Audit Committee

Date	**Monday 27 July 2015**
Time	**10.00 am**
Venue	**Committee Room 1A, County Hall, Durham**

Business

Part A

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

1. Apologies for Absence
2. Minutes of the meeting held on 29 June 2015 (Pages 1 - 6)
3. Declarations of interest, if any
4. CAS Local Test of Assurance - Report of Head of Planning and Service Strategy, Children and Adult Services (Pages 7 - 22)
5. Transport Infrastructure Assets - Historical Cost to Replacement Cost Valuations - Presentation by Assistant Finance Manager, Corporate Finance
6. 2014/2015 Final Outturn for General Fund and Housing Revenue Account - Report of Corporate Director, Resources (Pages 23 - 60)
7. Treasury Management Outturn 2014/2015 - Report of Corporate Director, Resources (Pages 61 - 74)
8. Statement of Accounts for the year ended 31 March 2015 - Report of Corporate Director, Resources (Pages 75 - 322)
9. External Audit - Progress Report July 2015 - Report of External Auditor (Pages 323 - 332)
10. Strategic Risk Management - Progress Report for the Quarter ended 30 June 2015 - Report of Corporate Director, Resources (Pages 333 - 344)
11. Such other business as in the opinion of the Chairman of the meeting is of sufficient urgency to warrant consideration
12. 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)

13. 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
17 July 2015

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

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

Councillors L Armstrong, C Carr, J Carr, M Davinson, J Robinson, O Temple and W Stelling

Co-opted Members:

K Larkin-Bramley and T Hoban

Contact: Jackie Graham **Tel: 03000269704**

DURHAM COUNTY COUNCIL

At a Meeting of **Audit Committee** held in Committee Room 1A, County Hall, Durham on **Monday 29 June 2015 at 10.00 am**

Present:

Councillor E Bell (Chairman)

Members of the Committee:
Councillors J Rowlandson (Vice-Chairman), L Armstrong, J Carr, M Davinson and O Temple

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

1 Apologies for absence

Apologies for absence were received from Councillors C Carr, J Robinson and W Stelling.

2 Minutes

The minutes of the meeting held on the 19 May 2015 were agreed and signed by the Chairman as a correct record.

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

3 Declarations of interest

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

4 Consideration of 'Going Concern Status' for the Statement of Accounts for the year ended 31 March 2015

The Committee considered a report of the Corporate Director, Resources that assessed whether Durham County Council should be considered a 'going concern', organisation, and whether the annual accounts should be prepared on that basis (for copy see file of Minutes).

Referring to the Housing Revenue Account and the responsibility for managing and maintaining 3,200 garages, Councillor O Temple enquired about the transfer of assets. The Assistant Finance Manager advised that privately sold garages would not transfer and an update would be given at the next meeting.

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

5 Annual Review of the System of Internal Audit 2014 / 2015

The Committee considered a report of the Corporate Director, Resources regarding the Annual Review of the System of Internal Audit for 2014/2015 (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 had been completed and that a self-assessment against the key elements of the Public Sector Internal Audit Standards (PSIAS) had been carried out.

In response to a query from Mr Hoban regarding the level of customer satisfaction questionnaire returns, the Chief Internal Auditor and Corporate Fraud Manager advised that 47% had been returned which was extremely positive and he was confident that figures would continue to increase.

Resolved:-
(i) That the findings and conclusions of the 2014/2015 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.

6 Annual Audit Opinion and Internal Audit Report 2014 / 2015

The Committee considered a report of the Corporate Director, Resources that provided assurance opinion on the adequacy and effectiveness of Council's internal control environment and the Annual Internal Audit report for 2014/2015 (for copy see file of Minutes).

The Committee were informed that based on the work undertaken during the year, Internal Audit provided a Moderate overall assurance opinion on the adequacy and effectiveness of internal control operating across the Council in 2014/2015. The opinion was the same as 2013/2014 and provided assurances that there was a sound system of control in place, however there were still areas to improve.

Resolved:-
That the content of the Annual Internal Audit report and the overall 'moderate' opinion provided on the adequacy and effectiveness of the Council's Internal Control environment for 2014/2015 be noted.

7 Draft Annual Governance Statement 2014 / 2015

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 & 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.

Resolved:
That the first draft of the Annual Governance Statement for 2014/15 be agreed.

8 External Audit Progress Report

The Committee considered a report of the External Auditor, Mazars that set out progress to June 2015 (for copy see file of Minutes).

Ms Banks, Mazars informed the Committee that the final accounts would be signed off by the Corporate Director, Resources on the 30 June and that IT auditors had completed work on the review of general IT controls. The next phase would begin upon receipt of the financial statements at the end of June.

Mr Waddell, Mazars added that some issues were identified that were low risk, however they would not affect the audit opinion. A report summarising the issues would be reported to Audit Committee in September 2015.

Resolved:
That the progress report be noted.

9 Compliance with International Auditing Standards

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

The Chairman congratulated the Chief Internal Auditor and Corporate Fraud Manager and his team for the exceptional turnaround in work carried out that had an impact on the entire organisation.

Resolved:-
That the responses from the Chairman of Audit and the Corporate Director, Resources be noted.

10 Internal Audit Plan, Strategy and Charter 2015 / 2016

The Committee considered a report of the Chief Internal Auditor and Corporate Fraud Manager which outlined the Annual Internal Audit Plan for 2015/2016, Internal Audit Strategy and the Audit Charter (for copy see file of Minutes).

Resolved:-
(i) That the change in audit year (April to March) as per paragraph 7, be noted;
(ii) That the Internal Audit Strategy in Appendix 2, be approved;
(iii) That the proposed Internal Audit Plan for 2015/2016, as detailed in Appendix 3, be approved;
(iv) That the revised Audit Charter in Appendix 4, be approved.

11 Confidential Reporting Code (Whistleblowing)

The Committee considered a report of Corporate Director, Resources that sought to approve the revised Confidential reporting Code (for copy see file of Minutes).

The Chief Internal Auditor and Corporate Fraud Manager highlighted the changes to the policy and explained that there had been no formal cases referred via the confidential reporting code, however there had been 3 investigations resulting from employees anonymously reporting to Internal Audit. He added that the Confidential Reporting Code would be available on the external website so that former employees, contractors and members of the public had access to the document.

Resolved:
That the revised Confidential Reporting Code be approved.

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 Protecting the Public Purse - Annual Report 2014/15

The Committee considered a report of the Chief Internal Auditor and Corporate Fraud Manager that provided an update on the Council's counter fraud activity for 2014/15 (for copy see file of Minutes).

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

Action Plan - Work of Audit Committee - Part A – 29 June 2015

Ref No.	Date of Meeting	Item No.	Title of Report	Action Required	By Whom	Report to Committee (date)/ implemented
1	26.02.15	6	Changes to the Code of Practice for Local Authority Accounting in the UK for 2014/15	A presentation to be delivered on the measurement of transport infrastructure assets and the move from historical costs to replacement costs.	Assistant Finance Manager – Corporate Finance	July 2015
2	19.05.15	5	External Audit - Durham County Council Pension Fund Audit Strategy Memorandum Year Ended 31 March 2015	A presentation on the Pension Fund and how it operates.	Strategic Finance Manager – Corporate Finance	September 2015

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Audit Committee

27 July 2015

CAS Local Test of Assurance

Report of Peter Appleton, Head of Planning and Service Strategy, Children and Adult Services

Purpose of Report

1. The purpose of this report is to seek approval from Audit Committee of the Local Test of Assurance (LToA) developed in May 2015 by Children and Adults Services.

Background

2. The "Statutory guidance on the roles and responsibilities of the Director of Children's Services and the Lead Member for Children's Services" (issued by the Department of Education, April 2013) states that it is legally permissible for the role of Director of Children's Services to be combined with other functions, but local authorities should give due consideration to protecting the discrete roles and responsibilities of the Director of Children's Services before allocating any additional functions to individuals performing these roles.

3. This guidance states that Local Authorities should undertake a Local Test of Assurance to ensure that the focus on outcomes for children and young people will not be weakened or diluted as a result of adding other responsibilities. Where there is a joint Director of Adult Social Services and Children's' Services, the guidance recommends that consideration is given to the impact on both children and adults services. The guidance states that authorities should:

    - carry out effective assurance checks, integrated as part of their usual decision-making and scrutiny work, of their structures and organisational arrangements; and
    - review any new arrangements regularly to satisfy themselves they continue to be effective.

4. The guidance recommends that these assurances should be agreed within the Council and subject to self – assessment, peer challenge and review.

5. Ofsted inspectors may scrutinise arrangements for discharging the functions of the Director of Children's Services and Lead Member for Children's Services to determine the quality and effectiveness of the assurance processes. This is likely to include the following essential elements to demonstrate that effective arrangements are in place:

a) clarity about how senior management arrangements ensure the safety, educational, social and emotional needs of children and young people are given due priority
b) clarity about how the local authority discharges its children's service functions and is accountable for them from a political, professional, legal and corporate perspective
c) details of the seniority of and breadth of responsibility of individual post holders and how this impacts on their ability to undertake those responsibilities
d) evidence of the involvement and experiences of children and young people in relation to local services
e) clarity of child protection systems, ensuring professional leadership and robust practice
f) details of the arrangements in place to demonstrate the adequacy and effectiveness of local partnership arrangements

6. Benchmarking exercises with other authorities' Local Tests of Assurance have been undertaken to identify good practice.

Review process

7. The LToA has been included as a component of the CAS Director's Assurance Statement and the contents, including the LToA, have been considered in drafting the Council's overall Annual Governance Statement.

8. Continuation of this process will ensure that the Local Test of Assurance will be appropriately reviewed annually.

9. The LToA has been shared with the relevant portfolio holders and is presented to the Audit Committee so it may be assured that the focus on outcomes for children and young people is being appropriately maintained.

Recommendation

10. Audit Committee is asked to approve the Local Test of Assurance 2015, attached at Appendix 2, as part of the wider assurance work of the Council.

Contact: Ken Pattison, Strategic Manager, Service Support Tel 03000 265 885

Appendix 1: Implications

Finance – N/A.

Staffing – N/A.

Risk – The Local Test of Assurance is developed to ensure that the focus on outcomes for children and young people will not be weakened or diluted as a result of adding other responsibilities to the role of the Director of Children's Services.

Equality and Diversity / Public Sector Equality Duty – N/A

Accommodation - N/A

Crime and Disorder – N/A

Human Rights - N/A

Consultation – Consultation with relevant staff has been undertaken during the review of the Local Test of Assurance.

Procurement – N/A

Disability Issues – N/A

Legal Implications – N/A

Appendix 2

Local Test of Assurance 2015

The "Statutory guidance on the roles and responsibilities of the Director of Children's Services and the Lead Member for Children's Services" (April 2013) states that it is legally permissible for the role of Director of Children's Services to be combined with other functions, but local authorities should give due consideration to protecting the discrete roles and responsibilities of the Director of Children's Services before allocating any additional functions to individuals performing these roles.

This guidance states that Local Authorities should undertake a Local Test of Assurance to ensure that the focus on outcomes for children and young people will not be weakened or diluted as a result of adding other responsibilities. The guidance states that authorities should:

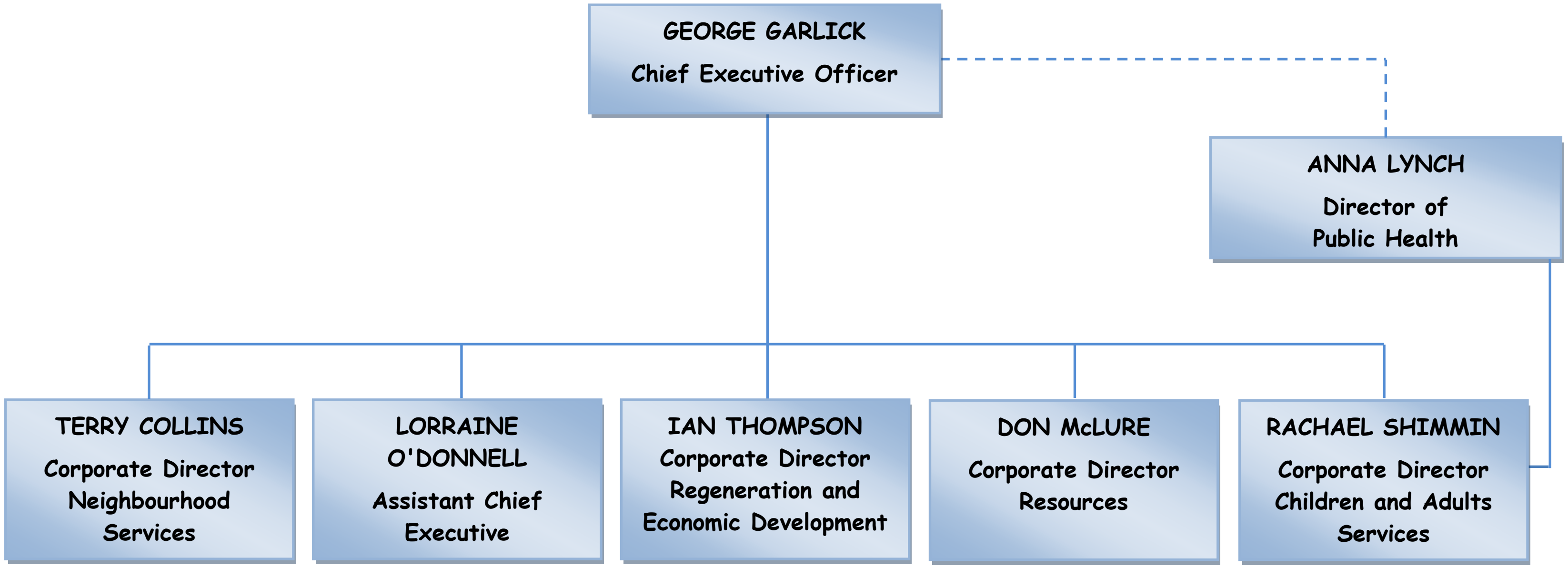
- Carry out effective assurance checks, integrated as part of their usual decision-making and scrutiny work, of their structures and organisational arrangements.
- Review any new arrangements regularly to satisfy themselves they continue to be effective.

The 6 essential elements of assurance stipulated by the guidance are listed in the table below alongside the self-assessed evidence demonstrating how Children and Adults Services address the required assurance measures. In addition to an annual refresh, this Local Test of Assurance will be revisited if any changes occur at Head of Service level in relation to children or adults social care.

Arrangements in Durham

In Durham, the Director of Children's Services post is combined with the Director of Adult Social Care and, therefore, the arrangements below consider the impact on both children and adult services as recommended in the guidance. (Version April 2013, Paragraph 6).

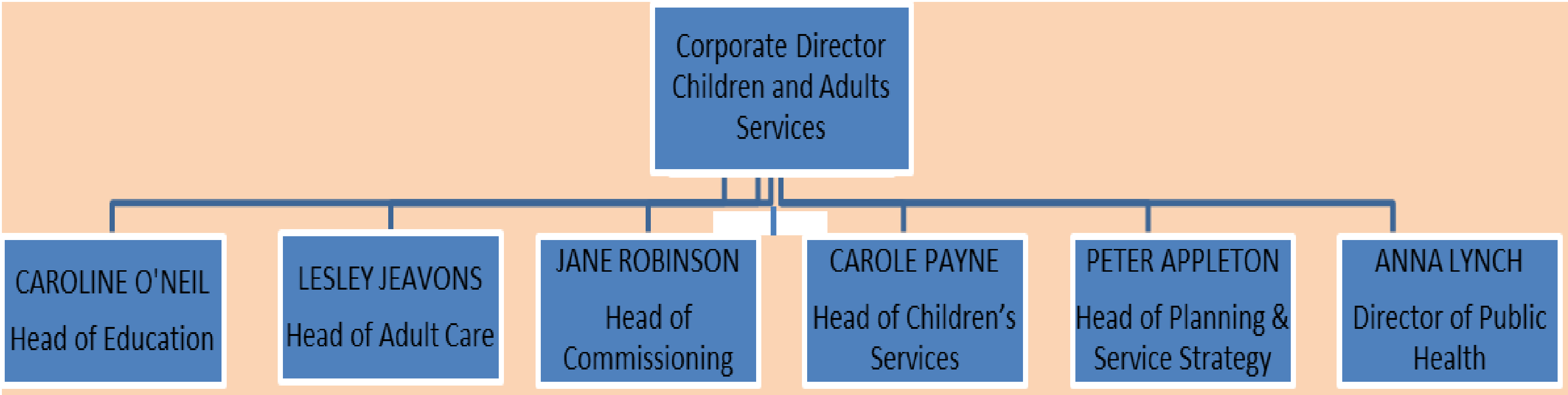
- The Corporate Director of Children and Adults Services is Rachael Shimmin
- The Lead Members / Portfolio Holders are:
    - for Children and Young People's Services - Councillor Ossie Johnson
    - for Adult and Health Services - Councillor Lucy Hovvels
    - for Safer Communities – Councillor Joy Allen

	Essential Element of Assurance	Durham arrangements (including impact on adult services as recommended in the guidance)
1	Clarity about how senior management arrangements ensure the safety and educational, social and emotional needs of the children and young people are given due priority and how they enable staff to help the local authority discharge its statutory duties in an integrated and coherent way.	**Senior Management Arrangements** Durham County Councils (DCC) services are wide ranging and delivered using a budget of around £1billion, to more than 513,000 people. All Chief Officer and Heads of Service posts are permanent and the council structures to deliver these services are spread across five departments as shown in the Corporate Management and Service Structure diagram below: **The Corporate Management Team and Service Structure**  The Corporate Director of Children and Adults Services (CAS) directly reports to the Chief Executive (Head of Paid Service) and consults with other Corporate Director colleagues who form Corporate Management Team where proposals are discussed and subject to challenge. The Corporate Director of CAS has overall responsibility as the Director of Children's Services and Director of Adult Social Care and has a background in adult and children's social care. Reporting to the Corporate Director of CAS and the Chief Executive, the Director of Public Health (Chief Officer role) provides additional assurance in the provision of expertise in Public Health Services and arrangements.

<table>
<tr><th></th><th>Essential Element of Assurance</th><th>Durham arrangements (including impact on adult services as recommended in the guidance)</th></tr>
<tr><td>Page 12</td><td>Continued from previous page</td><td>

Children and Adults Services, Service Management Team (CAS SMT) and Service Structure

CAS SMT consists of a team of 6 Heads of Service, who are appointed at a senior level to reflect their duties in a large Unitary Authority. The Head of Service posts are supported by a number of experienced and professionally qualified Tier 4 managers who lead key functional areas. Details of the CAS SMT and Head of Service areas of responsibility are provided below:



Lead Members

Durham has three County Councillors as Lead Members for Children and Adults Services. These Councillors work closely with the Corporate Director of CAS and Senior CAS Officers. As detailed in the Council's Constitution, they have responsibility for:

- The portfolio for the Lead Member for Children and Young People's Services includes: Education 0-19, Specialist and Safeguarding Children's Services, Youth Services including Youth Offending Services, Children's Centres and is a Health and Wellbeing Board Member.
- The portfolio for the Lead Member for Adult Services includes: Adult Social Care, Personalisation, Adult Safeguarding, Carers, Welfare Rights and Adult Social Care Commissioning.
- The portfolio for the Lead Member for Safer and Healthier Communities includes: Community Safety, Links with Durham Police, Gypsy Roma and Traveller Service, Emergency Planning, Health and Wellbeing and Best Bar None.

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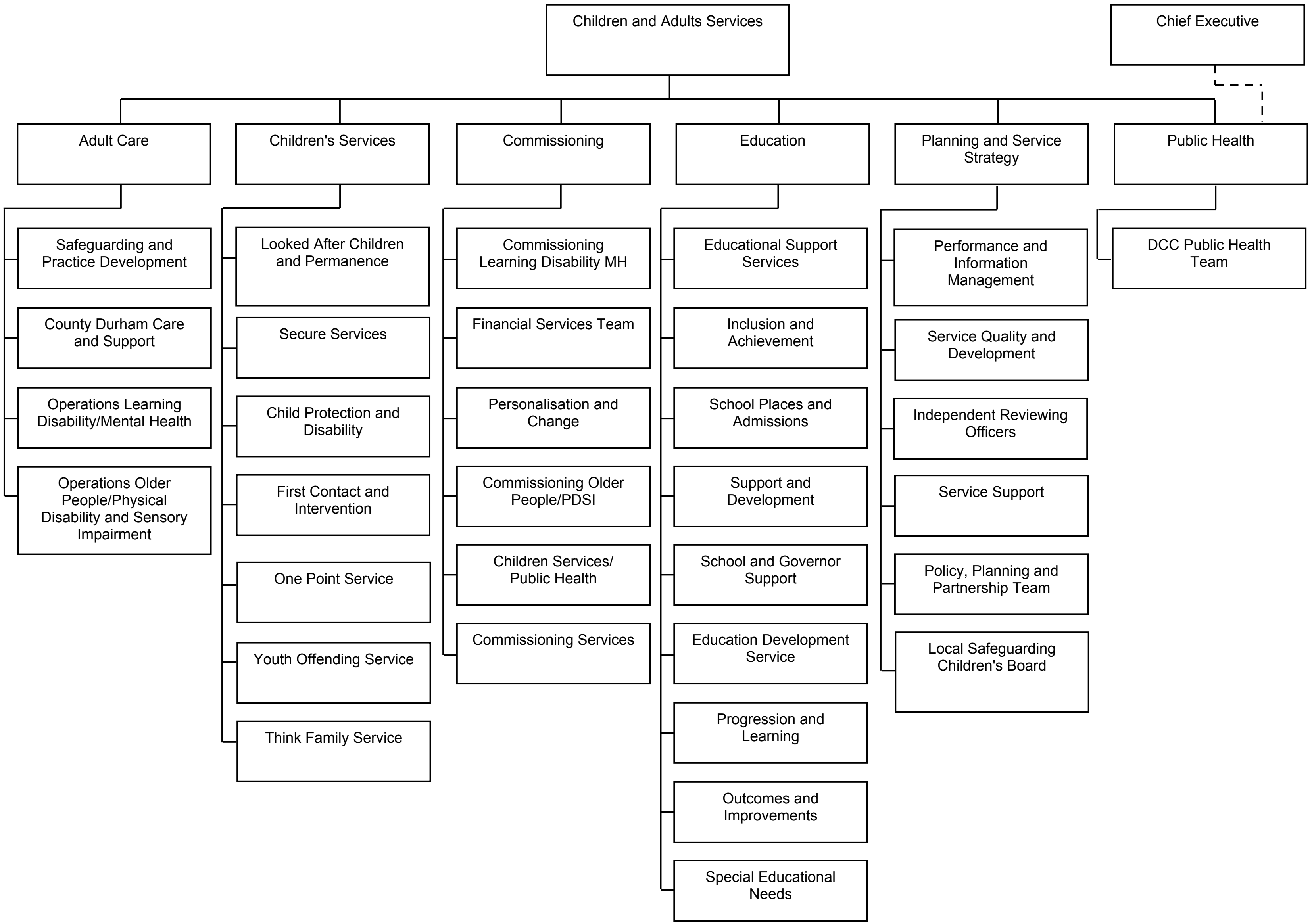
	Essential Element of Assurance	Durham arrangements (including impact on adult services as recommended in the guidance)
1	Continued from previous page	The Service Structure below illustrates the full breadth of the remit of CAS:



Essential Element of Assurance	Durham arrangements (including impact on adult services as recommended in the guidance)
Continued from previous page	**Decision making arrangements** <u>Constitution</u> The Constitution of the Council sets out how the Council operates, how decisions are made and the procedures that are followed to ensure that these are efficient, transparent and accountable to local people. This document provides details of decisions which are delegated to all Chief Officers, including the Corporate Director of CAS. <u>Officer Decisions and Scheme of Delegation</u> All Chief Officers have extensive delegated powers which allow them to take action and make decisions on behalf of the Council in relation to their service area. The CAS Scheme of Delegation sets out details of the decisions which have been delegated by the Corporate Director of CAS to Officers across the service. The document includes details of: • mechanisms for making decisions; • consultation requirements; • details of where the authority to delegate has been given; and • highlights which decisions should be recorded on the corporate Decision Register. This document is reviewed every six months and consultation is undertaken with legal colleagues before changes are approved by the CAS Service Management Team and the revised document is published on the Council's Intranet. Decision records are monitored. <u>Cabinet</u> The Cabinet discusses and makes decisions about DCC policies and strategies as well as countywide issues that affect more than one the Council's services. The Corporate Director of CAS exercises her statutory duties in consultation with the Lead Members for Children and Adult Services and Cabinet itself (the executive of the Council). Key decisions made, or due to be made, by Cabinet are publically available on the Internet on the DCC web page. <u>Overview and Scrutiny</u> Seven Overview and Scrutiny Committees hold the Council's Cabinet to account for its decisions. These Committees contribute to evidence-based policy-making in the Council and are also responsible for investigating services provided by a wide range of public, private and voluntary and community sector partners. <u>Boards and Joint Committees</u> DCC works alongside a number of boards and joint committees which involve other Councils and organisations, including the Police and Crime Panel and the Combined Fire Authority for County Durham and Darlington.

	Essential Element of Assurance	Durham arrangements (including impact on adult services as recommended in the guidance)
2	Clarity about how the local authority intends to discharge its children's services functions and be held accountable for them from political, professional, legal and corporate perspectives (including where for example, services are commissioned from external providers or mutualised in an arm's length body).	**Political Accountability** • Political accountability is achieved through the roles of the Lead Member for Children and Young People's Services, the Lead Member for Adult Services and the Lead Member for Safer and Healthier Communities. • Key roles of Head of Children's Services, Commissioning and Education ensure a strong focus on outcomes for children and young people. • Key roles of Head of Adult Care and Commissioning ensure a strong focus on outcomes for adults. • Durham's Overview and Scrutiny Management Board and the Adults, Wellbeing and Health, Children and Young People's and Safer and Stronger Communities Scrutiny Committees provide a significant role in the independent scrutiny and challenge of children's and adults safeguarding arrangements and decisions. These Boards and Committees produce regular reports for Cabinet. • Overview and Scrutiny Committees provide assurance through consultation in the development of service plans and strategies. • The Council has a Looked After Children Panel which organises visits to children's home by elected members who advise and challenge officers on the quality of care provided to Looked After Children. • Revised arrangements for child safeguarding referrals are being developed in line with the recommendations made after the Independent Inquiry into Child Sexual Exploitation in Rotherham. A Multi Agency Safeguarding Hub (MASH) has been established to ensure a joined up multi-agency approach to referrals/concerns about children. • Durham's Corporate Parenting Panel holds Officers to account when making decisions.

	Essential Element of Assurance	Durham arrangements (including impact on adult services as recommended in the guidance)
	Continued from 2 above	**Professional, legal and corporate arrangements** • Annual programmes for Service and Corporate audits provide additional assurance of the performance and risks associated with operational arrangements. Audit programmes are developed using risk assessment methodologies and are approved and monitored by appropriate Senior Managers each year. The Audit Committee provides additional scrutiny. • Durham Local Children's Safeguarding Board (LSCB) provides challenge to child safeguarding practices including, for example, completing Serious Case Reviews. The LSCB challenges all agencies involved in safeguarding children on fulfilling their role and working effectively with each other. • The Corporate Risk Register includes risks relating to the safety of adults and children. Risk entries on the Register are challenged quarterly by CAS SMT, the Corporate Risk Management Group and the Audit Committee. • National inspection regimes for CAS services are actively supported. The Service proactively commissions peer reviews in line with sector led improvement principles. • Quality assurance of child protection and looked after placements are supported by the Independent Review Officers (IRO) Service. • CAS service users' complaints are investigated in full compliance with Children's Statutory Complaints and Representations procedures. • A Foster Carers' Scheme of Delegation provides guidance for Foster Carers on the decisions which are delegated to Foster Carers looking after children placed with them by the Local Authority. • A CAS Information Governance and Caldicott Group meet regularly and maintain a Caldicott Risk Register. The Head of Service, Planning and Service Strategy, is the Caldicott Guardian • Arrangements in relation to the management of the Medium Term Financial Plan are overseen by a Board chaired by the Corporate Director. These arrangements include the production of Equality Impact Assessments and internal and external consultation and reporting arrangements in relation to all savings projects for CAS. • Arrangements to ensure statutory and essential services can be maintained in an emergency or during a business interruption event are in place in corporate and CAS Business Continuity and Emergency Plans. These arrangements include suitably qualified CAS Officers and Managers on on-call rotas to respond to incidents outside of office hours. • A Schools' Crisis plan is in place to ensure education services can be maintained in the event of a significant incident affecting schools or education services.

	Essential Element of Assurance	Durham arrangements (including impact on adult services as recommended in the guidance)
2	Continued from 2 above	**Commissioning arrangements** • Clear commissioning arrangements are in place within all aspects of children's and adults services, with a discrete commissioning function managing and monitoring arrangements. • CAS procurement and commissioning arrangements have been developed to comply with the Financial Procedure and Contract Procedure Rules set out in the Constitution of the Council. • Proactive liaison with Corporate Procurement colleagues. • Delegated authority levels for contract decisions including those to develop, review, approve and/or decommission contracts are agreed and approved by CAS Service Management Team (CAS SMT), and are set out in the CAS Scheme of Delegation. • Appropriate contractual decisions are recorded and monitored on the Corporate Decision Register which is open to public scrutiny. • A CAS Contract Register is maintained and regularly reviewed. • All services commissioned on behalf of CAS are required, through standard contract clauses, to provide assurance of a number of key arrangements including, for example, robust Business Continuity Plans. Contract monitoring processes provides assurance that commissioned services comply with these requirements. • Plans to ensure the transition of Health Visitor commissioning over to the Council in October 2015 are being finalised. The Transition Board has been established and is chaired by the Director of Public Health.

Essential Element of Assurance	Durham arrangements (including impact on adult services as recommended in the guidance)
The seniority and breadth of responsibilities allocated to individual post holders and how this impacts on their ability to undertake those responsibilities (especially where a local authority is considering allocating any additional functions to the DCS and LMCS posts).	• The Corporate Director for CAS has the statutory responsibility for all functions relating to adults social care, education, children's social care and preventative services across Children and Adults Services. • Responsibilities deployed across Head of Service portfolios are broad. A comprehensive senior management structure is in place to support Heads of Service. All Senior Managers are professionally trained and qualified for their roles. • Arrangements to ensure full compliance with all professional registrations are in place including, for example, Social Workers, Approved Mental Health Professionals, Residential Managers, etc. • All staff, including the Corporate Director of CAS, are subject to the Council's supervision and appraisal arrangements and adhere to statutory training requirements. • Scrutiny and evidence of continued professional development is provided through annual appraisals including, for example, the requirement to maintain professional registration with the General Medical Council for senior staff in Public Health roles. • Disclosure and Barring Service checks are completed and reviewed for all appropriate staff. • Job Descriptions and Person Specifications detail essential experience and qualifications for all posts. • Appropriate and identified training is secured for managers, including courses provided through the Durham Manager Programme. • Group supervision arrangements have been developed and will be added to the CAS Supervision framework from April 2015.

	Essential Element of Assurance	Durham arrangements (including impact on adult services as recommended in the guidance)
4	The involvement and experiences of children and young people in relation to local services.	Adults, children and young people are strongly involved in planning services and these arrangements are managed at Head of Service level. Examples are provided below: • Children are invited to attend quarterly Investors in Children (IiC) meetings were their views can be expressed and considered in the development of plans for services linked to key priorities. DCC is renewing its application for IiC Membership Award. • The Young Carers' Group provides a consultation function as part of the Family Action Bridge Group. • Parents and disabled children are consulted through the Making Changes Together groups. • Children and young people regularly attend both the Children and Families Partnership and the LSCB to provide views on specific issues. • The annual Big Tent event held in October provides an opportunity for engagement and consultation with all service users (including children), stakeholders and partners. • A peer challenge of the Youth Offending Service provided a critical assessment of services in 2014. • The 14 County Durham Area Action Partnerships (AAP) were consulted in the development of priorities and the review of the Safe Durham Partnership. AAP's provide support for other consultation exercises. For example, "It's UP 2 U 2015" where consultation is requested in deciding how the Community Grant Fund should be distributed. • A number of service areas set up focus groups for consultation purposes when required. For example the Carers' Forum. • The Service undertakes an Annual Survey Programme which is developed, completed and reported to CAS SMT by the Performance and Information Management Team. • All service users completing Adult Learning course are asked to complete feedback questionnaires.

Essential Element of Assurance	Durham arrangements (including impact on adult services as recommended in the guidance)
Clarity about child protection and looked after systems, ensuring professional leadership and practice is robust and can be challenged on a regular basis, including an appropriate focus on offering early help and working with other agencies in doing so.	• The Corporate Director of CAS, as well as the Head of Adults Care and the Head of Children's Services, is a member of both the Safeguarding Adults Board (ASB) and the Local Safeguarding Children's Board. (LSCB). • Child protection systems are led by the Head of Service who has responsibility for safeguarding children and the provision of early help services. • Professionally qualified and experienced senior managers are responsible for child protection and looked after children. • Adult protection systems are managed by a Head of Service. • The Head of Adult Care is responsible for discharging functions that protect vulnerable adults. The Corporate Director has the lead for protecting vulnerable adults in line with statutory guidance, is supported by a strong Head of Service and an established range of processes and working practices in relation to safeguarding. • Critical assessments of services provided by or through the LSCB and Youth Offending Service have been undertaken by way of a peer review. A further peer review of the Youth Offending Service is planned for October 2015. • Self-assessments of the Learning Disability Autism Service and in relation to Winterbourne View have been completed. • The LSCB and ASB have developed annual reports, business plans and working together protocols. • CAS complies with the Single Assessment framework and continues to develop existing and new processes and systems to comply with this framework. • A review of the Durham Safeguarding Framework is due to be undertaken in 2015, to include the development of appropriate links to the Health and Wellbeing Board, Safe Durham Partnership and the Children and Families Partnership. • Changes to the CQC inspection regime due to be implemented in April 2015 will be built into existing processes and systems. • Accreditation to the Young Carers' Charter was completed in June 2015. • An Emotional Wellbeing and Resilience Group was set up through Public Health. • Established early intervention arrangements for children, young people and families are in place through, for example, the One Point and the Think Family Services.

	Essential Element of Assurance	Durham arrangements (including impact on adult services as recommended in the guidance)
6	The adequacy and effectiveness of local partnership arrangements, e.g. the local authority's relationship with schools, the LSCB, the courts, the Children's Trust cooperation arrangements, Community Safety Partnerships Health and Well Being Boards, Youth Offending Team Partnerships, Police, Probation, Multi-agency Risk Assessment conference (and their respective accountabilities)	**Partnership Arrangements** CAS work in partnership with a number of key organisations to deliver improvements for people who live in County Durham, as well as those who specifically use services. These organisation include other statutory, independent and voluntary sector bodies including: o County Durham Partnership o Children and Families Partnership o Safe Durham Partnership o Local Safeguarding Children's Board and Local Safeguarding Adults Board o Tees, Esk and Wear Valleys and County Durham and Darlington NHS Foundation Trusts- regularly reviewed Cooperation Agreements are in place for these 2 partnerships' integrated working arrangements. o North Tees and Hartlepool Hospitals NHS Foundation Trust o City Hospitals Sunderland NHS Foundation Trust o North Durham and Durham Dales, Easington and Sedgefield Clinical Commissioning Groups o Healthwatch County Durham o 14 Area Action Partnerships o Crime and Community safety partners including Police, Fire and Rescue Service and the Probation Service o Education partners including Durham University, schools and colleges o Welfare organisation including Citizens Advice, Age Concern, Jobcentre Plus, etc. • A refresh of Annual Plans and Partnership Governance Reviews have been completed for each of the following partnerships; - County Durham Youth Offending Service - Children and Families Partnership - Safe Durham Partnership - Local Safeguarding Children's Board This included an assessment of the effectiveness of the partnerships, a review of the Terms of Reference of the Board and consideration of existing communication structures. • The Safeguarding Framework has strengthened governance of work between LSCB/LASB and the three Partnership Boards – Safe Durham Partnership, Health & Wellbeing Board and Children and Families Partnership. • Arrangements within various Information Sharing Agreements are in place to enable more coherent and efficient joint working arrangements with partners involved in joint safeguarding cases. Arrangements are in place with partners including Police, Health, Probation, etc.

Essential Element of Assurance	Durham arrangements (including impact on adult services as recommended in the guidance)
Continues from 6 above	• The following partnership arrangements provide additional support for Children's Services; Think Family, MARAC, Improving Progression Partnership and Youth Offending Service. • The Corporate Director of CAS is a member of the Health and Wellbeing Board and chairs the Safe Durham and the Children and Families Partnerships. • Revised arrangements for child safeguarding referrals are being developed in line with the recommendations made after the Independent Inquiry into Child Sexual Exploitation in Rotherham. A Multi Agency Safeguarding Hub (MASH) has been established to ensure a joined up multi-agency approach to referrals/concerns about children. • Education Services work closely with and consult regularly with the Durham Association of Primary, Secondary and Special Head teachers and work closely with and support the Durham County Association of Governors.

Audit Committee

27 July 2015

2014/15 Final Outturn for General Fund and Housing Revenue Account

Report of Don McLure, Corporate Director Resources

Purpose of the Report

1 To provide Audit Committee with details of the final outturn for both the General Fund and the Housing Revenue Account (HRA) for 2014/15.

Background

2 The 2014/15 draft Statement of Accounts includes a summary of the 2014/15 final financial outturn. The attached report presented to Cabinet on 15 July 2015 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 2014/15 final outturn position on the General Fund and HRA.

Contact: Hilary Appleton Tel: 03000 266239

Appendix 1: Implications

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

Staffing -

None

Risk -

None

Equality and Diversity -

None

Accommodation -

None

Crime and Disorder -

None

Human Rights -

None

Consultation -

None

Procurement -

None

Disability Discrimination Act -

None

Legal Implications -

None

Cabinet

15 July 2015

2014/15 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

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 2014/15, plus the 2014/15 outturn for the Collection Fund in respect of Council Tax collection and Business Rates collection.

Background

2 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 that time the majority of the Chancellor of the Exchequer's March Budget and Autumn Statement announcements have included additional cuts to local government funding culminating in the 2015/16 Spending Round announcement of June 2013 which detailed a further 10% funding reduction for local government in 2015/16. By February 2014, when the Council set its budget for 2014/15 it was forecast that Government grant to local government would have reduced by over 40% by the end of 2015/16.

3 The Chancellor of the Exchequer also announced the need for a further £30bn of public expenditure reductions for 2016/17 and 2017/18. With £12bn expected to be found from Welfare budgets, £13bn will need to be found from Government Departments and £5bn from addressing tax avoidance. It was expected that Health, Education and Oversees Aid budgets would continue to be protected resulting in increased pressure upon the remaining unprotected Government Departments. It was therefore forecast that the Government grant reductions for local government in 2016/17 and 2017/18 will be similar in magnitude to those of 2014/15 and 2015/16.

4 Overall it was forecast that the Council would need to save £224m over the 2011 to 2017 period. A sum of £113.9m of savings having been realised by the end of 2013/14 resulting in a £110.1m savings requirement for the three year MTFP (4) period 2014/15 to 2016/17.

5 The Council agreed a net revenue budget of £438.765m for 2014/15. Factoring in cuts in Government grant, inflation and other budget pressures required the delivery of £23m of savings in 2014/15 in order to deliver a balanced budget.

6 Quarterly forecast outturn reports have been considered by Cabinet throughout the 2014/15 financial year and detailed reports on individual service groupings have also been considered by the various Overview and Scrutiny Committees.

7 This final outturn for 2014/15 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

8 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

9 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. technical accounting entries such as Capital Charges and Central Administration Recharges actioned at year end.

- 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. Bridge inspections, Waste Disposal inflation and redundancy and early access costs linked to restructuring activity to achieve 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.

10 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 2014/15.

