June 2013, illustrates a high degree of compliance.

A Corporate Complaints policy is in place for non-statutory complaints. From 2013/14 details of complaints, and of investigations by the Commissioner for Local Administration, have been reported to Corporate Issues Overview and Scrutiny Committee.

A Freedom of Information (FOI) Policy and Publication Scheme are in place, and details of how to make a FOI request for information can be found on the Council's website.

### **Principle 5: Developing the capacity and capability of Members and Officers to be effective**

The key governance documents supporting this principle are the [Constitution](#); the Member Learning and Development Strategy; People and Organisational Development Strategy; and the Recruitment and Selection Policy.

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.

Other improvements to governance arrangements in this area during the year include:

- A review of the Corporate Induction programme was completed;
- Recruitment and Selection Policy was reviewed and implemented;
- A new system for maintaining staff records, which will be directly accessible by managers through the Intranet, was implemented, leading to improved efficiency and shortened processing timescales;
- The "The Durham Manager" development programme, which was rolled out to managers from September 2013, was enhanced after seeking feedback from managers through a course evaluation and focus groups programme;

- A revised Grievance Policy has been implemented, and the Disciplinary Policy is under review;
- Following extensive consultation, a revised Organisational Development Strategy will be finalised in October 2014. The Council continues to adopt the principles of the Investor in People Standard through the Organisational Development Strategy, without seeking accreditation under the scheme;
- Induction training was provided for new members following the election in May 2013;
- Individual training and development plans were produced for all members;
- The Mental Wellbeing in the Workplace Policy, which is based on the Health and Safety Executive Stress Standards, has replaced the Stress Management Policy and Toolkit;
- The Council's Occupational Health Service has been awarded Safe, Effective, Quality Occupational Health Service (SEQOHS) accreditation, which is the formal recognition that it has demonstrated the competence to deliver against the measures in the SEQOHS Standards developed by the Faculty of Occupational Medicine.
- Health and Safety unitisation and consequential review of health and safety policies and procedures; and
- A pilot scheme to improve the quality and accuracy of sickness absence data commenced in January 2014.

The Council also continues to support employees through the change process with, for example, Jobcentre Plus information sessions.

#### **Principle 6: Engaging with local people and other stakeholders to ensure robust public accountability**

The key governance documents supporting this principle are the [Constitution](#); the [Consultation and Engagement Strategy](#); and the County Durham Partnership Community Engagement and Empowerment Framework.

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. The County Durham Compact provides a framework for partnership and engagement with the voluntary and community sector, and most partners within the County Durham Partnership are signatories. E-learning on the Compact has been delivered to partners and [VCS](#) organisations. Attendance by the public at Council meetings and the protocols for asking questions are contained in the [Constitution](#).

The Council has a strong commitment to working with partners to meet the needs of its communities. There are 14 [Area Action Partnerships \(AAPs\)](#) 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 that are fully engaged with the community in identifying and addressing local priorities, and utilise locality budgets to drive improvements to the local area. During 2013, through this network of [AAPs](#), the Council staged 23 'Your Money, Your Choice' consultation events across the county, working with parish councils and the community and voluntary sector. The events encouraged local people to vote for which community projects should be given a share of a community chest funded by the council and other public sector organisations. Residents were also asked to express a view on each area's local priorities. Nearly 10,700 people took part in the events, allocating £563,000 to 177 community projects.

As part of these events, the Council carried out a detailed consultation process during the development of [MTFP4](#), and 97% of the 3,300 respondents agreed with the plan. This process involved in depth exercises at



14 separate [AAPs](#) and the completion of online questionnaires. The key aim of the exercise was to assess public opinion on how to achieve its target savings, and the outputs from the exercise identified areas of the budget the public would wish to protect and those where higher levels of saving should be implemented. Partners and key agencies, including the Police and NHS County Durham and Darlington, were also consulted.

The Durham [Citizen's Panel](#) was consulted about various proposals, projects and issues of concern, including:

- Residential Care Homes;
- [Medium Term Financial Plan](#);
- Garden Waste;
- School Crossing;
- Customer First;
- Community Resilience;
- Fixed Play Provision; and
- Corporate Tree Management Policy.