11 The 2014/15 cash limit position for each Service Grouping is detailed in the table below:

Type of Reserve	Opening Balance as at 1 April 2014	Budgetted use at 1 April 2014	Movement during 2014/15: Planned contribution to (-) or use of reserve	Movement during 2014/15: Contribution to (-) or use of reserve	Closing Balance as at 31 March 2015
	£m	£m	£m	£m	£m
Service Grouping Cash Limit					
Assistant Chief Executive	-1.005	0.250	0.216	-0.234	-0.773
Children and Adults Services	-12.029	1.879	1.580	-0.873	-9.443
Neighbourhoods	-2.782	0.130	0.560	-2.984	-5.076
Regeneration and Econ Development	-3.007	0.000	1.186	-1.395	-3.216
Resources	-3.563	0.358	1.318	-1.970	-3.857
TOTAL CASH LIMIT RESERVE	**-22.386**	**2.617**	**4.860**	**-7.456**	**-22.365**

Revenue Outturn

12 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		1,388.792
Less:		
Gross Income		-999.789
Net Expenditure		**389.003**
Financed by:		
Council Tax	168.845	
Start Up Funding Assessment	250.444	
New Homes Bonus	6.783	
New Homes Bonus – re-imbursement	0.381	
Section 31 Grant – Small Business Rate Relief	2.397	
Section 31 Grant – Settlement Funding Assessment Adjustment	0.777	
Section 31 Grant – Retail Adjustment	1.211	
Education Services Grant	7.531	
Net use of Cash Limit Reserves	0.021	
Net Contribution to Earmarked Reserves:		
Schools and DSG	-3.558	
Non-Schools	-45.059	
Net Contribution to the General Reserve	-0.770	
Total Financing		**389.003**

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

	£m
Opening Balance as at 1 April 2014	-28.134
Add:	
Net Contribution to the General Reserve in 2014/15	-0.770
Closing General Reserve Balance as at 31 March 2015	**-28.904**

14 The General Reserve balance carried forward of £28.904m is within the Council's General Reserves policy of retaining between 5% and 7.5% of the Net Budget Requirement, which in cash terms is between £20.5m and £31m. The £28.904m balance at 31 March 2015 equates to 7.1% of 2015/16 Net Budget Requirement. The main reasons why the General Reserve has increased are detailed below:

- Interest and Investment income - £0.437m more than budgeted;
- Interest payable and similar charges - £4.536m less than budgeted;

- Education Services Grant - £0.294m more than budgeted;
- Contingencies - £6.598m less than budgeted offset by;
- Section 31 Grant income – £0.716m less than budgeted;
- A budgeted use of General Reserve of £0.933m; and
- A transfer of £9.500m to the Planned Delivery Programme Grant during the year

15 Appendix 4 details the movement on Earmarked Reserves during 2014/15. The position at the end of the year is as follows:

	Non-Schools	Schools and DSG	Cash Limits	TOTAL
	£m	£m	£m	£m
Opening Earmarked Reserve Balances as at 1 April 2014	-112.512	-31.051	-22.386	-165.949
Less contribution to (-) / from (+) Earmarked Reserves	-45.059	-3.558	+0.021	-48.596
Earmarked Reserve Balance as at 31 March 2015	**-157.571**	**-34.609**	**-22.365**	**-214.545**

Service Grouping Commentary

16 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)

17 The 2014/15 outturn for the Assistant Chief Executive's Service is a cash limit underspend of £0.234m. This takes into account adjustments for sums outside the cash limit such as redundancy costs which are met from corporate reserves, year-end capital accounting entries and use of / contributions to earmarked reserves.

18 The cash limit position compares to the previously forecast position at quarter 3 of a cash limit underspend of £0.130m.

19 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 outturn position is accounted for as follows:

- Partnerships and Community Engagement - £45k overspend, primarily due to a managed overspend positon on employee related costs.

- Planning and Performance - £0.810m underspend, primarily due to proactive management of supplies and services budgets including a managed underspend in relation to resident surveys.

- Policy and Communications - £0.198m underspend, predominantly resulting from a £98k managed underspend on employee related costs across the service together with an £89k underspend on supplies and services budget through tight control of expenditure in this area.

- The remaining underspend is from additional income generated from advertising.

20 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:

- £0.414m – relates to contributions to and from earmarked reserves and cash limits to support specific projects in 2015/16.

- £1.586m – relates to a range of adjustments associated with capital charges, centralised repairs and maintenance and central administration.

21 Taking the 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 £0.773m.

Children and Adults Services (CAS)

22 The 2014/15 outturn for Children and Adults Services (CAS) is a cash limit underspend of £0.873m. This takes into account adjustments for sums outside the cash limit such as redundancy costs which are met from corporate reserves, year-end capital entries and contributions to and from earmarked reserves, including a £15.150m contribution to the Demographics / Hyper Inflationary Pressures Reserve which will be used across the MTFP 5 period.

23 The cash limit outturn position compares to the previously reported forecast balanced position at year end.

24 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 £5.4m.

- Net spend on adult care packages was approximately £4.8m under budget, which represents circa 5% of the total adult social care budget. This area of spend continues to be 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.

- A review of one-off additional funding has identified an in-year contribution to the overall cash limit of approximately £1.750m. 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.

- The Education Service was £0.945m under budget in the year. 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.

- Children's Services was under budget by £3.247m, primarily as a result of employee costs realised from proactive management of vacancies and early achievement of future years MTFP savings across Children's Care, One Point, Family Pathfinder and the Youth Offending Services. This was further augmented by reduced premises spend, supplies and services expenditure and achievement of additional income in year. 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 on placement costs was £0.800m less than the previous year and £3.1m less than in 2012/13.

- Central Costs/Other were £14.990m over budget due in the main to a contribution to the Demographics / Hyper Inflationary Pressures Reserve of £15.150m during the year to offset and delay MTFP pressures in future years. There was also an increase in the provision for bad and doubtful debts of £0.164m at year end; offset in the main by additional income and a procurement rebate.

- Secure Services are operated on a trading basis and therefore report a breakeven position in terms of the CAS cash limit. The service incurred additional one off expenditure in 2014/15 of £0.185m that was funded from the trading reserve at year end. Similarly, the Continuous Professional Development and Education Development Services in the Education Service returned surpluses of £42k and £0.203m respectively, which have also been transferred to earmarked reserves at year end.

- Public Health spending against the Public Health Grant was £48k below the grant, producing an underspend at the year end and this has been transferred to the earmarked reserve to meet known future commitments required in achieving service objectives in 2015/16.

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

- £3.622m relates to contributions to and from earmarked reserves and cash limits to support specific projects in 2014/15 and 2015/16, including £0.651m transferred to the Social Care Reserve for use in 2015/16; £46k transferred to the Continuous Professional Development reserve, relating to the trading account surplus at the year end; £0.161m transfer to the Tackling Troubled Families reserve which will fund planned commitments in 2015/16; £0.140m 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 funding related to the SEND Reforms; a £1.483m transfer to a new Transformation Reserve for planned future expenditure; a £0.137m contribution adjustment to Public Health reserves and a £0.175m adjustment to the previously forecast contribution from the Aycliffe Secure Reserve.

- £3.920m net contribution to reserves in relation to equal pay, ER/VR costs and insurance recharges.

- £33.245m – relating to a range of adjustments associated with capital charges, centralised repairs and maintenance and central administration recharges. In the main, this relates to capital charges (£31.709m) which is offset in the Revenue Summary, shown at Appendix 2.

26 Taking the outturn position into account, the cash limit reserve to be carried forward for Children and Adults Services is £9.443m. There is pre-committed planned use of this reserve of £0.187m during 2015/16.

Dedicated Schools Grant

27 The Dedicated Schools Grant (DSG) allocation for 2014/15 was £351.413m, however due to schools converting to academies and reduction in high needs allocations for payments made direct by the Education Funding Agency the budget was reduced by £70.140m in year to £281.273m. This includes both the delegated schools budget and the centrally retained DSG budget.

28 The total revised delegated budget for maintained schools (including early years' providers) was £255.179m.

29 Where schools spent more or less than their delegated budgets, the difference either reduces or increases their accumulated balance. Schools-related balances were £24.296m at 31 March 2015, a decrease of only £0.389m from the previous year and substantially less than the £7.043m planned use of balances that was previously forecast, which has been attributed to delays in implementing planned capital investments by the schools.

30 The level of school balances and the planned use of these sums continue to be challenged and closely monitored; particularly those schools with a deficit

balance and robust arrangements have been put in to place to monitor these in parallel with budget plans developed by the school given the additional risks from schools that could potentially become a sponsored academy.

31 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 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 has worked constructively with schools to address any concerns and, where appropriate, taken action to ensure the risk to the School and the Council is mitigated. Given that the planned and actual use of schools balances in year varied significantly there is still some work to do to improve financial planning within schools and we will prioritise this in the coming year.

32 At 31 March 2015 there were 9 schools with a deficit balance carried forward totalling £1.779m, 16 schools holding a surplus balance carried forward of less than 2.5% of their overall funding totalling £0.306m and 229 schools with surplus balances of more than 2.5% of their overall funding totalling £25.701m This can be compared with the position at 31 March 2014 when 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. Total net schools balances at 31 March 2015 were £24.244m, compared to £24.684m at 31 March 2014.

33 The pressure areas for the centrally controlled element of the DSG in 2014/15 have been within the post 16 high needs provision and the capitalised repair and maintenance. This has been offset by underspends within early years provision; school improvement; High Needs Special Education Needs and Disabilities (SEND) children's placements in maintained, academy and independent special schools; and the Education Service Team dealing with SEND children.

34 The overall outturn position for the centrally retained element of the DSG shows an underspend of £3.998m. The earmarked reserve relating to centrally retained DSG carried forward at 31 March 2015 is £10.365m, of which £1.493m is earmarked for Schools relating to the Growth Fund, school improvement and rates, £3.296m relates to early years provision, £0.711m for outstanding commitments for the capital programme and the balance will support continuing High Needs pressures in 2015/16.

Neighbourhood Services

35 The 2014/15 outturn for Neighbourhood Services is a cash limit underspend of £2.984m. This takes into account adjustments for sums outside the cash limit such as redundancy costs which are met from corporate reserves, year-end capital accounting entries and use of / contributions to earmarked reserves.

36 The cash limit outturn position compares to the previously forecast Quarter 3 position of a cash limit underspend of £1.105m.

37 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:

- Direct Services - an underspend of £2.200m. This was mainly due to Building Services generating an increased surplus of £1.000m, from a higher than anticipated workload throughout the year. There were also savings of £0.700m in Admin Buildings and Depot running costs, one-off VAT refunds of £0.200m relating to Catering and Trade Refuse, and an underspend of £0.440m throughout the service relating to the early delivery of 2015/16 MTFP savings.

- Highway and Design Services – the trading areas of this service generated increased surpluses of approximately £2.500m in year due to higher than anticipated workloads and increased productivity, but these surpluses were largely offset by increased policy led expenditure on highway maintenance in relation to Category 1 and Category 2 defects, along with increased general maintenance around patching, drainage and footways, increased expenditure on Bridge Inspections, and increased gully cleansing activity in year. Taking these managed overspends into account, there was an overall cash limit underspend of £0.100m within Technical Services in the year.

- Culture and Sport – the Library Service was £0.380m underspent due to savings associated with employees, as a result of a restructure linked to MTFP savings and also savings in energy costs in year.

- Projects and Business Services - an underspend of £0.250m resulted from additional income from power generation in Strategic Waste (£0.100m) and there were also managed savings in employees and supplies and services of £0.150m across the service.

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

- £3.866m – relates to a net contribution to earmarked reserves and cash limits to support specific projects in 2015/16, including a £1.500m contribution to earmarked reserves to support one off expenditure in Culture and Sport; a £2.600m contribution to earmarked reserves in respect of Highways, Waste Disposal, and Environmental Health; and a £0.300m contribution from earmarked reserves in respect of Buildings and Grounds Maintenance, and Street Cleaning.

- Approximately £1.800m of the Reserves movement is due to newly identified operational issues which require addressing in 2015/16. These include essential investment in equipment, health and safety initiatives in depots, repairs to playgrounds and footpaths, and drainage inspections. In addition a reserve of £0.800m has been set up relating to funding that is held on behalf of County Durham Sport.

- The movement on Reserves also includes a contribution of £0.755m to the Winter Maintenance Reserve that was established at the end of

2013/14. This contribution represents the underspend on Winter Maintenance activities during 2014/15, and reflects the relatively mild conditions that were experienced during the last winter. In previous years, any overspends on Winter Maintenance were treated as outside the cash limit, but in future it is expected that the Winter Maintenance Reserve (now £1.755m) will be utilised when severe winter events occur and the annual budget, which was increased by £1.300m in 2014/15, is insufficient to meet the unavoidable costs in this area.

- £1.802m net contribution to reserves in relation to ER/VR costs, Job Evaluation Settlement and Insurance recharges.

- £23.953m relates to a range of adjustments associated with capital charges, centralised repairs and maintenance and central administration recharges. In the main, this relates to capital charges (£20.251m) which is offset in the Revenue Summary, shown at Appendix 2.

39 Taking the outturn position into account, the Cash Limit Reserve to be carried forward for Neighbourhood Services is £5.076m. There is pre-committed planned use of this reserve of £80k across the MTFP 5 period.

Regeneration and Economic Development (RED)

40 The 2014/15 outturn for Regeneration and Economic Development is a cash limit underspend of £1.395m. This takes into account adjustments for sums outside the cash limit such as redundancy costs which are met from corporate reserves, year-end capital accounting entries and use of contributions to earmarked reserves.

41 The cash limit outturn position compares to the previously forecast position of a cash limit underspend of £1.320m.

42 The outturn is a managed position, reflecting the proactive management of activity by Heads of Service across RED throughout the year to remain within the cash limit. The outturn position is accounted for as follows:

- Strategy Programmes and Performance - £84k underspend, resulting from managed savings on employee costs due to vacancies, maternity leave and staff working reduced hours.

- Economic Development and Housing - £90k managed underspend, primarily due to MTFP savings made early in the housing solutions service, offset by additional spend in economic development on supporting apprenticeships.

- Planning and Assets - £0.290m underspend, consisting of a £0.641m underspend in the Planning Service and a £0.351m overspend on the Assets function. The underspend in the Planning Service primarily results from increased planning and building control fee income, from the management of vacant posts and other efficiency savings on running costs. The Assets Service experienced income pressures, mainly from Newgate Street in Bishop Auckland, the Brackenhill Centre in Peterlee and Millennium Square in Durham City where budgeted rental income was not achieved in year.

- Transport and Contract Services - £0.907m underspend. Included in the outturn is reduced car parking income in year of £0.192m, offset by savings in the subsidised bus services contracts of £0.373m and additional Care Connect income of £0.228m, plus other general efficiency savings across supplies and services budgets totalling £0.498m.

- Central Costs – £24k underspend due to minor variances across a number of budget headings

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

- £0.970m – relates to contributions to and from earmarked reserves and cash limits to support specific projects in 2015/16

- £8.574m – relates to a range of adjustments associated with capital charges, centralised repairs and maintenance, central administration and concessionary fares

44 Taking the outturn position into account, the Cash Limit reserve to be carried forward for Regeneration and Economic Development is £3.216m.

Resources

45 The 2014/15 outturn for Resources is a cash limit underspend of £1.970m. This takes into account adjustments for sums outside the cash limit such as redundancy costs which are met from corporate reserves, year-end capital accounting entries and use of / contributions to earmarked reserves.

46 The cash limit outturn position compares to the previously forecast position at quarter 3 of a cash limit underspend position of £1.439m.

47 The underspend is a managed position, reflecting the proactive management of activity by Heads of Service across Resources throughout the year to remain within the cash limit. The outturn position is accounted for as follows:

- Corporate Finance underspent by £0.321m. £0.178m of this relates to the early achievement of MTFP savings and adjustments required to offset budget pressures in 2015/16, with a further £68k relating to managed underspends against employees. There was also increased income of £45k for VAT services and £30k from SLA income (including academies) achieved in the year.

- Financial Services was underspent by £0.452m, consisting of planned underspending of £0.256m in respect of the early achievement of MTFP savings and adjustments required to offset budget pressures in 2015/16. There were also a managed underspend against employees (£0.143m) resulting from the careful management of vacancies and a net underspend in other areas, with cost increases more than offset by increased income from SLAs, grants and contributions.

- Human Resources was underspent by £0.272m, with a £0.371m saving from staff vacancies from the service restructure linked to MTFP savings in 2014/15 and 2015/16, partly offset by costs incurred in support of the restructure.

- ICT Services was underspent by £12k, including a £0.100m underspend on employees from the early achievement of MTFP savings and £0.139m from overachieved income, offset by a £0.118m overspend on direct revenue funding of capital and debt write-offs plus a £71k underspend on the Digital Durham project.

- Internal Audit was underspent by £78k primarily from a £54k managed underspend position on employees, through tight management and control of staff vacancies and secondments in anticipation of 2015/16 MTFP savings.

- Legal and Democratic Services was underspent by £0.759m, including £0.135m from the early achievement of future years MTFP savings, £0.170m from vacancy savings, £0.240m on supplies and services (including £86k on barrister and legal fees) and increased income of £0.121m (including £70k for Registration Services).

- Service Management was underspent by £75k, through income generated from providing services to Northumberland County Council under a collaborative arrangement.

48 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:

- £0.665m – relates to contributions to and from earmarked reserves and cash limits to support specific projects in 2015/16

- £3.717m – relates to a range of adjustments associated with capital charges, centralised repairs and maintenance and central administration recharges.

49 Taking the outturn position into account, including items outside the cash limit and transfers to and from earmarked reserves, the cash limit reserve to be carried forward for Resources is £3.857m.

Resources - Centrally Allocated Costs (Corporate Costs)

50 Centrally Allocated Costs were £45k under budget in 2014/15. The outturn has been adjusted to take into account adjustments for the use of / contributions to earmarked reserves.

51 The outturn position compares to the previously forecast under budget position of £48k. The net under budget includes under budget positions on bank charges (£71k), audit fees (£72k), subscriptions (£15k) and an ANEC refund (£16k), which are partly offset by an unbudgeted payment to NECA (£80k) and an over budget on expenses associated with raising loans (£49k).

52 Further to the quarter 3 forecast of outturn report, the following item has been excluded from the outturn in arriving at the cash limit outturn position:

- £0.118m – relates to a contribution to the Welfare Assistance Reserve to support specific projects in 2015/16

Central Budgets

Interest Payable and Similar Charges

53 The Revenue Summary at Appendix 2 shows a net £4.536m 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

54 There has been an overachievement of investment income of £0.437m which is due to the higher than anticipated levels of cash balances held during 2014/15. 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 2014/15. The improved position is also a result of investing £20m with the Royal Bank of Scotland in a two-year stepped deposit account, which is attracting higher interest rates of 1.1% for the period 15 December 2014 to 14 December 2015, and 1.5% from 15 December 2015 to 15 December 2016.

Education Services Grant

55 The outturn reflects net additional grant income of £0.294m which was due to the actual grant notification being higher than the amount budgeted for in 2014/15.

2014/15 Capital Outturn

General Fund Capital Programme

56 The original General Fund (GF) capital budget for 2014/15, taking into account the budgets approved by Council on 26 February 2014 and adjustments for re-profiling of underspends at 2013/14 year end was £188.633m. This was agreed by Cabinet on 16 July 2014.

57 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 to and approved by Cabinet as part of the quarterly budgetary control reports in year. Requests for re-profiling capital programme underspends at 31 March 2015 have also been considered by MOWG.

58 The following table summarises the revised capital budgets, taking into account revisions considered by MOWG and agreed by 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 2015.

General Fund Capital Programme 2014/15

Service	Revised 2014/15 Budget £m	2014/15 Outturn £m	Variance £m	Additions / Deletions From Budget £m	Reprofiling £m
Assistant Chief Executives	3.565	1.585	1.980	0.027	-2.007
Children and Adults Services	46.894	41.601	5.293	1.524	-6.818
Neighbourhoods	39.119	33.978	5.141	0.916	-6.057
Regeneration and Economic Development	36.554	33.252	3.302	0.065	-3.367
Resources	7.179	6.798	0.381	0.107	-0.487
Total	**133.311**	**117.214**	**16.097**	**2.639**	**-18.736**

59 In addition to underspends requested to be carried forward into 2015/16 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 2015/16 budgets have been reduced to offset the increased activity in 2014/15. All re-profiling considered by MOWG has now been reflected in the 2015/16 revised capital budget.

60 The Capital Programme is financed via various funding sources including grants, capital receipts, revenue contributions, contributions from reserves and borrowing. The financing of the 2014/15 Outturn is detailed in the following table.

Financing – General Fund Capital Programme 2014/15

Financed by	2014/15 Outturn £m
Grants	56.708
Direct Revenue Financing	
DSG	4.281
Other	13.482
Capital Receipts	11.630
Borrowing	31.113
Total	**117.214**

Service Grouping Commentary

61 The primary reasons for the net capital underspending of £16.097m (circa 12% under budget at year end) are set out below:

Assistant Chief Executive (ACE)

62 The underspend of £1.980m within ACE is mainly due to:

- **Members Budgets –** Underspend £1.649m.
  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 £0.239m.
  Progress on the community buildings capital works programme has been delayed to allow time for the completion of new lease agreements for the buildings before works commence.

- **AAP – AAP Area Budgets -** Underspend £92k.
  Each AAP is encouraged to invest their annual allocation within each financial year. Current guidance states that uncommitted funds may only be carried forward where a clear spending plan has been identified.

Children and Adults Services (CAS)

63 The underspend of £5.293m for CAS is mainly due to:

- **BSF Schemes –** Underspend £0.593m.
  Milestone payments for work at Consett Academy have been delayed and some outstanding final accounts on historic projects have yet to be resolved.

- **Devolved Formula Capital –** Underspend £1.857m.
  Work has been delayed as awaiting individual schools to finalise capital investment plans.

- **School Related –** Underspend £2.361m.
  Mainly due to delay in the receipt of final accounts. Officers prudently earmarked the sum of £0.454m to meet the cost of emergency works, which did not arise 2014/15. The demolition work at the Greenland Community School has been delayed due to the filming of 'Inspector George Gently'.

- **Public Health –** Underspend £0.236m.
  Primarily related to grant related expenditure payable to Livin on completion of a residential project. The project awaits completion but confirmation from the grant making body that the Grant provision can be carried forward to 2015/16 has been received.

- **Other areas** – Underspend £0.246m.
  Investment in schemes associated with Children's Residential Homes and Learning Disability Service provision has been reprofiled into 2015/16.

Neighbourhood Services

64 The underspend of £5.141m for Neighbourhood Services is mainly due to:

- **Direct Services –** Underspend £2.515m.
  This is primarily due to the supplier revising the delivery date of vehicles ordered by the Authority during 2014/15 with delivery now expected in 2015/16.

- **Culture and Sport –** Underspend £0.217m.
  The underspend in this area is due mainly to the following factors:

  - Wharton Park (£44k) - The demolition of Wharton Park house came in below tender and the construction programme was revised and will progress in 2015/16.

  - Newton Aycliffe CAP (£64k) - This scheme includes the demolition of an adjacent building not owned by the Council, which was delayed. It is anticipated that construction work will continue in 2015/16.

  - DLI Museum Collection Restoration Scheme (£50k) - This scheme has been delayed due to the accommodation review currently being undertaken by Neighbourhood Services and has been reprofiled into 2015/16.

- **Projects and Business –** Underspend £1.135m.
  Mainly due to an underspend on the Stanley CAP project, which was programmed over two years. The majority of the construction work will now be completed in 2015/16.

- **Technical Services** – Underspend £1.274m
  The outturn position is due to the following factors:

  - The underspend of £0.254m relating to Bridges is due to work on a number of structures being reprogrammed into 2015/16 as a result of on-going issues with land negotiations or further investigatory work. An additional underspend of £55k is due to a number of completed schemes for which the final account will be processed in 2015/16.

  - Overall, Street Lighting schemes were underspent by £0.220m as several schemes were reliant on the Northern Grid Programme to underground their overhead network. In addition, there were savings on a number of schemes where costs were lower than projected as well as the use of trenchless technology, which reduced disruption and led to the actual charge being lower than the original estimate.

  - Highways – Final accounts for completed work are awaited and also the Speedvisor rotation costs within Traffic and Community Engagement were lower than originally planned. Work on the AAP schemes will continue into 2015/16.

Regeneration and Economic Development (RED)

65 The underspend of £3.302m for RED is mainly due to:

- **Economic Development and Housing** – Underspend £2.579m**.**
  Primarily the outturn position is due to the following factors:

  - Progress on the multiyear Gypsy Roma Traveller sites project is ahead of schedule with an associated additional expenditure of £0.462m being incurred earlier than initially expected.

  - Under spend on the Disabled Facilities (DFG)/Financial Assistance schemes (£1.281m) where 120 DFG’s were committed but payment had not been processed by 31 March 2015 and 138 Decent Home loans which were being processed but not finalised by the year end.

  - Housing Renewal also experienced an underspend of £0.570m resulting in part from weather conditions delaying the Group Repair work at Craghead and the rescheduling of the environmental improvement project at Easington into quarter 1 of 2015/16.

  - Underspend at Durham Gate of £0.320m relates to the retention of final payments prior to the resolution of ongoing legal issues.

  - Town centre underspent by £0.377m. In the main, this is due to longer than anticipated negotiations relating to Peterlee North

East Industrial Estate and in-year savings against several town centre renewal initiatives.

- Required revision in delivery schedule involved with St Johns Square in addition to retention payments at Thornley Community Centre led to a combined underspend of £0.132m.

- Final contract retention payments associated with the Barnard Castle Vison projects have led to an underspend of £95k.

- Savings from completed Customer Access Points have resulted in an underspend of £0.131m on the first phase of the Office Accommodation project.

- On-going design and feasibility works connected with the new build programme associated with NETPARK await final completion leading to a £0.132m in year underspend.

- **Planning and Assets –** Underspend £0.179m.
Primarily this is due to delays in reinstatement works awaiting completion (as at 31 March 2015) at Cobblers Hall together with retention payments on energy efficiency / boiler optimisation schemes leading to an underspend of £0.142m. This combined with underspends of £37k on the Structural Maintenance budget (which is part of a two year rolling programme) led to the noted underspend of £0.179m.

- **Transport –** Underspend £0.544m.
Land acquisition issues delaying the start of construction at Villa Real and longer than initially anticipated negotiations regarding the provision of a new Bus Station in Durham are the primary causes of the in-year underspend of c£1.54m offset, in part, by progress ahead of schedule on the purchase of Peterlee Bus Station, c£0.5m.

Resources

66 The underspend of £0.381m for Resources is mainly due to:

- **ICT** - Underspend £0.277m
A delay in the installation of the Desktop Mailing equipment due to issues with supply led to this underspend. In addition, there was an underspend relating to Digital Durham due to existing BT infrastructure being available in the first phase of the contract rather than having to install new equipment as originally planned. However, it is anticipated that in the later phase of the contract new infrastructure will be required.

- **Finance** - Underspend £0.104m
The underspend on the acquisition of the new Civica Pension system is attributable to two separate factors:

  - It was expected that the web installation would commence in January 2015 and payments would be due from that date. This has now been delayed with the implementation expected to start in June/July 2015.

- Due to failures in performance of the Fire section of the new system, payment of invoices has been withheld until Civica carries out the work required to bring the system up to the satisfactory standard. This work is progressing and it is hoped that payment can be made in the near future.

Capital Receipts

67 Income from the sale of assets (Capital Receipts) are utilised to support the capital budget. The 2014/15 budget for income from Capital Receipts was £10.229m. The final outturn position is shown in the following table:

Source	Sum Received £m
Land Sales	8.419
Land Sales via Durham Villages Regeneration Limited	0.758
VAT Shelter – Livin	1.156
VAT Shelter – Derwentside Homes	0.556
VAT Shelter – Teesdale	0.075
Preserved 'Right to Buy' Sales	0.573
Vehicle Sales	0.092
Total	**11.629**
Less: Income Budget	10.229
Surplus	**1.400**

68 Total receipts have exceeded the budget by £1.400m. Consideration will be given to utilising this surplus to finance current 'Self Financing' capital schemes to enable the revenue savings to be utilised to support the MTFP.

Housing Revenue Account (HRA) – 2014/15 Revenue and Capital Outturn

Revenue Outturn

69 Appendix 5 shows the outturn position on the HRA, showing the actual position compared with the original budget. In summary it identifies a surplus of £17.879m in year, which takes into account the impact of the stock transfer on 13 April 2015. The following table summarises the position:

Housing Revenue Account	2014/15 Budget	2014/15 Final Outturn	Variance
	£000	£000	£000
Income			
Dwelling Rents	-64,558	-64,834	-276
Other Income	-1,371	-4,431	-3,060
Interest and Investment Income	-105	-112	-7
Total Income	**-66,034**	**-69,377**	**-3,343**
Expenditure			
ALMO Fees	16,799	16,799	0
Repairs, Supervision and Management Costs	12,019	13,043	1,024
Depreciation	7,872	7,337	-535
Interest Payable	12,627	10,501	-2,126
Revenue Contribution to Capital Programme	16,717	3,818	-12,899
Total Expenditure	**66,034**	**51,498**	**-14,536**
2014/15 Surplus transferred to balances	**0**	**-17,879**	**-17,879**

70 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: £0.276m increased income** – this results from a lower than anticipated void rate and less Right to Buys being completed in year;

b) **Other Income (Charges for Services): £3.009m additional income** – this primarily results from additional NWA water commission plus a repayment of ALMO reserves (£2.728m) back to the Council in advance of the stock transfer on 13 April 2015;

c) **Repairs and Maintenance: £0.167m over budget** – this results from higher than anticipated responsive repairs in the Durham City Homes area during the year;

d) **General Supervision and Management: £1.438m over budget** – this results from £60k under budget from savings on vacant posts and premises costs at Durham City Homes offset by £1.259m one off additional costs incurred in setting up the new Housing Company which was previously agreed to be met from existing revenue savings. In addition, £0.239m was spent on Welfare Reform initiatives, which were charged to the HRA and always planned to be met from HRA reserves;

e) **Depreciation and Impairment: £0.535m under budget** – resulting from less impairment being incurred on HRA non dwelling assets at year end;

f) **Changes in Bad Debt Provision: £0.565m under budget** – this results from lower than anticipated arrears, 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: £2.126m under budget** – this results from a lower interest rate and lower outstanding loan debt than originally anticipated, due in part to the re-profiling of the capital programme in year;

h) **Revenue Support to Capital: £12.899m under budget** – resulting from an increased reliance on borrowing to finance the capital programme at the year end, which was then subsequently written off at stock transfer.

71 The final position on the HRA Reserve as at 31 March 2015 is £26.078m.

HRA Capital Outturn

72 The original HRA capital budget for 2014/15 approved by Council on 26 February 2014 was £50.489m.

73 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 2014/15 with the revised budget being £46.717m.

74 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 2015.

Housing Revenue Account Capital Programme 2014/15

Service	Revised 2014/15 Budget £m	2014/15 Outturn £m	Variance £m	Additions / Deletions From Budget £m	Reprofiling £m
HRA	46.717	42.826	3.891	-3.891	-
Total	**46.717**	**42.826**	**3.891**	**-3.891**	**-**

75 The following table summarises the recommended financing of the HRA capital programme spend in 2014/15:

Financing – Housing Revenue Account Capital Programme 2014/15

Financed by	2014/15 Outturn £m
Grants	18.682
Direct Revenue Financing	3.818
Capital Receipts	1.346
Major Repairs Allowance	7.468
Borrowing	11.512
Total	**42.826**

76 The 2014/15 outturn capital expenditure was £42.826m against a revised budget of £46.717m, resulting in a £3.891m underspend for the year.

77 The underspend of £3.981m for the HRA is mainly due to:

- **£3.5m underspend on capital works in the East Durham Homes (EDH) area**.
  There are contractual payments outstanding for work completed in the EDH area, which are currently being evaluated and validated by EDH and the Council. A provision to meet this payment will be made from available HRA reserves carried forward into 2015/16 and is anticipated to be within the original budget allocation.

Collection Fund – Council Tax and Business Rates

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

Council Tax

79 Council Tax is charged for all residential dwellings in bandings agreed by the Valuation Office Agency, which is part of Her Majesty's Revenues and Customs (HMRC). Exemptions, reliefs and discounts are awarded dependent upon the state of the property, its use and occupiers' personal circumstances.

80 The in-year collection rate in 2014/15 was marginally below the target set for the year but is a considerable improvement (0.36% points over the in-year performance achieved in 2013/14). The improved in-year performance is in the context of a year on year increase in collectable debt of c£7.456m, because of the 1.99% council tax increase, the increase in new housing development and a decrease in the amount of Council Tax Reduction being claimed. This improvement has been achieved through more automation of the 2014/15 recovery schedule used to target non-payers. A detailed review has also been undertaken during 2014/15 analysing the collection rates relating to various classifications of premises, such as empty property, to ensure optimal targeting of resources to further improve the collection rate.

81 The in-year collection at 31 March for the last three years including the current year are shown below:

Billing Year	Position at 31 March Each Year %
2014/15	95.8
2013/14	95.4
2012/13	95.0

82 The current overall collection rate for 2013/14 (position as at 31 March 2015) council tax is now 97.71% and for 2012/13 council tax is now 98.48%. The Council continues to recover Council Tax from earlier years and currently, the collection rate for all years excluding the current year is 99.18% which is line with our medium term financial plan forecasts.

83 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%.

84 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, income is received and 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 proportionately between the Council and its major preceptors Durham Police and Crime Commissioner and County Durham and Darlington Fire and Rescue Authority.

85 At 31 March 2015, the Council Tax Collection Fund is in a surplus position, as shown in the table below. Durham County Council's share of this surplus is £0.412m.

	£'000
Net Bills issued during Accounting Year 2014/15	266,363
LCTRS and previous year CTB adjustments	-52,221
Calculated change in provision for bad debts required and write offs	-1,873
Net income receivable (a)	**212,269**
Precepts and Demands on the Fund	
Durham County Council (including Parish/Town Councils)	179,295
Durham Police and Crime Commissioner	20,592
County Durham and Darlington Fire and Rescue Authority	11,893
Total Precepts and Demands (b)	**211,780**
Net Surplus / (-) Deficit for year (a) – (b)	**489**
Surplus Brought Forward from 2013/14	**2**
Year end surplus	**491**

86 At 15 January in each year, the Council is required to estimate the surplus/deficit on the Collection Fund Council Tax Account and notify the two major preceptors of this for inclusion in the budget setting process for the following year as an additional income or expenditure item.

87 At 15 January 2015 the estimate was for a break-even position on the Council Tax Collection Fund for 2014/15 and this is what was declared. The actual surplus at 31 March 2015, £0.491m, will be carried forward to 15 January 2016 and will be taken into account in estimating the surplus/deficit at 31 March 2016, which will need to be taken into account for 2016/17 budget setting.

88 Over the past three years, the Council Tax provision for bad debts has been increasing steadily. This managed approach has been necessary to minimise the risk of the Council Tax Collection Fund does not move into deficit whilst securing the robustness of the levels of provision held. The provision is forecast to reach the targeted level originally envisaged, but the method of calculation applied currently differs to that applied to Business Rates and Sundry Debtors provisions for bad debts.

89 A further review of the provision has now been undertaken to bring it into line with that used to calculate Business Rates provision, based on that used for Sundry Debtors with amendments that take account of the differing billing

model within the Collection Fund and this is reflected in the figures in the table above.

Business Rates

90 Business rates have been levied on all non-domestic properties since 1990. Prior to 2013/14, 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.

91 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 important and new monitoring procedures have been devised for this purpose.

92 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 2014 estimate that was used for budget setting purposes. In January 2015 an in-year surplus of £4.302m was forecast, netting to a surplus of £1.020m after taking into account the deficit brought forward from 2013/14. Of this, Durham County Council's share was £0.500m, which was taken into account in the 2015/16 budget setting process.

93 The following table shows the Business Rates Collection Fund outturn at 31 March 2015:

	£’000
Net rate yield for 2014/15 including previous year adjustments	114,793
Estimate of changes due to appeals lodged and future appeals	-2,493
Estimated losses in Collection – Provision for Bad Debts and Write-offs	-473
Additional income- allocation of Deferred Rates 2012/13	446
Net income receivable (a)	**112,273**
Agreed allocated shares:	
Central Government (50%)	55,051
Durham County Council (49%)	53,950
County Durham and Darlington Fire and Rescue Authority (1%)	1,101
Recoupment of Previous year’s deficit	-3,247
Cost of Collection Allowance and Renewable Energy (paid to Durham County Council)	612
Total fixed payments (b)	**107,467**
Net surplus for year (a) – (b)	**4,806**
Deficit (-) brought forward from 2013/14	**-3,282**
Estimated year end surplus	**1,524**

94 Income was increased as a result of Central Government agreeing to include the balance of the Deferred Rates Scheme of £0.446m, from 2012/13, in the Business Rates Accounts for 2014/15.

95 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.

96 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 annual collection return known as the ‘NNDR3’ return. 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. For Durham County Council, deferred rates amounted to £0.446m, provision having been made for the repayment of this amount.

97 However, although Central Government could have recouped the whole of the deferred rates, the decision was taken to include this in the Business Rates Retention Scheme in 2014/15, resulting in shareholders benefitting from a one-off receipt. Durham County Council’s share of the deferred rates element is £0.219m based upon this decision.

98 The in-year surplus of £4.806m offsets the deficit brought forward from 2013/14, leaving a residual balance of £1.524m at 31 March 2015. Any surpluses or deficits at 31 March in any year are shared proportionately between Durham County Council, Central Government and County Durham and Darlington Fire and Rescue, Durham County Council's share being 49%. At 31 March 2015, Durham County Council's share of the surplus is £0.747m. However, the increase in income is matched by a decrease in expected Section 31 grants related to Business Rate reliefs.

99 The Business Rates Retention Scheme has not changed the actual business rates charged to ratepayers and therefore is not expected to have a detrimental effect on collection rates. However, the payment profile has changed during 2014/15 because from 1 April 2014 businesses are statutorily allowed to request the right to spread their payments over 12 months rather than ten. The major Business Rates Payers (supermarket chains etc.) have all opted to take up this opportunity to re-profile their cash flow. However, robust collection procedures have ensured that the challenging collection target of 96.5% has been exceeded by 0.7 percentage points.

100 The in-year collection rates in at 31 March for the last three years, including the current year, are shown below:

Billing Year	31 March %
2014/15	97.2
2013/14	96.4
2012/13	96.0

101 The current overall collection rate for 2013/14 (position as at 31 March 2015) business rate liabilities is now 98.57% and for 2012/13 business rate liabilities is now 99.25%. The Council continues to recover Business Rates from earlier years and currently, the collection rate for all years excluding the current year is 99.5% which is line with our medium term financial plan forecasts.

Section 31 Grant - Small Business Rate Relief

102 Small Businesses, those occupying properties with a rateable value of under £12,000, benefit from relief on their rates payable providing they meet certain qualifying criteria. The Government has awarded local authorities a special 'Section 31' grant to cover their share of the shortfall in business rates that these small business ratepayers would otherwise have paid had the relief scheme not been in place.

103 Small Business Ratepayers with properties with rateable values up to £6,000 are currently being granted full relief instead of the 50% relief awarded 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.

104 The Section 31 grant has been calculated as 50% of the extended small business rate relief awarded. 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. A factor is then applied to compensate for the 2% increase cap placed on the increase in Business Rates as part of the Autumn Statement 2013 measures.

105 The Government has only agreed to pay Section 31 grant for the additional Small Business Rate Relief in respect of 2014/15 business rates bills and adjustments to the Small Business Rate Relief on 2013/14 bills. Any adjustments that relate to bills for years prior to this are dealt with as part of the normal Rate Retention shares. At 31 March 2015, the gross Small Business Relief awarded against 2014/15 Business Rates bills and adjustments to 2013/14 bills is £9.887m, and on this the Council will receive £2.386m in Section 31 Grant, including the capping adjustment.

Other Section 31 Grants

106 In the Autumn Statement 2013, additional Business Rate Reliefs were announced for 2014/15, for which Section 31 Grants would be payable. These included one for properties empty from new, reoccupation of long-term empty properties and an additional relief for small shops. Durham County Council will be recompensed for any retained rates foregone because of reliefs given in this regard.

107 When assessing the outturn income from Business Rates, due regard must also be given on the effect that changes in estimated reliefs will have on the Section 31 grants. At 31 March 2015, the shortfall in Section 31 grants (including Small Business Rate Relief) was £0.773m, similar to the share of the estimated Collection Fund - Business Rates surplus, giving overall a net surplus of £25k.

108 Whilst the shortfall in Section 31 grants is accounted for in 2014/15, the surplus on Business Rates retention is accounted for in 2015/16, in terms of the estimated surplus that was used for budget setting, and in 2016/17, for the balance.

Provision for Appeals

109 Ratepayers have the right to appeal against the rateable value of their properties which are assessed by the Government's Valuation Office Agency. 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 manage this, we have made a provision in our Business Rates Collection Fund for the repayment of rates already billed due to potential successful appeal outcomes. If successful, the appeal may result in a reduction being applied to all bills issued from 1 April 2010 for that property.

110 Only appeals submitted up to 31 March 2015 can be backdated to 1 April 2010 now. From 1 April 2015, appeals submitted up to 31 March 2017 will only be backdated to 1 April 2015. For these reasons, the provision for appeals has been increased to take account of the higher risk. At 31 March 2015, it is estimated that the provision for Appeals would need to be increased by £2.493m in 2014/15 and this was factored into the accounts.

Recommendations and Reasons

111 It is recommended that Cabinet note:

(i) the reduction in the Cash Limit Reserves of £21k in the year. These sums will be held as Earmarked Reserves and be available for Service Groupings to manage their budgets effectively.

(ii) the closing General Reserve balance of £28.904m.

(iii) the closing balance on Earmarked Reserves (excluding Cash Limit Reserves) is £192.180m of which £34.609m relate to school and Dedicated School Grant balances.

(iv) the closing Housing Revenue Account balance of £26.078m.

(v) the position for the Collection Funds in respect of Council Tax and Business Rates.

112 It is recommended that Cabinet approve:

(vi) the capital budget carried forward of £18.736m 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 – 10 September 2014 – Forecast of Revenue and Capital Outturn 2014/15 for General Fund and Housing Revenue Account – Period to 30 June 2014

(b) Cabinet – 19 November 2014 - Forecast of Revenue and Capital Outturn 2014/15 for General Fund and Housing Revenue Account – Period to 30 September 2014

(c) Cabinet – 18 March 2015 - Forecast of Revenue and Capital Outturn 2014/15 for General Fund and Housing Revenue Account – Period to 31 December 2014

Contact: Jeff Garfoot Tel: 03000 261946
Paul Darby Tel: 03000 261930

Appendix 1: Implications

Finance

The report details the financial outturn for the Council for 2014/15 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 2015, 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 2014/15

	Original Budget 2014/15	Revised Budget	Service Groupings Final Outturn	Variance	Cash Limit Adjustments: Sums outside the cash limit	Cash Limit Adjustments: Cash Limit Reserve	Cash Limit Adjustments: Contribution to / Use of Earmarked Reserves	Cash Limit Postion	Variance
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Assistant Chief Executive	10,200	10,874	11,812	938	-1,586	0	414	-234	234
Children and Adults Services	275,231	259,176	209,110	-50,066	30,999	0	18,194	-873	873
Neighbourhood Services	109,765	110,602	78,036	-32,566	23,953	-39	5,668	-2,984	2,984
Regeneration and Economic Development	42,653	44,077	50,286	6,209	-8,574	17	953	-1,395	1,395
Resources	14,447	12,515	13,597	1,082	-3,717	0	665	-1,970	1,970
Cash Limit Position	452,296	437,244	362,841	-74,403	41,075	-22	25,894	-7,456	7,456
Contingencies	7,706	6,272	0	-6,272	0	0	6,500	228	-228
Centrally Held Budgets	0	1	-1,528	-1,529	1,546	0	0	17	-17
Corporate Costs	3,924	3,182	3,019	-163	0	0	118	-45	45
NET COST OF SERVICES	463,926	446,699	364,332	-82,367	42,621	-22	32,512	-7,256	7,256
Capital charges	-50,474	-49,501	-2,405	47,096	-44,515			2,581	-2,581
Gain/Loss on Disposal	0	0	-2,581	-2,581	0			-2,581	2,581
Interest and Investment income	-1,441	-1,441	-1,878	-437	0			-437	437
Interest payable and similar charges	38,444	38,291	33,755	-4,536	0			-4,536	4,536
HR Accrual	0	0	-2,220	-2,220	2,220			0	0
Net Expenditure	450,455	434,048	389,003	-45,045	326	-22	32,512	-12,229	12,229
Funded By:									
Council tax	-168,844	-168,844	-168,845	-1				-1	1
Use of (-) / contribution to earmarked reserves	-8,140	16,105	48,617	32,512				32,512	-32,512
Start up Funding Assessment	-250,409	-250,409	-250,444	-35				-35	35
New Homes Bonus	-6,784	-6,784	-6,783	1				1	-1
New Homes Bonus - Re-imbursement	-390	-390	-381	9				9	-9
Section 31 Grant - Small business rate relief	-2,194	-2,194	-2,397	-203				-203	203
Section 31 Grant - Settlement Funding Assessment Adj	-1,703	-1,703	-777	926				926	-926
Section 31 Grant - Retail Adjustment	-1,204	-1,204	-1,211	-7				-7	7
Education Services Grant	-7,237	-7,237	-7,531	-294				-294	294
Use of Cash Limit Reserve	-2,617	-7,455	-21	7,434				7,434	-7,434
Use of (-) / contribution to General Reserves	-933	-3,933	770	4,703				4,703	-4,703
TOTAL	0	0	0	0	326	-22	32,512	32,816	-32,816

Appendix 3: General Fund Revenue Summary by Expenditure / Income for 2014/15

	Original Budget 2014/15	Agreed Budget	Service Groupings Final Outturn	Corporate Costs	Variance	Cash Limit Adjustments: Sums Outside the Cash Limit	Cash Limit Adjustments: Cash Limit Reserve	Cash Limit Adjustments: Contribution to / Use of Earmarked Reserves	Cash Limit Position	Cash Limit Carry Forward (including Corporate Costs)	Variance - Corporate Costs
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Employees	483,046	498,071	511,765	0	13,694	-2,416	0	4,493	15,771	-15,771	0
Premises	49,510	55,383	61,701	0	6,318	-5,737	0	35	616	-616	0
Transport	46,657	46,212	43,901	0	-2,311	0	0	-10	-2,321	2,321	0
Supplies & Services	114,270	120,865	156,171	1,814	37,120	-2,198	17	1,318	36,257	-36,257	-29
Agency & Contracted	260,165	260,641	266,571	3,276	9,206	145	-39	5,518	14,830	-14,830	-12
Transfer Payments	206,771	205,626	216,325	0	10,699	0	0	-70	10,629	-10,629	0
Central Costs	94,797	83,824	67,723	0	-16,101	-8,172	0	10,613	-13,660	13,660	0
DRF	0	0	9,413	0	9,413	0	0	0	9,413	-9,413	0
Other	12,637	2,065	18,597	0	16,532	65	0	-19	16,578	-16,578	0
Capital Charges	50,474	49,501	4,986	0	-44,515	44,515	0	0	0	0	0
GROSS EXPENDITURE	1,318,327	1,322,188	1,357,153	5,090	40,055	26,202	-22	21,878	88,113	-88,113	-41
Income											
- Specific Grants	539,986	544,166	586,265	2,037	44,136	-5,301	0	-1,592	37,243	-37,243	30
- Other Grants & conts	25,830	37,471	36,785	0	-686	-123	0	-498	-1,307	1,307	0
- Sales	5,367	5,154	9,288	0	4,134	-264	0	-87	3,783	-3,783	0
- Fees & charges	104,308	105,646	111,264	32	5,650	-8	0	51	5,693	-5,693	-32
- Rents	5,470	5,448	6,521	0	1,073	0	0	-12	1,061	-1,061	0
- Recharges	174,150	175,821	231,249	0	55,428	-10,723	0	-1,151	43,554	-43,554	0
- Other	6,996	8,056	14,468	2	6,414	0	0	-845	5,569	-5,569	-2
Total Income	862,107	881,762	995,840	2,071	116,149	-16,419	0	-4,134	95,596	-95,596	-4
NET EXPENDITURE	456,220	440,426	361,313	3,019	-76,094	42,621	-22	26,012	-7,483	7,483	-45

Appendix 4: General Fund Earmarked Reserves as at 31 March 2015

	EARMARKED RESERVES AND CASH LIMIT RESERVES	SERVICE GROUPING	2013/14 CLOSING BALANCE	USE OF RESERVES	CONTRIBUTION TO RESERVES	TRANSFERS BETWEEN RESERVES	TOTAL MOVEMENT ON RESERVES	2014/15 CLOSING BALANCE AS AT 31 MARCH 2015
			£,000	£,000	£,000	£,000	£,000	£,000
1	ACE AAP/Members Reserve	ACE	-3,276	0	-428	5	-423	-3,699
2	ACE Grant Reserve	ACE	-230	39	-3	0	36	-194
3	ACE Operational Reserve	ACE	-132	8	0	0	8	-124
4	Social Care Reserve	CAS	-8,514	659	-6,230	750	-4,821	-13,335
5	Community Safety Reserve	CAS	-6	6	0	0	6	0
6	Aycliffe Young People's Centre Reserve	CAS	-1,387	185	0	0	185	-1,202
7	Continuing Professional Development Reserve	CAS	-993	0	-42	0	-42	-1,035
8	Education Reserve	CAS	-987	0	-1,402	-51	-1,453	-2,440
9	Tackling Troubled Families	CAS	-1,557	0	-470	0	-470	-2,027
10	Transformation Reserve	CAS	0	0	-1,483	0	-1,483	-1,483
11	Special Projects Reserve	CAS	-60	23	0	0	23	-37
12	Public Health Reserve	CAS	-4,992	9	0	0	9	-4,983
13	Neighbourhoods AAP Reserve	NS	-38	0	-2	0	-2	-40
14	Customer Services Reserve	NS	-387	14	0	0	14	-373
15	Direct Services Reserve	NS	-3,675	1,242	-610	0	632	-3,043
16	Env. Health and Consumer Protection Reserve	NS	-516	97	-581	0	-484	-1,000
17	Culture and Sport Reserve	NS	-1,962	386	-1,617	0	-1,231	-3,193
18	Strategic Waste Reserve	NS	-425	177	-1,548	0	-1,371	-1,796
19	Technical Services Reserve	NS	-1,619	300	-1,603	0	-1,303	-2,922
20	Transport Asset Management Programme Reserve	NS	-318	0	0	0	0	-318
21	Business Growth Fund Reserve	RED	0	0	0	-913	-913	-913
22	Economic Development Reserve	RED	-1,401	288	-373	0	-85	-1,486
23	Planning Reserve	RED	-1,173	0	-250	0	-250	-1,423
24	North Pennines AONB Partnership Reserve	RED	-637	308	0	0	308	-329
25	Employability and Training Reserve	RED	-644	186	0	0	186	-458
26	RED Regeneration Reserve	RED	-1,628	0	-429	713	284	-1,344
27	Housing Regeneration Reserve	RED	-61	0	-349	0	-349	-410
28	Housing Solutions Reserve	RED	-1,079	228	-16	0	212	-867
29	Restructure Reserve	RED	-729	66	0	0	66	-663
30	LSVT Reserve	RED	-100	0	0	100	100	0
31	Transport Reserve	RED	-329	42	0	0	42	-287
32	Funding and Programmes Management Reserve	RED	-131	0	-9	0	-9	-140
33	Resources Corporate Reserve	Resources	-2,219	104	-349	1,480	1,235	-984
34	Resources DWP Grant Reserve	Resources	-928	50	-1,052	0	-1,002	-1,930
35	Resources System Development Reserve	Resources	-1,291	451	0	0	451	-840
36	Resources Housing Benefit Subsidy Reserve	Resources	-2,198	253	0	1,200	1,453	-745
37	Local Council Tax Support Scheme Reserve	Resources	-1,031	0	0	0	0	-1,031
38	Resources Land Search Fees Reserve	Resources	-1,000	0	0	0	0	-1,000
39	Resources Legal Expenses	Resources	-200	0	0	0	0	-200
40	Resources Elections Reserve	Resources	-1,036	0	0	0	0	-1,036
41	Resources ICT Reserves	Resources	-730	0	-141	0	-141	-871
42	Health Promotion Access Catalogue (HPAC) Reserv	Resources	0	0	-259	0	-259	-259
43	Human Resources Reserve	Resources	0	0	-65	0	-65	-65
44	Cabinet Reserve	Corporate Fin	-220	0	0	220	220	0
45	Corporate Reserve - Demographic Pressures	Corporate Fin	-10,850	3,150	-15,150	-750	-12,750	-23,600
46	Equal Pay Reserve	Corporate Fin	-17,405	3,685	-394	0	3,291	-14,114
47	Insurance Reserve	Corporate Fin	-13,057	0	-2,544	0	-2,544	-15,601
48	Performance Reward Grant Reserve	Corporate Fin	-1,308	264	0	0	264	-1,044
49	MTFP Redundancy and Early Retirement Reserve	Corporate Fin	-16,256	5,378	0	0	5,378	-10,878
50	Office Accommodation Project Support Reserve	Corporate Fin	-1,000	0	-7	0	-7	-1,007
51	Planned Delivery Programme (PDP) Reserve	Corporate Fin	0	0	-13,000	-7,000	-20,000	-20,000
52	Capital Expenditure Reserve	Corporate Fin	-2,797	0	0	-5	-5	-2,802
53	Office Accommodation Capital Reserve	Corporate Fin	0	0	-8,000	0	-8,000	-8,000
	Total Non-Schools Reserve		**-112,512**	**17,598**	**-58,406**	**-4,251**	**-45,059**	**-157,571**
	Cash Limit Reserves							
54	Assistant Chief Executive		-1,005	250	-234	216	232	-773
55	Children and Adults Services		-12,029	1,879	-873	1,580	2,586	-9,443
56	Neighbourhood Services		-2,782	668	-2,984	22	-2,294	-5,076
57	Regeneration and Economic Development		-3,007	0	-1,395	1,186	-209	-3,216
58	Resources		-3,563	480	-1,970	1,196	-294	-3,857
	Total Cash Limit Reserves		**-22,386**	**3,277**	**-7,456**	**4,200**	**21**	**-22,365**
	Total Non-Schools Earmarked Reserves		**-134,898**	**20,875**	**-65,862**	**-51**	**-45,038**	**-179,936**
	Schools' Balances							
Sch 1	Schools' Revenue Balance	CAS	-24,684	389	0	51	440	-24,244
Sch 2	DSG Reserve	CAS	-6,367	0	-3,998	0	-3,998	-10,365
	Total Schools and DSG Reserve		**-31,051**	**389**	**-3,998**	**51**	**-3,558**	**-34,609**

Appendix 5: Housing Revenue Account 2014/15 Outturn Position

	Annual Budget	Final Outturn	Variance	
	£000	£000	£000	
Income				
Dwelling Rents	-64,558	-64,834	-276	**a)**
Non Dwelling Rents	-1,024	-1,075	-51	
Charges for Services and Facilities	-347	-3,356	-3,009	**b)**
Total Income	**-65,929**	**-69,265**	**-3,336**	
Expenditure				
ALMO Management Fee and Outsourced Contract	16,799	16,799	0	
Repairs and Maintenance	4,462	4,629	167	**c)**
Supervision and Management - General	4,061	5,499	1,438	**d)**
Supervision and Management - Special	436	424	-12	
Rents, Rates, Taxes and other Charges	410	422	12	
Depreciation and Impairment of fixed assets	7,872	7,337	-535	**e)**
Increase/Decrease in bad debt provision	988	423	-565	**f)**
Debt Management Costs	175	175	0	
Total Expenditure	**35,203**	**35,708**	**505**	
Net cost of HRA services per Authority I&E Account	**-30,726**	**-33,557**	**-2,831**	
HRA services share of Corporate and Democratic Core	1,085	1,085	0	
Net Cost of services but not allocated to specific services	402	386	-16	
Net cost of HRA Services	**-29,239**	**-32,086**	**-2,847**	
Interest Payable and Similar Charges	12,627	10,501	-2,126	**g)**
Direct Revenue Financing [Balancing Item on HRA]	16,717	3,818	-12,899	**h)**
Interest and Investment Income	-105	-112	-7	
[Surplus] / Deficit for the year on HRA services	**0**	**-17,879**	**-17,879**	

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Audit Committee

27 July 2015

Treasury Management Outturn 2014/15

Report of Don McLure, Corporate Director Resources

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 2014/15.

Background

2 The 2014/15 draft Statement of Accounts includes a summary of the 2014/15 final outturn for Treasury Management. The attached report presented to Cabinet on 15 July 2015 provides a more detailed review of the final outturn position for Treasury Management.

Recommendation and reasons

3 Members are asked to note the 2014/15 final outturn position on Treasury Management.

Contact: Hilary Appleton Tel: 03000 266239

Appendix 1: Implications

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

Staffing -

None

Risk -

None

Equality and Diversity -

None

Accommodation -

None

Crime and Disorder -

None

Human Rights -

None

Consultation -

None

Procurement -

None

Disability Discrimination Act -

None

Legal Implications -

None

Cabinet

15 July 2015

Treasury Management Outturn 2014/15

Report of Corporate Management Team
Don McLure, Corporate Director Resources
Councillor Alan Napier, Cabinet Portfolio Holder for Finance

Purpose of the Report

1 To update Cabinet with the annual Treasury Management report for the year ended 31 March 2015.

Background

2 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. 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.

3 It is concerned with how the Council manages its cash resources and its scope covers borrowing, investment and hedging instruments and techniques.

4 Risk is inherent in all treasury management activities and it is necessary to balance risk against return on investment.

5 As well as meeting the regulatory framework, this 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 2014/15 were agreed by the Council as part of the Medium Term Financial Plan 2014/15 – 2016/17 on 26 February 2014 and have been updated since as part of the Medium Term Financial Plan 2015/16 to 2017/18 report that was agreed by the Council on 25 February 2015.

6 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 as part of good governance and best practice.

7 During 2014/15 the minimum reporting requirements were that the full Council should receive the following reports:

- an annual treasury strategy in advance of the year (County Council 26 February 2014)
- a mid-year treasury update report (County Council 3 December 2014)
- an annual review following the end of the year describing the activity compared to the strategy (this report)

2014/15 External Influences

8 Financial year 2014/15 continued to be the challenging investment environment of previous years with low investment returns, although levels of counterparty risk had subsided. The original market expectation at the beginning of 2014/15 was for the first increase in Bank Rate to occur in quarter 1 of 2015 as the unemployment rate had fallen much faster than expected through the Bank of England's initial forward guidance target of 7%.

9 In May 2014 however, the Bank revised its forward guidance. A combination of very weak pay rises and inflation above the rate of pay rises, meant that consumer disposable income was still being eroded and in August 2014 the Bank halved its forecast for pay inflation for the whole of 2014 from 2.5% to 1.25%.

10 Expectations for the first increase in Bank Rate therefore started to recede as growth was still heavily dependent on buoyant consumer demand.

11 During the second half of 2014 financial markets were caught out by the halving of the oil price and the Swiss National Bank announcing that it would no longer hold the Swiss Franc (CHF) at a fixed exchange rate with the Euro. Fears also increased considerably that the European Central Bank (ECB) was going to do "too little too late" to ward off the threat of deflation and recession in the Eurozone.

12 By the end of 2014, it was clear that inflation in the UK was going to head towards zero in 2015 and possibly even become negative. In turn, this made it clear that the Monetary Policy committee (MPC) would have great difficulty in starting to raise the Bank Rate in 2015 while inflation was around zero and so market expectations for the first increase receded back to around quarter 3 of 2016.

13 Gilt yields were on a falling trend for much of the last eight months of 2014/15 but were then pulled in different directions by increasing fears after the anti-austerity parties won power in Greece in January Developments since then have increased fears that Greece could be heading for an exit from the Euro. While the direct effects of this would be manageable by the European Union (EU) and ECB, it is difficult to quantify what the potential knock on effects would be on other countries in the Eurozone once the supposed "impossibility of a country leaving the Eurozone" had been disproved.

14 A further downward pressure on gilt yields was the announcement in January 2015 that the ECB would start a major programme of quantitative easing, purchasing Eurozone government and other debt in March 2015.

15 On the other hand, strong growth in the United States (US) caused an increase in confidence that the US was well on the way to making a full recovery from the financial crash and would be the first country to start increasing its central interest rate, probably by the end of 2015.

16 The UK would be closely following it due to strong growth over both 2013 and 2014 and good prospects for a continuation into 2015 and beyond. However, there was also an increase in concerns around political risk from the general election in May 2015.

Treasury Position for the Council

17 The Treasury position for the Council across 2014/15 is shown in the table below:

	31-Mar-14	Rate/ Return	Average Life	31-Mar-15	Rate/ Return	Average Life
	£m	%	years	£m	%	years
Total Debt	437	4.49		457	4.45	
Capital Financing Requirement (CFR)	607			636		
(-) Under Borrowing	-170			-179		
Total Investments	152	0.71	0.3	238	0.71	0.35
Net Debt (total debt less total investments)	285			219		

18 Investments increased by £86m across the period as a result of re-profiling of the capital programme, a lower than anticipated use of reserves and new borrowing.

19 To take advantage of favourable interest rates, new borrowing of £25m for 42 years at 4% was raised during the year.

Capital Expenditure and Financing

20 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.

21 Actual capital expenditure forms one of the required prudential indicators. The table below shows actual capital expenditure in 2014/15 and how this was financed.

	2013/14 Actual	2014/15 Budget	2014/15 Actual
	£m	£m	£m
Non-HRA Capital Expenditure	107.110	149.253	117.214
Non-HRA PFI and Finance Lease	2.480	3.419	2.172
HRA Capital Expenditure	45.698	46.717	42.826
Total capital expenditure	**155.288**	**199.389**	**162.212**
Resourced by:			
Capital receipts	8.150	10.879	12.976
Capital grants	91.643	80.998	75.390
Capital reserves and Revenue	35.378	31.194	29.049
Unfinanced capital expenditure	**20.117**	**76.318**	**44.797**

Overall Borrowing Need

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

23 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 2014/15 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.

24 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.

25 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.

26 The Council's non HRA 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).

27 The Council's 2014/15 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 2014/15 on 26 February 2014 and updated on 25 February 2015.

- The Council's CFR for 2015/16, as agreed in February 2015, is shown in the following table, and represents one of the key prudential indicators.

CFR	31-Mar-14 Actual	31-Mar-15 Estimate	31-Mar-15 Actual
	£m	£m	£m
Opening balance	603.431	607.260	607.260
Add unfinanced capital expenditure (as above)	20.117	76.318	44.797
Less MRP/VRP	-16.018	-16.055	-15.730
Adjusted for:			
HRA non-dwelling impairment/revaluation losses	-0.270		0.132
Housing Stock Transfer		-236.933	
Closing balance	**607.260**	**430.590**	**636.459**

28 At the time that the revised 2014/15 budget was reported to County Council in February 2015, it was anticipated that the Housing Stock Transfer would take place in March 2015. However, the transfer of Housing Stock did not take place until 13 April 2015 and is therefore not reflected in the calculation of the Actual 2014/15 CFR.

29 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.

30 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.

31 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.

32 The table overleaf demonstrates that during 2014/15 the Council has maintained gross borrowing within its authorised limit.

	2014/15 (original) £m	2014/15 (revised) £m
Authorised limit	759.000	484.000
Operational boundary	706.000	431.000
Maximum gross borrowing position		458.659
Average gross borrowing position		457.517

Investment Strategy

33 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.

34 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

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

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

	Fitch	Moody's	Standard and Poors
Short Term	F1	P1	A-1
Long Term	A-	A3	A-

- Non UK Banks 1 – the Council will only use non UK banks which have, as a minimum, the following Fitch, Moody's and Standard and Poors credit ratings:

	Fitch	Moody's	Standard and Poors
Sovereign Rating	AAA	AAA	AAA
Short Term	F1+	P1	A1+
Long Term	AA-	Aa3	AA-

(N.B. Viability, Financial Strength and Support ratings have been removed and will not be considered in choosing counterparties.)

- Banks 2 – Part nationalised UK banks – Lloyds Banking Group and Royal Bank of Scotland. These banks can be included if they continue to be part nationalised or they meet the ratings in Banks 1 above.

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

- 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.

- Building societies. The Council will use societies which meet the ratings for banks outlined above:
- Money market funds

- Enhanced money market funds (EMMFs)

- UK Government (including gilts and the Debt Management Account Deposit Facility [DMADF])

- Other local authorities and parish councils.

Time and Monetary Limits applying to Investments

36 The time and monetary limits for institutions on the Council's Counterparty List are as follows (these will cover both Specified and Non-Specified Investments):

	Long Term Rating	Money Limit	Time Limit
Banks 1 higher quality	AA-	£50m	2 years
Banks 1 medium quality	A	£35m	1 year
Banks 1 lower quality	A-	£25m	100 days
Banks 2 category – part-nationalised	n/a	£60m	2 years
Banks 3 category – Council's banker	A-	£25m	3 months
DMADF/Treasury Bills	AAA	unlimited	6 months
Local Authorities	n/a	£10m each	5 years
Money Market Funds	AAA	£20m each (overall £100m)	liquid

Icelandic Deposits Update

37 The County Council had £7m deposited across the Icelandic banks Glitnir Bank hf (£4m), Landsbanki (£2m) and Kaupthing Singer and Friedlander Ltd (£1m), which all collapsed financially in October 2008.

38 The Council's recovery position at 31 March 2015 is as follows:

- Glitnir: a full distribution was made in March 2012, however an element of the distribution was in the Icelandic Kroner currency, which was placed in an escrow account in Iceland due to currency controls currently operating in the country. As a result, this element had been subject to exchange rate risk, over which the Council had no control. Following a currency auction in February 2015, the Council has repatriated this money and is no longer a creditor of Glitnir. In total the Council received £4.136m against its £4.000m investment.

- During 2013/14, the Council sold its claims against the insolvent estate of Landsbanki through a competitive auction process. 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. In total the Council received £2.032m against its £2.000m investment.

- Kaupthing Singer and Friedlander: 82.5% of the outstanding balance has been repaid. 85.75% recovery is anticipated in the long run.

Kaupthing Singer and Friedlander Ltd

39 The current position on actual amounts received and estimated future receipts are as shown in the table. The Council has recognised an impairment of £3k in 2014/15 based on it recovering 85.75p in the £ as was anticipated at 31 March 2014. The phasing of the repayments has been amended in 2014/15 to a more prudent expectation of the likely repayment.

Date	Repayment
	%
Received to 31 March 2015	82.50
Due 31 December 2015	1.50
Due 31 December 2016	1.75

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

Glitnir Bank hf

41 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.

42 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.

43 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 was earning 4.2%. This element of the distribution had been 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 had no control.

44 Following a decision of the Icelandic Supreme Court on 25 September 2013, the Winding up Board of Glitnir had to apply the Central Bank of Iceland's

(CBI's) official selling rates as at the date of the distribution when calculating the value of payments being made to Creditors in Icelandic Kroner (ISK). Previously, the exchange rate as at 22 April 2009 had been applied to all distributions made. The impact of this decision is that there was on-going uncertainty in relation to the sterling value of any future distributions.

45 The total amount of ISK held in escrow on behalf of Glitnir Creditors is around ISK 8.9bn (the equivalent of around £47m) excluding interest earned since March 2012.

46 The LGA, who work on behalf of the Local Authorities with Icelandic deposits, have discussed the potential options for converting the ISK into another currency and repatriating it to the UK.

47 It is important to note that Creditors, like the Council were unable to access the escrowed ISK unless and until:

- the Central Bank of Iceland (CBI) approved the requests which had been made by the winding-up boards (WUBs) to exempt the escrowed ISK from the capital controls so that the ISK could be paid from the escrow accounts to each individual Creditor (i.e. into an ISK account in each Creditor's name) or

- the capital controls are lifted. The date on which the controls will be lifted remains unknown but the Icelandic government has recently announced that it is taking steps towards that goal. Currency auctions are one of those steps.

48 The CBI periodically holds a currency auction to allow parties to:

(i) purchase ISK solely for the purpose of long term investment in Iceland;

(ii) purchase Iceland treasury bonds; and

(iii) purchase EUR (i.e. an outflow of ISK) in exchange for ISK.

49 The auctions are part of the CBI's strategy for an "orderly" removal of the capital controls. (i) and (ii) above result in an inflow of foreign currency into Iceland. (iii) enables holders of ISK to exchange their ISK for EUR.

50 The part of the auction that is relevant to Local Authority Creditors is (iii), the sale of ISK in exchange for EUR. In past auctions, the CBI has sought to match the inflow of foreign currency with the outflow of foreign currency. Given that the demand for foreign currency usually outstrips the supply of foreign currency in the CBI's auctions, previous auctions have resulted in a relatively low level of foreign currency outflow.

51 The consensus among most foreign creditors of the insolvent banks is that when the capital controls are ultimately lifted there is a very real risk that the value of the ISK will fall against other currencies. There is uncertainty as to when the capital controls will be lifted, although there is speculation in recent Icelandic media reports that this may happen during the course of 2015.

52 The CBI is currently reviewing ways in which it can relax the capital controls in a way that will not negatively affect Iceland's financial stability. Various commentators in Iceland have suggested that this is may involve the imposition of an "exit tax" (with suggestions of up to 30-40%) on creditors of the failed Icelandic banks. It is not yet known which creditors might be affected by any such tax or how any such tax might be applied but it may be applied to cross-border capital movement, such as the repatriation of escrowed ISK. If it is, this will have a negative impact on the value of Creditors' escrowed ISK.

53 In February 2015 the CBI amended the rules for their currency auctions which allowed qualifying creditors, such as UK local authorities to participate.

54 The LGA administered a process for the sale of the escrowed ISK on behalf of local authority creditors. Local Authorities were required to submit a price for the sale of the escrowed ISK to buy Euros.

55 Through this process, the Council sold ISK 178m which bought €0.890m. Including the bank's fee, the Council paid an all-in rate of ISK 201 for €.

56 The currency auction only accepted amounts in round millions of ISK for sale, so after selling ISK 178m and paying fees of ISK 0.890m from the escrow account, an amount of ISK 0.279m remains in the Glitnir escrow in Iceland. At current exchange rates this is worth in the region of £1,400.

57 The Council has impaired the value of Glitnir investments in its accounts by £0.267m. This takes account of the change in the exchange rate of the investments from 31 March 2014 to the sale of the investment in February 2015 along with the loss on the sale of the investments and the write off of the amount remaining in the escrow in Iceland. There is now no balance due in respect of Glitnir in the Council's accounts.

58 The Council is no longer a creditor of Glitnir.

Recommendations and Reasons

59 It is recommended that Cabinet:

- Note the Treasury Management Outturn position for 2014/15.

Background Papers

a) 15 July 2015 – Cabinet - 2014/15 Final Outturn for General Fund, Housing Revenue Account and Collection Fund.

b) 26 February 2014 – County Council - General Fund Medium Term Financial Plan, 2014/15 to 2016/17 and Revenue and Capital Budget 2014/15

c) 03 December 2015 – County Council - Mid-Year Report for the Period to 30 September 2014 on Treasury Management Service

d) 25 February 2015 – County Council - General Fund Medium Term Financial Plan, 2015/16 – 2017/18 and Revenue and Capital Budget 2015/16

Contact: Jeff Garfoot Tel: 03000 261946

Appendix 1: Implications

Finance

The report details the Council's cash management, loans and investment activity in 2014/15. The report also provides the overall financing of the Council's capital expenditure, along with borrowing and investment income returns.

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.

Audit Committee

27 July 2015

Statement of Accounts for the year ended 31 March 2015

Don McLure, Corporate Director Resources

Purpose of the Report

1 To present to Members the Statement of Accounts for the year ended 31 March 2015 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 2015, 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 30 June 2015.

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 6 July 2015 to 31 July 2015 in line with the Regulations and has been published on our website.

Statement of Accounts

6 The Statement of Accounts for the financial year 2014/15 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 2014/15' (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 56)
- Comprehensive Income and Expenditure Account (page 58)
- Balance Sheet (page 59)
- Cash Flow Statement (page 60)
- Housing Revenue Account (page 161) and
- Collection Fund (page 167).

11 The Statement of Accounts also includes the accounts for Durham County Council Pension Fund (page 173) for which the Council is the Administering Authority.

12 The Statement of Accounts shows that the Council's 'net worth' has fallen in 2014/15 by £216.226m to £466.547m. This is due, in the main, to an increase in pension scheme liabilities for its employees as calculated by the Pension Fund's Actuary under International Accounting Standard (IAS) 19. Although the benefits are not payable until the employees retire, the Council has a commitment to make the payments which it must disclose at the time the employees earn their future entitlement. In addition, the revaluation of Council Dwellings to Tenanted Market Value has led to a revaluation loss of £331.081m. This reflects the value at which the Council Dwellings have been transferred to the County Durham Housing Group on 13 April 2015.

13 The Council has increased its usable reserves during 2014/15.

a) The general reserve has increased by £0.863m to £28.897m. This reserve is held to cushion the impact of uneven cash flows, unexpected events or emergencies.

b) Earmarked Reserves have increased by £48.605m to £214.557m. Earmarked reserves are held for specific future purposes.

14 The Pension Fund accounts show that its net assets as at 31 March 2015 have increased by £204.120m to £2.335bn. Although there was a withdrawal of £8.400m as a result of payments to pensioners exceeding the contributions received, there was a £219.389m 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 2015.

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 2015.

Contact: Don McLure Tel: 03000 261943

Appendix 1: Implications

Finance

This report details the financial position of the Council as at 31 March 2015.

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 - 52	Summary of the most significant matters reported in the accounts, and the overall financial position of the Council.
Statement of Responsibilities for the Statement of Accounts	53	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	54 - 55	Once the Audit is completed the Auditor's report will be included.
Durham County Council Core Financial Statements		
Movement in Reserves Statement	56 – 57	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)	58	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	59	The Balance Sheet shows the value as at the Balance Sheet date (31 March 2015) 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	60	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	61 - 160	The notes are important in the presentation of a true and fair view. They aim to assist in understanding by presenting information about the basis of preparation of the core financial statements; by disclosing information required by the Code that is not presented elsewhere; and by providing information that is not provided elsewhere but is relevant to the understanding of the accounts and shows the policies and procedures adopted in compiling the Accounts.
The Housing Revenue Account (HRA)	161 - 166	The HRA Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Authorities charge rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis of which rents are raised, is shown in the Movement on the HRA Statement.

Item	Pages	Explanation of Purpose and Content
Collection Fund	167 - 172	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.
Durham County Council Pension Fund Accounts	173 – 209	Shows the operation and membership of the Pension Fund, the expenditure and income during the year and its financial position at 31 March 2015. Following the Accounts are notes providing further information.
Annual Governance Statement	210 - 225	Gives assurance that appropriate mechanisms are in place for the maintenance of good governance across the activities of the Council.
Glossary of Terms used in the Accounts	226 - 242	To help the reader understand terminology used in the Statement of Accounts.

Statement of Accounts

For the year ended 31 March 2015

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

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

Corporate Director Resources
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County Hall
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DH1 5UE

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Telephone: 03000 260000

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

LGC Awards 2014 Council of the Year

Durham County Council — Page

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.

However, all plans setting out the aspirations and goals of the Council over the coming three years continue 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 possibly 2019/20, resulting in the longest period of austerity in modern times. Government funding reductions for local government nationally are now forecast to be 60%, a doubling of the figure first forecast after the 2010 Comprehensive Spending Review.

By the end of 2014/15, the Council had delivered £136.9m of financial savings and our forecasts show that the Council will need to save an estimated further £88m of savings over the three year period 2015/16 to 2017/18, resulting in a cumulative spending reduction of over £225m since 2010 to the end of 2017/18.

That said, the Council continued to deliver a high standard of services during 2014/15 while successfully delivering all of our challenging savings targets in very difficult circumstances, in line with the Medium Term Financial Plan. All service groupings of the council will continue to work together and build on our 'Council of the Year' achievements in order to provide the best possible services for the people of County Durham.

This document presents the published accounts for Durham County Council for the year ended 31 March 2015 – 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 2013/14.

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

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 2014/15 and are likely to impact in the future. This foreword covers:

3. Statement of Accounts

The Statement of Accounts for the financial year 2014/15 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 2014/15' (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.

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 2014/15 which affect the Council's Statement of Accounts are changes to disclosure requirements for comparative information; presentational changes to Financial Instruments and a new definition of control used to determine which entities are consolidated for the purposes of group accounts.

The changes introduced in the Code that have necessitated amendment to the accounting policies for 2014/15 are in respect of Joint Operations which was affected by the change relating to definitions for group accounts. Other changes to accounting policies in 2014/15 are in respect of the Carbon Reduction Commitment Allowances, amended to reflect the requirements of the second phase of the scheme and for Schools to clarify the accounting treatment 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:

- Dale and Valley Homes
- East Durham Homes
- Service Direct NewCo Limited
- Newcastle International Airport Limited (NIAL) Holdings Limited
- Durham Tees Valley Airport Limited
- Central Durham Crematorium
- Mountsett Crematorium
- Beamish Museum Companies
- 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 2015.

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 'unusable' 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 (CIES)

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

Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the 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 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 in the financial statements, but is relevant to the understanding of any of them, 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 the legislative framework; this may be different from the accounting cost. The increase or decrease in the year, on the basis of which rents are raised, is shown in the Movement on the HRA Statement.

Collection Fund

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

Durham County Council Pension Fund Accounts

Shows the operation and membership of the Fund, the expenditure and income during the year and its financial position at 31 March 2015. Following the Accounts are notes providing further information.

Annual Governance Statement

This Statement gives assurance that the Council has conducted a review of the effectiveness of its systems of internal control and that the 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 unique place with a rich cultural history. Durham City has been an important spiritual centre and place of pilgrimage from early medieval times. Today, the castle and cathedral are recognised by UNESCO as a World Heritage site because of their international, cultural and physical significance and is a top attraction in the county for tourists from around the world. The historic market towns of Barnard Castle and Bishop Auckland also date from the Middle Ages. In its later history, 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. An economic past of heavy industry based around mining, metal production and manufacturing leaves a legacy of diverse spatial geography across 12 main towns and numerous villages and smaller communities.

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 whole of which has been extensively reclaimed from its heavy industrialised past.

As a local authority, the Council recognises that it can be a major force in reducing the human impact on the environment in County Durham. Over the last few years the Council has strived to achieve a more sustainable approach to disposal of waste, has actively worked to reduce its carbon footprint through, for example, installation of solar PV panels on Council buildings, installation of biomass boilers where appropriate, and through the acquisition of more fuel efficient vehicles. This has driven down the Council's emissions by 16% in five years.

Following local government reorganisation in 2009, Durham County Council, with 513,200 residents, is the largest council in the North East region and the seventh largest all-purpose council by population in England. The population of County Durham is growing faster than the national average, and this growth is forecast to continue.

Life expectancy at birth in County Durham has been improving over time for both males and females, although not as fast as for England. The gap in life expectancy for people in affluent areas and the most deprived areas is similar to that of the national average, but almost 50% of County Durham's population live in deprived areas. Durham is the most deprived authority in the North East region in terms of income deprivation with almost half (42.4%) of the population living in the 30% most deprived neighbourhoods nationally. Latest data (2011) shows that 22.1% of children live in low income families in County Durham compared to 17.5% nationally and 11.4% of households are defined as living in fuel poverty.

One of the most significant contributions that a local authority can make to people's lives is to work with schools to ensure that children and young people are getting the best start in life and are achieving their potential. Education attainment in County Durham has seen some consistent improvements. One of the Council's priorities is to improve the progression of young people from secondary education and to reduce the number of people not in education, employment and training.

Employment levels in County Durham have remained relatively low in comparison with the rest of the country. The recession had a significant impact on employment levels in the county with the rate declining from its highest rate of 72.1% in 2007 to 64.5% at the end of the recessionary period compared to the national rate of 70.1%. Regeneration and Economic Development remain the Council's main priority.

In common with the rest of the UK, the county's population is ageing. The 65+ population has increased by around 10,000 people in the past four years (11.1% increase), which is a much greater increase than for other age groups.

The rise in life expectancy does not however automatically lead to a similar rise in years spent in reasonable health. Recent data (ONS 2014) shows that healthy life expectancy for older people is increasing more slowly that life expectancy. Currently, the average healthy life expectancy in County Durham is low at 58.7 years of age for men and 59.4 for women. Increasing life expectancy, a low healthy life expectancy combined with a sharply increasing older population has significant consequences for the Council as proportionately greater demands are being placed on local services such as adult social care, transport and Care Connect, the Council's community alarm system.

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.

The Council employs just over 18,000 people, including schools based staff and has a gross revenue expenditure budget of £1.182bn for 2015/16 and its services are delivered to a customer base of over half a million people. The council is made up of 126 Members representing 63 electoral divisions throughout the County. The current political make up is 96 Labour councillors, 17 Independent councillors, 9 Liberal Democrat councillors and 4 Conservative councillors.

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 provides a large range of services that include: teaching young people and caring for 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. To help manage this undertaking, the Council employs 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. The Council Plan sets out the Council's 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 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 detailed plans and programmes which will turn this vision into a reality. This is achieved through organising improvement actions into a structure comprised of five priority themes for County Durham:

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

plus an additional one specifically for the Council, for improvements that the council wants to make in how it manages itself, an Altogether Better Council.

The Council Plan is sub-divided into a section on each of the priority themes. It sets out the narrative of what the Council trying to achieve. 'Did you know' and 'look out for' sections provide further information in relation to each objective for the reader It has also measured and highlighted some recent successes in the 'going well' sections whilst the 'cause for concern' sections show the areas under each objective where the Council would like to perform better. These issues are addressed in the high level action plans designed to deliver the Council's ambitions for each objective.

Risk Management

Durham County Council is committed to delivering quality services to its communities and is aware that some risks are inherent in innovative service delivery. The Council's Risk Management Policy and Strategy aims to embed risk management into the Council's culture, ethos, policies and practices.

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.

Performance and Efficiency

The Council's requirement to make substantial savings following government grant reductions to balance the budget remains a priority.

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 the objectives are being met. Plans setting out the actions to be taken to achieve the objectives and maintain performance are also formulated. 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 for 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 services against a background of reducing budgets, employee numbers and increasing demand in some areas is a major challenge for the Council.

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

7. Key Achievements in 2014/15

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.
- The Council was the first local authority to refurbish all of their Gypsy Roma Traveller sites through sponsorship from the Homes and Communities Agency Programme.
- 1,185 families in County Durham have been 'turned around' through the Stronger Families programme; County Durham is in the top 20% nationally for this work.
- There has been a 25% reduction in children and young people not in education, employment or training in 2014/15.
- 65% of Durham's pupils achieved 5 or more GCSEs at A* - C (or the equivalent) compared to 63.8% nationally.
- A Better Care Fund Plan has been agreed for County Durham, which will support work to integrate health and social care initiatives locally.
- The Council is achieving its target of 93% of social care service users reporting that the help and support they received has made their quality of life better.
- Anti-social behaviour fell by 4.3% in 2014/15 and has fallen by two thirds since 2006/07.
- The rate of adult re-offending has reduced by 65% for offenders within the Integrated Offender Management programme.
- The number of first time entrants to the youth justice system reduced by 175 in 2013/14.
- Repeat cases of domestic abuse at 14.8%, for 2014/15, are lower than the national average.
- Our street lighting energy reduction programme is 50% complete; more than 20,000 street lights retrofitted to date reducing energy costs by £450,000.
- Over 1,100 households received installations to improve energy efficiency through the 'Warm Up North' scheme.
- 1,700 people volunteered as part of the 2014 Big Spring Clean campaign. During the 3,000 volunteer hours, 1,200 bags of litter were collected and trees and debris were removed from the River Wear in Durham City.
- Work is progressing with the development of a new cycle/walk multi user route between Shildon and Newton Aycliffe.
- Budget Managers utilising 'Business Intelligence' tool to enhance access to budget information.
- The ongoing development and delivery of the Medium Term Financial Plan and monitoring of MTFP savings.
- The external audit Value for Money conclusion identified that the Council has robust arrangements in place to secure financial resilience.

- The Council's innovative triage process for handling enquiries from residents affected by the Government's welfare reforms is helping people to stay in their home, improve their financial situation and find work.

8. A Review of 2014/15

A review of the Housing Revenue Account 2014/15 budget and outturn is shown at section 19 along with its future plans.