Evidence of our community engagement includes:

- A [Voluntary and Community Sector \(VCS\) Strategy](#) was developed to help the council work in partnership with the [VCS](#) to realise the ambitions of individuals and to improve their quality of life;
- The [AAPs](#), voluntary sector organisations and a community buildings team funded by the council has worked with local community organisations to take on a number of community buildings, following targeted investment to improve the assets;
- Councillors and employees, particularly those in customer-facing roles, have received training to help them understand the welfare reform changes and how the council and partners can help;
- A comprehensive communications programme has been instigated to ensure that claimants understand proposed welfare reform changes;
- The corporate website is being re-designed, with views being sought from staff and members of the public, and it is planned to go live in 2014;
- Strengthening the remit, representation and focus of the Customer Focus Board that provides a multi service approach to developing and implementing a new Customer First Strategy for the Authority;
- All [AAPs](#) and the Terms of Reference were reviewed this year, during which the first four-year tenures of Public Representatives were completed.

In achieving Council of the Year at the 2014 Local Government Chronicle Awards, judges were impressed by community engagement arrangements across the Council:

*The Council has made considerable efforts to engage the community and-prides itself on being ambitious, open to trying new things and exhibiting a clear set of priorities. Its 'Altogether Better Council' plan is one example of the organisation's priorities and sets out a precedent for collaborative community strategies. Finally, its pioneering approach to engaging local communities through [area action partnerships](#), neighbourhood budgets and participatory budgeting has won international acclaim. Partnership is a key part of this organisation's success and Durham believes it has a huge amount to offer to its peers". (LGC article)*

Assurance can also be gained from the [Peer Review](#) by the Local Government Association, which was undertaken in 2012, which highlighted that the Council is 'effectively engaging with stakeholders' and has 'communication channels with local communities'.

Through its partnership governance framework, the Council has gained assurance that:

- members are clear about their roles and responsibilities both individually and collectively in relation to the partnership and to the authority;
- there is clarity about the legal status of the partnership; and
- representatives or organisations both understand and make clear to all other partners the extent of their authority to bind their organisation to partner decisions.

#### 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.

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.

Maintaining 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 delivery of the internal audit plan, Internal Audit is able to provide a moderate overall assurance opinion on the adequacy and effectiveness of internal control operating across the Council in 2013/14. This opinion ranking provides assurance that, whilst there is basically a sound system of control, there are some weaknesses, which may put some of the system objectives at major risk. 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.

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**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.

**Update on improvements identified in the 2012/13 Annual Governance Statement**

Following the production of the Annual Governance Statement for 2012/13, 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 2013/14 Annual Governance Statement.

**1. Business Continuity**

A backup ICT site, developed in partnership with Sunderland City Council, is now in place. The equipment has been installed and data has been transferred. Testing has taken place at a functional / equipment level and a full test is planned for June 2014.

**2. Arrangements for ensuring Value for Money**

The Audit Commission VFM profiles (adopted by the Local Government Association (LGA) on the demise of the Audit Commission) are used to provide assurance that the mechanisms that we currently have in place are identifying and addressing those areas where less than optimal VFM is being achieved. These are supplemented by CIPFA VFM benchmarking information for central services, where available, and this has been done in 2013/14. In Children and Adults Services, analysis of s251 (children and young people's budget statement) and PSSEX1 (Personal Social Services Expenditure) benchmarking data is well embedded and is used to inform VFM considerations in this service.

In conclusion, we are satisfied that the Council's corporate governance arrangements in place during 2013/14 were sound. As a result of the review of governance arrangements, and the work of both internal and external audit, we have not identified any further areas for significant governance improvement in 2014/15.

**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.

**Business Improvement District (BID)**

BIDs are provided for under Part 4 of the Local Government Act 2003 whereby a levy is collected from Business ratepayers to provide agreed additional services.

**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.

### **Carrying Amount**

The Balance Sheet value recorded of either an asset or a 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 statement 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.

**Contingency**

This is money set aside in the budget to meet the cost of unforeseen items of expenditure, or shortfalls in income.

**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.

**Deferred Capital Receipts**

These represent capital income still to be received after disposals have taken place.

**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.

**Defined Contribution Scheme**

A pension or other retirement benefit scheme into which an employer pays regular contributions fixed as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further

contributions if the scheme does not have sufficient assets to pay all employees benefits relating to employee service in the current year and prior periods

**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.

**Earmarked Reserves**

The Council holds a number of reserves earmarked to be used to meet specific, known or predicted future expenditure.

**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.

**Exceptional Items**

Material items deriving from events or transactions that fall within the ordinary activities of the Council, but which need to be separately disclosed by virtue of their size and/or incidence to give a fair presentation of the accounts.