2014/15 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 that time the majority of the Chancellor of the Exchequer's March Budget and Autumn Statement announcements have included additional cuts to local government funding culminating in the 2015/16 Spending Round announcement of June 2013 which detailed a further 10% funding reduction for local government in 2015/16. By February 2014, when the Council set its budget for 2014/15 it was forecast that Government grant to local government would have reduced by over 40% by the end of 2015/16.

The Chancellor of the Exchequer also announced the need for a further £30bn of public expenditure reductions for 2016/17 and 2017/18. With £12bn expected to be found from Welfare budgets, £13bn will need to be found from Government Departments and £5bn from addressing tax avoidance. It was expected that Health, Education and Oversees Aid budgets would continue to be protected resulting in increased pressure upon the remaining unprotected Government Departments. It was therefore forecast that the Government grant reductions for local government in 2016/17 and 2017/18 will be similar in magnitude to those of 2014/15 and 2015/16.

Overall it was forecast that the Council would need to save £224m over the 2011 to 2017 period. A sum of £113.9m of savings had been realised by the end of 2013/14 resulting in a £110.1m savings requirement for the three year MTFP (4) period 2014/15 to 2016/17.

The Council agreed a net revenue budget of £438.765m for 2014/15. Factoring in cuts in Government grant, inflation and other budget pressures, amounting to £8.154m, required the delivery of £23m of savings in 2014/15 in order to deliver a balanced budget.

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 .

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.

					Cash Limit Adjustments				
	Original Budget	**Revised Budget**	**Service Groupings Final Outturn**	**Variance**	**Sums Outside the Cash Limit**	**Cash Limit Reserve**	**Contribution to / Use of Reserves**	**Cash Limit Position**	**Cash Limit Carry Forward**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Assistant Chief Executive	10,200	10,874	11,812	938	-1,586	-	414	-234	234
Children and Adults Services	275,231	259,176	209,110	-50,066	30,999	-	18,194	-873	873
Neighbourhood Services	109,765	110,602	78,036	-32,566	23,953	-39	5,668	-2,984	2,984
Regeneration and Economic Development	42,653	44,077	50,286	6,209	-8,574	17	953	-1,395	1,395
Resources	14,447	12,515	13,597	1,082	-3,717	-	665	-1,970	1,970
Cash Limit Position	452,296	437,244	362,841	-74,403	41,075	-22	25,894	-7,456	7,456
Contingencies	7,706	6,272	-	-6,272	-	-	6,500	228	-228
Centrally Held Budgets	-	1	-1,528	-1,529	1,546	-	-	17	-17
Corporate Costs	3,924	3,182	3,019	-163	-	-	118	-45	45
NET COST OF SERVICES	463,926	446,699	364,332	-82,367	42,621	-22	32,512	-7,256	7,256
Capital charges	-50,474	-49,501	-2,405	47,096	-44,515	-	-	2,581	-2,581
Gain/Loss on disposal of fixed assets	-	-	-2,581	-2,581	-	-	-	-2,581	2,581
Interest and Investment income	-1,441	-1,441	-1,878	-437	-	-	-	-437	437
Interest payable and similar charges	38,444	38,291	33,755	-4,536	-	-	-	-4,536	4,536
HR Accrual - reversal	-	-	-2,220	-2,220	2,220	-	-	-	-
Net Expenditure	450,455	434,048	389,003	-45,045	326	-22	32,512	-12,229	12,229
Funded By:									
Council Tax	-168,844	-168,844	-168,845	-1	-	-	-	-1	1
Council tax freeze grant	-	-	-	-	-	-	-	-	-
Use of (-) / contribution to earmarked reserves	-8,140	16,105	48,617	32,512	-	-	-	32,512	-32,512
Start Up Funding Assessment	-250,409	-250,409	-250,444	-35	-	-	-	-35	35
New Homes Bonus	-6,784	-6,784	-6,783	1	-	-	-	1	-1
New Homes Bonus - re-imbursement	-390	-390	-381	9	-	-	-	9	-9
Section 31 Grant - Small business rate relief	-2,194	-2,194	-2,397	-203	-	-	-	-203	203
Section 31 Grant - Settlement Funding Assessment Adj	-1,703	-1,703	-777	926				926	-926
Section 31 Grant - Retail Adjustment	-1,204	-1,204	-1,211	-7				-7	7
Education Services Grant	-7,237	-7,237	-7,531	-294	-	-		-294	294
Use of Cash Limit Reserve	-2,617	-7,455	-21	7,434	-	-	-	7,434	-7,434
Use of (-) contribution to the General Reserve	-933	-3,933	770	4,703	-	-	-	4,703	-4,703
TOTAL	-	-	-	-	326	-22	32,512	32,816	-32,816

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. technical accounting entries such as Capital Charges and Central Administration Recharges actioned at year end.
- 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. Bridge inspections, Waste Disposal inflation and redundancy and early access costs linked to restructuring activity to achieve 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.

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 2014/15.

4 The 2014/15 cash limit underspend for each Service Grouping is detailed in the table below:

		Movement during 2014/15		
Service Grouping	**Opening Balance as at 01-Apr-14**	**Use of Reserve**	**Contribution to reserve**	**Closing Balance as at 31-Mar-15**
	£m	**£m**	**£m**	**£m**
Assistant Chief Executive	-1.005	0.466	-0.234	-0.773
Children and Adults Services	-12.029	3.459	-0.873	-9.443
Neighbourhoods	-2.782	0.690	-2.984	-5.076
Regeneration and Economic Development	-3.007	1.186	-1.395	-3.216
Resources	-3.563	1.676	-1.970	-3.857
Total	-22.386	7.477	-7.456	-22.365

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 following table provides a detailed Outturn position for the Council by type of expenditure and income.

	Original Budget £'000	Revised Budget £'000	Service Groupings Final Outturn £'000	Corporate Costs £'000	Variance £'000	Cash Limit Adjustments: Sums Outside the Cash Limit £'000	Cash Limit Adjustments: Cash Limit Reserve £'000	Cash Limit Adjustments: Contribution to / Use of Reserves £'000	Cash Limit Position £'000	Cash Limit Carry Forward (including Corporate Costs) £'000
Employees	483,046	498,071	511,765	-	13,694	-2,416	-	4,493	15,771	-15,771
Premises	49,510	55,383	61,701	-	6,318	-5,737	-	35	616	-616
Transport	46,657	46,212	43,901	-	-2,311	0	-	-10	-2,321	2,321
Supplies and Services	114,270	120,865	156,171	1,814	37,120	-2,198	17	1,318	36,257	-36,257
Agency and Contracted	260,165	260,641	266,571	3,276	9,206	145	-39	5,518	14,830	-14,830
Transfer Payments	206,771	205,626	216,325	-	10,699	-	-	-70	10,629	-10,629
Central Costs	94,797	83,824	67,723	-	-16,101	-8,172	-	10,613	-13,660	13,660
Other	12,637	2,065	18,597	-	16,532	65	-	-19	16,578	-16,578
DRF	-	-	9,413	-	9,413	-	-	-	9,413	-9,413
Capital Charges	50,474	49,501	4,986	-	-44,515	44,515	-	-	-	-
GROSS EXPENDITURE	1,318,327	1,322,188	1,357,153	5,090	40,055	26,202	-22	21,878	88,113	-88,113
Income										
- Specific Grants	539,986	544,166	586,265	2,037	44,136	-5,301	-	-1,592	37,243	-37,243
- Other Grants and contributions	25,830	37,471	36,785	-	-686	-123	-	-498	-1,307	1,307
- Sales	5,367	5,154	9,288	-	4,134	-264	-	-87	3,783	-3,783
- Fees and charges	104,308	105,646	111,264	32	5,650	-8	-	51	5,693	-5,693
- Recharges	174,150	175,821	231,249	-	55,428	-10,723	-	-1,151	43,554	-43,554
- Rents	5,470	5,448	6,521	-	1,073	-	-	-12	1,061	-1,061
- Other	6,996	8,056	14,468	2	6,414	-	-	-845	5,569	-5,569
Total Income	862,107	881,762	995,840	2,071	116,149	-16,419	-	-4,134	95,596	-95,596
NET EXPENDITURE	456,220	440,426	361,313	3,019	-76,094	42,621	-22	26,012	-7,483	7,483

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

	£m	£m
Gross Expenditure	1,388.792	
Less: Gross Income	-999.789	
Net Expenditure		389.003
Financed by:		
Council Tax	168.845	
Start Up Funding Assessment	250.444	
New Homes Bonus	6.783	
New Homes Bonus - re-imbursement	0.381	
Section 31 Grant - Small Business Rate Relief	2.397	
Section 31 Grant - Settlement Funding Assessment Adjustment	0.777	
Section 31 Grant - Retail Adjustment	1.211	
Education Services Grant	7.531	
Net Use of Cash Limit Reserves	0.021	
Net Contribution to Earmarked Reserves:		
Schools and DSG	-3.558	
Non-Schools	-45.059	
Net Contribution to the General Reserve	-0.770	
Total Financing		389.003

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

	£m
Opening Balance as at 1 April 2014	-28.134
Add	
Net Contribution to General Reserve	-0.770
Closing General Reserve Balance as at 31 March 2015	-28.904

7 The General Reserve balance carried forward of £28.904m is within the Council's General Reserves policy of retaining between 5% and 7.5% of the Net Budget Requirement, which in cash terms is between £20.7m and £31m. The £28.904m balance at 31 March 2015 equates to 7.1% of 2015/16 Net Revenue Expenditure Budget.

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

- Interest and Investment income - £0.437m more than budgeted;
- Interest payable and similar charges - £4.536m less than budgeted;
- Education Services Grant - £0.294m more than budgeted;
- Contingencies - £6.598m less than budgeted offset by;
- Section 31 Grant income – £0.732m less than budgeted;
- A budgeted use of General Reserve of £0.933m; and
- A transfer of £9.500m to the Planned Delivery Programme Grant during the year

9 The final outturn for Earmarked Reserves in 2014/15 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 2014	-112.512	-31.051	-22.386	-165.949
Add				
Net contribution to Earmarked Reserve	-45.059	-3.558	0.021	-48.596
Closing Earmarked Reserve Balance as at 31 March 2015	**-157.571**	**-34.609**	**-22.365**	**-214.545**

Service Grouping Commentary

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

Assistant Chief Executive (ACE)

11 The 2014/15 outturn for the Assistant Chief Executive's Service is a cash limit underspend of £0.234m. This takes into account adjustments for sums outside the cash limit such as redundancy costs which are met from corporate reserves, year-end capital accounting entries and use of / contributions to earmarked reserves.

12 The cash limit position compares to the previously forecast position at quarter 3 of a cash limit underspend of £0.130m.

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 outturn position is accounted for as follows:

- Partnerships and Community Engagement - £45k overspend, primarily due to a managed overspend positon on employee related costs.
- Planning and Performance - £0.810m underspend, primarily due to proactive management of supplies and services budgets including a managed underspend in relation to resident surveys.
- Policy and Communications - £0.198m underspend, predominantly resulting from a £98k managed underspend on employee related costs across the service together with an £89k underspend on supplies and services budget through tight control of expenditure in this area. The remaining underspend is from additional income generated from advertising.

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:

- £0.414m – relates to contributions to and from earmarked reserves and cash limits to support specific projects in 2015/16.
- £1.586m – relates to a range of adjustments associated with capital charges, centralised repairs and maintenance and central administration.

15 Taking the 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 £0.773m.

Children and Adults Services (CAS)

16 The 2014/15 outturn for Children and Adults Services (CAS) is a cash limit underspend of £0.873m. This takes into account adjustments for sums outside the cash limit such as redundancy costs which are met from corporate reserves, year-end capital entries and contributions to and from earmarked reserves, including a £15.150m contribution to the Demographics / Hyper Inflationary Pressures Reserve which will be used across the MTFP 5 period.

17 The cash limit outturn position compares to the previously reported forecast balanced position at year end.

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 £5.400m.
- Net spend on adult care packages was approximately £4.800m under budget, which represents circa 5% of the total adult social care budget. This area of spend continues to be 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.

- A review of one-off additional funding has identified an in-year contribution to the overall cash limit of approximately £1.750m. 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.
- The Education Service was £0.945m under budget in the year. 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.
- Children's Services was under budget by £3.247m, primarily as a result of employee costs realised from proactive management of vacancies and early achievement of future years MTFP savings across Children's Care, One Point, Family Pathfinder and the Youth Offending Services. This was further augmented by reduced premises spend, supplies and services expenditure and achievement of additional income in year. 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 on placement costs was £0.800m less than the previous year and £3.100m less than in 2012/13.
- Central Costs/Other were £14.990m over budget due in the main to a contribution to the Demographics / Hyper Inflationary Pressures Reserve of £15.150m during the year to offset and delay MTFP pressures in future years. There was also an increase in the provision for bad and doubtful debts of £0.164m at year end; offset in the main by additional income and a procurement rebate.
- Secure Services are operated on a trading basis and therefore report a breakeven position in terms of the CAS cash limit. The service incurred additional one off expenditure in 2014/15 of £0.185m that was funded from the trading reserve at year end. Similarly, the Continuous Professional Development and Education Development Services in the Education Service returned surpluses of £42k and £0.203m respectively, which have also been transferred to earmarked reserves at year end.
- Public Health spending against the Public Health Grant was £48k below the grant, producing an underspend at the year end and this has been transferred to the earmarked reserve to meet known future commitments required in achieving service objectives in 2015/16.

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

- £3.622m relates to contributions to and from earmarked reserves and cash limits to support specific projects in 2014/15 and 2015/16, including £0.651m transferred to the Social Care Reserve for use in 2015/16; £46k transferred to the Continuous Professional Development Reserve, relating to the trading account surplus at the year end; £0.161m transfer to the Tackling Troubled Families Reserve which will fund planned commitments in 2015/16; £0.140m 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 funding related to the SEND Reforms; a £1.483m transfer to a new Transformation Reserve for planned future expenditure; a £0.137m contribution adjustment to Public Health reserves and a £0.175m adjustment to the previously forecast contribution from the Aycliffe Secure Reserve.
- £3.920m net contribution to reserves in relation to equal pay, ER/VR costs and insurance recharges.
- £33.245m – relating to a range of adjustments associated with capital charges, centralised repairs and maintenance and central administration recharges. In the main, this relates to capital charges (£31.709m) which is offset in the Revenue Summary, as shown in the table in paragraph 2.

20 Taking the outturn position into account, the cash limit reserve to be carried forward for Children and Adults Services is £9.443m. There is pre-committed planned use of this reserve of £0.187m during 2015/16.

Dedicated Schools Grant

21 The Dedicated Schools Grant (DSG) allocation for 2014/15 was £351.413m, however due to schools converting to academies and reduction in high needs allocations for payments made direct by the Education Funding Agency the budget was reduced by £70.140m in year to £281.273m. 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 £255.179m.

23 Where schools spent more or less than their delegated budgets, the difference either reduces or increases their accumulated balance. Schools-related balances were £24.296m at 31 March 2015, a decrease of only £0.389m from the previous year and substantially less than the £7.043m planned use of balances that was previously forecast, which has been attributed to delays in implementing planned capital investments by the schools.

24 The level of school balances and the planned use of these sums continue to be challenged and closely monitored; particularly those schools with a deficit balance and robust arrangements have been put in to place to monitor these in parallel with budget plans developed by the school given the additional risks from schools that could potentially become a sponsored academy.

25 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 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 has 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. Given that the planned and actual use of schools' balances in year varied significantly there is still some work to do to improve financial planning within schools and we will prioritise this in the coming year.

26 At 31 March 2015 there were 9 schools with a deficit balance carried forward totalling £1.779m, 16 schools holding a surplus balance carried forward of less than 2.5% of their overall funding totalling £0.306m and 229 schools with surplus balances of more than 2.5% of their overall funding totalling £25.701m This can be compared with the position at 31 March 2014 when 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. Total net schools balances at 31 March 2015 were £24.244m, compared to £24.684m at 31 March 2014.

27 The pressure areas for the centrally controlled element of the DSG in 2014/15 have been within the post 16 high needs provision and the capitalised repair and maintenance. This has been offset by underspends within early years provision; school improvement; High Needs Special Education Needs and Disabilities (SEND) children's placements in maintained, academy and independent special schools; and the Education Service Team dealing with SEND children.

28 The overall outturn position for the centrally retained element of the DSG shows an underspend of £3.998m. The earmarked reserve relating to centrally retained DSG carried forward at 31 March 2015 is £10.365m, of which £1.493m is earmarked for Schools relating to the Growth Fund, school improvement and rates, £3.296m relates to early years provision, £0.711m for outstanding commitments for the capital programme and the balance will support continuing High Needs pressures in 2015/16.

Neighbourhood Services

29 The 2014/15 outturn for Neighbourhood Services is a cash limit underspend of £2.984m. This takes into account adjustments for sums outside the cash limit such as redundancy costs which are met from corporate reserves, year-end capital accounting entries and use of / contributions to earmarked reserves.

30 The cash limit outturn position compares to the previously forecast quarter 3 position of a cash limit underspend of £1.105m.

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

- Direct Services - an underspend of £2.200m. This was mainly due to Building Services generating an increased surplus of £1.000m, from a higher than anticipated workload throughout the year. There were also savings of £0.700m in Admin Buildings and Depot running costs, one-off VAT refunds of £0.200m relating to Catering and Trade Refuse, and an underspend of £0.440m throughout the service relating to the early delivery of 2015/16 MTFP savings.

- Highway and Design Services – the trading areas of this service generated increased surpluses of approximately £2.500m in year due to higher than anticipated workloads and increased productivity, but these surpluses were largely offset by increased policy led expenditure on highway maintenance in relation to Category 1 and Category 2 defects, along with increased general maintenance around patching, drainage and footways, increased expenditure on Bridge Inspections, and increased gully cleansing activity in year. Taking these managed overspends into account, there was an overall cash limit underspend of £0.100m within Technical Services in the year.
- Culture and Sport – the Library Service was £0.380m underspent due to savings associated with employees, as a result of a restructure linked to MTFP savings and also savings in energy costs in year.
- Projects and Business Services - an underspend of £0.250m resulted from additional income from power generation in Strategic Waste (£0.100m) and there were also managed savings in employees and supplies and services of £0.150m across the service.

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

- £3.866m – relates to a net contribution to earmarked reserves and cash limits to support specific projects in 2015/16, including a £1.500m contribution to earmarked reserves to support one off expenditure in Culture and Sport; a £2.600m contribution to earmarked reserves in respect of Highways, Waste Disposal, and Environmental Health; and a £0.300m contribution from earmarked reserves in respect of Buildings and Grounds Maintenance, and Street Cleaning.
- Approximately £1.800m of the reserves movement is due to newly identified operational issues which require addressing in 2015/16. These include essential investment in equipment, health and safety initiatives in depots, repairs to playgrounds and footpaths, and drainage inspections. In addition a reserve of £0.800m has been set up relating to funding that is held on behalf of County Durham Sport.
- The movement on reserves also includes a contribution of £0.755m to the Winter Maintenance Reserve that was established at the end of 2013/14. This contribution represents the underspend on Winter Maintenance activities during 2014/15, and reflects the relatively mild conditions that were experienced during the last winter. In previous years, any overspends on Winter Maintenance were treated as outside the cash limit, but in future it is expected that the Winter Maintenance Reserve (now £1.755m) will be utilised when severe winter events occur and the annual budget, which was

increased by £1.300m in 2014/15, is insufficient to meet the unavoidable costs in this area.

- £1.802m net contribution to reserves in relation to ER/VR costs, Job Evaluation Settlement and Insurance recharges.
- £23.953m relates to a range of adjustments associated with capital charges, centralised repairs and maintenance and central administration recharges. In the main, this relates to capital charges (£20.251m) which is offset in the Revenue Summary, as shown in the table in paragraph 2.

33 Taking the outturn position into account, the Cash Limit Reserve to be carried forward for Neighbourhood Services is £5.076m. There is pre-committed planned use of this reserve of £80k across the MTFP 5 period.

Regeneration and Economic Development (RED)

34 The 2014/15 outturn for Regeneration and Economic Development is a cash limit underspend of £1.395m. This takes into account adjustments for sums outside the cash limit such as redundancy costs which are met from corporate reserves, year-end capital accounting entries and use of contributions to earmarked reserves.

35 The cash limit outturn position compares to the previously forecast position of a cash limit underspend of £1.320m.

36 The outturn is a managed position, reflecting the proactive management of activity by Heads of Service across RED throughout the year to remain within the cash limit. The outturn position is accounted for as follows:

- Strategy Programmes and Performance - £84k underspend, resulting from managed savings on employee costs due to vacancies, maternity leave and staff working reduced hours.
- Economic Development and Housing - £90k managed underspend, primarily due to MTFP savings made early in the housing solutions service, offset by additional spend in economic development on supporting apprenticeships.
- Planning and Assets - £0.290m underspend, consisting of a £0.641m underspend in the Planning Service and a £0.351m overspend on the Assets function. The underspend in the Planning Service primarily results from increased planning and building control fee income, from the management of vacant posts and other efficiency savings on running costs. The Assets Service experienced income pressures, mainly from Newgate Street in Bishop Auckland, the Brackenhill Centre in Peterlee and Millennium Square in Durham City where budgeted rental income was not achieved in year.
- Transport and Contract Services - £0.907m underspend. Included in the outturn is reduced car parking income in year of £0.192m, offset by savings in the subsidised bus services contracts of £0.373m and additional Care Connect income of £0.228m, plus other general efficiency savings across supplies and services budgets totalling £0.498m.
- Central Costs – £24k underspend due to minor variances across a number of budget headings

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

- £0.970m – relates to contributions to and from earmarked reserves and cash limits to support specific projects in 2015/16
- £8.574m – relates to a range of adjustments associated with capital charges, centralised repairs and maintenance, central administration and concessionary fares

38 Taking the outturn position into account, the Cash Limit Reserve to be carried forward for Regeneration and Economic Development is £3.216m.

Resources

39 The 2014/15 outturn for Resources is a cash limit underspend of £1.970m. This takes into account adjustments for sums outside the cash limit such as redundancy costs which are met from corporate reserves, year-end capital accounting entries and use of / contributions to earmarked reserves.

40 The cash limit outturn position compares to the previously forecast position at quarter 3 of a cash limit underspend position of £1.439m.

41 The underspend is a managed position, reflecting the proactive management of activity by Heads of Service across Resources throughout the year to remain within the cash limit. The outturn position is accounted for as follows:

- Corporate Finance underspent by £0.321m. £0.178m of this relates to the early achievement of MTFP savings and adjustments required to offset budget pressures in 2015/16, with a further £68k relating to managed underspends against employees. There was also increased income of £45k for VAT services and £30k from SLA income (including academies) achieved in the year.
- Financial Services was underspent by £0.452m, consisting of planned underspending of £0.256m in respect of the early achievement of MTFP savings and adjustments required to offset budget pressures in 2015/16. There were also a managed underspend against employees (£0.143m) resulting from the careful management of vacancies and a net underspend in other areas, with cost increases more than offset by increased income from SLAs, grants and contributions.
- Human Resources was underspent by £0.272m, with a £0.371m saving from staff vacancies from the service restructure linked to MTFP savings in 2014/15 and 2015/16, partly offset by costs incurred in support of the restructure.
- ICT Services was underspent by £12k, including a £0.100m underspend on employees from the early achievement of MTFP savings and £0.139m from overachieved income, offset by a £0.118m overspend on direct revenue funding of capital and debt write-offs plus a £71k underspend on the Digital Durham project.

- Internal Audit was underspent by £78k primarily from a £54k managed underspend position on employees, through tight management and control of staff vacancies and secondments in anticipation of 2015/16 MTFP savings.
- Legal and Democratic Services was underspent by £0.759m, including £0.135m from the early achievement of future years MTFP savings, £0.170m from vacancy savings, £0.240m on supplies and services (including £86k on barrister and legal fees) and increased income of £0.121m (including £70k for Registration Services).
- Service Management was underspent by £75k, through income generated from providing services to Northumberland County Council under a collaborative arrangement.

42 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:

- £0.665m – relates to contributions to and from earmarked reserves and cash limits to support specific projects in 2015/16
- £3.717m – relates to a range of adjustments associated with capital charges, centralised repairs and maintenance and central administration recharges.

43 Taking the outturn position into account, including items outside the cash limit and transfers to and from earmarked reserves, the cash limit reserve to be carried forward for Resources is £3.857m.

Resources - Centrally Allocated Costs (Corporate Costs)

44 Centrally Allocated Costs were £45k under budget in 2014/15. The outturn has been adjusted to take into account adjustments for the use of / contributions to earmarked reserves.

45 The outturn position compares to the previously forecast under budget position of £48k. The net under budget includes under budget positions on bank charges (£71k), audit fees (£72k), subscriptions (£15k) and an Association of North East Councils (ANEC) refund (£16k), which are partly offset by an unbudgeted payment to North East Combined Authority (NECA) (£80k) and an over budget on expenses associated with raising loans (£49k).

46 Further to the quarter 3 forecast of outturn report, the following item has been excluded from the outturn in arriving at the cash limit outturn position:

- £0.118m – relates to a contribution to the Welfare Assistance Reserve to support specific projects in 2015/16

Central Budgets

Interest Payable and Similar Charges

47 The Revenue Summary at paragraph 2 shows a net £4.536m 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

48 There has been an overachievement of investment income of £0.437m which is due to the higher than anticipated levels of cash balances held during 2014/15. 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 2014/15. The improved position is also a result of investing £20m with the Royal Bank of Scotland in a two-year stepped deposit account, which is attracting higher interest rates of 1.1% for the period 15 December 2014 to 14 December 2015, and 1.5% from 15 December 2015 to 15 December 2016.

Education Services Grant

49 The outturn reflects net additional grant income of £0.294m which was due to the actual grant notification being higher than the amount budgeted for in 2014/15.

2014/15 Capital Outturn

General Fund Capital Programme

50 The original General Fund (GF) capital budget for 2014/15, taking into account the budgets approved by Council on 26 February 2014 and adjustments for re-profiling of underspends at 2013/14 year end was £188.633m. This was agreed by Cabinet on 16 July 2014.

51 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 to and approved by Cabinet as part of the quarterly budgetary control reports in year. Requests for re-profiling capital programme underspends at 31 March 2015 have also been considered by MOWG.

52 The following table summarises the revised capital budgets, taking into account revisions considered by MOWG and agreed by 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 2015.

General Fund Capital Programme 2014/15

	Revised 2014/15 Budget	2014/15 Outturn	Variance	Additions / Deletions from Budget	Reprofiling
	£m	£m	£m	£m	£m
Assistant Chief Executives	3.565	1.585	-1.980	0.027	-2.007
Children and Adults Services	46.894	41.601	-5.293	1.524	-6.818
Neighbourhoods	39.119	33.978	-5.141	0.916	-6.057
Regeneration and Economic Development	36.554	33.252	-3.302	0.065	-3.367
Resources	7.179	6.798	-0.381	0.107	-0.487
TOTAL	**133.311**	**117.214**	**-16.097**	**2.639**	**-18.736**

53 In addition to underspends requested to be carried forward into 2015/16 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 2015/16 budgets have been reduced to offset the increased activity in 2014/15. All re-profiling considered by MOWG has now been reflected in the 2015/16 revised capital budget.

54 The Capital Programme is financed via various funding sources including grants, capital receipts, revenue contributions, contributions from reserves and borrowing. The financing of the 2014/15 Outturn is detailed in the following table.

Financing – General Fund Capital Programme 2014/15

	2014/15 Outturn £m
Financed by:	
Grants	56.708
Direct Revenue Financing	
DSG	4.281
Other	13.482
Capital Receipts	11.630
Borrowing	31.113
Total	117.214

Service Grouping Commentary

55 The primary reasons for the net capital underspending of £16.097m (circa 12% under budget at year end) are set out below:

Assistant Chief Executive (ACE)

56 The underspend of £1.980m within ACE is mainly due to:

- **Members Budgets** – Underspend £1.649m.

  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 £0.239m.

  Progress on the community buildings capital works programme has been delayed to allow time for the completion of new lease agreements for the buildings before works commence.

- **AAP – AAP Area Budgets** - Underspend £92k.

  Each AAP is encouraged to invest their annual allocation within each financial year. Current guidance states that uncommitted funds may only be carried forward where a clear spending plan has been identified.

Children and Adults Services (CAS)

57 The underspend of £5.293m for CAS is mainly due to:

- **BSF Schemes** – Underspend £0.593m.

Milestone payments for work at Consett Academy have been delayed and some outstanding final accounts on historic projects have yet to be resolved.

- **Devolved Formula Capital** – Underspend £1.857m.

  Work has been delayed as awaiting individual schools to finalise capital investment plans.

- **School Related** – Underspend £2.361m.

  Mainly due to delay in the receipt of final accounts. Officers prudently earmarked the sum of £0.454m to meet the cost of emergency works, which did not arise 2014/15. The demolition work at the Greenland Community School has been delayed due to the filming of 'Inspector George Gently'.

- **Public Health** – Underspend £0.236m.

  Mianly related to grant related expenditure payable to Livin on completion of a residential project. The project awaits completion but confirmation from the grant making body that the Grant provision can be carried forward to 2015/16 has been received.

- **Other areas** – Underspend £0.246m.

  Investment in schemes associated with Children's Residential Homes and Learning Disability Service provision has been reprofiled into 2015/16.

Neighbourhood Services

58 The underspend of £5.141m for Neighbourhood Services is mainly due to:

- **Direct Services** – Underspend £2.515m.

  This is mainly due to the supplier revising the delivery date of vehicles ordered by the Authority during 2014/15 with delivery now expected in 2015/16.

- **Culture and Sport** – Underspend £0.217m.

  The underspend in this area is due mainly to the following factors:

  - Wharton Park (£44k) - The demolition of Wharton Park house came in below tender and the construction programme was revised and will progress in 2015/16.
  - Newton Aycliffe CAP (£64k) - This scheme includes the demolition of an adjacent building not owned by the Council, which was delayed. It is anticipated that construction work will continue in 2015/16.
  - DLI Museum Collection Restoration Scheme (£50k) - This scheme has been delayed due to the accommodation review currently being undertaken by Neighbourhood Services and has been reprofiled into 2015/16.

- **Projects and Business** – Underspend £1.135m.

  Mainly due to an underspend on the Stanley CAP project, which was programmed over two years. The majority of the construction work will now be completed in 2015/16.

- **Technical Services** – Underspend £1.274m

  The outturn position is due to the following factors:

  - The underspend of £0.254m relating to Bridges is due to work on a number of structures being reprogrammed into 2015/16 as a result of on-going issues with land negotiations or further investigatory work. An additional underspend of £55k is due to a number of completed schemes for which the final account will be processed in 2015/16.
  - Overall, Street Lighting schemes were underspent by £0.220m as several schemes were reliant on the Northern Grid Programme to underground their overhead network. In addition, there were savings on a number of schemes where costs were lower than projected as well as the use of trenchless technology, which reduced disruption and led to the actual charge being lower than the original estimate.
  - Highways – Final accounts for completed work are awaited and also the Speedvisor rotation costs within Traffic and Community Engagement were lower than originally planned. Work on the AAP schemes will continue into 2015/16.

Regeneration and Economic Development (RED)

59 The underspend of £3.302m for RED is mainly due to:

- **Economic Development and Housing** – Underspend £2.579m. Primarily the outturn position is due to the following factors:

  - Progress on the multiyear Gypsy Roma Traveller Sites project is ahead of schedule with an associated additional expenditure of £0.462m being incurred earlier than initially expected.
  - Under spend on the Disabled Facilities Grants (DFG)/Financial Assistance schemes (£1.281m) where 120 DFGs were committed but payment had not been processed by 31 March 2015 and 138 Decent Home loans which were being processed but not finalised by the year end.
  - Housing Renewal also experienced an underspend of £0.570m resulting, in part, from weather conditions delaying the Group Repair work at Craghead and the rescheduling of the environmental improvement project at Easington into quarter 1 of 2015/16.
  - Underspend at DurhamGate of £0.320m relates to the retention of final payments prior to the resolution of ongoing legal issues.
  - Town centre underspent by £0.377m. In the main, this is due to longer than anticipated negotiations relating to Peterlee North East Industrial Estate and in-year savings against several town centre renewal initiatives.
  - Required revision in delivery schedule involved with St Johns Square in addition to retention payments at Thornley Community Centre led to a combined underspend of £0.132m.

- Final contract retention payments associated with the Barnard Castle Vison projects have led to an underspend of £95k.
- Savings from completed Customer Access Points have resulted in an underspend of £0.131m on the first phase of the Office Accommodation project.
- On-going design and feasibility works connected with the new build programme associated with NETPARK await final completion leading to a £0.132m in year underspend.

- **Planning and Assets** – Underspend £0.179m.
  Primarily this is due to delays in reinstatement works awaiting completion (as at 31 March 2015) at Cobblers Hall together with retention payments on energy efficiency / boiler optimisation schemes leading to an underspend of £0.142m. This combined with underspends of £37k on the Structural Maintenance budget (which is part of a two year rolling programme) led to the noted underspend of £0.179m.
- **Transport** – Underspend £0.544m.
  Land acquisition issues delaying the start of construction at Villa Real and longer than initially anticipated negotiations regarding the provision of a new Bus Station in Durham are the primary causes of the in-year underspend of c£1.54m offset, in part, by progress ahead of schedule on the purchase of Peterlee Bus Station, c£0.5m.

Resources

60 The underspend of £0.381m for Resources is mainly due to:

- **ICT** - Underspend £0.277m
  A delay in the installation of the Desktop Mailing equipment, due to issues with supply, led to this underspend. In addition, there was an underspend relating to Digital Durham due to existing BT infrastructure being available in the first phase of the contract rather than having to install new equipment as originally planned. However, it is anticipated that in the later phase of the contract new infrastructure will be required.
- **Finance** - Underspend £0.104m

  The underspend on the acquisition of the new Civica Pension system is attributable to two separate factors:
  - It was expected that the web installation would commence in January 2015 and payments would be due from that date. This has now been delayed with the implementation expected to start in June/July 2015.
  - Due to failures in performance of the Fire section of the new system, payment of invoices has been withheld until Civica carries out the work required to bring the system up to the satisfactory standard. This work is progressing and it is hoped that payment can be made in the near future.

Capital Receipts

61 Income from the sale of assets (Capital Receipts) are utilised to support the capital budget. The 2014/15 budget for income from Capital Receipts was £10.229m. The final outturn position is shown in the following table:

Source	Sum Received 2014/15
	£m
Land Sales	8.419
Land Sales via Durham Villages Regeneration Limited	0.758
VAT Shelter – Livin	1.156
VAT Shelter – Derwentside Homes	0.556
VAT Shelter – Teesdale	0.075
Preserved 'Right to Buy' Sales	0.573
Vehicle Sales	0.092
Total	11.629
Less: Income Budget	10.229
Surplus	1.400

Annual Treasury Management Review

Executive Summary

62 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.

63 It is concerned with how the Council manages its cash resources and its scope covers borrowing, investment and hedging instruments and techniques.

64 Risk is inherent in all treasury management activities and it is necessary to balance risk against return on investment.

2014/15 External influences

65 The financial year 2014/15 continued to be the challenging investment environment of previous years of low investment returns, although levels of counterparty risk had subsided. The original market expectation at the beginning of 2014/15 was for the first increase in Bank Rate to occur in quarter 1 of 2015 as the unemployment rate had fallen much faster than expected through the Bank of England's initial forward guidance target of 7%.

66 In May 2014, however, the Bank revised its forward guidance. A combination of very weak pay rises and inflation above the rate of pay rises meant that consumer disposable income was still being eroded and in August 2014 the Bank halved its forecast for pay inflation in 2014 from 2.5% to 1.25%.

67 Expectations for the first increase in Bank Rate therefore started to recede as growth was still heavily dependent on buoyant consumer demand.

68 During the second half of 2014 financial markets were caught out by the halving of the oil price and the Swiss National Bank announcing that it would no longer hold the Swiss Franc (CHF) at a fixed exchange rate with the Euro. Fears also

increased considerably that the European Central Bank (ECB) was going to do "too little too late" to ward off the threat of deflation and recession in the Eurozone.

69 By the end of 2014, it was clear that inflation in the UK was going to head towards zero in 2015 and possibly even become negative. In turn, this made it clear that the Monetary Policy committee (MPC) would have great difficulty in starting to raise the Bank Rate in 2015 while inflation was around zero and so market expectations for the first increase receded to around quarter 3 of 2016.

70 Gilt yields were on a falling trend for much of the last eight months of 2014/15 but were then pulled in different directions by increasing fears after the anti-austerity parties won power in Greece in January. Developments since then have increased fears that Greece could be heading for an exit from the Euro. While the direct effects of this would be manageable by the European Union (EU) and ECB, it is difficult to quantify what the potential knock on effects would be on other countries in the Eurozone once the supposed "impossibility of a country leaving the Eurozone" had been disproved.

71 Another downward pressure on gilt yields was the announcement in January that the ECB would start a major programme of quantitative easing, purchasing Eurozone government and other debt in March 2015.

72 On the other hand, strong growth in the United States (US) caused an increase in confidence that the US was well on the way to making a full recovery from the financial crash and would be the first country to start increasing its central interest rate, probably by the end of 2015.

73 The UK would be closely following it due to strong growth over both 2013 and 2014 and good prospects for a continuation into 2015 and beyond. However, there was also an increase in concerns around political risk from the general election in May 2015.

Treasury Position

74 The Treasury position at the beginning and end of 2014/15 is shown in the table below:

	31-Mar-14	Rate / Return	Average Life	31-Mar-15	Rate / Return	Average Life
	£m	%	years	£m	%	years
Total Debt	437	4.49		457	4.45	
Capital financing requirement (CFR)	607			636		
Over / (-) Under borrowing	-170			-179		
Total Investments	152	0.71	0.3	238	0.71	0.35
Net Debt (total debt less total investments)	285			219		

75 Investments increased by £86m across the period as a result of re-profiling of the capital programme, a lower than anticipated use of reserves and new borrowing.

76 To take advantage of favourable interest rates, new borrowing of £25m for 42 years at 4% was raised during the year.

Investment Strategy

77 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.

78 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

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

- Banks 1 **–** the Council will only use UK banks and have, as a minimum, the following Fitch, Moody's and Standard and Poor's credit ratings (where rated):

	Fitch	**Moody's**	**Standard and Poor's**
Short Term	F1	P1	A-1
Long Term	A-	A3	A-

- Non UK Banks 1 **–** the Council will only use non UK banks which have, as a minimum, the following Fitch, Moody's and Standard and Poor's credit ratings:

	Fitch	**Moody's**	**Standard and Poor's**
Sovereign Rating	AAA	AAA	AAA
Short Term	F1+	P1	A1+
Long Term	AA-	Aa3	AA-

(N.B. Viability, Financial Strength and Support ratings have been removed and will not be considered in choosing counterparties.)

- Banks 2 – Part nationalised UK banks – Lloyds Banking Group and Royal Bank of Scotland. These banks can be included if they continue to be part nationalised or they meet the ratings in Banks 1 above.
- Banks 3 – The Council's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time.
- 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.
- Building societies - The Council will use societies which meet the ratings for banks outlined above:
- Money market funds
- Enhanced money market funds (EMMFs)

- UK Government (including gilts and the Debt Management Account Deposit Facility [DMADF])
- Other local authorities and parish councils.

Time and Monetary Limits applying to Investments

80 The time and monetary limits for institutions on the Council's Counterparty List are as follows (these will cover both Specified and Non-Specified Investments):

	Long Term Rating	Money Limit	Time Limit
Banks 1 higher quality	AA-	£50m	2 years
Banks 1 medium quality	A	£35m	1 year
Banks 1 lower quality	A-	£25m	100 days
Banks 2 category – part-nationalised	n/a	£60m	2 years
Banks 3 category – Council's banker	A-	£25m	3 months
DMADF/Treasury Bills	AAA	unlimited	6 months
Local Authorities	n/a	£10m each	5 years
Money Market Funds	AAA	£20m each (overall £100m)	liquid

Icelandic Deposits Update

81 The County Council had £7m deposited across the Icelandic banks Glitnir Bank hf (£4m), Landsbanki (£2m) and Kaupthing Singer and Friedlander Ltd (£1m), which all effectively collapsed financially in October 2008.

82 The Council's recovery position at 31 March 2015 is as follows:

- Glitnir: a full distribution was made in March 2012, however an element of the distribution was in the Icelandic Kroner currency, which was placed in an escrow account in Iceland due to currency controls currently operating in the country. As a result, this element had been subject to exchange rate risk, over which the Council had no control. Following a currency auction in February 2015, the Council has repatriated this money and is no longer a creditor of Glitnir. In total the Council received £4.136m against its £4.000m investment.
- During 2013/14, the Council sold its claims against the insolvent estate of Landsbanki through a competitive auction process. 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. In total the Council received £2.032m against its £2.000m investment.
- Kaupthing Singer and Friedlander: 82.5% of the outstanding balance has been repaid. 85.75% recovery is anticipated in the long run.

Kaupthing Singer and Friedlander Ltd

83 The current position on actual amounts received and estimated future receipts are as shown in the table. The Council has recognised an impairment of £3k in 2014/15 based on it recovering 85.75p in the £ as was anticipated at 31 March 2014. The phasing of the repayments has been amended in 2014/15 to a more prudent expectation of the likely repayment.

Date	Repayment
	%
Received to 31 March 2015	82.50
Due 31 December 2015	1.50
Due 31 December 2016	1.75

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

Glitnir Bank hf

85 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.

86 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.

87 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 was earning 4.2%. This element of the distribution had been 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 had no control.

88 Following a decision of the Icelandic Supreme Court on 25 September 2013, the Winding up Board of Glitnir had to apply the Central Bank of Iceland's (CBI's) official selling rates as at the date of the distribution when calculating the value of payments being made to Creditors in Icelandic Kroner (ISK). Previously, the exchange rate as at 22 April 2009 had been applied to all distributions made. The impact of this decision is that there was on-going uncertainty in relation to the sterling value of any future distributions.

89 The total amount of ISK held in escrow on behalf of Glitnir Creditors is around ISK 8.9bn (the equivalent of around £47m) excluding interest earned since March 2012.

90 The LGA, who work on behalf of the Local Authorities with Icelandic deposits, have discussed the potential options for converting the ISK into another currency and repatriating it to the UK.

91 It is important to note that Creditors, like the Council were unable to access the escrowed ISK unless and until:

- the Central Bank of Iceland (CBI) approved the requests which had been made by the winding-up boards (WUBs) to exempt the escrowed ISK from the capital controls so that the ISK could be paid from the escrow accounts to each individual Creditor (i.e. into an ISK account in each Creditor's name) or

- the capital controls are lifted. The date on which the controls will be lifted remains unknown but the Icelandic government has recently announced that it is taking steps towards that goal. Currency auctions are one of those steps.

92 The CBI periodically holds a currency auction to allow parties to:

(i) purchase ISK solely for the purpose of long term investment in Iceland;

(ii) purchase Iceland treasury bonds; and

(iii) purchase EUR (i.e. an outflow of ISK) in exchange for ISK.

93 The auctions are part of the CBI's strategy for an "orderly" removal of the capital controls. (i) and (ii) above result in an inflow of foreign currency into Iceland. (iii) enables holders of ISK to exchange their ISK for EUR.

94 The part of the auction that is relevant to Local Authority Creditors is (iii), the sale of ISK in exchange for EUR. In past auctions, the CBI has sought to match the inflow of foreign currency with the outflow of foreign currency. Given that the demand for foreign currency usually outstrips the supply of foreign currency in the CBI's auctions, previous auctions have resulted in a relatively low level of foreign currency outflow.

95 The consensus among most foreign creditors of the insolvent banks is that when the capital controls are ultimately lifted there is a very real risk that the value of the ISK will fall against other currencies. There is uncertainty as to when the capital controls will be lifted, although there is speculation in recent Icelandic media reports that this may happen during the course of 2015.

96 The CBI is currently reviewing ways in which it can relax the capital controls in a way that will not negatively affect Iceland's financial stability. Various commentators in Iceland have suggested that this is may involve the imposition of an "exit tax" (with suggestions of up to 30-40%) on creditors of the failed Icelandic banks. It is not yet known which creditors might be affected by any such tax or how any such tax might be applied but it may be applied to cross-border capital movement, such as the repatriation of escrowed ISK. If it is, this will have a negative impact on value of Creditors' escrowed ISK.

97 In February 2015 the CBI amended the rules for their currency auctions which allowed qualifying creditors, such as UK local authorities to participate.

98 The LGA administered a process for the sale of the escrowed ISK on behalf of local authority creditors. Local Authorities were required to submit a price for the sale of the escrowed ISK to buy Euros.

99 Through this process, the Council sold ISK 178m which bought €0.890m. Including the bank’s fee, the Council paid an all-in rate of ISK 201 for €.

100 The currency auction only accepted amounts in round millions of ISK for sale, so after selling ISK 178m and paying fees of ISK 0.890m from the escrow account, an amount of ISK 0.279m remains in the Glitnir escrow in Iceland. At current exchange rates this is worth in the region of £1,400.

101 The Council has impaired the value of Glitnir investments in its accounts by £0.267m. This takes account of the change in the exchange rate of the investments from 31 March 2014 to the sale of the investment in February 2015 along with the loss on the sale of the investments and the write off of the amount remaining in the escrow in Iceland. There is now no balance due in respect of Glitnir in the Council's accounts.

102 The Council is no longer a creditor of Glitnir.

9. Material Assets Acquired, Liabilities Incurred

The Council is involved in a number of major projects, known as capital works. The Council incurred £162.212m of capital expenditure in 2014/15. Included in this expenditure were the following major items:

	Expenditure in 2014/15 £000
Building Schools for the Future	1,182
Consett Academy	19,436
Schools - schemes funded from capital budgets delegated to schools	2,750
Structural maintenance of buildings - schools	4,281
Infrastructure - Street Lighting	4,486
Infrastructure - Other	31,735
Waste Infrastructure	5,347
Gypsy Travellers' Sites	5,627
Structural maintenance of buildings	6,608
Housing Capital Programme	42,826
Vehicles, Plant and Equipment	3,417
Revenue expenditure funded from capital under statute (REFCUS) (excluding school's delegated)	
Digital Durham and Rural Community Broadband	4,206
Disabled Facilities Grants	2,437
Housing Renewal	3,102
Members' Neighbourhood Fund	824
Other REFCUS	6,869

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.

	2013/14 Actual £m	2014/15 Budget £m	2014/15 Actual £m
Non-HRA capital expenditure	107.110	149.253	117.214
Non-HRA PFI and Finance Lease	2.480	3.419	2.172
HRA capital expenditure	45.698	46.717	42.826
Total capital expenditure	155.288	199.389	162.212
Resourced by:			
Capital receipts	8.150	10.879	12.976
Capital grants	91.643	80.998	75.390
Capital reserves and Revenue	35.378	31.194	29.049
Unfinanced capital expenditure	20.117	76.318	44.797

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 time, 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. 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 2015, usable capital receipts of £0.219m, unapplied capital grants and contributions of £0.609m and capital grants receipts in advance of £7.033m, 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 £243.449m were also held as at 31 March 2015 for General Fund purposes and another £26.078m 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 2014/15 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.

	31-Mar-14 Actual	31-Mar-15 Estimate	31-Mar-15 Actual
CFR	**£m**	**£m**	**£m**
Opening balance	603.431	607.260	607.260
Add unfinanced capital expenditure	20.117	76.318	44.797
Less MRP/VRP	-16.018	-16.055	-15.730
Adjustment:			
HRA - non-dwelling revaluation/impairment losses	-0.270	-	0.132
Housing Stock Transfer	-	-236.933	-
Closing balance	607.260	430.590	636.459

(At the time that the revised 2014/15 budget was reported to County Council in February 2015, it was anticipated that the Housing Stock Transfer would take place in March 2015. However, the transfer of Housing Stock did not take place until 13 April 2015 and is therefore not reflected in the calculation of the Actual 2014/15 CFR.)

Part of the Council's Treasury Management activities is to address the funding requirements for this borrowing need by organising the Council's cash position to ensure sufficient cash is available to meet the capital plans and cash flow requirements. Borrowing may be sourced from external bodies (such as the Government, through the Public Works Loan Board [PWLB] or the money markets), or utilising temporary cash resources within the Council. The CFR figure includes PFI and leasing schemes, which notionally increase the Council's borrowing need, however no borrowing is actually required against these schemes as a borrowing facility is included in the contract.

The Council's non HRA 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 2014/15 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 2014/15 on 26 February 2014 and updated on 25 February 2015. This differs from the Treasury Management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

The CFR can be reduced by:

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

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

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

The 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 2014/15 the Council has maintained gross borrowing within its authorised limit.

	2014/15 (original) £m	2014/15 (revised) £m
Authorised limit	759.000	484.000
Operational boundary	706.000	431.000
Maximum gross borrowing position		458.659
Average gross borrowing position		457.517

During the year, new borrowing of £25m for 42 years at 4% was raised during the year from the market, no new loans were taken from the Public Works Loans Board (PWLB).

Loan repayments of £4.458m were made in the year and the overall debt position of the Council increased by £20.542m from £436.833m at 31 March 2014 to £457.375m at 31 March 2015 which is detailed in the following table.

The total borrowing at 31 March 2014 and 31 March 2015 is detailed in the following table:

31-Mar-14 £m		31-Mar-15 £m
	Fixed Rate Funding	
410.026	- PWLB	405.724
26.807	- Market	51.651
-	**Variable Rate Funding**	-
436.833		457.375

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 £936.301m (£802.722m in 2013/14). 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 2015, valued using the projected unit credit method. Allowance is made for expected future increases in pay and pension.

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

Housing Stock Transfer

In September 2014, Cabinet agreed to transfer the Council's housing stock of circa 18,500 dwellings to County Durham Housing Group.

The transfer of the Housing Stock to the County Durham Housing Group Limited and its component housing management organisations, Dale and Valley Homes Limited, Durham City Homes Limited and East Durham Homes Limited took place on 13 April 2015, a date agreed with the Department of Communities and Local Government. Further details are included in Note 5 and Note 6.

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 and in 2014/15 the Council sold the element of the distributions in respect of Glitnir that had been held in an escrow account in Iceland. The money was received in February 2015.

All monies within Kaupthing, Singer and Friedlander are currently subject to the respective administration and receivership processes. Section 8 above and Note 16 provides further detail of the Council's current position.

Since 2008/09 impairment of £2.140m (2013/14 £1.870m) to the asset values have been calculated in accordance with CIPFA's LAAP 82 Bulletin. During 2014/15, there has been an additional £0.270m impairment of these assets. This amount has been debited through the Comprehensive Income and Expenditure Statement (CIES). This increased impairment (£0.267m) is as a result of the recognition on an exchange rate loss on the Icelandic Kroner held until February 2015 in the escrow account in respect of deposits in Glitnir Bank, and the remaining investment in Glitnir being written out of the accounts. Additional impairment of £0.003m for Kaupthing, Singer and Friedlander based on an anticipated recovery of 85.75p in the £, has also been charged to the accounts.

14. Significant Changes in Accounting Policies

The Code has introduced changes to the accounting treatment and disclosure requirements of the following items that have necessitated amendments to the accounting policies for 2014/15:

- **Joint Operations (previously "Jointly Controlled Operations and Jointly Controlled Assets") -** The wording of accounting policy has been revised to reflect the requirement for a range of new or revised accounting standards that have been incorporated into the 2014/15 Code.

- **Carbon Reduction Commitment Allowances –** amended to reflect the second phase of the scheme which came into effect in 2014/15.
- **Schools –** the wording of the accounting policy has been amended to reflect the CIPFA/LASAAC view, based on the indicators of control within IFRS 10, that all maintained schools in the County are now considered to be entities controlled by the Council, with the control of assets being determined in line with the relevant standards.

No new accounting policies have been added. For all other areas, the accounting policies used in the preparation of the 2014/15 accounts are in line with those used in the preparation of the 2013/14 Statement of Accounts.

15. Significant Provisions, Contingencies and Material Write-offs

The value of the Council's assets have been reduced by £454.395m in 2014/15, charged partly to services in the Comprehensive Income and Expenditure Statement (CIES) and partly to the Revaluation Reserve. This includes both the consumption of economic benefits and also revaluation losses due to the downturn in the economy as well as the on-going review of the Council's asset base since Local Government Reorganisation in 2009/10. The Council's housing stock has been reduced by £369.657m due to a decrease in the house price index.

One school has been established as an Academy in County Durham during 2014/15, which is independent of the Council. The effect of this change in status has led to the removal of this school from the Council's asset register as a disposal. The loss on disposal of this school amounts to £0.948m and has been charged to the CIES below the Net Cost of Services.

16. Changes in Statutory Functions

There have been no changes in statutory functions in 2014/15.

17. Subsequent Events

The Statement of Accounts was signed by the Corporate Director Resources on 30 June 2015.

Housing Stock Transfer

The Council transferred its housing stock to County Durham Housing Group (CDHG) on 13 April 2015. This will have a significant impact on the Council's accounts and Note 6 explains the main issues and implications for the accounts in 2015/16 and beyond.

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 and is described in section 6.

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 public spending reductions by Government has required council spending to be reduced by almost £137m to date. By 2019, it is calculated that the total sum to be saved will exceed £250m. This equates to a 60% funding reduction in government grant since CSR 2010, when the austerity programme began.

Regeneration and Economic Development remains the Council's main priority. This priority will need to be balanced over the medium term with the need for the Council to reduce expenditure.

The Council's MTFP for 2015/16 to 2017/18 provides a comprehensive resource envelope to allow the Council to translate the Council Plan into a financial framework that enables members and officers to ensure policy initiatives can be planned for delivery within available resources and can be aligned to priority outcomes.

The MTFP strategy that the Council has deployed to date has been to seek savings from management, support services, efficiencies and, where possible, increased income from fees and charges to minimise the impact of reductions on frontline services as far as possible and the 2015/16 proposals are in line with this strategy.

This strategy is becoming increasingly difficult to maintain over time and the likelihood is that front line services will become increasingly impacted over the next three or four years. The Budget report to Full Council in February 2015 summarises how the main proposals are in line with the Council's overall strategy and have been shaped by residents' and stakeholders' views with a high level analysis of the equalities impact.

Forecasted savings over the MTFP (5) period 2015/16 to 2017/18 of £87.6m are required, with the 2015/16 budget requiring savings of £16.283m to achieve a balanced budget.

The final Local Government Finance Settlement published on 3 February 2015 only included grant allocations for 2015/16, with no indicative figures provided for later years. The Council's Settlement Funding Assessment (SFA) is £215.781m for 2015/16 which is £36.331m or 14.4% less than the 2014/15 SFA. In addition, there continues to be reductions in specific grants.

Since clarity is expected to emerge following the Chancellor's emergency budget on 8 July 2015 regarding the future levels of local government funding from 2016/17, savings plans have yet to be fully developed beyond 2015/16.

The challenges faced are exacerbated in Durham for a range of reasons including Government grant reductions not being evenly distributed across the country, as evidenced by the Government's own Spending Power figures; the Government's methodology for funding local authorities is now linked to the performance of the local economy in the local authority areas. The link to a 'Needs Assessment' is no longer a key determinant of local authority funding and the demand for services and support from local authorities in areas like Durham is increasing with Welfare Reforms continuing to have a significant impact on communities in more deprived areas.

The balanced MTFP model is summarised in the following table:

	2015/16 £m	2016/17 £m	2017/18 £m	Total £m
Reduction in Resource Base	5.635	25.582	21.129	52.346
Budget Pressures	10.648	10.972	13.700	35.320
Savings required	16.283	36.554	34.829	87.666

2014/15 Net Budget Requirement

After taking into account base budget pressures, additional investment and savings, the Council's Net Budget Requirement for 2015/16 is £409.873m. The financing of the Net Budget Requirement is detailed in the following table.

Financing Method	Amount £m
Revenue Support Grant	100.240
Business Rates	54.809
Business Rates - Top Up Grant	60.491
Business Rates - Collection Fund Surplus	0.500
Council Tax	174.134
New Homes Bonus	8.322
New Homes Bonus - Re-imbursement	0.377
Education Services Grant	6.002
Section 31 - Small Business Rate Relief	2.398
Section 31 - Empty Property and Retail Relief	0.919
Section 31 - Settlement Funding Adjustment	1.681
Total	409.873

Capital Funding

The need to continue to invest in capital infrastructure is seen as an essential means of maintaining and regenerating the local economy whilst supporting 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.

At the same time, the Council also recognised the need for caution in committing the Council to high levels of prudential borrowing at this stage for future years.

Specific capital programmes were included in the MTFP for 2015/16 financed from assumed allocations of capital grants, which have now been confirmed.

In addition, the Council has received confirmation for additional capital grants for 2015/16 and has included indicative grants for 2016/17 in developing the MTFP Capital Programme. It should be noted that funding for 'Disabled Facilities' and 'General Social Care' are financed from the Better Care Fund. If the actual allocations for 2016/17 vary from the forecast then the capital budget may be adjusted accordingly.

Capital receipts are generated from asset sales and from VAT shelter arrangements in relation to previous council housing stock transfers within the former district councils. Overall, it is estimated that £10m of capital receipts will be generated in 2016/17, which will support the additional schemes for approval.

An additional revenue budget of £2m has been included in the MTFP for 2016/17 to support prudential borrowing. A proportion of this budget is being utilised to support the leasing costs of replacement vehicles and plant. The residual sum is available to support additional new schemes in the MTFP Capital Programme.

After considering all factors, including the availability of capital finance, the additional schemes were approved for inclusion in the MTFP Capital Programme as shown in the following table.

	2015-16	2016-17
	£m	£m
Assistant Chief Executives	-	2.100
Children and Adults Services	1.424	5.635
Neighbourhoods	0.910	20.508
Regeneration and Economic Development	4.325	15.684
Resources	0.250	1.755
TOTAL	**6.909**	**45.682**

After considering all relevant factors above, and the additional schemes the revised capital budget and its financing will be as follows:

	2014/15	2015/16	2016/17	2017/18	Total
	£m	£m	£m	£m	£m
Assistant Chief Executives	3.741	3.768	2.100	-	9.609
Children and Adults Services	57.976	34.366	8.159	0.315	100.816
Neighbourhoods	43.474	35.690	24.328	7.631	111.123
Regeneration and Economic Development	36.809	61.307	18.382	-	116.498
Resources	7.253	13.348	6.614	-	27.215
TOTAL	**149.253**	**148.479**	**59.583**	**7.946**	**365.261**
Financed By					
Grants and Contributions	62.315	40.082	30.221	0.315	132.933
Revenue and Reserves	8.387	0.280	-	-	8.667
Capital Receipts	10.229	16.619	14.673	6.687	48.208
Borrowing	68.322	91.498	14.689	0.944	175.453
TOTAL	**149.253**	**148.479**	**59.583**	**7.946**	**365.261**

Full details of the existing capital programme for 2014/15 to 2017/18 and additional schemes for 2015/16 and 2016/17 can be found in Appendix 8 and 9 of the Council's budget report.

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 continues 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 up to £31m. Each earmarked reserve, with the exception of the Schools' reserve, is reviewed on an annual basis. The Schools' reserve is the responsibility of individual schools with balances at the year-end which make up the total reserve.

The forecast balance on all reserves is reported to Cabinet every quarter as part of the Forecast of Outturn reports and Cabinet received the latest report on 18 March 2015. A range of reserves are being utilised to support MTFP (5).

	Sum Utilised in 2015-16
	£m
Adult Demographic Reserve	4.150
Equal Pay Reserve	4.536
Cash Limit Reserve	0.267
TOTAL	**8.953**

In addition to the above, the MTFP Redundancy and ER/VR Reserve will also be utilised during 2015/16 to support the delivery of MTFP savings. Overall, it is forecast that over £10m of earmarked reserves will be utilised to support the 2015/16 budget.

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.

Following the General Election on 7 May 2015, the Chancellor of the Exchequer announced a summer budget on 8 July 2015 and it is likely that there will be a Comprehensive Spending Review in the autumn of 2015. The impact of this will need to be considered as part of the development of MTFP (6) for the period 2016/17 to 2018/19.

The County Council approved its budget for 2015/16 and Medium Term Financial Plan to 2017/18 in February 2015. Further details can be found in the full report presented to Council on 25 February 2015 which is available at www.durham.gov.uk.

19. Housing Revenue Account

A Review of 2014/15

The HRA provides the income and expenditure associated with maintenance of the Council's housing stock of 18,500 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 housing finance system that was established from

April 2012, the Council is required to plan over the longer term and develop a 30 year HRA Business Plan to manage and maintain its housing assets.

The headline implications for 2014/15 were as follows:

- 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.

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.

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

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) on 29 November 2013 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, achieve further efficiency savings through reductions in overheads and the joining up of services, and simplify housing management arrangements.

Formal consultation began in June 2014 and concluded with a ballot of tenants in July and August 2014.

On 10 September 2014 Cabinet received a report which outlined the consultation and ballot process and agreed to proceed with the transfer process in accordance with the positive ballot outcome. Over 11,000 tenants (51.2%) took part in the ballot, 9,149 (82%) tenants voted in favour of the transfer.

Transfer of the Council's housing stock to the County Durham Housing Group represents a significant opportunity to increase investment in homes, local neighbourhoods and housing services to further improve the lives of tenants.

Transfer could only proceed with the formal consent of the Secretary of State for Communities and Local Government under the terms of section 32-34 and 43 of the Housing Act 1985. A formal application to seek that consent was made by the Council. This was in addition to consent being sought to transfer any remaining assets in the Housing Revenue Account to the General Fund accounts and authorities, and to close the Housing Revenue Account.

These consents were given and the stock transfer agreed for 13 April 2015.

The HRA MTFP and Business Plan for 2014/15 was based on a stock retention scenario.

Housing Revenue Account (HRA) – 2014/15 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. In summary it identifies a surplus of £17.879m in year, which takes into account the impact of the stock transfer on 13 April 2015. The following table summarises the HRA outturn position:

	2014-15 Budget £m	2014-15 Outturn £m	Variance £m	
Income				
Dwelling Rents	-64.558	-64.834	-0.276	a)
Non-dwelling rents	-1.024	-1.075	-0.051	
Charges for Services and Facilities	-0.347	-3.356	-3.009	b)
Total Income	**-65.929**	**-69.265**	**-3.336**	
Expenditure				
ALMO Management and Outsourced Contract	16.799	16.799	0.000	
Repairs and Maintenance	4.462	4.629	0.167	c)
Supervision and Management - General	4.061	5.499	1.438	d)
Supervision and Management - Special	0.436	0.424	-0.012	
Rents, Rates, Taxes and other charges	0.410	0.422	0.012	e)
Depreciation and impairment of fixed assets	7.872	7.337	-0.535	
Increase / Decrease in bad debt provision	0.988	0.423	-0.565	f)
Debt Management Costs	0.175	0.175	-	
Total Expenditure	**35.203**	**35.708**	**0.505**	
Net Cost of HRA Services per Authority I & E Account	**-30.726**	**-33.557**	**-2.831**	
HRA services share of Corporate and Democratic Core	1.085	1.085	-	
Net Cost of services but not allocated to specific services	0.402	0.386	-0.016	
Net Cost of HRA Services	**-29.239**	**-32.086**	**-2.847**	
Interest Payable and Similar Charges	12.627	10.501	-2.126	i)
Direct Revenue Financing (Balancing item on HRA)	16.717	3.818	-12.899	j)
Interest and Investment Income	-0.105	-0.112	-0.007	k)
Surplus (-) / Deficit for the year on HRA services	**0.000**	**-17.879**	**-17.879**	

2 The main variances from the budget are explained below:

a) **Dwelling Rents: £0.276m increased income** – this results from a lower than anticipated void rate and less Right to Buys being completed in year;

b) **Other Income (Charges for Services): £3.009m additional income** – this primarily results from additional NWA water commission plus a repayment of

ALMO reserves (£2.728m) back to the Council in advance of the stock transfer on 13 April 2015;

c) **Repairs and Maintenance: £0.167m over budget** – this results from higher than anticipated responsive repairs in the Durham City Homes area during the year;

d) **General Supervision and Management: £1.438m over budget** – this results from £60k under budget from savings on vacant posts and premises costs at Durham City Homes offset by £1.259m one off additional costs incurred in setting up the new Housing Company which was previously agreed to be met from existing revenue savings. In addition, £0.239m was spent on Welfare Reform initiatives, which were charged to the HRA and always planned to be met from HRA reserves;

e) **Depreciation and Impairment: £0.535m under budget** – resulting from less impairment being incurred on HRA non dwelling assets at year end;

f) **Changes in Bad Debt Provision: £0.565m under budget** – this results from lower than anticipated arrears, 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: £2.126m under budget** – this results from a lower interest rate and lower outstanding loan debt than originally anticipated, due in part to the re-profiling of the capital programme in year;

h) **Revenue Support to Capital: £12.899m under budget** – resulting from an increased reliance on borrowing to finance the capital programme at the year end, which was then subsequently written off at stock transfer.

3 The final position on the HRA Reserve as at 31 March 2015 is £26.078m.

HRA Capital Outturn

4 The original HRA capital budget for 2014/15 approved by Council on 26 February 2014 was £50.489m.

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 2014/15 with the revised budget being £46.717m.

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 2015.

Housing Revenue Account Capital Programme 2014/15

	Revised 2014/15 Budget	2014/15 Outturn	Variance	Additions / Deletions from Budget	Reprofiling
	£m	£m	£m	£m	£m
Housing	46.717	42.826	3.891	-3.891	-

7 The following table summarises the recommended financing of the HRA capital programme spend in 2014/15:

Financing – Housing Revenue Account Capital Programme 2014/15

	2014/15 Outturn £m
Financed by:	
Grants	18.682
Direct Revenue Financing	3.818
Capital Receipts	1.346
Major Repairs Allowance	7.468
Borrowing	11.512
Total	42.826

8 The 2014/15 outturn capital expenditure was £42.826m against a revised budget of £46.717m, resulting in a £3.891m underspend for the year.

9 The underspend of £3.981m for the HRA is mainly due to:

- **£3.5m underspend on capital works in the East Durham Homes (EDH) area**.

  There are contractual payments outstanding for work completed in the EDH area, which are currently being evaluated and validated by EDH and the Council. A provision to meet this payment will be made from available HRA reserves carried forward into 2015/16 and is anticipated to be within the original budget allocation.

Future Plans - 2015/16 to 2017/18

In September 2014, Cabinet agreed to transfer the Council's housing stock of circa 18,500 dwellings to County Durham Housing Group following consultation with tenants and a positive ballot outcome, where 82% of tenants that voted, were in favour of the housing stock transfer.

The transfer of the Housing Stock to the County Durham Housing Group Limited and its component housing management organisations, Dale and Valley Homes Limited, Durham City Homes Limited and East Durham Homes Limited took place on 13 April 2015, a date agreed with the Department of Communities and Local Government.

The Department of Communities and Local Government have also consented to the closure of the Housing Revenue Account during 2015/16 following the transfer. Therefore, for the majority of 2015/16 Durham County Council will no longer maintain a statutory ring-fenced Housing Revenue Account.

Regulations require however that tenants receive at least four weeks' notice of a change in housing rents and therefore the Council was required to set rents for the final time for 2015/16. In future, this will be the responsibility of the County Durham Housing Group.

Under current national rent policy the Government sets a guideline increase or decrease based on the consumer price index in the previous September plus 1%. The increase in rents for Durham County Council tenants in 2015/16 consists of the consumer price index as at September 2014 of 1.2% plus a real time price increase of 1%.

Applying the Government's guidelines therefore results in an overall average increase of 2.20% which yields an average rent of £70.20 per week in 2015/16 (based on 52 weeks).

The HRA currently includes responsibility for managing and maintaining around 3,200 garages which generate income to the account. For 2015/16 increases in garage rents are linked to the CPI as at September 2014 of 1.2% plus 1 percentage point (for consistency with the annual rent increase for dwellings). Private tenants are required to pay VAT on garage rents, whilst Council tenants are excluded from the VAT charge. The proposed weekly charges for 2015/16 (based on 52 weeks) are £7.26 (for council tenants who are exempt from VAT) and £8.71 (for private tenants where we need to charge VAT).

Although the Stock Transfer occurred on 13 April 2015, at the time of setting the budget in February 2015, the Council was required to report the notional HRA budget for 2015/16. The revenue budget and capital budget for 2015/16 were therefore agreed by the County Council, as follows:

	£m
Revenue Budget	33.759
Capital Budget	23.816

The individual management fees for the four providers were agreed as follows:

	£m
Dale Valley Homes	5.657
East Durham Homes	12.092
Durham City Homes	8.434
County Durham Housing Group	7.576

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 2015 the number of pensionable employees in the Pension Fund was 18,011, which is an increase of 557, from 17,454 at 31 March 2014. The number of pensioners during 2014/15 has increased by 493 from 16,700 to 17,193.

The Net Assets of the Pension Fund as at 31 March 2015 are £2,335m, an increase of £204m from £2,131m as at 31 March 2014.

The full detail of the Pension Fund's activities for 2014/15 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 2015/16 and has a plan in place to continue to deliver local services up to 2018. 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.
- Although the Housing Stock will transfer from the Council in April 2015, transfers of services do not negate the presumption of going concern. Based on this, there is no information 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.
- The Housing Stock Transfer, although a transfer of a function, does not impact on the presumption of the Council's ability to continue to operate.

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 2015 and its expenditure and income for the year ended 31 March 2015.

Don McLure

Corporate Director Resources

30 June 2015

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

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2014/15:

	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**
Balance at 1 April 2014 brought forward	28,135	165,952	7,155	1,043	219	-	722	**203,226**	479,547	**682,773**
Movement in Reserves during 2014-15										
Surplus or deficit on provision of services	59,989		-324,391	-	-	-	-	**-264,402**		**-264,402**
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	-	**-**	48,176	**48,176**
Total Comprehensive Income and Expenditure	**59,989**	**-**	**-324,391**	**-**	**-**	**-**	**-**	**-264,402**	**48,176**	**-216,226**
Adjustments between accounting basis and funding basis under regulations (Note 7)	-10,622	-	342,271	-	-	-	-113	**331,536**	-331,536	**-**
Net Increase/Decrease before Transfers to Earmarked Reserves	**49,367**	**-**	**17,880**	**-**	**-**	**-**	**-113**	**67,134**	**-283,360**	**-216,226**
Transfers to/from Earmarked Reserves (Note 8)	-48,605	48,605	1,043	-1,043	-	-	-	**-**	-	**-**
Increase/Decrease inYear	**762**	**48,605**	**18,923**	**-1,043**	**-**	**-**	**-113**	**67,134**	**-283,360**	**-216,226**
Balance at 31 March 2015 carried forward	**28,897**	**214,557**	**26,078**	**-**	**219**	**-**	**609**	**270,360**	**196,187**	**466,547**

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**
Balance at 1 April 2013 brought forward (restated)	24,410	105,874	7,155	1,150	137	-	1,060	**139,786**	317,218	**457,004**
Movement in Reserves during 2013-14										
Surplus or deficit on provision of services	-23,333	-	1,475	-	-	-	-	**-21,858**	-	**-21,858**
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	-	**-**	247,627	**247,627**
Total Comprehensive Income and Expenditure	**-23,333**	**-**	**1,475**	**-**	**-**	**-**	**-**	**-21,858**	**247,627**	**225,769**
Adjustments between accounting basis and funding basis under regulations (Note 7)	87,136	-	-1,582	-	82	-	-338	**85,298**	-85,298	**-**
Net Increase/Decrease before Transfers to Earmarked Reserves	**63,803**	**-**	**-107**	**-**	**82**	**-**	**-338**	**63,440**	**162,329**	**225,769**
Transfers to/from Earmarked Reserves (Note 8)	-60,078	60,078	107	-107	-	-	-	**-**	-	**-**
Increase/Decrease inYear	**3,725**	**60,078**	**-**	**-107**	**82**	**-**	**-338**	**63,440**	**162,329**	**225,769**
Balance at 31 March 2014 carried forward (restated)	**28,135**	**165,952**	**7,155**	**1,043**	**219**	**-**	**722**	**203,226**	**479,547**	**682,773**

2013/14 balances have been restated as a result of a prior period adjustment in respect of the Foundation Schools being recognised on the balance Sheet. Full details are disclosed at Note 50.

2013-14 Gross Expenditure £000	2013-14 Gross Income £000	2013-14 Net Expenditure £000		Note	2014-15 Gross Expenditure £000	2014-15 Gross Income £000	2014-15 Net Expenditure £000
466,428	-368,091	98,337	Children's and Education Services		437,685	-365,421	72,264
216,391	-69,368	147,023	Adult Social Care		208,821	-82,152	126,669
75,466	-22,603	52,863	Highways and Transport Services		71,142	-19,757	51,385
51,761	-17,550	34,211	Planning Services		48,242	-19,214	29,028
45,751	-12,542	33,209	Cultural and Related Services		34,788	-13,623	21,165
71,599	-12,119	59,480	Environmental and Regulatory Services		64,849	-12,378	52,471
73,022	-65,465	7,557	Local Authority Housing (HRA) #		406,762	-72,641	334,121
218,646	-190,630	28,016	Other Housing Services (including Supporting People)		215,783	-196,393	19,390
39,485	-45,018	-5,533	Public Health		45,394	-46,763	-1,369
9,399	-2,348	7,051	Corporate and Democratic Core		11,832	-3,545	8,287
20,424	-17,886	2,538	Central Services to the Public		24,467	-15,553	8,914
1,843	-368	1,475	Non Distributed Costs		6,485	-433	6,052
1,290,215	**-823,988**	**466,227**	**Cost of Services**		**1,576,250**	**-847,873**	**728,377**
51,679	-	51,679	Other Operating Expenditure	9	12,336	-3,656	8,680
148,137	-94,263	53,874	Financing and Investment Income and Expenditure	10	149,426	-104,901	44,525
-	-549,922	-549,922	Taxation and Non Specific Grant Income	11	-	-517,181	-517,181
		21,858	**Surplus or Deficit on Provision of Services**				**264,401**
			Items that will not be reclassified to Surplus or Deficit on Provision of Services				
		-39,692	Surplus or deficit on revaluation of PPE / Heritage assets	12,13			-165,529
		4,884	Impairment losses on non-current assets charged to revaluation reserve	12,13			2,964
		-212,380	Re-measurements of the defined benefit liability	24			114,380
		-439	Difference between actuary's estimate and actual employer's pension contributions				8
		-247,627	**Other Comprehensive Income and Expenditure**				**-48,177**
		-225,769	**Total Comprehensive Income and Expenditure**				**216,224**

Local Authority Housing (HRA) #

Exceptional Items included within the Cost of Services 2014/15

Following the positive ballot and the subsequent transfer of the Council Housing stock to County Durham Housing Group (CDHG) on 13 April 2015, the Balance Sheet as at 31 March 2015 reflects the value of Council Dwellings based on the Tenanted Market Value (TMV). This has led to a revaluation loss of £331.08m, of which £329.79m was charged to the HRA Cost of Services with the balance of £1.29m being charged to the Revaluation Reserve.

Whilst the £329.79m results in an exceptional charge to the HRA Cost of Services in 2014/15, it is offset by being reversed out of the HRA via the Movement in the Housing Revenue Account Statement.

01 April 2013 £000 (restated)	31 March 2014 £000 (restated)		Notes	31 March 2015 £000
1,881,412	1,871,840	Property, Plant & Equipment	12	1,746,421
15,561	15,636	Heritage Assets	13, 48	15,459
3,870	3,481	Investment Property	14	3,743
2,620	2,255	Intangible Assets		1,757
11,363	10,583	Long Term Investments	15	30,577
15,643	17,935	Long Term Debtors	15	19,372
1,930,469	**1,921,730**	**Long Term Assets**		**1,817,329**
56,900	69,832	Short Term Investments	15	83,443
350	940	Assets Held for Sale	20	3,231
2,708	3,127	Inventories	17	3,567
77,272	68,209	Short Term Debtors	18	64,349
31,261	53,638	Cash and Cash Equivalents	19	79,198
168,491	**195,746**	**Current Assets**		**233,788**
-5,591	-2,829	Cash and Cash Equivalents	19	-6,010
-7,439	-8,308	Short Term Borrowing	15	-4,442
-104,501	-113,826	Short Term Creditors	21	-114,269
-15,661	-4,121	Provisions	22	-4,498
-25,595	-7,354	Capital Grants Receipts in Advance	37	-6,629
-158,787	**-136,438**	**Current Liabilities**		**-135,848**
-11,850	-13,436	Provisions	22	-9,291
-437,438	-432,986	Long Term Borrowing	15	-457,752
-1,027,436	-849,885	Other Long Term Liabilities	40, 41, 45	-981,276
-6,445	-1,958	Capital Grants Receipts in Advance	37	-403
-1,483,169	**-1,298,265**	**Long Term Liabilities**		**-1,448,722**
457,004	**682,773**	**Net Assets**		**466,547**
139,786	203,227	Usable Reserves	23	270,360
317,218	479,546	Unusable Reserves	24	196,187
457,004	**682,773**	**Total Reserves**		**466,547**

2013/14 balances have been restated as a result of a prior period adjustment in respect of the Foundation Schools being recognised on the balance Sheet. Full details are disclosed at Note 50.

2013-14 £000		2014-15 £000
21,858	Net surplus (-) or deficit on the provision of services	264,401
-131,545	Adjustments to net surplus or deficit on the provisions of services for non-cash movements (Note 25)	-374,227
7,973	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities (Note 26)	13,207
-101,714	Net Cash flows from Operating Activities (Note 27)	-96,619
80,804	Investing Activities (Note 28)	105,109
-4,229	Financing Activities (Note 29)	-30,869
-25,139	Net increase (-) or decrease in cash and cash equivalents	-22,379
25,670	Cash and cash equivalents at 1 April	50,809
50,809	**Cash and cash equivalents at 31 March**	**73,188**

Notes to the Core Financial Statements

Notes to the Core Financial Statements

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 2014/15 financial year and its position at the year-end of 31 March 2015. 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 2014/15 (the Code) and the Service Reporting Code of Practice 2014/15 (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 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 exceptional 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 Pension 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 provide 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 3.20% (based on the indicative rate of return on high quality corporate bonds, 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. At present, the Council have no assets of this nature to be disclosed in the Balance Sheet.

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. Some items in this collection are reported in the Balance Sheet at insurance value, others at the amount at which they have been valued by professional valuers.

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 some at the amount at which they have been valued by professional valuers. 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, or the amount at which they have been valued by professional valuers.

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. Joint Operations

Joint operations are arrangements where contractual agreements are in place under which the Council and one or more other parties share control. The joint venturers have rights to assets and obligations in relation to liabilities. The Council accounts only for its share of the assets, liabilities, revenue and expenses of the arrangement.

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 2014/15 (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 – Tenanted Market Value, due to the transfer of housing stock in April 2015 the valuation reflects the current value of the future income and expenditure streams of the assets over the next 30 years.
- 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 2014/15 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).

Deprecation is calculated on the following bases:

- Dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer up to a maximum of 50 years.
- Vehicles, plant, furniture and equipment – 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.
- Surplus Assets – Buildings up to 50 years, Land not depreciated

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 Assets 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 the initial year of its second phase, which ends on 31 March 2019. The Council is required to purchase allowances, either prospectively or retrospectively, and surrender them 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. Schools

In line with accounting standards on group accounts and consolidation, all maintained schools in the County are now considered to be entities controlled by the Council. Rather than produce group accounts the income, expenditure, assets, liabilities, reserves and cash flows of each school are recognised in the Council's single entity accounts. The Council has the following types of maintained schools under its control:

- Community
- Voluntary Aided
- Voluntary Controlled
- Foundation/Foundation Trust

Schools Non-Current (fixed) Assets are recognised on the Balance Sheet where the Council directly owns the assets, where the Council holds the balance of control of the assets or where the school or the school Governing Body own the assets or have had rights to use the assets transferred to them.

Community schools are owned by the Council and are, therefore, recognised on the Balance Sheet.

The Council's Voluntary Aided and Controlled schools are owned by the respective Diocese with no formal rights to use the assets through a licence arrangements passed to the School or Governing Bodies. As a result these schools are not recognised on the Balance Sheet.

The ownership of the Council's Foundation Schools is with the school or the schools Governing Body and as a result the school is recognised on the Council's Balance Sheet.

2. Accounting Standards that have been Issued but have not yet been Adopted

The Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires the disclosure of information relating to the expected impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of the following new or amended standards within the 2015/16 Code:

- International Financial Reporting Standard (IFRS) 13 Fair Value Measurement. This standard provides a consistent definition of fair value and enhanced disclosure requirements. It is designed to apply to assets and liabilities covered by those IFRS's standards that currently permit or require measurement at fair value (with some exceptions). The adoption of this standard will require surplus assets (assets that are not being used to deliver services, but which do not meet the criteria to be classified as either investment properties or non-current assets held for sale) to be revalued to market value rather than value in existing use as at present. Operational property, plant and equipment assets are outside the scope of IFRS 13. Overall, this standard is expected to have an impact on the Statement of Accounts, due to the value of surplus assets held by the Council.
- International Financial Reporting Interpretations Committee (IFRIC) 21 Levies. This standard provides guidance on levies imposed by government in the financial

statements of entities paying the levy. The IFRIC specifies the obligating event as the activity that triggers the timing of the payment of the levy. The amount payable may be based on information relating to a period before the obligation to pay arises or the levy is payable only if a threshold is reached, or both. This standard will not have a material impact on the Statement of Accounts.

- Annual Improvements to IFRSs (2011 – 2013 Cycle). These improvements are minor, principally proving clarification and will not have a material impact on the Statement of Accounts.

The Code requires implementation from 1 April 2015 and there is therefore no impact on the 2014/15 Statement of Accounts.

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.
- Housing Stock Transfer - Following the positive ballot and the subsequent transfer of the Council Housing stock to County Durham Housing Group (CDHG) on 13 April 2015, the Balance Sheet as at 31 March 2015 reflects the value of Council Dwellings based on the Tenanted Market Value (TMV). The valuation of housing stock, which is applied for stock transfer, is significantly different to the valuation of dwellings in the Balance Sheet based on the Existing Use of the stock as Social Housing with secure tenancies. This has led to a revaluation loss of £331.08m, of which £329.79m was charged to the HRA Cost of Services with the balance of £1.29m being charged to the Revaluation Reserve.
- Academy and Foundation Trust Schools - one school transferred to academy and foundation trust status in 2014/15. At the completion of a statutory process, the governing body of the relevant school has agreed to change from a Local Authority maintained school. The 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 IFRIC 12. The total net value of land and buildings for these schools is £19.828m. Further details can be found in Note 41.
- Accounting for Schools – Balance Sheet Recognition – The Council recognises the land and buildings used by schools in line with the provisions of the Code of Practice. It states that property used by local authority maintained schools should be recognised in accordance with the asset recognition tests relevant to the arrangements that prevail for the property. The Council recognises the schools' land and buildings on its Balance Sheet where it directly owns the assets, the school or school Governing Body own the assets or rights to use the assets have been transferred from another entity.