**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 asset 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 falls 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 (REFCUS)**

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.

**Unsupported (Prudential) Borrowing**

This is borrowing for which no financial support is provided by Central Government. The borrowing costs are to be met from current revenue budgets.

**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 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.

**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**

**24 July 2014**



**Strategic Risk Management  
Progress Report for the Quarter period  
April to June 2014**

**Report of Corporate Management Team**

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**Don McLure, Corporate Director Resources**

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**Purpose of the Report**

1. 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 2014.

**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 included 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 June 2014, there were 30 strategic risks, a reduction of one since 31 March 2014. In summary, the key risks to the Council are:
  - If there was to be slippage in the delivery of the agreed MTFP savings projects, this will require further savings to be made from other areas, which may result in further service reductions and job losses.
  - Ongoing Government funding cuts which now extend to at least 2017/18 will continue to have an increasing major impact on all Council services.
  - Potential restitution of search fees going back to 2005.
  - The Council could suffer significant adverse service delivery and financial impact if there are delays in the procurement and implementation of the new banking contract or the existing provider terminates the agreed contract early.
  - If we were to fail to comply with Central Government's Public Services Network Code of Connection criteria, this would put some

of our core business processes at risk, such as Revenues and Benefits.

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

5. Appendix 4 of this report lists all of the Council's strategic risks as at 30 June 2014.
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.

#### **Recommendations and reasons**

7. 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.

## **Appendix 2: How the Council manages the Risk Management Framework**

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.

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: Progress on the management of the Council's Strategic Risks**

Risks are assessed at two levels:

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

As at 30 June 2014, there were 30 strategic risks, a reduction of one since 31 March 2014.

The following matrix categorises the strategic risks according to their Net risk evaluation as at 30 June 2014. To highlight changes in each category during the last quarter, the number of risks as at 31 March 2014 is shown in brackets.

### **Overall number of Strategic Risks as at 24 June 2014**

<b>Impact</b>					
Critical	2 (2)	1 (1)	3 (3)		1 (1)
Major		3 (3)	4 (4)		
Moderate			8 (8)	5 (6)	1 (1)
Minor				1 (1)	1 (1)
Insignificant					
<b>Likelihood</b>	Remote	Unlikely	Possible	Probable	Highly Probable

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

#### **1 New Risks**

No new risks have been identified this quarter.

#### **2 Increased Risks**

No significant risks have increased during the quarter.

#### **3 Removed Risks**

Due to effective management by the Services, and the completion of all mitigating actions to reduce them to a level where management now consider existing controls to be adequate, the risk of an *'adverse impact on Durham City Homes revenue, capacity and resources and tenants due to changes in*

*Government legislation*, is no longer considered a strategic risk and has been removed from the register (**RED**).

**4 Reduced Risks**

No significant risks have reduced during the quarter.

**5 Key Risks**

The Council’s key risks are shown in the following table.

Key Risks Matrix

Net Impact					
Critical			Risk 1 MTFP Slippage Risk 4 New Banking Contract Risk 5 PSN Code of Connection		Risk 2 Ongoing Government funding cuts
Major					
Moderate					Risk 3 Restitution of Search Fees
Minor					
Insignificant					
<b>Net Likelihood</b>	Remote	Unlikely	Possible	Probable	Highly Probable

In this matrix, the key risks have been arranged according to the net impact and net likelihood evaluations to illustrate their relative severity. The full title of each risk is shown in the Key Risks Schedule on the following pages.

## Key Risks Schedule

The schedule on the following pages contains information about how the key risks are being managed, including proposed key actions. Where there have been changes to the risk assessment during the last quarter, these are highlighted in the column headed 'Direction of Travel'. The final column states when it is anticipated that the risk will have been reduced to an acceptable level.

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	If there was to be slippage in the delivery of the agreed MTFP savings projects, this will require further savings to be made from other areas, which may result in further service reductions and 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	Ongoing Government funding cuts which now extend to at least 2017/18 will continue to have an increasing major impact on all Council services.	Critical	Highly Probable	Sound financial forecasting is in place based on thorough examination of the Government's "red book" plans.		This will be a significant risk for at least the next 4 years.
3	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		Lawyers, instructed through the LGA on behalf of local authorities, have produced a framework for settlement and this is currently being considered.