  Where the land and building assets used by the school are owned by an entity other than the Council, school or school Governing Body then it is not included on the Council's Balance Sheet.

  Judgements have been made to determine the arrangements in place and the accounting treatment of the land and building assets. The types of schools that have been assessed are shown below:

	Type of School	**Nursery Schools**	**Primary Schools**	**Secondary Schools**	**Special Schools**	**Total**
a)	Community	12	148	13	9	182
b)	Voluntary Controlled (VC)	-	16	-	-	16
b)	Voluntary Aided (VA)	-	47	2	-	49
c)	Foundation	-	-	2	-	2
d)	Pupil Referral Unit	-	-	1	-	1
d)	Endowed Parochial	-	1	-	-	1
	Maintained Schools	**12**	**212**	**18**	**9**	**251**
e)	Academies	-	9	14	1	24
	Total	**12**	**221**	**32**	**10**	**275**

a) All Community schools are owned by the Council and the land and buildings used by the schools are included on the Council's Balance Sheet.

b) Legal ownership of VC and VA school land and buildings usually rests with a charity, normally a religious body. VC schools are owned by the Diocese who has granted a licence to the school to use the land and buildings. Under this licence arrangement, the rights of use of the land and buildings have not transferred to the school and thus are not included on the Council's Balance Sheet.

c) Foundation schools were created to give greater freedom to the Governing Body responsible for school staff appointments and who also set the admission criteria. For a Foundation school, as the school Governing Body has legal ownership of the land and buildings they have been included on the Council's Balance Sheet in line with the Council's judgement.

d) The Pupil Referral Unit and Endowed Parochial School are owned by the Council and the land and buildings used are included on the Council's Balance Sheet.

e) Academies are not considered to be maintained schools in the Council's control. Thus the land and building assets are not owned by the Council and not included on the Council's Balance Sheet.

- 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 2014/15.
- 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% (£0.774m) of the value of the total potential liability in the Scheme of Arrangement, after the levy payments totalling £0.856m were made in 2013/14 and 2014/15. As provision is not for the total amount of the potential liability and there is the possibility of future claims, the Council considers there to be a contingent liability as it has no certainty about the timing or the amount of any future liability.
- Closed Landfill Sites – the Council considers that there is likely to be a liability in respect of restoration works and after care costs for a number of closed landfill sites. A full review of the liability has been undertaken, and a final report was received in May 2014. This report recommends proposals for the management of the retained sites, and work is on-going 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 2015 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	**Uncertainties**	**Effect if actual results differ from assumptions**
Property, plant and equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets.	The impact of a change in valuation or useful life would be to affect the carrying value of the asset in the balance sheet and the charge for depreciation or impairment in the CIES. These changes do not have an impact on the Council's General Fund position as the Council is not required to fund such non-cash charges from council tax receipts.
Property, plant and equipment	Property, plant and equipment (with the exception of infrastructure, community assets, assets under construction and small value items of vehicles, plant and equipment) are revalued on a periodic basis and tested annually for indicators of impairment. Judgements are required to make an assessment as to whether there is an indication of impairment. 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	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 £44.1m. In order to understand the

Item	Uncertainties	Effect if actual results differ from assumptions
	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.	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. 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.
Equal Pay	Provision has been made for the likely payments in respect of Equal Pay settlements in respect of Schools only. These are provided for in short term provisions and have been included at current prices. There are a number of potential claims in respect of individuals who were identified as potentially being eligible for an Equal Pay settlement but have not yet approached the Council. Due to the uncertainty an amount has been set aside in earmarked reserves rather than in provisions.	Payments are likely to be made within 12 months; the provision will be reviewed annually and adjusted accordingly. The residual settlements made in future years will be reviewed to ensure the adequacy of the balance set aside in earmarked reserves.

Item	Uncertainties	Effect if actual results differ from assumptions
Insurance Provision	The value of provisions that will be used in 2015/16 is uncertain. Based on previous experience, an amount of £3.373m has been classified as short term to reflect the likely use of this provision in 2015/16.	If the short term provision is not used during 2015/16, the annual review of the insurance provision will ensure that an appropriate amount is included in the 2015/16 accounts.
Arrears	At 31 March 2015, the Council had a balance of debtors of £88.45m. A review of significant balances suggested that an impairment of doubtful debts of 31.31% (£27.69m) 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 £27.69m to be set aside as an allowance.

5. Material Items of Income and Expense

In September 2014, Cabinet agreed to transfer the Council's housing stock of circa 18,500 dwellings to County Durham Housing Group (CDHG).

The transfer of the Housing Stock to the County Durham Housing Group Limited and its component housing management organisations, Dale and Valley Homes Limited, Durham City Homes Limited and East Durham Homes Limited took place on 13 April 2015, a date agreed with the Department of Communities and Local Government.

The transfer price for the dwellings and associated assets is largely determined by a prescribed formula set by Government and reflects the current value of the future income and expenditure streams of the assets over the next 30 years and is known as the Tenanted Market Value (TMV). The transfer price agreed with CDHG was £114.4m.

This valuation of housing stock, which is applied for stock transfer, is significantly different to the valuation of dwellings in the Balance Sheet based on the Existing Use of the stock as Social Housing with secure tenancies.

The Balance Sheet as at 31 March 2015 reflects the value of Council Dwellings based on the TMV and this has led to a revaluation loss of £331.08m, of which £329.79m was charged to the HRA Cost of Services with the balance of £1.29m being charged to the Revaluation Reserve.

Whilst the £329.79m results in an exceptional charge to the HRA Cost of Services in 2014/15, it is offset by being reversed out of the HRA via the Movement in the Housing Revenue Account Statement.

6. Events After the Balance Sheet Date

The Statement of Accounts was authorised for issue by the Corporate Director Resources on 30 June 2015. 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 2015, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

Large Scale Voluntary Transfer (LSVT)

The Council transferred its housing stock to County Durham Housing Group (CDHG) on 13 April 2015. This will have a significant impact on the Council's accounts and this note explains the main issues and implications for the accounts in 2015/16 and beyond.

- **Assets transferred and retained** - the Council transferred 18,373 dwellings, various small land holdings within housing estates which did not have any future development potential, various operational properties and 3,103 garages. In addition, a total of 194 staff transferred to the housing association.

  In respect of un-adopted roads and paths, a mutually beneficial agreement has been reached and accommodated in the Transfer Agreement. Across the transferred estates, 101 sites contain roads and footways which are not formally adopted but are, nonetheless, the liability of the County Council. A significant number of them require repair or improvement to restore amenity and mitigate risk and liability. They are not all immediate priorities for attention using the Council's own resources, although they would require attention in due course. However, as part of the wider transfer negotiations, CDHG has agreed to pay the Council up to £1.8m to repair and improve these roads and footways over the next seven years. The work will be agreed between the parties annually and, where practicable, will be integrated with CDHG's investment work in respective neighbourhoods. Accordingly the Council will adopt the roads and footpaths in question by the end of the year after their improvement.

- **Transfer price and associated costs** - the transfer price for the dwellings and associated assets is largely determined by a prescribed formula set by Government and reflects the current value of the future income and expenditure streams of the assets over the next 30 years and is known as the Tenanted Market Value (TMV).

  The transfer price agreed with CDHG was £114.4m and this was used to repay part of the outstanding HRA debt in 2015/16.

  In 2015/16 the Council received an Overhanging Debt Grant of £207.03m from the government to repay its remaining housing attributable debt of £129.6m and premiums of £77.43m associated with the premature repayment.

- **VAT Shelter arrangements** - in normal circumstances, housing associations are not able to reclaim VAT on improvement works to dwellings. The VAT Shelter is an arrangement, used in every transfer since 2002, with Her Majesty's Revenues and Customs (HMRC) agreement, whereby CDHG can reclaim VAT on future improvement works to the transferred stock. The Council has agreed a 50% share of the reclaimed VAT with CDHG over a 15 year period. The value of the development agreement for catch-up works on the transferred stock is £319m and the associated VAT at 20% is £58.5m (after adjusting for disabled adaptations works). The Council will therefore receive 50% of the VAT reclaimed resulting in £29.25m of receipts over the 15 year period.

- **Pension Deficit** - the pension deficit in respect of the staff transferring to CDHG has been transferred to the group of registered providers. This will be paid to the pension fund in accordance with existing arrangements for all pension fund employers. The financial provision for this has been built into the business plan of CDHG.
- **Service Level Agreements** (SLA's) - agreements were negotiated with CDHG to provide them with a range of services post transfer. The main SLA's include grounds maintenance and ICT.
- **Rent Arrears** - the Council transferred the rent arrears due from existing tenants and former tenants to CDHG. The amount paid to the Council for these arrears was based on a percentage of their value and reflected the value of the arrears to the Council and the cost to CDHG of pursuing them.
- **Contingent Liabilities** - as is usual in stock transfers, the Council gave CDHG certain warranties in relation to staff transferring, property and environmental pollution. The potential liability to the Council is unquantifiable, although the risks are considered to be low and not expected to have a material impact on the accounts, insurance cover has been purchased to protect the Council.
- **Disposals Clawback Agreement** – The Council negotiated a clawback from the future sale / disposal of any transferred land and buildings. CDHG have agreed to pay the Council a proportion of any gain as set out in Schedule 14 of the Transfer Agreement.
- **Closure of the HRA** - the Council obtained Secretary of State approval to close the HRA and it is expected that the HRA will close during 2015/16, and at that point all reserves held by the Council will be transferred to the General Fund.

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.

2014/15:

Adjustments primarily involving the:	Usable Reserves: General Fund Balance £000	Usable Reserves: Housing Revenue Account £000	Usable Reserves: Capital Receipts Reserve £000	Usable Reserves: Major Repairs Reserve £000	Usable Reserves: Capital Grants Unapplied £000	Movement in Unusable Reserves £000
Capital Adjustment Account:						
Reversal of items debited or credited to the CI&E Statement:						
Charges for depreciation and impairment of non-current assets	-52,598	-11,838	-	-	-	64,436
Revaluation losses on Property Plant and Equipment	9,097	-361,867	-	-	-	352,770
Movements in the market value of Investment Properties	-91	-	-	-	-	91
Amortisation of intangible assets	-1,115	-26	-	-	-	1,141
Capital grants and contributions applied	56,594	18,682	-	-	-	-75,276
Revenue expenditure funded from capital under statute	-16,873	-62	-	-	-	16,935
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CI&E Statement	-8,037	-2,239	-	-	-	10,276
Insertion of items not debited or credited to the CI&E Statement:						
Statutory provision for the financing of capital investment	15,730	-	-	-	-	-15,730
Capital expenditure charged against the General Fund and HRA Balances	17,763	3,818	-	-	-	-21,581
Capital Grants Unapplied Account:						
Application of grants to capital financing transferred to the Capital Adjustment Account	-	-	-	-	113	-113
Capital Receipts Reserve:						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the CI&E Statement	9,900	3,314	-13,214	-	-	-
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals	-6	-	6	-	-	-
Use of the Capital Receipts Reserve to finance new capital expenditure	-	-	12,976	-	-	-12,976
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	-1,414	-	1,414	-	-	-
Transfer from Deferred Capital Receipts Reserve upon receipt of cash	-	-	-1,182	-	-	1,182
Deferred Capital Receipts Reserve:						
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the CI&E Statement	725	-	-	-	-	-725
Major Repairs Reserve:						-
Reversal of Major Repairs Allowance Credited to the HRA	-	7,468	-	-7,468	-	-
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	-	7,468	-	-7,468
Financial Instruments Adjustment Account:						
Amount by which finance costs charged to the CI&E Statement are different from finance costs chargeable in the year in accordance with statutory requirements	79	-	-	-	-	-79
Pensions Reserve:						
Reversal of items relating to the retirement benefits debited or credited to the CI&E Statement	-79,908	-322	-	-	-	80,230
Employer's pensions contributions and direct payments to pensioners payable in the year	60,237	802	-	-	-	-61,039
Collection Fund Adjustment Account:						
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	2,759	-	-	-	-	-2,759
Accumulated Absences Account:						
Amount by which officer remuneration charged to the CI&E Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	-2,220	-1	-	-	-	2,221
Total Adjustments	10,622	-342,271	-	-	113	331,536

2013/14:

Adjustments primarily involving the:	General Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Capital Grants Unapplied £000	Movement in Unusable Reserves £000
	Usable Reserves					
Capital Adjustment Account:						
Reversal of items debited or credited to the CI&E Statement:						
Charges for depreciation and impairment of non-current assets	-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	71,855	19,400	-	-	-	-91,255
Revenue expenditure funded from capital under statute	-20,616	-45	-	-	-	20,661
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
Insertion of items not debited or credited to the CI&E Statement:						
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
Capital Grants Unapplied Account:						
Application of grants to capital financing transferred to the Capital Adjustment Account	-	-	-	-	338	-338
Capital Receipts Reserve:						
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
Deferred Capital Receipts Reserve:						
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the CI&E Statement	971	-	-	-	-	-971
Major Repairs Reserve:						
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
Financial Instruments Adjustment Account:						
Amount by which finance costs charged to the CI&E Statement are different from finance costs chargeable in the year in accordance with statutory requirements	191	-	-	-	-	-191
Pensions Reserve:						
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
Collection Fund Adjustment Account:						
Amount by which council tax income credited to the CI&E Statement is different from council tax income calculated for the year in accordance with statutory requirements	-1,604	-	-	-	-	1,604
Accumulated Absences Account:						
Amount by which officer remuneration charged to the CI&E Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	1,780	-	-	-	-	-1,780
Total Adjustments	-87,137	1,582	-82	-	338	85,299

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.

	Balance at 1 April 2013 £000	Transfers out 2013-14 £000	Transfers in 2013-14 £000	Balance at 31 March 2014 £000	Transfers out 2014-15 £000	Transfers in 2014-15 £000	Balance at 31 March 2015 £000
General Fund:							
Balances held by schools under a scheme of delegation	19,418	-	5,266	24,684	-438	-	24,246
AAP / Members Reserve	1,855	-	1,422	3,277	-5	427	3,699
AAP Reserve - Neighbourhoods	66	-28	-	38	-	2	40
Assistant Chief Executive - Grant Reserve	233	-8	5	230	-39	3	194
Assistant Chief Executive - Operational Reserve	140	-8	-	132	-8	-	124
Aycliffe Young Peoples Centre Reserve	428	-	959	1,387	-185	-	1,202
Business Growth Fund Reserve	-	-	-	-	-	913	913
Cabinet Reserve	220	-	-	220	-220	-	-
Capital Expenditure Reserve	-	-	2,797	2,797	-	5	2,802
Cash Limit Reserve	19,902	-5,960	8,442	22,384	-7,481	7,462	22,365
Community Safety Reserve	22	-16	-	6	-6	-	-
Continuing Professional Development Reserve	469	-	524	993	-	42	1,035
Corporate Reserve	1,843	-	376	2,219	-1,604	369	984
Customer Services Reserve	110	-73	350	387	-14	-	373
Dedicated Schools Grant and Education Reserve	5,006	-	2,348	7,354	-	5,452	12,806
Direct Services Reserve	2,594	-736	1,817	3,675	-1,242	610	3,043
DWP Grant Reserve	107	-1	593	699	-50	589	1,238
Economic Development Reserve	1,017	-163	46	900	-194	339	1,045
Elections Reserve	800	-464	700	1,036	-136	136	1,036
Employability and Training Reserve	846	-281	79	644	-186	-	458
Environmental Health and Consumer Protection Reserve	430	-93	179	516	-97	581	1,000
Equal Pay Reserve	7,111	-1,232	11,526	17,405	-3,683	394	14,116
Funding and Programmes Management Reserve	176	-44	-	132	-	8	140
Health and Wellbeing Reserve	500	-500	-	-	-	-	-
Health Promotion Access Catalogue (HPAC)	-	-	-	-	-	259	259
Housing Benefit Subsidy Reserve	2,579	-381	-	2,198	-1,453	-	745
Housing Solutions Reserve	987	-72	164	1,079	-228	16	867
Human Resources Reserve	-	-	-	-	-	65	65
Insurance Reserve	7,833	-172	5,397	13,058	-75	2,620	15,603
Land Search Fees Reserve	1,000	-	-	1,000	-	-	1,000
Legal Expenses	200	-	-	200	-	-	200
LSVT Reserve	111	-11	-	100	-100	-	-
MTFP Redundancy and Early Retirement Reserve	4,838	-3,583	15,000	16,255	-6,204	830	10,881
North Pennines Partnership Reserve	920	-282	-	638	-309	-	329
Office Accommodation Reserve	-	-	1,000	1,000	-	7	1,007
Office Accommodation Capital Reserve	-	-	-	-	-	8,000	8,000
Performance Reward Grant Reserve	1,735	-427	-	1,308	-264	-	1,044
Planned Delivery Programme (PDP) Reserve	-	-	-	-	-	20,000	20,000
Planning Reserve	1,688	-540	25	1,173	-	250	1,423
Public Health Reserve	-	-	4,992	4,992	-44	35	4,983
Regeneration Reserve	1,128	-103	664	1,689	-713	778	1,754
Restructure Reserve	729	-	-	729	-66	-	663
Social Care Reserve	12,705	-3,352	10,012	19,365	-4,561	22,132	36,936
Special Projects Reserve	60	-	-	60	-23	-	37
Sport and Leisure Reserve	2,292	-1,024	695	1,963	-387	1,618	3,194
Strategic Waste Reserve	376	-150	199	425	-177	1,548	1,796
System Development Reserve	1,330	-309	1,000	2,021	-451	141	1,711
Tackling Troubled Families Reserve	943	-	615	1,558	-613	1,082	2,027
Technical Services Reserve	445	-445	1,619	1,619	-300	1,603	2,922
Transformation Reserve	-	-	-	-	-	1,483	1,483
Transport Reserve	364	-35	-	329	-42	-	287
Transport Asset Management Programme Reserve	318	-	-	318	-	-	318
Welfare Reserve	-	-	1,760	1,760	-94	498	2,164
Total	105,874	-20,493	80,571	165,952	-31,692	80,297	214,557
HRA:							
Stock Options Reserve	500	-500	-	-	-	-	-
DCH Improvements Reserve	650	-	-	650	-650	-	-
Welfare Reform Reserve	-	-	393	393	-393	-	-
Total	1,150	-500	393	1,043	-1,043	-	-

The significant earmarked reserves at 31 March 2015, 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 2015 comprised individual school balances totalling £24.246m, net of loans outstanding of £0.378m.

AAP / Members Reserve

To ensure the projects can be funded in 2015/16 where an agreed spending plan exists.

Capital Expenditure Reserve

To provide resources to fund capital expenditure items in 2015/16 and beyond.

Cash Limit Reserve

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

Dedicated Schools Grant and Education Reserve

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

Direct Services Reserve

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.

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.

Office Accommodation Capital Reserve

To provide a resource for the review of Office Accommodation across the County.

Planned Delivery Programme (PDP) Reserve

To provide the option of the utilisation of a PDP reserve to support the Medium Term Financial Plan.

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.

Sport and Leisure Reserve

To provide resources to meet the costs associated with various Sport and Leisure activities in 2015/16 and beyond.

Technical Services Reserve

To provide resources to meet the costs associated with Winter Maintenance in order to ensure funds for are available for increased expenditure in the event of harsh winter, Drainage Inspections and other Highways related issues.

9. Other Operating Expenditure

2013-14 £000		2014-15 £000
9,982	Parish council precepts	10,450
395	Levies	472
1,443	Payments to the Government Housing Capital Receipts Pool	1,414
39,859	Gains/losses on the disposal of non-current assets	-3,656
51,679	**Total**	8,680

10. Financing and Investment Income and Expenditure

2013-14 £000		2014-15 £000
24,112	Interest payable and similar charges	24,449
41,560	Pensions net interest on the net defined benefit liability	33,160
-3,364	Interest receivable and similar income	-2,395
-40	Impairment of Financial Investments	270
243	Movement in market value of investment properties	-267
-8,637	Other investment income	-10,692
53,874	**Total**	44,525

11. Taxation and Non-Specific Grant Income

2013-14 £000		2014-15 £000
-174,448	Council tax income *	-179,705
-51,356	Non domestic rates	-54,725
-243,914	Non-ringfenced government grants	-217,149
-80,204	Capital grants and contributions	-65,602
-549,922	**Total**	-517,181

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

12. Property, Plant and Equipment

Movement on Balance 2014/15:

	Operational					Non-Operational		
	Council Dwellings £000	Land & Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total £000
Cost or valuation								
At 1 April 2014	455,286	997,382	127,148	455,141	2,660	64,385	12,418	2,114,419
Additions	42,757	36,966	7,654	33,689	162	751	20,703	142,682
Revaluation increases/(decreases)	-381,584	127,038	-	-48	16	-4,921	-	-259,497
Derecognition - disposals	-2,167	-13,634	-8,685	-	-1	-4,026	-	-28,512
Assets reclassified (to)/from Held for Sale	-	-2,973	-	-	-	-260	-	-3,234
Other reclassifications	62	-22,291	-128	-	26	25,449	-3,241	-123
Other movements in cost or valuation	-2	-670	-	-73	-	-	-	-744
At 31 March 2015	114,353	1,121,819	125,990	488,709	2,864	81,377	29,880	1,964,991
Accumulated Depreciation								
At 1 April 2014	-6,657	-51,092	-84,835	-97,482	-88	-2,426	-	-242,580
Depreciation charge	-6,799	-27,522	-11,684	-11,844	-	-439	-	-58,288
Depreciation written out on revaluation	13,441	51,518	-	-	-	2,978	-	67,938
Impairment losses/(reversals)	-114	-4,371	-	-	-	-358	-	-4,842
Derecognition - disposals	132	11,049	7,176	-	-	835	-	19,192
Other reclassifications	-4	1,194	6	-	-	-1,191	-	6
Other movements in cost or valuation	-	-	-	3	-	-	-	3
At 31 March 2015	-	-19,223	-89,336	-109,323	-88	-601	-	-218,571
Net Book Value								
At 31 March 2015	114,353	1,102,596	36,654	379,386	2,775	80,776	29,880	1,746,420
At 31 March 2014 (restated)	448,629	946,290	42,313	357,659	2,572	61,959	12,418	1,871,839
The Revaluations / Impairments above:								
Revaluation	-381,584	127,038	-	-48	16	-4,921	-	-259,497
Depreciation written out	13,441	51,518	-	-	-	2,978	-	67,938
Impairment losses/(reversals)	-114	-4,371	-	-	-	-358	-	-4,842
	-368,256	**174,186**	**-**	**-48**	**16**	**-2,300**	**-**	**-196,401**
Are recognised as follows:								
In the Revaluation Reserve	-2,024	161,112	-	-	16	3,640	-	162,743
In the Surplus/Deficit on the Provision of Services	-366,231	13,074	-	-48	-	-5,940	-	-359,145
	-368,256	**174,186**	**-**	**-48**	**16**	**-2,300**	**-**	**-196,401**

Comparative Movements in 2013/14:

	Operational					Non-Operational		
	Council Dwellings £000	Land & Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total £000
Cost or valuation								
At 1 April 2013	461,161	992,160	119,702	425,849	2,254	81,284	32,564	2,114,974
Additions	45,698	28,765	12,593	29,120	133	636	17,247	134,192
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
At 31 March 2014	455,286	997,383	127,149	455,142	2,659	64,385	12,418	2,114,422
Accumulated Depreciation								
At 1 April 2013	-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								-
At 31 March 2014	-6,655	-51,095	-84,837	-97,482	-87	-2,427	-	-242,583
Net Book Value								
At 31 March 2014	448,631	946,288	42,312	357,660	2,572	61,958	12,418	1,871,839
At 31 March 2013	453,582	937,402	42,676	339,077	2,167	73,942	32,564	1,881,410
The Revaluations / Impairments								
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
	-35,735	**13,476**	**-**	**-**	**-**	**-14,697**	**-**	**-36,956**
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
	-35,735	**13,476**	**-**	**-**	**-**	**-14,697**	**-**	**-36,956**

2013/14 balances have been restated as a result of a prior period adjustment in respect of the Foundation Schools being recognised on the balance Sheet. Full details are disclosed at Note 50.

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 – Buildings up to 50 years, Land not depreciated
- Vehicles, Plant, Furniture and Equipment – mainly up to 10 years, however some specialised items are depreciated over up to 25 years
- Infrastructure – 40 years
- Surplus Assets – Buildings up to 50 years, Land not depreciated

Capital Commitments

At 31 March 2015 the Council had entered into a number of contacts for the construction or enhancement of Property, Plant and Equipment in 2015/16 and future years budgeted to cost £35.651m. Similar commitemts at 31 March 2014 were £55.177m. The commitments are :

- Building Schools for the Future £13.082m
- School Projects £6.963m
- Highways Capitalised Maintenance £0.640m
- Digital Durham £14.966m

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	Statues and Historic Buildings £000	Civic Regalia and Silverware £000	Total Assets £000
Cost or valuation					
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
At 31 March 2014	9,494	987	4,501	654	15,636
Cost or valuation					
At 1 April 2014	9,494	987	4,501	654	15,636
Additions	-	-	-	-	-
Disposals	-	-	-	-	-
Revaluations	-433	37	27	192	-177
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	-	-	-	-	-
At 31 March 2015	9,061	1,024	4,528	846	15,459

Museum Collections and Artefacts

Where museum exhibits and artefacts are recognised on the balance sheet they are reported at insurance value, or at the amount at which they have been valued by professional valuers.

Artwork, including Public Art and Sculptures

Where items of artwork are recognised on the balance sheet they are reported at insurance value, others at cost and some at the amount at which they have been valued by professional valuers.

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, or the amount at which they have been valued by professional valuers.

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

14. Investment Properties

The following table summarises the movement in the fair value of investment properties in the year:

2013-14 £000		2014-15 £000
3,870	Balance at start of the year	3,481
	Additions:	
4	Enhancements	-
	Disposals	
-247	Net gains/losses from fair value adjustments	267
	Transfers:	
-146	To/from Property, Plant and Equipment	-5
3,481	**Balance at end of the year**	3,743

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. 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:

2013-14 Long-term £000	2013-14 Current £000		2014-15 Long-term £000	2014-15 Current £000
		Investments		
25	69,831	Loans and receivables	20,019	83,444
10,558	-	Available-for-sale financial assets	10,558	-
-	-	Unquoted equity investment at cost	-	-
-	-	Financial assets at fair value through profit and Loss	-	-
10,583	69,831	**Total Investments**	30,577	83,444
		Debtors:		
17,935	52,741	Loans and receivables	19,372	54,958
-	-	Financial assets carried at contract amounts	-	-
17,935	52,741	**Total Debtors**	19,372	54,958
		Borrowings:		
-432,986	-8,308	Financial Liabilities at amoritsed cost	-457,752	-4,442
-	-	Financial Liabilities at fair value through profit and loss	-	-
-432,986	-8,308	**Total Borrowings**	-457,752	-4,442
		Other Long term Liabilitites:		
-46,419	-3,266	PFI and finance lease liabilities	-44,975	-3,190
-46,419	-3,266	**Total other long term liabilities:**	-44,975	-3,190
		Creditors:		
-	-108,803	Financial liabilities at amortised cost	-	-110,178
-	-	Financial liabilities carried at contract amount	-	-
-	-108,803	**Total Creditors**	-	-110,178

In addition to the above categories of financial instruments, cash and cash equivalents are also financial instruments as defined by International Accounting Standard (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 2015 was £0.016m (31 March 2014 £0.065m). 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 103 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 2015 was £0.102m (31 March 2014 £0.278m).

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.

At 31 March 2015, the value of soft loans received by the Council was nil, £0.145m as at 31 March 2014.

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 2014/15.

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:

2013-14						2014-15				
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
24,113				24,113	Interest expense	24,449				24,449
				-	Losses on derecognition			-		-
		-		-	Reductions in fair value					-
	-40			-40	Impairment losses		270			270
				-	Fee expense					-
24,113	-40	-	-	24,073	**Total expense in Surplus or Deficit on the Provision of Services**	24,449	270	-	-	24,719
	-3,279			-3,279	Interest income		-2,393			-2,393
	-85			-85	Interest income accrued on impaired financial assets		-2			-2
		-		-	Increase in fair value					-
				-	Gains on derecognition					-
				-	Fee income					-
-	-3,364	-	-	-3,364	**Total income in Surplus or Deficit on the Provision of Services**	-	-2,395	-	-	-2,395
24,113	-3,404	-	-	20,709	**Net gain/(loss) for the year**	24,449	-2,125	-	-	22,324

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 2014			31 March 2015	
Carrying Amount £000	Fair Value £000		Carrying Amount £000	Fair Value £000
-550,096	-614,361	Financial liabilities	-572,373	-706,482
-	-	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 2015) arising from a commitment to pay interest to lenders above current market rates.

31 March 2014			31 March 2015	
Carrying Amount £000	Fair Value £000		Carrying Amount £000	Fair Value £000
122,572	122,572	Loans and receivables	161,154	161,265
17,935	17,935	Long-term debtors	19,372	19,372

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.

16. 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 procedures 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 26 February 2014 and updated on 25 February 2015 and is available on the Council's website.

The key issues within the strategy were:

- The Authorised Limit for 2014/15 was set at £484.000m. This is the maximum limit of external borrowings or other long term liabilities.

- The Operational Boundary was set at £431.000m. 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 Poor's 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 Capita. This service uses a sophisticated modelling approach with credit ratings from all three rating agencies - Fitch, Moody's and Standard and Poor's, 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 £182.056m 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 that deposits may be irrecoverable applies to all of the Council's deposits, but there was no evidence at the 31 March 2015 that this was likely to be the case.

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 £15.698m of the £63.347m 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 2014 £000		31 March 2015 £000
11,422	Less than three months	11,002
783	Between three and six months	1,080
1,440	Between six months and one year	1,142
2,775	More than one year	2,474
16,420	**Total**	15,698

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 2015 was £4.013m.

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 %	Carry-ing Amount £'000	Impairment £'000
KSF	30/10/07	28/10/08	1,000	6.120	32	257
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	-	848
Glitnir Bank [2]	18/12/07	16/12/08	1,000	6.290	-	305
Total			**7,000**		**32**	**2,140**

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 (KSF)

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 £.

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

Date	Repayment
	%
Received to 31 March 2015	82.50
Due 31 December 2015	1.50
Due 31 December 2016	1.75

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

Landsbanki

During 2013/14, the Council sold its claims against the insolvent estate of Landsbanki through a competitive auction process. 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 (ISK) which was placed in an escrow account in Iceland and was earning interest of 4.2%. This element of the distribution had been 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.

Following a decision of the Icelandic Supreme Court on 25 September 2013, the Winding up Board of Glitnir had to apply the Central Bank of Iceland's (CBI's) official selling rates as at the date of the distribution when calculating the value of payments being made to Creditors in ISK. Previously, the exchange rate as at 22 April 2009 had been applied to all distributions made. The impact of this decision is that there was on-going uncertainty in relation to the sterling value of any future distributions.

The total amount of ISK held in escrow on behalf of Glitnir Creditors is around ISK 8.9bn (the equivalent of around £47m) excluding interest earned since March 2012.

The LGA, who work on behalf of the Local Authorities with Icelandic deposits, have discussed the potential options for converting the ISK into another currency and repatriating it to the UK.

It is important to note that Creditors, like the Council were unable to access the escrowed ISK unless and until:

- the Central Bank of Iceland (CBI) approved the requests which had been made by the winding-up boards (WUBs) to exempt the escrowed ISK from the capital controls so that the ISK could be paid from the escrow accounts to each individual Creditor (i.e. into an ISK account in each Creditor's name) or
- the capital controls are lifted. The date on which the controls will be lifted remains unknown but the Icelandic government has recently announced that it is taking steps towards that goal. Currency auctions are one of those steps.

The CBI periodically holds a currency auction to allow parties to:

(iv) purchase ISK solely for the purpose of long term investment in Iceland;

(v) purchase Iceland treasury bonds; and

(vi) purchase EUR (i.e. an outflow of ISK) in exchange for ISK.

The auctions are part of the CBI's strategy for an "orderly" removal of the capital controls. (i) and (ii) above result in an inflow of foreign currency into Iceland. (iii) enables holders of ISK to exchange their ISK for EUR.

The part of the auction that is relevant to Local Authority Creditors is (iii), the sale of ISK in exchange for EUR. In past auctions, the CBI has sought to match the inflow of foreign currency with the outflow of foreign currency. Given that the demand for foreign currency usually outstrips the supply of foreign currency in the CBI's auctions, previous auctions have resulted in a relatively low level of foreign currency outflow.

The consensus among most foreign creditors of the insolvent banks is that when the capital controls are ultimately lifted there is a very real risk that the value of the ISK will fall against other currencies. There is uncertainty as to when the capital controls will be lifted, although there is speculation in recent Icelandic media reports that this may happen during the course of 2015.

The CBI is currently reviewing ways in which it can relax the capital controls in a way that will not negatively affect Iceland's financial stability. Various commentators in Iceland have suggested that this may involve the imposition of an "exit tax" (with suggestions of up to 30-40%) on creditors of the failed Icelandic banks. It is not yet known which creditors might be affected by any such tax or how any such tax might be applied but it may be applied to cross-border capital movement, such as the repatriation of escrowed ISK. If it is, this will have a negative impact on value of Creditors' escrowed ISK.

In February 2015 the CBI amended the rules for their currency auctions which allowed qualifying creditors, such as UK local authorities to participate.

The LGA administered a process for the sale of the escrowed ISK on behalf of local authority creditors. Local Authorities were required to submit a price for the sale of the escrowed ISK to buy Euros.

Through this process, the Council sold ISK 178m which bought €0.890m. Including the bank's fee, the Council paid an all-in rate of ISK 201 for €.

The currency auction only accepted amounts in round millions of ISK for sale, so after selling ISK 178m and paying fees of ISK 0.890m from the escrow account, an amount of ISK 0.279m remains in the Glitnir escrow in Iceland. At current exchange rates this is worth in the region of £1,400.

The Council has impaired the value of Glitnir investments in its accounts by £0.267m. This takes account of the change in the exchange rate of the investments from 31 March 2014 to the sale of the investment in February 2015 along with the loss on the sale of the investments and the write off of the amount remaining in the escrow in Iceland. There is now no balance due in respect of Glitnir in the Council's accounts.

The Council is no longer a creditor of Glitnir.

Foreign Exchange Risk in Relation to Icelandic Deposits

The Council no longer has foreign exchange exposure following the sale of Icelandic Krona in settlement from Glitnir.

Accounting for Interest and Impairment

The total impairment (principal plus interest not received) recognised in the Comprehensive Income and Expenditure Statement in 2014/15, 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 2014/15 was £0.003m 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 £2.140m (2013/14 £1.870m) (principal plus interest not received) to the asset values have been calculated in accordance with CIPFA's LAAP Bulletin 82. During 2014/15, there has been an additional £0.270m impairment of these assets. This amount has been debited through the Comprehensive Income and Expenditure Statement (CIES). This increased impairment (£0.267m) is as a result of the recognition of an exchange rate loss on the ISK held until February 2015 in the escrow account in respect of deposits in Glitnir Bank, and the remaining investment in Glitnir being written out of the accounts. Additional impairment (£0.003m) for Kaupthing, Singer and Friedlander, based on an anticipated recovery of 85.75p in the £, has also been charged to the accounts.

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.

There are sums owing of £237.700m. An amount of £217.700m is 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, (as approved by Council in the Treasury Management Strategy):

31 March 2014 £000		**31 March 2015 £000**
4,447	Less than one year	223
223	Between one and two years	15,234
40,800	Between two and five years	41,650
79,229	Between five and ten years	99,490
110,386	Between ten and fifteen years	80,124
88,249	Between fifteen and twenty years	82,173
20,809	Between twenty and twenty five years	55,818
92,691	More than twenty five years	82,663
436,834	**Total**	457,375

Market Risk

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

- borrowings at variable rates – the interest expense charged to the Comprehensive Income and Expenditure Statement will rise.
- borrowings at fixed rates – the fair value of the liabilities borrowings will fall (no impact on revenue balances);
- investments at variable rates – the interest income credited to the Surplus or Deficit on the Provision of Services will rise
- investments at fixed rates – the fair value of the assets will fall (no impact on revenue balances).

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

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together the 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 the 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 rate 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 2015, if interest rates had been 1% higher with all other variables held constant, the financial effect would be a decrease of £65.181m 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 2013/14) 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.

17. Inventories

Year to 31 March 2015	Balance outstanding at start of year £000	Purchases £000	Recognised as an expense in the year £000	Adjustment for internal inventories £000	Reversals of write-offs in previous years £000	Balance outstanding at year-end £000
Consumable Stores	2,329	10,755	-10,166	-	-	2,918
Maintenance Materials	479	3,866	-3,917	-	-	428
Client Services Work in Progress	212	73	-329	-	-	-44
Rechargeable Works	107	363	-205	-	-	265
Total	3,127	15,057	-14,617	-	-	3,567
Year to 31 March 2014						
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
Total	2,709	15,161	-14,743	-	-	3,127

18. Short Term Debtors

2013-14 £000		**2014-15 £000**
18,710	Central government bodies	20,850
2,141	Other local authorities	2,597
1,153	NHS bodies	1,650
-	Public corporations and trading funds	-
68,272	Other entities and individuals	63,347
-25,466	Less: Impairment Allowance	-27,689
64,810		60,756
3,399	Payments in advance	3,593
68,209	**Total**	64,349

19. Cash and Cash Equivalents

2013-14 £000		**2014-15 £000**
566	Cash at bank	585
-2,829	Overdraft	-6,010
40,194	Cash held on demand (call accounts)	58,737
12,878	Deposits held for liquidity purposes	19,876
50,809	**Cash and Cash Equivalents balance**	73,188

20. Assets Held For Sale (Current)

2013-14 £000		2014-15 £000
350	**Balance outstanding at start of year**	940
	Assets newly classified as held for sale:	
1,171	Property, Plant and Equipment	3,234
	Assets declassified as Held for Sale:	
-150	Property, Plant and Equipment	-
-431	Assets sold	-943
940	**Balance outstanding at year-end**	3,231

21. Short Term Creditors

2013-14 £000		2014-15 £000
-22,529	Central government bodies	-19,141
-379	Other local authorities	-740
-2,429	NHS bodies	-2,143
-	Public corporations and trading funds	-19
-83,466	Other entities and individuals	-88,136
-108,803		-110,179
-5,023	Receipts in Advance	-4,090
-113,826	**Total creditors**	-114,269

22. Provisions

The provisions at 31 March 2015 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.

NDR Appeals

The provision represents the Council’s share of the provision held for successful appeals against business rates.

Other

This includes a provision of £1m for tribunal and court claims and general purpose provision of £0.064m for commuted sums.

	Insurance £000	Equal Pay £000	NDR Appeals £000	Other Provisions £000	Total £000
Balance at 1 April 2014	10,026	3,924	2,543	1,064	17,557
Additional provisions made in 2014-15	5,054	63	1,223	-	6,340
Amounts used in 2014-15	-3,261	-239	-	-	-3,500
Unused amounts reversed in 2014-15	-2,921	-3,687	-	-	-6,608
Unwinding of discounting in 2014-15	-	-	-	-	0
Balance at 31 March 2015	8,898	61	3,766	1,064	13,789
As shown in Balance Sheet					
Long Term Provisions	5,525	-	3,766	-	9,291
Short Term Provisions	3,373	61	-	1,064	4,498
Balance at 31 March 2015	8,898	61	3,766	1,064	13,789

23. Usable Reserves

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

31 March 2014 £000		**31 March 2015 £000**
219	Usable Capital Receipts Reserve	219
723	Capital Grants and Contributions Unapplied	609
7,156	Housing Revenue Account	26,078
28,134	General Fund Balance	28,897
165,952	Earmarked Reserves	214,557
1,043	Earmarked Reserves - HRA	-
203,227	**Total**	270,360

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.

24. Unusable Reserves

01 April 2013 £000 (restated)	31 March 2014 £000 (restated)		31 March 2015 £000
407,863	418,152	Revaluation Reserve	564,388
892,798	869,023	Capital Adjustment Account	572,847
-2,310	-2,119	Financial Instruments Adjustment Account	-2,040
2,075	1,345	Deferred Capital Receipt	888
-14,594	-12,814	Short Term Accumulating Absences Account	-15,035
-978,899	-802,722	Pensions Reserve	-936,301
10,280	10,280	Available for Sale Financial Instruments Reserve	10,280
5	-1,599	Collection Fund	1,160
317,218	479,546	**Total**	196,187

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.

2013-14 £000		2014-15 £000
407,863	**Balance at 1 April (restated)**	418,152
70,098	Upward revaluation of assets	210,688
-35,290	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	-48,123
34,808	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	162,565
-12,377	Difference between fair value depreciation and historical cost depreciation	-12,264
-12,142	Accumulated gains on assets sold or scrapped	-4,065
-24,519	Amount written off to the Capital Adjustment Account	-16,329
418,152	**Balance at 31 March (restated)**	564,388

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 subsequent costs, because 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.

2013-14 £000		2014-15 £000
892,798	**Balance at 1 April**	869,023
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
-66,317	- Charges for depreciation and impairment of non-current assets	-64,436
-62,178	- Revaluation losses on Property, Plant and Equipment	-352,770
-1,230	- Amortisation of intangible assets	-1,141
-9,580	- Revenue expenditure funded from capital under statute	-7,261
-48,803	- 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	-10,276
-188,108		-435,884
24,519	Adjusting amounts written out of the Revaluation Reserve	16,329
-163,589	Net written out amount of the cost of non-current assets consumed in the year	-419,555
	Capital financing applied in the year:	
8,150	- Use of Capital Receipts Reserve to finance new capital expenditure	12,976
7,550	- Use of the Major Repairs Reserve to finance new capital expenditure	7,468
80,174	- Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	65,602
337	- Application of grants and contributions to capital financing from the Capital Grants Unapplied account	113
16,018	- Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	15,730
27,828	- Capital expenditure charged against the General Fund and HRA balances	21,581
140,057		123,470
-243	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	-91
869,023	**Balance at 31 March**	572,847

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.

2013-14 £000			2014-15 £000	
	-14,594	**Balance at 1 April**		-12,814
14,594		Settlement or cancellation of accrual made at the end of the preceding year	12,814	
-12,814		Amounts accrued at the end of the current year	-15,035	
	1,780	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		-2,221
	-12,814	**Balance at 31 March**		-15,035

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. Further detail can be found in Note 45.

2013-14 £000		2014-15 £000
-978,899	**Balance at 1 April**	-802,722
212,380	Remeasurements of the net defined benefit liability	-114,380
439	Difference between Actuary's estimate and Actual Employers' Pension Contributions	-8
-94,670	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	-80,230
58,028	Employer's pensions contributions and direct payments to pensioners payable in the year	61,039
-802,722	**Balance at 31 March**	-936,301

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.

2013-14 £000		2014-15 £000
10,280	**Balance at 1 April**	10,280
-	Transfer of historic Available for Sale balance to Available for Sale Reserve	-
-	Upward revaluation of investments	-
-	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	**Balance at 31 March**	10,280

25. Cash Flow Statement – Non-Cash Movements

2013-14 £'000		2014-15 £'000
-57,057	Depreciation	-58,288
-71,708	Impairment and downward revaluation	-359,144
-1,230	Amortisations	-1,141
40	Impairment of Icelandic assets	-270
-1,780	Transfer to/from Accumulated Absences account	2,221
185	Increase/decrease in the provision for bad debts	421
-7,545	Increase/decrease in creditors	-1,778
-9,248	Increase/decrease in debtors	-4,281
419	Increas/decrease in stock	440
-36,642	Pension liability	-19,191
-48,803	Carrying amount of non-current assets sold	-10,276
101,824	Other non-cash items	77,060
-131,545		-374,227

26. Cash Flow Statement – Items Included in Investing Activities

2013-14 £000		2014-15 £000
7,973	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	13,207
7,973	**Net cash flows from investing activities**	13,207

27. Cash Flow Statement – Operating Activities

The cash flows for operating activities include the following items:

2013-14 £000		2014-15 £000
22,237	Interest paid	19,436
-1,144	Interest received	-1,076
-279	Dividends received	-
20,814	**Net cash flows from opertating activities**	18,360

28. Cash Flow Statement – Investing Activities

2013-14 £000		2014-15 £000
131,201	Purchase of property, plant and equipment, investment property and intangible assets	136,406
265,857	Purchase of short-term (not considered to be cash equivalents) and long-term investments	312,260
-	Other payments for investing activities	-
-7,973	Proceeds from the sale of property, plant and equipment, non-current assets held for sale, investment property and intangible assets	-13,207
-311,148	Proceeds from short-term (not considered to be cash equivalents) and long-term investments	-329,940
2,867	Other receipts from investing activities	-410
80,804	**Net cash flows from investing activities**	105,109

29. Cash Flow Statement – Financing Activities

2013-14 £000		2014-15 £000
-	Cash receipts of short-term and long-term borrowing	-25,000
-11,671	Other receipts from financing activities	-12,466
3,886	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	2,139
3,556	Repayments of short-term and long-term borrowing	4,458
-	Other payments for financing activities	
-4,229	**Net cash flows from financing activities**	-30,869

30. Amounts Reported for Resource Allocation Decisions

The tables below are a reconciliation of the 2014/15 internal management reports (monitoring and outturn) used by the Council's Cabinet to make decisions and the 2014/15 Comprehensive Income and Expenditure Statement (CIES).

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

Subjective Analysis	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	-151,766	-160,408	-29,643	-64,791	-2,967	-409,575
Government grants	-384,026	-886	-5,981	-195,336	-36	-586,265
Total Income	**-535,792**	**-161,294**	**-35,624**	**-260,127**	**-3,003**	**-995,840**
Employee Expenses	349,482	86,474	28,867	40,224	6,718	511,765
Other operating expenses	355,432	132,659	51,784	224,021	6,949	770,845
Support recharges	39,988	20,197	5,259	9,479	1,148	76,071
Total Operating Expenses	**744,902**	**239,330**	**85,910**	**273,724**	**14,815**	**1,358,681**
Net Cost of Services	**209,110**	**78,036**	**50,286**	**13,597**	**11,812**	**362,841**

Reconciliation to cost of services in the CIES	**£000**
Net cost of services in service analysis	362,841
Services not included in the main analysis	-13,267
Amounts not reported to management	337,204
Amounts not included in the CIES	41,599
Cost of Services in CIES	**728,377**

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	-409,575	-	-	-	-409,575	-	-409,575
Interest and investment income	-	-	-	-	-	-2,395	-2,395
Income from Council Tax	-	-	-	-	-	-179,705	-179,705
Government Grants and Contributions	-586,265	-	-	45,372	-540,893	-337,476	-878,369
Total Income	**-995,840**	**-**	**-**	**45,372**	**-950,468**	**-519,576**	**-1,470,044**
Employee Expenses	511,765	-	-	-	511,765	-	511,765
Other service expenses	770,845	-	-	-4,379	766,466	-	766,466
Support Service recharges	76,071	-	-	-	76,071	-	76,071
Contribution to Housing Capital Receipts Pool	-	-	-	-	-	1,414	1,414
Interest Payable	-	-	-	-	-	24,449	24,449
Impairment of Financial Investments	-	-	-	-	-	270	270
Net Trading	-	-	-	10,550	10,550	-10,692	-142
Precepts and Levies	-	-	-	-472	-472	10,922	10,450
HRA	-	-	334,121	-	334,121	-	334,121
Gain or Loss on the disposal of non-current assets	-	-	-	-	-	-3,656	-3,656
Direct Revenue Financing	-	-	-	-9,413	-9,413	-	-9,413
Change in Fair Value of Investment Properties	-	-	-	-91	-91	-267	-358
Other Adjustments	-	-	3,083	32	3,115	-	3,115
IAS19		-13,267			-13,267	33,160	19,893
Total Operating Expenses	1,358,681	-13,267	337,204	-3,773	1,678,845	55,600	1,734,445
Surplus or deficit on provision of services	**362,841**	**-13,267**	**337,204**	**41,599**	**728,377**	**-463,976**	**264,401**

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 (CIES).

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
Total Income	**-512,973**	**-146,298**	**-36,210**	**-252,368**	**-3,715**	**-951,564**
Employee Expenses	346,398	85,180	29,497	40,450	6,953	508,478
Other operating expenses	372,547	137,187	57,287	215,467	6,575	789,063
Support recharges	34,549	19,969	5,169	10,607	1,330	71,624
Total Operating Expenses	**753,494**	**242,336**	**91,953**	**266,524**	**14,858**	**1,369,165**
Net Cost of Services	**240,521**	**96,038**	**55,743**	**14,156**	**11,143**	**417,601**

Reconciliation to cost of services in the CIES	£000
Net cost of services in service analysis	417,601
Services not included in the main analysis	-4,544
Amounts not reported to management	9,524
Amounts not included in the CIES	43,646
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	-	-	44,919	-517,791	-375,474	-893,265
Total Income	**-951,564**	**-**	**-**	**44,919**	**-906,645**	**-553,286**	**-1,459,931**
Employee Expenses	508,478	-	-	-	508,478	-	508,478
Other service expenses	789,063	-	-	-4,397	784,666	-	784,666
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 Financing	-	-	-	-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	1,369,165	-4,544	9,524	-1,273	1,372,872	108,917	1,481,789
Surplus or deficit on provision of services	**417,601**	**-4,544**	**9,524**	**43,646**	**466,227**	**-444,369**	**21,858**

31. Trading Operations

The surplus 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.

		2012-13 £000	2013-14 £000	2014-15 £000
Highways Operations The Council runs a Highways Services trading operation which maintains the network of roads, footpaths and street lighting throughout the County. The service also undertakes major road works and the maintenance of transport and bridge structures, as well as carrying out various infrastructure works for external bodies. The design and build elements of transport related schemes is included in the trading area. 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: £14.908m	Turnover	-27,677	-38,581	-46,581
	Expenditure	27,187	32,545	38,199
	Surplus(-)/Deficit	-490	-6,036	-8,382
Fleet The Council operates an in house Fleet Management Service which has the direct responsibility for the management and safeguarding of the Council's Operators Licence along with the responsibility of the safe and cost effective maintenance and procurement of the Council's 982 vehicles. Whilst the objective of the service is to only recover the actual the capital cost and maintenance of the fleet, the service also undertakes taxi vehicle examinations along with maintenance work for external bodies through Service level agreements. The cumulative deficit over the last three financial years: £0.179m	Turnover	-17,519	-17,914	-16,532
	Expenditure	17,690	17,301	17,153
	Surplus(-)/Deficit	171	-613	621
Depots The Council 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 : £0.539m	Turnover	-2,079	-2,088	-2,261
	Expenditure	2,647	2,438	1,882
	Surplus(-)/Deficit	568	350	-379
Buildings R&M and Construction The Council 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: £4.518m	Turnover	-17,520	-17,811	-24,527
	Expenditure	15,805	16,682	22,853
	Surplus(-)/Deficit	-1,715	-1,129	-1,674

Housing Maintenance

The Council 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 the net cash limit target as set. The cumulative surplus over the last three financial years: £1.753m

	2012-13 £000	2013-14 £000	2014-15 £000
Turnover	-7,159	-10,754	-9,707
Expenditure	6,645	9,652	9,570
Surplus(-)/Deficit	-514	-1,102	-137

Cleaning Services

The Council runs a Building Cleaning Service which procures services and 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 £0.695m

	2012-13 £000	2013-14 £000	2014-15 £000
Turnover	-3,003	-2,934	-2,820
Expenditure	2,886	2,587	2,589
Surplus(-)/Deficit	-117	-347	-231

Catering Services

The Council 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 £0.696m

	2012-13 £000	2013-14 £000	2014-15 £000
Turnover	-741	-655	-547
Expenditure	1,018	940	681
Surplus(-)/Deficit	277	285	134

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 County 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, Arm's Length Management Organisations, Parish Councils, Registered Social Landlords, Primary Care Trusts and Ofsted. Charges for these services are made through a number of Service Level Agreements.

In 2014/15 £7.736m (£8.034m (restated) in 2013/14) was received for the following services; Finance, Information and Communications Technology, Human Resources, Legal Advice and Support, Inspections and Subject Reviews, Cleaning, Care Connect, Ground Maintenance and Crematorium Services.

The reduction in Agency Services from 2013/14 to 2014/15 is mainly due to registered social landlords doing more work in-house.

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.

2013-14 £000		2014-15 £000
1,672	Basic Allowance	1,665
281	Special Responsibility Allowance	282
7	Broadband Allowance	7
108	Expenses	84
2,068	**Total**	2,038

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	2014-15	200,000		172		-	200,172
	2013-14	200,000		125		15,283	215,408
Corporate Director - Resources	2014-15	140,000		494		-	140,494
	2013-14	140,000		371		12,522	152,893
Corporate Director - Children's and Adults' services	2014-15	140,000		248		19,320	159,568
	2013-14	140,000		338		18,340	158,678
Corporate Director - Neighbourhood Services	2014-15	140,000		66		19,320	159,386
	2013-14	140,000		-		18,340	158,340
Corporate Director - Regeneration and Economic Development	2014-15	140,000		-		19,320	159,320
	2013-14	140,000		-		18,340	158,340
Assistant Chief Executive	2014-15	120,000		-		16,560	136,560
	2013-14	120,000		-		15,720	135,720
Monitoring Officer	2014-15	110,000		42		14,887	124,929
	2013-14	110,000		55		14,410	124,465

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

Remuneration	**2013-14**			**2014-15**		
	School Staff	Other Staff	Total	School Staff	Other Staff	Total
£50,000 - £54,999	128	68	196	119	78	197
£55,000 - £59,999	94	38	132	98	26	124
£60,000 - £64,999	33	21	54	40	26	66
£65,000 - £69,999	24	10	34	18	2	20
£70,000 - £74,999	8	4	12	12	5	17
£75,000 - £79,999	8	10	18	4	8	12
£80,000 - £84,999	4	5	9	3	4	7
£85,000 - £89,999	2	3	5	4	2	6
£90,000 - £94,999	5	-	5	3	-	3
£95,000 - £99,999	-	7	7	2	7	9
£100,000 - £104,999	-	3	3	1	1	2
£105,000 - £109,999	-	-	-	-	3	3
£110,000 - £114,999	1	5	6	1	4	5
£115,000 - £119,999	-	1	1	-	2	2
£120,000 - £124,999	-	1	1	-	-	-
£130,000 - £134,999	-	1	1	-	-	-
£145,000 - £149,999	-	-	-	-	1	1
	307	177	484	305	169	474

The costs of Exit Packages comprise two elements: redundancy costs payable to the employee and early access costs, where the employee is also taking early retirement. The latter element is payable to the Pension Fund and is charged to the General Fund in the year of Retirement.

In 2014/15 the costs of Exit Packages reflect a change in policy. The additional costs of early retirement are included for a period of up to five years. Prior to 2014/15, a maximum of one year's costs were included.

This has resulted in a higher cost being shown for some employees. However, in 2014/15, a higher proportion of redundancies in the lowest band were not eligible for early retirement, leading to lower average costs for that band.

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	
	2013-14	**2014-15**	**2013-14**	**2014-15**	**2013-14**	**2014-15**	**2013-14 £000**	**2014-15 £000**
£0 - £20,000	76	158	102	50	178	208	1,526	1,490
£20,001 - £40,000	13	16	71	38	84	54	2,404	1,516
£40,001 - £60,000	1	2	23	13	24	15	1,059	685
£60,001 - £80,000	-	-	4	5	4	5	279	335
£80,001 - £100,000	-	-	-	3	-	3	-	266
£100,001 - £150,000	-	1	-	1	-	2	-	216
£150,001 - £200,000	-	-	-	1	-	1	-	159
Total	**90**	**177**	**200**	**111**	**290**	**288**	**5,268**	**4,667**

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 2013/14 and 2014/15 is Mazars LLP.

2013-14 £000		2014-15 £000
333	Fees payable with regard to external audit services carried out by the appointed auditor for the year	333
33	Fees payable in the year for the certification of grant claims and returns by the appointed auditor	31
366	**Total**	364

In addition to the fees paid to Mazars LLP as per the above table, a rebate from the Audit Commission of £0.028m has also been received in respect of 2013/14 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 2014/15 are as follows:

		Central Expenditure £000	ISB £000	Total £000
A	Final DSG for 2014/15 before Academy Recoupment			351,413
B	Academy figure recouped for 2014/15			70,140
C	Total DSG after Academy Recoupment for 2014/15			281,273
	Plus			
D	Brought forward from 2013/14			6,366
	Less			
E	Carry forward to 2015/16 agreed in advance			6,366
F	Agreed initial budgeted distribution in 2014/15	41,270	240,003	281,273
G	In year adjustments	-17,848	18,041	193
H	Final budgeted distribution for 2014/15	23,422	258,044	281,466
	Less			
I	Actual central expenditure	22,096		22,096
	Less			
J	Actual ISB deployed to schools		255,179	255,179
	Plus			
K	Local authority contribution for 2014/15	-	-	-
L	Carry forward to 2015/16	1,326	2,865	10,557 *

* Total carry-forward (£10.557m) is the carry forward on central expenditure (L) (£1.326m) plus carry forward on ISB (L) (£2.865m) plus carry forward 2015/16 already agreed (E) (£6.366m).

A: Final DSG figure before any amount has been recouped from the Council excluding the January 2015 early years block adjustment.

B: Figure recouped from the Council in 2014/15 by the DfE for the conversion of maintained schools into Academies (including adjustments to the Early Years and High Needs allocation by the DfE).

C: Total figure after DfE Academy recoupment for 2014/15.

D: Figure brought forward from 2013/14 as agreed with the Department.

E: Any amount which the Council decided after consultation with the Schools Forum to carry forward to 2015/16 rather than distribute in 2014/15 – this may be the difference between estimated and final DSG for 2014/15, or a figure (positive or negative) brought forward from 2013/14 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 or final early years block adjustment.

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

I: Actual amount of central expenditure items in 2014/15.

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

K: Any contribution from the local authority in 2014/15 which will have the effect of substituting for DSG in funding the Schools Budget.

L: Carry forward to 2015/16:

- 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).

£4.292m 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 Comprehensive Income and Expenditure Statement. The expenditure forms part of the Movement in Reserves Statement.

37. Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2014/15:

2013-14 £000		2014-15 £000
	Credited to Taxation and Non Specific Grant Income:	
	Non Ring-fenced Government Grants:	
-167,162	- Revenue Support Grant	-138,710
-58,223	- Top Up Grant	-59,357
-2,191	- Section 31 Grants	-4,386
-7,685	- Education Funding Agency Grant	-7,531
-2,029	- Council Tax Freeze Grant	-
-4,800	- New Homes Bonus Scheme Grant	-6,783
-943	- New Homes Bonus Scheme Topslice Reimbursement	-381
-881	- Capitalisation Provision Redistribution Grant	-
-80,204	Capital Grants and Contributions	-65,602
-324,118		-282,750

Grant and Contribution Income Credited to Services

2013-14 £000		2014-15 £000
	Credited to Services:	
-	Adoption Reform Grant	-435
-357	Arts Council Eng - NE	-568
-140	Arts Projects	-33
-75	Asylum Seekers Grant	-51
-303	CDENT Grant	-
-367	Darlington Borough Council	-359
-50	DCSF Grant	-2,544
-280,117	Dedicated Schools Grant (DSG)	-281,273
-329	DEFRA Grant	-306
-	Department of Health Grant	-250
-2,692	Department for Transport Grant	-2,973
-993	Discretionary Housing Payment Grant	-1,096
-807	Durham Police and Crime Commissioner	-512
-181	Education Authorities-other	-276
-9,638	Education Funding Agency	-9,525
-399	Educational Visits	-445
-79	ERDF Grant	-48
-5	Health Commercial Placements	-
-1,761	Heritage Lottery Fund Grant	-1,197
-4,597	Housing Benefit - Admin Grant	-3,211
-139,802	Housing Benefit Grant - Rent Allowance	-148,136
-41,463	Housing Benefit Grant - Rent Rebate	-41,479
-430	LCTSS New Burdens Grant	-
-1,094	LCTSS - Transition Grant	-
-	Learning Disability and Health Reform Grant	-880
-186	Natural England	-156
-15,839	NHS - Care Costs	-18,616
-402	NHS - Integrated Services	-610
-6,534	NHS - Joint Arrangements	-5,890
-604	NNDR Cost of Collection Allowance	-600
-782	Other Local Authorities	-813
-	PCT's	-190
-5,519	PFI Grants	-5,261
-56	Probation Service	-46
-44,533	Public Health Grant	-45,780
-16,196	Pupil Premium Grant	-21,595
-2,956	Skills Funding Agency	-2,527
-83	Sports Council Grant	-72
-382	Supporting People 18 to 21	-390
-25	Teacher Development Agency Grant	-
-71	TSI	-2
-1,928	Welfare Assistance Programme Funding	-1,900
-	Youth Justice Grant	-33
-112	Youth Music Grant	-7
-817	Youth Offending Teams Grant	-815
-18,231	Other Grants and Contributions	-22,628
-600,935		-623,528

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:

2013-14 Long Term Liabilities £000	2013-14 Short Term Liabilities £000	Capital Grants and Contributions Receipts in Advance	2014-15 Long Term Liabilities £000	2014-15 Short Term Liabilities £000
-1,607	-400	Transit 15	-	-
-	-2,227	Home and Community Agency	-	-
-14	-5	Heritage Lottery Fund Grant - Horden Dene	-	-
-	-3	Heritage Lottery Fund Grant - Wharton Park	-	-
-	-	CLG - Disabled Facilities Grant	-	-133
-	-	CLG - Netpark	-	-196
-	-	CLG - Empty Homes Cluster	-	-418
-	-8	Department for Environment, Food & Rural Affairs	-	-
-	-1,242	Department for Transport - Highways	-	-724
-	-	Department for Transport - Integrated Transport	-	-402
-326	-	Department for Transport - LTP3	-	-
-	-	Five Lamps Organisation	-	-256
-	-200	Public Health	-	-200
-	-	Sustrans	-202	-176
-	-2,890	Education Funding Agency	-	-3,152
-	-8	Shotton Hall - School Contribution to BSF Project	-	-
-	-45	Living Streets	-	-25
-	-11	Broadband Delivery UK	-	-6
-	-	Environment Agency	-	-706
-	-	English Heritage	-	-4
-11	-315	Other	-201	-231
-1,958	-7,354	**Total Capital Grants and Contributions Receipts in Advance**	-403	-6,629

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 2014/15 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 £0.306m in 2014/15 (£0.467m in 2013/14). 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 £0.465m in 2014/15 (£0.471m in 2013/14)
- VISIT County Durham, the tourism management board for County Durham for which there were transactions to the value of £0.059m in 2014/15 (£0.132m in 2013/14) with the Council.
- County Durham Community Foundation provides grants that make a genuine difference to the lives of local people, received £0.128m in 2014/15 (£0.084m in 2013/14)
- Groundwork North East, carrying out environmental works for which there were transactions of £0.287m in 2014/15 (£0.597m in 2013/14).
- Durham Community Action, formerly Durham Rural Community Council, providing support to communities throughout County Durham £0.299m in 2014/15 (£0.303m in 2013/14)
- Consett YMCA for work done with various schools including the Pupil Referral Unit £0.108m in 2014/15 (£0.180m in 2013/14)
- The Bowes Museum for services to schools £0.329m in 2014/15 (£0.401m in 2013/14)
- Leisureworks £2.294m in 2014/15 (£2.543m in 2013/14)

During 2014/15, works and services to the value of £0.045m (£0.104m in 2013/14) were commissioned from companies in which some 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 Community Foundation
Neighbourhood Services	Non-Executive Member on the Board of the Durham County Waste Management Company (incorporating Premier Waste Management Limited) (now in liquidation) Director Durham Regatta
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 North East Enterprise Company Limited Director of VISIT County Durham Director of Durham Villages Regeneration Limited

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.

Dale and Valley Homes Limited

Dale and Valley Homes Limited was established as an Arm's 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 2014/15 was £5.514m (£5.406m in 2013/14). The Company accounts for 2014/15 are not yet available. The deficit for the year ended 31 March 2014 was £0.211m. The defined benefit pension liability at 31 March 2014 was £2.590m.

When completed, copies of the Company's accounts can be obtained from the Registered Office at County Hall, Durham, DH1 5UT.

As from 13 April 2015, Dale and Valley Homes Limited becomes part of County Durham Housing Group Limited.

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 2014/15 totalled £11.285m (£11.063m in 2013/14). 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 2015 is £16.860m (31 March 2014: £11.479m) and the deficit for the year to 31 March 2015 was £2.501m (31 March 2014: £0.151m deficit). The debtors of East Durham Homes as at 31 March 2015 are valued at £0.433m (£0.618m in 2013/14) of which £0.363m is owed by the Council (£0.429m in 2013/14). Creditors at 31 March 2015 are valued at £2.344m (£1.945m in 2013/14). Of the creditor balance none is due to the Council (£0.200m in 2013/14). The defined benefit pension liability at 31 March 2015 was £16.860m. (£14.010m at 31 March 2014).

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.

As from 13 April 2015, East Durham Homes Limited becomes part of County Durham Housing Group Limited.

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 2014/15, 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. No dividend was received for the year ended 31 December 2014 (£0.232m for the year ended 31 December 2013).

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 profit before tax of £0.496m and a profit after tax of £0.277m for the year ended 31 December 2014. In the previous year, the Group made a loss before tax of £11.134m and a loss after tax of £3.615m.

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

Durham Tees Valley Airport Limited

The former Teesside Airport Limited became a limited company under the Airports Act 1986. In consideration of the transfer of the property, rights, liabilities and functions, the former constituent authorities received share allocations. The Council received £7.600m (40%) of the issued share capital. With effect from 1 April 2003, 75% of the total shareholding in the now renamed Durham Tees Valley Airport Limited was acquired by Peel Airports Limited. The Council now holds 1.45% of the total shareholding in Peel Airports Limited. For the year ended 31 March 2014, Durham Tees Valley Airport Limited made an operating loss of £4.075m (loss of £3.595m for year ended 31 March 2013) and a loss of £3.900m after taxation (loss of £3.873m for year ended 31 March 2013). The Company accounts for 2014/15 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 2015 are £3.207m (31 March 2014: £2.748m). 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 and copies 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 2015 are £0.962m (31 March 2014: £0.638m). 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 and copies can be obtained from the Registered Office at County Hall, Durham, DH1 5UT, or alternatively accessed via the DCC website.

Beamish Museum 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 made a contribution of £0.020m towards the running costs of the Museum in 2014/15 (£0.033m in 2013/14).

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. However, the Joint Committee was dissolved with effect from April 2014, in accordance with the agreed recommendations made by the Joint Committee at its final meeting held on 28 March 2014. The main impact from this saw the Joint Committee's net assets transfer to Beamish Museum (BM) on 1 April 2014.

Beamish Museum (BM) is a charitable company limited by guarantee and is responsible for capital development and the management and operation of the Museum. Beamish Museum Trading Limited (BMTL), a subsidiary of BM, manages all of the retailing and catering operations of the Museum. In the draft accounts for 2014/15 the BM and BMTL group made an operating profit of £23.789m (£0.929m profit excluding £22.860m of assets transfer) (2013/14 £0.549m profit) and had net assets of £21.913m (2013/14 net liabilities of £0.721m). The Council receives no income or contributions from the above reported arrangements.

Copies of the BM Group Accounts can be obtained from the Museum Director, Regional Resource Centre, Beamish Museum, County Durham, DH9 0RG.

Durham County Council Pension Fund

Durham County Council administers the Durham County Council Pension Fund on behalf of 116 bodies, including borough, parish and town councils, colleges, academy schools, statutory bodies and admitted bodies. During 2014/15, the Pension Fund had an average balance of £35.929m (£17.448m in 2013/14) of surplus cash deposited with the Council. In 2014/15 the Council paid the fund a total of £0.155m (£0.068m in 2013/14) 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.

2013-14 £000		2014-15 £000
603,431	**Opening Capital Financing Requirement**	607,260
	Capital investment:	
131,708	Property, Plant and Equipment	140,510
2,484	Property, Plant and Equipment - Finance Leases	2,172
875	Intangible Assets	536
4	Investment Properties	-
20,218	Revenue Expenditure Funded from Capital under Statute	18,993
	Sources of finance:	
-8,151	Capital receipts	-12,976
-91,643	Government grants and other contributions	-75,389
-7,550	Major Repairs Allowance	-7,468
	Sums set aside from revenue:	
-27,828	- Direct revenue financing	-21,581
-16,018	- Minimum Revenue Provision	-15,730
	Adjustment to Capital Financing Requirement:	
-270	Housing Revenue Account non-dwelling revaluation/impairment losses	132
607,260	**Closing Capital Financing Requirement**	636,459
	Explanation of movements in year	
-10,704	Increase/(decrease) in underlying need to borrow (supported by government financial assistance)	-10,220
12,049	Increase/(decrease) in underlying need to borrow (unsupported by government financial assistance)	37,247
2,484	Assets acquired under finance leases	2,172
3,829	**Increase/(decrease) in Capital Financing Requirement**	29,199

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 2014 £000		31 March 2015 £000
-	Other Land and Buildings	-
8,941	Vehicles, Plant, Furniture and Equipment	8,308
8,941		8,308

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 2014 £000		31 March 2015 £000
	Finance lease liabilities (net present value of minimum lease payments):	
2,521	Current	2,389
4,561	Non-Current	3,916
1,411	Finance costs payable in future years	458
8,493	**Minimum lease payments**	6,763

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

31 March 2014			31 March 2015	
Minimum Lease Payments £000	Finance Lease Liabilities £000		Minimum Lease Payments £000	Finance Lease Liabilities £000
3,427	2,521	Not later than one year	2,624	2,389
4,917	4,437	Later than one year and not later than five years	4,087	3,850
149	124	Later than five years	52	66
8,493	7,082		6,763	6,305

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 administrative 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 2014 £000		31 March 2015 £000
1,496	Not later than one year	653
2,716	Later than one year and not later than five years	2,298
5,983	Later than five years	4,097
10,195		7,048

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 2014 £000		31 March 2015 £000
348	Minimum lease payments	154
-375	Sublease payments receivable	-630
-27		-476

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 2014 £000		31 March 2015 £000
3,127	Not later than one year	2,851
4,311	Later than one year and not later than five years	4,137
6,558	Later than five years	6,523
13,996		13,511

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 2014/15 no rents were received by the authority in respect of contingent rents (2013/14 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 Schools 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 2014 £000 (restated)		31 March 2015 £000
13,154	Net book value at 1 April	14,451
83	Additions	-
-365	Depreciation	-426
1,579	Revaluations	4,020
14,451	Net book value at 31 March	18,045

In addition to the net book value of £18.045m 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 £19.828m.

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 2014/15 are summarised below:

31 March 2014 £000		31 March 2015 £000
43,338	**Balance outstanding at start of year**	42,604
-734	Payments during the year	-744
42,604	**Balance outstanding at year-end**	41,860

Estimates of Future Payments Due

	Payments for Services £000	Reimbursement of Capital Expenditure £000	Interest £000	Total £000
Payable in 2015-16	2,247	800	4,247	7,294
Payable within two to five years	9,841	3,888	16,085	29,814
Payable within six to ten years	14,227	6,996	17,609	38,832
Payable within eleven to fifteen years	16,795	10,690	13,299	40,784
Payable within sixteen to twenty years	20,005	15,987	7,001	42,993
Payable within twenty-one years	2,897	3,499	355	6,751
Total	66,012	41,860	58,596	166,468

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 and Revaluation Losses

The value of the Council’s assets has been reduced by £454.395m in 2014/15, charged partly to services in the Comprehensive Income and Expenditure Statement (CIES) and partly to the Revaluation Reserve. This reduction 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 reduced by £369.657m. Mainly due to a revaluation loss of £331.081m. Full details are disclosed at Note 49.

43. Termination Benefits

The authority terminated the contracts of a number of employees in 2014/15. The value of the redundancy payments charged to services in 2014/15 was £4.571m and in 2013/14 was £4.605m. The table below analyses the payments made in the relevant financial years. The majority of the payments made in 2014/15 were due to the rationalisation of services within the Authority.

2013-14 £000		2014-15 £000
1,946	Children's and Education Services	1,110
595	Adult Social Care	1,543
208	Highways and Transport Services	237
196	Planning Services	123
166	Cultural and Related Services	271
342	Environmental and Regulatory Services	218
34	Local Authorirty Housing (HRA)	-
179	Other Housing Services (including Supporting People)	381
-	Public Health	60
60	Corporate and Democratic Core	53
711	Central Services to the Public	481
168	Financing and Investment Income and Expenditure (Trading)	94
4,605	**Total**	4,571

In addition to the above redundancy payments, the pension enhancement value in 2014/15 was £1.153m and in 2013/14 was £0.730m.

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 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 2014/15, the Council paid £16.858m to Teachers' Pensions in respect of teachers' retirement benefits, representing 14.1% of pensionable pay (£16.971m and 14.1% in 2013/14). 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

NHS Staff who transferred to the Council in 2013/14 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 2014/15, the Council paid £0.171m to the NHS Pension Scheme in respect of former NHS staff retirement benefits, representing 14.0% of pensionable pay (£0.217m and 14.0% in 2013/14). 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 seven 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:

2013-14 Local Government Pension Scheme £000	2013-14 Discretionary Benefits Arrangements £000		2014-15 Local Government Pension Scheme £000	2014-15 Discretionary Benefits Arrangements £000
		Cost of services:		
		Service cost comprising:		
47,884	-	- Current service cost	41,310	-
1,800	-	- Past service cost (including curtailments)	3,140	10
		Financing and Investment Income and Expenditure:		
3,426	-	- Current service cost	2,610	-
38,370	3,190	- Net interest on net defined benefit liability	30,090	3,070
91,480	3,190	Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	77,150	3,080
		Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement:		
		Remeasurement of the net defined benefit liability comprising:		
11,690	-	- Return on plan assets (excluding the amount included in the net interest expense)	-93,820	-
-135,720	-3,410	- Actuarial gains and losses due to changes in financial assumptions	218,830	4,810
-30,200	1,190	- Actuarial gains and losses due to changes in demographic assumptions	-	-
-56,010	80	- Actuarial gains and losses due to liability experience	-13,390	-2,050
-118,760	1,050	Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	188,770	5,840
		Movement in Reserves Statement		
-91,480	-3,190	Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post employment benefits in accordance with the Code	-77,150	-3,080
		Actual amount charged against the General Fund Balance for pensions in the year:		
52,138	-	- Employer's contributions payable to the scheme	55,163	-
-	5,890	- Direct retirement benefits payable to pensioners	-	5,876

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:

2013-14			2014-15	
Funded Liabilities: Local Government Pension Scheme £000	Unfunded Liabilities: Discretionary Benefits Arrangements £000		Funded Liabilities: Local Government Pension Scheme £000	Unfunded Liabilities: Discretionary Benefits Arrangements £000
-2,179,340	-75,850	Present value of the defined benefit obligation	-2,455,280	-75,970
1,452,460	-	Fair value of plan assets	1,594,560	-
-726,880	-75,850	**Net liability arising from defined benefit obligation**	-860,720	-75,970
78	-70	Difference between actuaries' figures and actual contributions	233	156
-726,802	-75,920	**Adjusted Total ***	-860,487	-75,814

* To produce a more accurate assessment of the Council'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

2013-14			2014-15	
Funded Liabilities: Local Government Pension Scheme £000	Unfunded Liabilities: Discretionary Benefits Arrangements £000		Funded Liabilities: Local Government Pension Scheme £000	Unfunded Liabilities: Discretionary Benefits Arrangements £000
1,414,570	-	**Opening fair value of scheme assets**	1,452,460	-
61,990	-	Interest Income	62,180	-
-11,690	-	Remeasurement gain/loss (-)	93,820	-
52,060	5,960	Contributions from employer	54,930	5,720
13,770	-	Contributions from employees into the scheme	14,090	-
-78,240	-5,960	Benefits paid	-82,920	-5,720
1,452,460	-	**Closing fair value of scheme assets**	1,594,560	-

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

2013-14 Funded Liabilities: Local Government Pension Scheme £000	2013-14 Unfunded Liabilities: Discretionary Benefits Arrangements £000		2014-15 Funded Liabilities: Local Government Pension Scheme £000	2014-15 Unfunded Liabilities: Discretionary Benefits Arrangements £000
2,312,270	80,760	**Opening balance at 1 April**	2,179,340	75,850
51,310	-	Current service cost	43,920	
100,360	3,190	Interest cost	92,270	3,070
13,770	-	Contributions by scheme participants	14,090	-
		Remeasurement gains (-) and losses:		
-135,720	-3,410	Actuarial gains and losses due to changes in financial assumptions	218,830	4,810
-30,200	1,190	Actuarial gains and losses due to changes in demographic assumptions	-	-
-56,010	80	Actuarial gains and losses due to liability experience	-13,390	-2,050
1,800	-	Past service cost (including curtailments)	3,140	10
-78,240	-5,960	Benefits paid	-82,920	-5,720
2,179,340	75,850	**Closing balance at 31 March**	2,455,280	75,970

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:

31 March 2014 Fair Value of scheme assets £000				31 March 2015 Fair Value of scheme assets £000		
Quoted	Unquoted	Total		Quoted	Unquoted	Total
334,066	445,905	779,971	Equity investments	106,836	589,987	696,823
15,977	82,790	98,767	Property	22,324	74,944	97,268
297,754	82,790	380,544	Government bonds	405,018	94,079	499,097
2,905	124,912	127,817	Corporate bonds	-	148,294	148,294
62,456	-	62,456	Cash	153,078	-	153,078
2,905	-	2,905	Other	-	-	-
716,063	736,397	1,452,460	**Total**	687,256	907,304	1,594,560

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:

2013-14 Local Government Pension Scheme	2013-14 Discretionary Benefits Arrangements		2014-15 Local Government Pension Scheme	2014-15 Discretionary Benefits Arrangements
		Mortality assumptions:		
		Longevity at 65 for current pensioners:		
22.5	22.5	- Men	22.6	22.6
25.0	25.0	- Women	25.1	25.1
		Longevity at 65 for future pensioners:		
24.7	n/a	- Men	24.8	n/a
27.3	n/a	- Women	27.4	n/a
		Principal financial assumptions (% per annum)		
3.4	3.2	- Rate of inflation (RPI)	2.9	2.9
2.4	2.2	- Rate of inflation (CPI)	1.8	1.8
3.9	n/a	- Rate of increase in salaries	3.3	n/a
2.4	2.2	- Rate of increase in pensions	1.8	1.8
4.3	4.2	- Rate for discounting scheme liabilities	3.2	3.1

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 2013/14.

The approximate impact of changing the key assumptions on the present value of the funded defined benefit obligation as at 31 March 2015 and the projected service cost for the year ending 31 March 2016 is set out below:

Discount rate assumption			
Adjustment to discount rate	**+ 0.1% per annum**	**Base Figure**	**- 0.1% per annum**
Present value of total obligation (£000)	2,411,230	2,455,280	2,500,140
Change in present value of total obligation	-1.8%		1.8%
Projected service cost (£000)	50,810	52,530	54,290
Approximate change in projected service cost	-3.3%		3.4%
Rate of general increase in salaries			
Adjustment to salary increase rate	**+ 0.1% per annum**	**Base Figure**	**- 0.1% per annum**
Present value of total obligation (£000)	2,468,590	2,455,280	2,442,140
Change in present value of total obligation	0.5%		-0.5%
Projected service cost (£000)	52,530	52,530	52,530
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			
Adjustment to pension increase rate	**+ 0.1% per annum**	**Base Figure**	**- 0.1% per annum**
Present value of total obligation (£000)	2,488,390	2,455,280	2,422,650
Change in present value of total obligation	1.3%		-1.3%
Projected service cost (£000)	54,290	52,530	50,810
Approximate change in projected service cost	3.4%		-3.3%
Post retirement mortality assumption			
Adjustment to mortality age rating assumption *	**- 1 year**	**Base Figure**	**+ 1 year**
Present value of total obligation (£000)	2,520,850	2,455,280	2,389,760
Change in present value of total obligation	2.7%		-2.7%
Projected service cost (£000)	54,330	52,530	50,730
Approximate change in projected service cost	3.4%		-3.4%

* 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 £53.710m contributions to the scheme in 2015/16 (£52.410m in 2014/15).

The weighted average duration of the defined benefit obligation for scheme members is 18.1 years at 31 March 2015 (18.1 years at 31 March 2014).

46. Contingent Liabilities

a) Job Evaluation

A contingent liability has been disclosed 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 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.

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. Currently it is not 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% (£0.774m) of the value of the total potential liability in the Scheme of Arrangement, after the levy payments totalling £0.856m were made in 2013/14 and 2014/15. 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

The Council continues to own a number of closed landfill sites, with various degrees of restoration. The Council is responsible for restoration maintenance works and after-care costs, which include site maintenance, gas management, environmental monitoring and leachate (liquid waste) management. Much of this work was contracted to Premier Waste until 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 work is on-going 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 liquidation of Premier Waste on 31 May 2013. The Council became responsible for managing the site's Environmental Permit from 1 June 2013 and has allocated resources within its MTFP to restore and maintain the facility, which is no longer operational. Capping and restoration works have been on-going throughout 2014/15 and good progress has been made. 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. The Council expects to receive a New Burdens Grant from the Government for the Local Land Charges Register (LLCR) element of the claim. 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 is 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.

k) Warranties in relation to LSVT of Housing Stock

The Council has given County Durham Housing Group (CDHG) certain warranties in relation to staff transferring, property and environmental pollution. These warranties to both CDHG and its Funders are for a maximum period of 30 years. The potential liability to the Council is unquantifiable. However, the risks are considered low and not expected to have a material impact on the accounts. Insurance cover for environmental risks has been purchased to protect the Council.

l) Housing Capital Works

There are outstanding contractual payments to a contractor for work completed in the East Durham Homes area, which are currently being evaluated and validated by East Durham Homes and the Council. Any potential payment will be met from available HRA reserves and as the extent and timing of this liability remains uncertain, it has been included in the accounts as a contingent liability.

47. Contingent Assets

a) Large Scale Vouluntary Transfer (LSVT) - VAT Shelter

The Council and CDHG have entered into a VAT shelter arrangement to enable CDHG to reclaim VAT on future improvement works to the transferred stock. This scheme has been devised and implemented in nearly all stock transfers since 2003 and has approval from HMRC and the Government. Based on development works of £319m and adjusting for VAT on disabled adaptations works, the Council is entitled to a 50% share of VAT recovered by CDHG from this VAT shelter arrangement. The estimated proceeds are £29.25m for the Council over the next 15 years.

b) VAT claims

There are a number of potential VAT claims for which the Council may be entitled to a repayment of VAT paid to Her Majesty's Custom and Revenues (HMRC). The likelihood and extent of a repayment and the timing of it remains uncertain, it therefore is included in the accounts as a contingent asset.

48. 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.