4	RES Risk Owner: Don McLure	Altogether Better Council	The Council could suffer significant adverse service delivery and financial impact if there are delays in the procurement and implementation of the new banking contract	Critical	Possible	Pre-procurement meetings will be held with alternative providers to establish what services can and cannot be provided.  Awareness-raising at Tier 4 Manager level that banking arrangements are due to change.		The new contract is expected to be in place by September 2015 to ensure a smooth transition.
5	RES Risk Owner: Phil Jackman	Altogether Better Council	If we were to fail to comply with Central Government's Public Services Network Code of Connection criteria, this would put some of our core business processes at risk, such as Revenues and Benefits, which rely on secure transfer of personal data	Critical	Possible	An ongoing project is in place to ensure compliance. Servers that cannot be made compliant or effectively relocated will be switched off.		June 2014



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

Based on the **Net** risk assessment as at 30 June 2014, the following tables highlight the risks for each Corporate Theme.

### **KEY**

**Tolerate** = management consider existing controls are adequate, or no further controls can be implemented

**New** = new risk in last quarter

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

<b>Ref</b>	<b>Service</b>	<b>Risk</b>
1	RES	If there was to be slippage in the delivery of the agreed MTFP savings projects, this will require further savings to be made from other areas, which may result in further service reductions and job losses.
2	RES	Ongoing Government funding cuts which now extend to at least 2017/18 will continue to have an increasing major impact on all Council services.
3	RES	Potential restitution of search fees going back to 2005
4	RES	The Council could suffer significant adverse service delivery and financial impact if there are delays in the procurement and implementation of the new banking contract
5	RES	If we were to fail to comply with Central Government's Public Services Network Code of Connection criteria, this would put some of our core business processes at risk, such as Revenues and Benefits, which rely on secure transfer of personal data
6	RED	Increased demand for Housing Solution Service beyond current staffing capacity due to changes in Government Welfare legislation.
7	RES	The continuation of weak economic conditions, financial austerity and reduced household incomes may see increased pressure on areas of lower housing demand with consequent negative impacts on communities, neighbourhoods and local environments.
8	NS	If Local Authority Schools and other LA services choose not to take Council Services, together with the loss of community buildings both Technical and Building Services could see a loss of business.
9	NS	The Council will not be able to maintain its non-educational and non-housing buildings to current repairs standards.
10	ACE	Serious breach of law regarding management of data/information, including an unauthorised release requiring notification to ICO
11	RES	Inconsistent approach to managing funding bids by Services could expose the Council to financial losses and reputational damage.

Ref	Service	Risk
12	ACE	Risk that the Council does not respond to the Government's changes to Welfare Reform
13	RES	Major Interruption to IT Service Delivery
14	RES	Serious breach of Health and Safety Legislation
15	RES	Following the proposed transfer of Housing Stock to an external organisation the potential savings, from downsizing/reduced costs of services currently recharged to the HRA under a Service Level Agreement, may be less than the corresponding loss of income from the SLA, resulting in a budget shortfall.
16	ACE	Failure to consult with communities on major service & policy changes leading to legal challenge & delays in implementation
17	RES	Due to the current economic climate and amount of change occurring across the Council, there is potential for increases in fraud and error.
18	ACE	Failure to consider equality implications of decisions on communities leading to legal challenge and delays in implementation

**Altogether Better for Children and Young People**

	Service	Risk
19	CAS	School funding reforms & Dedicated Schools Grant reductions threaten viability of some centrally managed services for children and young people.

### Altogether Safer

	Service	Risk
20	NS	Gypsy Roma Travellers set up camp/ events on Council land without permission.
21	CAS	Failure to protect child from death or serious harm (where service failure is a factor or issue)
22	CAS	A service failure of Adult Safeguarding leads to death or serious harm to a service user.
23	NS	Damage to Highways assets as a result of a severe weather event.
24	CAS	Risk of poor implementation of the Transforming Rehabilitation programme leading to fragmented offender management services and a rise in re-offending.
25	ACE	Failure to prepare for, respond to and recover from a major incident or interruption, and to provide essential services.
26	RED	Serious injury or loss of life due to Safeguarding failure (Transport Service)

### Altogether Wealthier

	Service	Risk
27	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.
28	RED	Private housing stock condition worsens with adverse implications for local economy, health & neighbourhood sustainability.
29	NS	Coastal erosion and environmental improvements may be adversely impacted if a programme of repairs to Seaham North Pier isn't undertaken.

### Altogether Greener

	Service	Risk
30	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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