49. Exceptional Items

Large Scale Voluntary Transfer (LSVT)

As stated in Note 6, the Council transferred its Housing Stock to County Durham Housing Group on 13 April 2015. The transfer price for the dwellings and associated assets is largely determined by a prescribed formula set by Government and reflects the current value of the future income and expenditure streams of the assets over the next 30 years and is known as the Tenanted Market Value (TMV). The transfer price agreed with CDHG was £114.4m.

This valuation of housing stock, which is applied for stock transfer, is significantly different to the valuation of dwellings in the Balance Sheet based on the Existing Use of the stock as Social Housing with secure tenancies.

The Balance Sheet as at 31 March 2015 reflects the value of Council Dwellings based on the TMV and this has led to a revaluation loss of £331.08m, of which £329.79m was charged to the HRA Cost of Services with the balance of £1.29m being charged to the Revaluation Reserve.

Whilst the £329.79m results in an exceptional charge to the HRA Cost of Services in 2014/15, it is offset by being reversed out of the HRA via the Movement in the Housing Revenue Account Statement.

50. Prior Period Adjustments (PPAs)

Accounting for Schools – Balance Sheet Recognition

The Council completed a review of the different types of schools it controls in the County in line with the provisions of the Code of Practice. This led to an amended Accounting Policy (No. 32 in Note 1) and judgements were made to determine the arrangements in place and the accounting treatment of the land and building assets.

As a result the following Foundation Schools are now recognised in the Council's Balance Sheet:-

- Whitworth Park School and Sixth Form College
- Greenfield Community College and
- Sunnydale Community College (closed and merged with Greenfield Community College with effect from 1 January 2015)

The value of the Foundation Schools was £24.756m at the beginning of the previous accounting period (1 April 2013) and as this amount is considered material, the Council has decided to restate its accounts.

The adjustment has resulted in no restatement of the Comprehensive Income and Expenditure Statement in 2013/14.

The effects of these restatements are set out below:

Effect on Opening Balance Sheet – 1 April 2013

The adjustments that have been made to the balance sheet since the version published in the 2013/14 Statement of Accounts are as follows:

	Balances at 1 April 2013 (as reported) £000	Restatement (Foundation Schools) £000	Balances at 1 April 2013 (restated) £000
Property, Plant & Equipment	1,856,656	24,756	1,881,412
Long Term Assets	**1,905,713**	**24,756**	**1,930,469**
Net Assets	**432,248**	**24,756**	**457,004**
Unusable Reserves	292,462	24,756	317,218
Total Reserves	**432,248**	**24,756**	**457,004**

Movement in Reserves Statement 2013/14

The restatement of the relevant lines of the Movement in Reserves Statement as at 31 March 2014, as a result of the adjustments is presented below:

Unusable Reserves	**31 March 2014 (as reported)**	**Restatement (Foundation Schools)**	**31 March 2014 (restated)**
	£000	**£000**	**£000**
Balance at 31 March 2013 brought forward	**292,462**	**24,756**	**317,218**
		-	
Balance at 31 March 2014 carried forward	**454,791**	**24,756**	**479,547**

Effect on Balance Sheet - 31 March 2014

The adjustments that have been made to the balance sheet since the version published in the 2013/14 Statement of Accounts are as follows:

	Balances at 31 March 2014 (as reported)	**Restatement (Foundation Schools)**	**Balances at 31 March 2014 (restated)**
	£000	**£000**	**£000**
Property, Plant & Equipment	1,847,084	24,756	1,871,840
Long Term Assets	**1,896,974**	**24,756**	**1,921,730**
Net Assets	**658,017**	**24,756**	**682,773**
Unusable Reserves	454,790	24,756	479,546
Total Reserves	**658,017**	**24,756**	**682,773**

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

2013-14 £000		Notes	2014-15 £000
	Income		
-63,295	Dwelling Rents (Net of voids)	5	-64,834
-1,103	Non Dwelling Rents (Net of voids)		-1,075
-156	Charges for Services and Facilities		-193
-413	Contributions towards Expenditure		-3,161
-64,967	Total Income		-69,263
	Expenditure		
13,139	Repairs and Maintenance	7	12,957
13,356	Supervision and Management	7	13,915
530	Rent, Rates, Taxes and Other Charges	8	422
175	Debt Management Costs		175
43,399	Depreciation and Impairment of Non-Current Assets	9 & 10	373,958
407	Movement in the Allowance for Bad Debts	6	423
45	Sums directed by the Secretary of State that are expenditure in accordance with the Code		62
71,051	Total Expenditure		401,912
6,084	Net Expenditure of HRA Services as included in the whole authority Comprehensive Income and Expenditure Statement		332,649
1,085	HRA Services Share of Corporate and Democratic Core		1,085
385	HRA share of other amounts included in the whole authority net expenditure of continuing operations but not allocated to specific services		386
7,554	Net Expenditure for HRA Services		334,120
-439	Gain (-) or Loss on Sale of HRA Non-Current Assets		-1,075
10,881	Interest Payable and Similar Charges		10,501
-71	Interest and Investment Income		-473
-19,400	Capital Grants & Contributions Receivable		-18,682
-1,475	Deficit / Surplus (-) for the Year on HRA Services		324,391

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.

2013-14 £000		2014-15 £000	2014-15 £000
7,155	Balance on the HRA at the end of the previous year		7,155
1,475	Deficit (-) / Surplus for the year on the HRA Income and Expenditure Statement	-324,391	
-1,582	Adjustments between accounting basis and funding basis under statute	342,271	
-107	Net Increase or decrease (-) before transfer to or from reserves	17,880	
107	Transfers to (-) or from reserves	1,043	
-	Increase or decrease (-) in the year on the HRA		18,923
7,155	**Balance on the HRA at the end of the current year**		26,078

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.

2013-14 £000		2014-15 £000
7,550	Transfer to/from the Major Repairs Reserve	7,468
-23,773	Transfer to/from the Capital Adjustment Account	-355,112
439	Gain or loss (-) on sale of HRA Non-Current Assets	1,075
390	HRA Share of Contributions to or from the Pension Reserve	480
16,976	Capital expenditure funded by the HRA	3,818
1,582	**Adjustments between accounting basis and funding basis under statute**	**-342,271**

Notes to HRA Income and Expenditure Account

1. Housing Stock

The Council was responsible for managing an average of 18,474 dwellings during 2014/15. 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 April 2014	11,240	1,834	5,446	18,520
Add:				
Additions	-	-	-	-
Less:				
Sales	68	7	1	76
Demolitions	9	-	-	9
Other Disposals	7	-	-	7
Stock at 31 March 2015	11,156	1,827	5,445	18,428

The housing stock is managed on a day to day basis by three separate providers consisting of two Arm's Length Management Organisations (ALMO's) – Dale and Valley Homes (4,228 dwellings) and East Durham Homes (8,299 dwellings), and one in-house provider – Durham City Homes (5,901 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 2014 £000	Asset Type	Valuation at 31 March 2015 £000
	Operational Assets	
448,631	Dwellings	114,353
8,051	Garages	7,598
456,682	Total Dwellings including Garages	121,951
7,447	Other Land and Buildings	6,900
47	Vehicles, Plant & Equipment	18
4,656	Non-Operational Assets	7,760
468,832	**Balance Sheet Valuation**	136,629

As at 1 April 2014, the Vacant Possession value of the dwellings held in the Housing Revenue Account was £1,123m (£1,121m at 1 April 2013). The valuation of the dwellings in the Balance Sheet at that date (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.

As at 31 March 2015, the Balance Sheet value reflects the value of the Council dwellings based on Tenanted Market Value (TMV). This has led to a revaluation loss of £331.081m. Further details are shown in Note 49.

3. Capital Expenditure and Financing

The Council spent £42.826m during 2014/15 on its HRA Assets:

2013-14 £000	Expenditure	2014-15 £000
45,698	Improvements to Council Housing Assets	42,826
45,698	**Total Expenditure**	42,826

This expenditure was financed as follows:

2013-14 £000	Financing	2014-15 £000
7,550	Majors Repairs Reserve	7,468
1,293	Capital Receipts	1,346
479	Prudential Borrowing (Housing Improvements)	11,512
19,400	Capital Grants	18,682
16,976	Revenue Contributions	3,818
45,698	**Total Financing**	42,826

4. Capital Receipts

During 2014/15 the Council generated £3.332m gross capital receipts from the sale of its Housing assets as shown in the following table:

2013-14 £000	Source of Receipt	2014-15 £000
2,647	Council House Sales (RTB Legislation)	2,590
601	Qualifying Council House Disposals	572
38	Council House Mortgage Repayments	16
50	Housing Land & Other Sales	154
3,336	**Total Capital Receipts**	3,332

Under the Capital Receipts Pooling Arrangements the Council had to pay over to the Government £1.414m of the above sale proceeds in 2014/15. This is shown in the following table:

Source of Receipt	Capital Receipt £000	Usable Element £000	Poolable Element £000
Council House Sales (RTB Legislation)	2,590	1,188	1,402
Qualifying Council House Disposals	572	572	-
Council House Mortgage Repayments	16	4	12
Housing Land & Other Sales	154	154	-
Total	3,332	1,918	1,414

5. Dwelling Rents

This sum represents the gross rental income due for the year after allowance is made for empty properties. During the year 1.37% (1.84% in 2013/14) of properties available for rent, were vacant, which is less than the Government's target of 2% for empty properties. The average rent in 2014/15 was £68.69 (£65.67 in 2013/14) a week on a 52 week basis.

6. Rent Arrears and Provision for Bad and Doubtful Debts

The amount of rent arrears at 31 March 2015 was £3.356m (£3.625m at 1 April 2014).

The aggregate balance sheet provision in respect of uncollectable debts at 31 March 2015 is £2.772m (£2.920m at 1 April 2014).

The actual charge to the HRA in respect of bad debts provision and debts written off in 2014/15 was £0.457m. This charge relates to write-offs of £0.605m and a reduction in provision of £0.148m to ensure the provision reflects the estimated doubtful debt. As result of the Large Scale Voluntary Transfer of the Council's housing stock on the 13 April 2015, the doubtful debt was calculated on the basis of arrears outstanding at 31 March 2015, less the agreed sale income in respect of the sale of these arrears to County Durham Housing Group.

7. 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 £5.514m and £11.285m respectively. This is analysed as follows:

	East Durham Homes £000	Dale & Valley Homes £000	Total £000
Repairs and Maintenance	5,800	2,529	8,329
Supervision and Management	5,485	2,985	8,470
Total Management Fee	11,285	5,514	16,799

8. 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.

9. 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 2014/15 the total charge made for depreciation of HRA assets was £7.499m as shown below: -

2013-14 £000	Asset type	2014-15 £000
6,877	Operational Assets: Dwellings	6,799
673	Operational Assets: Other Buildings e.g. Garages	674
26	Operational Assets: Vehicles, Plant & Equipment	26
7,576	**Total Depreciation Charge**	7,499

10. Impairment and Revaluation Losses on Property, Plant and Equipment

During 2014/15, £372.260m (£47.038m in 2013/14) was charged to the Housing Revenue Account for losses 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. The Council's Housing Stock Value has been reduced mainly due to a revaluation loss of £331.081m, as a result of basing its valuation on TMV. Details are shown in Note 49. Revaluation gains reversing previous losses of £5.802m were credited to the Housing Revenue Account, reducing the charge to £366.458m.

11. 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:

2013-14 £000		**2014-15 £000**
	Movement on Reserve	
-	**Balance as at 1st April**	-
-7,550	Depreciation on HRA Assets	-7,468
7,550	HRA Capital Expenditure funded from MRR	7,468
-	**Balance as at 31st March**	-

This account reflects a statutory requirement to maintain a separate Collection Fund. It shows the transactions relating to Council Tax and Non-Domestic Rates (Business Rates) and illustrates the way these have been distributed to Central Government, Durham Police and Crime Commissioner, County Durham and Darlington Fire and Rescue Authority and to Durham County Council General Fund. Notes to the statements follow.

Income and Expenditure Account

2013-14		2014-15		
		Council Tax	NNDR	Total
£000		£000	£000	£000
	Income			
-211,969	Council Tax due from Taxpayers	-219,895		-219,895
-112,365	Income from Business Ratepayers		-116,565	-116,565
	Deferred Rates 2012/13		-446	-446
	Recovery of Previous year's Estimated Deficit			
	Central Government		-1,624	-1,624
	Durham County Council		-1,591	-1,591
	County Durham & Darlington Fire & Rescue Authority		-32	-32
-324,334	Total Income	-219,895	-120,258	-340,153
	Expenditure			
	Precepts and Demands			
164,470	Durham County Council	168,845		168,845
9,982	113 Towns and Parishes and 1 Charter Trust	10,450		10,450
20,060	Durham Police and Crime Commissioner	20,592		20,592
11,596	County Durham & Darlington Fire & Rescue Authority	11,893		11,893
	Business Rates			
54,037	Payment to Central Government		55,051	55,051
1,081	Payment to County Durham and Darlington Fire & Rescue Authority		1,101	1,101
52,957	Payment to Durham County Council, including Renewable Energy		53,968	53,968
604	Costs of Collection - Business Rates		600	600
	Bad & Doubtful Debts			
2,311	Write Offs	5,753	1,773	7,526
5,323	Change in Provision for Bad Debts	1,873	473	2,346
5,192	Provision for Appeals		2,493	2,493
327,613	Total Expenditure	219,406	115,459	334,865
3,279	Movement on Fund Balance	-489	-4,799	-5,288
-6	Surplus on Fund Brought Forward	-2	3,275	3,273
3,273	**Fund Balance Carried Forward**	**-491**	**-1,524**	**-2,015**
	Allocated to :			
1606	Durham County Council	-412	-746	-1,158
-	Durham Police and Crime Commissioner	-50		-50
33	County Durham and Darlington Fire & Rescue Authority	-29	-15	-44
1641	Central Government		-762	-762
-7	Durham County Council - Renewable Energy		-1	-1
3,273		**-491**	**-1,524**	**-2,015**

Notes to the Collection Fund Accounts

i. 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.

ii. 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 and Crime Commissioner, 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 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.

The Council Tax Base is then divided into the County Council Demand and the Precepts requested by Durham Police and Crime Commissioner, 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'	Equivalent Properties
Up to £ 40,000	Band A	143,127	6/9ths	95,418
Over £ 40,000 up to £ 52,000	Band B	29,929	7/9ths	23,278
Over £ 52,000 up to £ 68,000	Band C	28,665	8/9ths	25,480
Over £ 68,000 up to £ 88,000	Band D	19,638	9/9ths	19,638
Over £ 88,000 up to £120,000	Band E	9,628	11/9ths	11,768
Over £120,000 up to £160,000	Band F	3,676	13/9ths	5,310
Over £160,000 up to £320,000	Band G	2,038	15/9ths	3,397
Over £320,000	Band H	256	18/9ths	512
		236,957		184,801
Net effect of discounts, reliefs, exemptions and premiums				55,753.60
Chargeable Properties (Taxbase) 2014/15:				**129,047.4**

The Council Tax base for 2013/14 was £128,204.9

In 2014/15, the Band D charge was £1,560.12 (£1,529.78 2013/14) made up of Durham County Council £1,308.39 (£1,282.86 2013/14), Durham Police Authority £159.57 (£156.47 2013/14) and County Durham and Darlington Fire and Rescue Authority £92.16 (£90.45 2013/14). In addition, Band D Town and Parish precepts between £0 and £276.62 (£0 and £263.70 2013/14) are chargeable and there are some areas with no Town or Parish Council.

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 2013/14 and 2014/15. Therefore there has been neither distribution, nor recovery from major preceptors during those years. At 31 March 2015, the actual outturn was a surplus of £0.491m (surplus of £0.002m at 31 March 2014).

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 2015 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	2014/15	20%
	2013/14	50%
	2012/13 and older	100%
Category 2- First, second or final reminder	2014/15	40%
	2013/14	65%
	2012/13 and older	100%
Category 3- Summons etc	2014/15	60%
	2013/14	95%
	2012/13 and older	100%

At 31 March 2015, the calculated provision of £18.563m covered 78% of arrears (£16.690m, 61% at 31 March 2014).

Collection Fund – Council Tax Balance

The Collection Fund- Council Tax balance at 31 March 2015 amounted to a surplus of £0.491m (surplus of £0.002m at 31 March 2014).

Durham County Council and the major preceptors, Durham Police and Crime Commissioner 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:

Authority	Year end Surplus/Deficit on Collection Fund- Council Tax £000	Provision for Bad debts- Council Tax Arrears £000	Council Tax Arrears £000	Council Tax Overpayments and Prepayments £000
Durham County Council	-412	-15,569	20,050	-2,682
Durham Police and Crime Commissioner	-50	-1,898	2,445	-327
County Durham & Darlington Fire & Rescue Authority	-29	-1,096	1,412	-189
Total Allocated	-491	-18,563	23,907	-3,198

iii. 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 2014/15, the general multiplier was £0.482 (£0.471 in 2013/14) and the small business multiplier was £0.471 (£0.462 in 2013/14). The total non-domestic rateable value for Durham County Council at 31 March 2015 was £302.522m (VOA schedule dated 18 March 2015) (£301.771m at 31 March 2014)

From 1 April 2013, the Business Rates Retention Scheme was introduced. Instead of paying into a central pool, the business rates income for the Durham County Council administrative area is shared between Central Government (50%), Durham County Council (49%) and County Durham and Darlington Fire and Rescue Authority (1%). Any income from certain business areas, e.g. Renewable Energy, accrues only to Durham County Council. This scheme aims to give Authorities a greater incentive to grow businesses but also increases the financial risk due to volatility and non-collection of rates.

The business rates due to be paid over during 2014/15 were estimated before the start of the year on the NNDR1, a statutory document submitted in January 2014. In addition, during 2014/15, the estimated deficit for 2013/14 was recovered from shareholders as shown on the Income and Expenditure Account.

The estimated outturn for 2014/15 was included on the NNDR1 for 2015/16, submitted in January 2015. This predicted a surplus of £1.021m (deficit of £3.247 estimated for 2013/14) of which Durham County Council’s share would be £0.500m (deficit of £1.591m for 2013/14). Any estimated surplus or deficit is either paid to or recovered from each shareholder in the following financial year. The difference between the estimated outturn and the actual at 31 March is carried forward and taken into account in a future financial year. At 31 March 2015, the actual outturn was a surplus of £1.524m (deficit of £3.275m in 2013/14). In addition, income from renewable Energy amounted to £0.011m (£0.007m in 2013/14).

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 2015 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	2014/15	20%
	2013/14	50%
	2012/13 and older	100%
Category 2- First, second or final reminder	2014/15	40%
	2013/14	65%
	2012/13 and older	100%
Category 3- Summons etc	2014/15	60%
	2013/14	95%
	2012/13 and older	100%

At 31 March 2015, the calculated provision of £5.024m covered 70% of arrears (£4.551m, 57% at 31 March 2014).

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 2015, the provision for Appeals was estimated at £7.685m (£5.192m at 31 March 2014.

Collection Fund Balance - Business Rates

The Collection Fund – Business Rates balance at 31 March 2015 amounted to a surplus of £1.524m (deficit of £3.275m at 31 March 2014).

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 2015.

Authority	Year end Surplus/Deficit on Collection Fund- NNDR £000	Provision for Bad debts- NDR Arrears £000	Business Rates Arrears £000	Business Rates Overpayments and Prepayments £000	Provision for Appeals £000
Durham County Council	-747	-2,462	3,511	-783	-3,766
Central Government	-762	-2,512	3,582	-799	-3,842
County Durham & Darlington Fire & Rescue Authority	-15	-50	72	-16	-77
Total Allocated	-1,524	-5,024	7,165	-1,598	-7,685

Fund Account

2013-14				2014-15	
£000	£000		Notes	£000	£000
		DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED IN THE FUND			
-96,800		Contributions receivable	7	-98,848	
-2,623		Transfers in from other pension funds	8	-2,734	
-5		Other income		-5	
	-99,428				-101,587
96,669		Benefits payable	9	101,419	
32,300		Payments to and on account of leavers	10	8,568	
	128,969				109,987
	29,541	**Net withdrawals/ -additions from dealings with members**			**8,400**
	6,388	**Management expenses**	11		6,869
		RETURN ON INVESTMENTS			
-30,334		Investment income	12	-29,297	
-50,990		Profit and losses on disposal of investments and change in market value of investments	14	-190,092	
	-81,324	**Net returns on investments**			**-219,389**
	-45,395	**NET INCREASE IN THE NET ASSETS AVAILABLE FOR BENEFITS DURING THE YEAR**			**-204,120**

Net Assets Statement

2013-14				2014-15	
£000	£000		Notes	£000	£000
		INVESTMENT ASSETS			
62,934		Fixed interest securities	14	87,417	
500,898		Equities	14	264,293	
384,175		Index linked securities	14	477,348	
1,128,807	2,076,814	Pooled investment vehicles	14	1,362,350	2,191,408
390		Loans	14	375	
		Other cash deposits:			
49,850		Fund Managers	14	111,133	
26,241		Short term investments	14	54,269	
47,205	123,686	Derivative contracts	14	12,111	177,888
	2,200,500				2,369,296
		Other Investment Assets			
4,813		Dividend accruals	14,17	1,815	
378		Tax recovery	14,17	276	
8,931	14,122	Other investment balances	14,17	12,060	14,151
	2,214,622	**Total Investment Assets**			**2,383,447**
		INVESTMENT LIABILITIES			
-40,936		Derivative contracts	14	-12,886	
-18,387		Other investment balances	18	-37,354	
	-59,323	**Total Investment Liabilities**			**-50,240**
	2,155,299	**NET INVESTMENT ASSETS**			**2,333,207**
	1,250	**Long Term Assets**	17		1,042
		Current assets			
6,301		Contributions due from employers	17	9,275	
922		Other current assets	17	864	
	7,223				10,139
		Current liabilities			
-		Unpaid benefits	18	-	
-32,917		Other current liabilities	18	-9,413	
	-32,917				-9,413
	2,130,855	**NET ASSETS OF THE SCHEME AVAILABLE TO FUND BENEFITS AT 31 MARCH**			**2,334,975**

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 23.

These accounts should therefore be read in conjunction with the information contained within this 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 the following legislation:

- Public Services Pensions Act 2013
- LGPS Regulations 2013 (as amended)
- LGPS (Management and Investment of Funds) Regulations 2009 (as amended)

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 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.

The following table provides a summary of contributing members, pensioners in payment and deferred pensioners over the last five years.

	2010/11	***2011/12***	***2012/13***	***2013/14***	***2014/15***
Contributing Members	18,526	17,235	16,837	17,454	18,011
Pensioners in Payment	15,341	16,049	16,386	16,700	17,193
Pensioners Deferred	10,595	11,573	12,211	13,040	13,165

In comparison to the figures reported at 31 March 2014, the number of pensionable employees in the Fund at 31 March 2015 has increased by 557, the number of pensioners has increased by 493 and deferred pensioners have increased by 125.

Contributions represent the total amounts receivable from:

- employing authorities (of which there were 116 at 31 March 2015), 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:

2013-14			2014-15	
Benefits	**Contributions**		**Benefits**	**Contributions**
£000	**£000**		**£000**	**£000**
76,488	-65,776	Administering Authority	80,645	-68,386
17,755	-26,962	Scheduled Bodies	17,922	-26,704
2,426	-4,062	Admitted Bodies	2,852	-3,758
96,669	**-96,800**		**101,419**	**-98,848**

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

2. Basis of Preparation

The Pension Fund accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 (the Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), which is based upon International Financial Reporting Standards (IFRS) as amended for the UK public sector.

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 22.

3. 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 (except individual transfer values to and from the scheme, which are accounted for on a cash basis).

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 deficit funding contributions are accounted for in the year in which they become due in accordance with the Rates and Adjustment Certificate set by the actuary or on receipt, if earlier than the due date.

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.

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.

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.

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 21.

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.

Acquisition 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 23).

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 19 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 22 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: • 79% if life expectancy increases by 3 years • 70% if discount rate falls by 1% • 70% if inflation increases by 1% • 73% if equities fall by 25% • 80% if pensionable pay increases by 1%
Fair Value of investments	The Accounts are as at 31 March 2015 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 15) is £105.2m at 31 March 2015 (£108.7m at 31 March 2014). Every 1% increase/ decrease in fair value would result in an increase/ decrease in the value of the Fund by £1.052m (£1.087m at 31 March 2014).

6. Post Net Assets Statement (Balance Sheet) Event

There have been no events after 31 March 2015 which require any adjustments to be made to these accounts.

7. Contributions Receivable

2013-14 £000		2014-15 £000
	Employer contributions:	
-45,014	Normal	-47,702
-490	Augmentation	-3,354
-29,630	Deficit funding	-25,313
	Member contributions:	
-21,535	Normal	-22,363
-131	Additional contributions	-116
-96,800		**-98,848**
-65,776	Administering Authority	-68,386
-26,962	Scheduled Bodies	-26,704
-4,062	Admitted Bodies	-3,758
-96,800		**-98,848**

8. Transfers in From Other Pension Funds

2013-14 £000		2014-15 £000
-	Group Transfers	-
-2,623	Individual Transfers	-2,734
-2,623		**-2,734**

9. Benefits Payable

2013-14 £000		2014-15 £000
84,383	Pensions	87,994
15,454	Commutations and lump sum retirement benefits	16,822
1,763	Lump sum death benefits	1,531
-4,931	Recharged benefits	-4,928
96,669		**101,419**
76,488	Administering Authority	80,645
17,755	Scheduled Bodies	17,922
2,426	Admitted Bodies	2,852
96,669		**101,419**

10. Payments To and On Account of Leavers

2013-14 £000		2014-15 £000
4	Refunds to members leaving service	65
-	Payments for members joining state scheme	16
4,579	Individual transfers to other schemes	4,479
27,717	Group transfers to other schemes	4,008
32,300		**8,568**

The Group Transfer figure in 2014/15 of £4.008m is a provision for the transfer value due to be paid to South Tyneside Pension Fund during 2015/16. This relates to the group transfer of staff from the former Wear Valley District Council who are now employed by Gentoo and who transferred out of the DCC Pension Fund on 31 March 2008.

The Group Transfers figure of £27.717m for 2013/14, related to a provision for the transfer value payable to Teesside Pension Fund in relation to the group transfer of Durham Probation Service staff who transferred out on 1 April 2010. This was paid in full during 2014/15.

11. Management Expenses

Administration expenses include the cost of the administering authority in supporting the Fund, plus legal, actuarial and audit 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.

2013-14 £000		2014-15 £000
1,266	Administration expenses	1,170
5,122	Investment Management expenses	5,699
-	Oversight and Governance Costs	-
6,388		**6,869**

12. Investment Income

2013-14 £000		2014-15 £000
-1,717	Interest from fixed interest securities	-2,449
-3,827	Income from index-linked securities	-2,849
-17,300	Dividends from equities	-14,148
-35	Interest on cash deposits	-283
-7,455	Income from pooled investment vehicles	-9,568
-30,334		**-29,297**

13. Taxation

The Pensions Statement of Recommended Practice (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. Investments

Analysis by Investment Manager

The following Investment Managers were employed during 2014/15 to manage the Pension Fund’s assets:

- Aberdeen Asset Management Limited (Aberdeen)
- AllianceBernstein Limited (AllianceBernstein)
- Bank of New York Mellon Investment Management EMEA Limited (BNYM)
- Baring Asset Management Limited (Barings)
- BlackRock Investment Management UK Limited (BlackRock)
- CB Richard Ellis Collective Investors Limited (CBRE)
- Mondrian Investment Partners Limited (Mondrian)
- Royal London Asset Management (RLAM)

The long-term strategic allocation as at 31 March was as follows:

31 March 2014 %	Investment Manager	Asset Class	31 March 2015 %
15	Aberdeen	Global equities	15
15	AllianceBernstein	Global Bonds	15
15	BNYM	Global equities	15
20	Blackrock	Dynamic Asset Allocation	20
8	CBRE	Global property	8
7	Mondrian	Emerging Market Equities	7
20	Royal London	Investment grade sterling bonds	20
100			**100**

Aberdeen, BNYM and Mondrian gained responsibility for their allocations during the third quarter of 2014/15. Blackrock were the out-going manager for this (i.e. equity) portion of the portfolio.

Blackrock were appointed as a temporary manager of the dynamic asset allocation and assumed responsibility for this part of the portfolio in January 2015. Barings previously managed this part of the portfolio.

The actual market values of investments held by each Investment Manager as at 31 March were as follows (the actual allocations vary slightly from the long-term strategic allocations due to market movements):

31 March 2014			31 March 2015	
£000	%	Investment Manager	£000	%
-	0.00	Aberdeen	343,880	14.95
305,405	14.32	AllianceBernstein	330,169	14.34
-	0.00	BNYM	355,519	15.45
418,159	19.60	Barings	15,251	0.66
864,856	40.55	Blackrock	467,036	20.29
145,432	6.82	CBRE	150,641	6.54
-	0.00	Mondrian	157,684	6.85
71	0.00	Other - NEL	28	0.00
399,010	18.71	RLAM	481,558	20.92
2,132,933	**100.00**		**2,301,766**	**100.00**

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 2015 excludes loans of £0.375m, cash invested by the administering authority of £54.269m, other investment assets of £14.151m and other investment liabilities of £37.354m (£0.390m, £26.241m, £14.122m and £18.387m respectively as at 31 March 2014).

Of the total value of net investment assets reported in the Net Assets Statement as at 31 March 2015, £2.302m (98.65%) is invested through Investment Managers (£2.133m or 98.96% at 31 March 2014).

Reconciliation of Movements in Investments 2014/15

Investment category	Value at 31 March 2014	Purchases at cost	Sales proceeds	Change in market value	Value at 31 March 2015
	£000	£000	£000	£000	£000
Fixed interest securities	62,934	318,667	-361,257	67,073	87,417
Equities	500,898	471,891	-395,986	-312,510	264,293
Index linked securities	384,175	1,727,246	-1,704,313	70,240	477,348
Pooled investment vehicles	1,128,807	5,008,000	-5,044,956	270,499	1,362,350
	2,076,814	7,525,804	-7,506,512	95,302	2,191,408
Derivative contracts:					
Futures, margins & options	4,716	7,137	-26,855	18,104	3,102
Forward foreign currency	1,553	-	-	-5,430	-3,877
	2,083,083	**7,532,941**	**-7,533,367**	**107,976**	**2,190,633**
Other investment balances:					
Loans	390			-	375
Other cash deposits	76,091			82,116	165,402
Dividend accruals	4,813			-	1,815
Tax recovery	378			-	276
Other investment balances	-9,456			-	-25,294
Net Investment Assets	**2,155,299**			**190,092**	**2,333,207**

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 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	419,890	-429,646	-651	62,934
Equities	435,804	188,238	-139,693	16,549	500,898
Index linked securities	410,966	2,002,231	-2,010,126	-18,896	384,175
Pooled investment vehicles	1,117,793	41,133	-66,833	36,714	1,128,807
	2,037,904	2,651,492	-2,646,298	33,716	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
	2,039,659	2,652,587	-2,646,770	37,607	2,083,083
Other investment balances:					
Loans	408			-	390
Other cash deposits	34,973			13,383	76,091
Dividend accruals	4,974			-	4,813
Tax recovery	527			-	378
Other investment balances	1,828			-	-9,456
Net Investment Assets	**2,082,369**			**50,990**	**2,155,299**

Analysis of Investments

2013-14			2014-15	
£000	£000		£000	£000
		ASSETS INVESTED THROUGH FUND MANAGERS		
		Fixed interest securities		
24,899		UK - Public sector - quoted	16,907	
-		UK - other - quoted	-	
38,035		Overseas - Public sector - quoted	70,510	
	62,934			87,417
		Equities		
444,881		UK quoted	35,502	
71		UK unquoted	28	
55,946		Overseas quoted	228,763	
	500,898			264,293
		Index linked securities		
351,857		UK quoted - Public sector	459,206	
1,509		UK quoted - Corporate	18,142	
27,531		Overseas quoted -Public sector	-	
3,278		Overseas quoted -Corporate	-	
	384,175			477,348
		Pooled Investment Vehicles		
27,680		Managed funds - non property - UK - quoted	68,683	
13,095		Managed funds - non property - UK unquoted	-	
68,150		Managed funds - non property - overseas - quoted	828,248	
878,029		Managed funds - non property - overseas - unquoted	330,169	
4,481		Unit Trusts - property - UK quoted	3,059	
28,044		Unit Trusts - property - UK unquoted	24,631	
22,346		Unit Trusts - property - Overseas quoted	27,038	
86,982		Unit Trusts - property - Overseas unquoted	80,522	
	1,128,807			1,362,350
		Derivative Contracts		
47,205		Assets	12,111	
-40,936		Liabilities	-12,886	
	6,269			-775
49,850	49,850	**Fund Managers' cash**	111,133	111,133
	2,132,933	**NET ASSETS INVESTED THROUGH FUND MANAGERS**		**2,301,766**
		OTHER INVESTMENT BALANCES		
	26,241	Short term investments (via DCC Treasury Management)		54,269
	390	Loans		375
	14,122	Other investment assets		14,151
	-18,387	Other investment liabilities		-37,354
	2,155,299	**NET INVESTMENT ASSETS**		**2,333,207**

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:

2013-14 £000	2013-14 £000	Derivative Contracts	2014-15 £000	2014-15 £000
		Forward foreign currency		
1,688		Assets	1,192	
-135		Liabilities	-5,069	
	1,553	**Net Forward foreign currency**		-3,877
		Futures		
40,945		Assets	4,391	
-40,800		Liabilities	-4,281	
	145	**Net Futures**		110
		Options		
165		Assets	6,528	
-		Liabilities	-3,536	
	165	**Net Options**		2,992
		Margins		
4,406		Assets	-	
-		Liabilities	-	
	4,406	**Net Margins**		-
	6,269	**Net market value of derivative contracts**		**-775**

The Pension Fund invests in the following types of derivatives:

i. Forward Foreign Currency Contracts

Currency is bought and sold by investment managers (BlackRock, 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.

Settlement	Currency bought	Local Value	Currency sold	Local Value	Asset Value £000	Liability Value £000
0 to 1 mth	EUR	5,100,000.00	GBP	-3,732,129.00		-42
3 to 6 mths	NZD	17,200,000.00	AUD	-16,585,187.11	132	
1 to 3 mths	USD	2,557,275.54	BRL	-8,260,000.00	12	
3 to 6 mths	GBP	11,256,844.00	EUR	-15,500,000.00	29	
3 to 6 mths	GBP	11,259,448.00	EUR	-15,500,000.00	32	
1 to 3 mths	GBP	3,736,795.50	EUR	-5,100,000.00	42	
3 to 6 mths	GBP	4,162,669.31	JPY	-768,000,000.00		-157
1 to 3 mths	JPY	5,000,000,000.00	GBP	-28,061,902.99	59	
3 to 6 mths	GBP	56,446,618.88	USD	-87,050,000.00		-2,218
3 to 6 mths	GBP	56,436,847.78	USD	-87,050,000.00		-2,227
3 to 6 mths	USD	12,752,563.41	HUF	-3,460,000,000.00	252	
3 to 6 mths	USD	75,800,000.00	JPY	-9,066,134,800.00	94	
3 to 6 mths	EUR	27,078,254	GBP	19,927,681	302	
3 to 6 mths	USD	67,078,960	GBP	44,830,327		-383
3 to 6 mths	JPY	1,178,741,889	GBP	6,647,664	14	
3 to 6 mths	AUD	9,765,023	GBP	5,120,916	117	
3 to 6 mths	MYR	18,020,057	GBP	3,256,833	4	
3 to 6 mths	AUD	1,438,103	GBP	754,161	17	
3 to 6 mths	JPY	429,261,483	GBP	2,420,874	5	
3 to 6 mths	USD	582,557	GBP	389,336		-3
3 to 6 mths	CNY	3,252,057	GBP	350,607		-4
1 to 3 mths	GBP	7,756,376.19	USD	-11,529,000.00		-14
1 to 3 mths	GBP	1,290,150.73	CAD	-2,412,000.00	8	
1 to 3 mths	GBP	1,989,069.18	USD	-2,965,000.00		-9
1 to 3 mths	GBP	2,425,139.39	USD	-3,615,026.76		-12
1 to 3 mths	GBP	4,339,425.44	EUR	-5,887,000.00	73	
					1,192	**-5,069**
Net forward foreign currency contracts at 31 March 2015						**-3,877**

Settlement	Currency bought	Local Value	Currency sold	Local Value	Asset Value £000	Liability Value £000
0 to 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	
					1,688	**-135**
Net forward foreign currency contracts at 31 March 2014						**1,553**

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 BlackRock in 2014/15 and Barings in 2013/14, are as follows:

	Expires	Product Description	Currency	Market Value at 31 March 15 £000	£000
Assets					
Overseas equity	1 to 3 mths	FTSE CHINA A50 APR 15	USD	4,391	
Total assets					4,391
Liabilities					
Overseas equity	3 to 6 mths	STOXX 600 BAS JUN 15	EUR	-4,281	
Total liabilities					-4,281
Net Futures Contracts at 31 March 2015					110

Type	Expires	Product Description	Currency	Market Value at 31 March 14 £000	£000
Assets					
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	
Total assets					40,945
Liabilities					
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	
Total liabilities					-40,800
Net Futures Contracts at 31 March 2014					145

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, via Blackrock in 2014/15 and Barings in 2013/14, has bought a number of equity option contracts. These option contracts are to protect it from falls in value in the main markets in which it is invested.

Type	Expires	Product Description	Currency	Market Value at 31 March 15 £000
Assets				
Overseas equity	less than 1 yr	SPX VOLATILITY INDEX APR P @ 14.5	USD	98
Overseas equity	less than 1 yr	S&P 500 JUN P @ 2000	USD	161
Overseas equity	3 to 6 mths	EURO STOXX 50 JUN P @ 3550	EUR	235
Overseas equity	less than 1 yr	EURO STOXX UTILITIES	EUR	272
Overseas equity	less than 1 yr	S&P 500 DEC P @ 2075	USD	330
UK equity	less than 1 yr	FTSE 100 INDEX MAY P @ 6800	GBP	532
Overseas equity	less than 1 yr	S&P 500 DEC P @ 2050	USD	615
Overseas equity	1 to 5 yrs	S&P 500 DEC P @ 2000	USD	634
Overseas equity	less than 1 yr	S&P 500 DEC P @ 2000	USD	789
Overseas equity	less than 1 yr	NIKKEI 225 JUN P @ 18500	JPY	821
Overseas equity	less than 1 yr	SPX VOLATILITY INDEX JUN C @ 20	USD	854
Overseas equity	less than 1 yr	EURO STOXX 50 DEC C @ 4000	EUR	1,187
Total assets				**6,528**
Liabilities				
Overseas equity	less than 1 yr	NIKKEI 225 JUN P @ 19500	JPY	-831
Overseas equity	1 to 5 yrs	S&P 500 DEC P @ 1875	USD	-510
Overseas equity	less than 1 yr	S&P 500 DEC P @ 1950	USD	-438
Overseas equity	less than 1 yr	S&P 500 DEC P @ 1875	USD	-343
Overseas equity	less than 1 yr	EURO STOXX UTILITIES	EUR	-319
Overseas equity	less than 1 yr	S&P 500 DEC P @ 1975	USD	-236
Overseas equity	3 to 6 mths	EURO STOXX 50 JUN P @ 3350	EUR	-233
Overseas equity	less than 1 yr	S&P 500 DEC P @ 1900	USD	-187
Overseas equity	less than 1 yr	S&P 500 JUN P @ 1900	USD	-166
UK equity	less than 1 yr	FTSE 100 INDEX MAY P @ 6400	GBP	-155
UK equity	less than 1 yr	FTSE 100 INDEX MAY C @ 7000	GBP	-118
Total liabilities				**-3,536**
Net Options at 31 March 2015				**2,992**

Type	Expires	Product Description	Currency	Market Value at 31 March 14 £000
UK equity	1 to 6 months	FTSE 100 (LIFFE)	GBP	165
Net Options at 31 March 2014				**165**

iv. Margins

There were no outstanding holdings of margins derivatives at 31 March 2015; the following table shows the outstanding holdings of margins at 31 March 2014:

	Product Description	Currency	Market Value at 31 March 15 £000	£000
Assets			-	
Net Margins at 31 March 2015				-

Type	Product Description	Currency	Market Value at 31 March 14 £000	£000
Assets	UBS	GBP	1,383	
	UBS	EUR	907	
	UBS	JPY	1,196	
	UBS	USD	920	
Net Margins at 31 March 2014				4,406

Investments Exceeding 5% of the Market Value of the Fund

The following three investments individually represented more than 5% of the Pension Fund's total net assets available for benefits at 31 March 2015:

- BNYM Long Term Global Equity Fund - a pooled fund managed by the Bank of New York Mellon, was valued at £355.519m, which equates to 15.23% of the net assets available for benefits;
- AAM L and P World Equity Fund - a pooled fund managed by Aberdeen Asset Management, was valued at £343.880m, which equates to 14.73% of the net assets available for benefits;
- Diversified Yield Plus fund - a pooled fund of broad bonds managed by AllianceBernstein. The value of this investment at 31 March 2015 was £330.169m i.e. 14.14% (£305.405m or 14.33% at 31 March 2014).

15. 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:

2013-14 Fair value through profit and loss	2013-14 Loans and receivables	2013-14 Financial liabilities at amortised cost		2014-15 Fair value through profit and loss	2014-15 Loans and receivables	2014-15 Financial liabilities at amortised cost
£000	£000	£000		£000	£000	£000
			Financial assets			
62,934			Fixed interest securities	87,417		
500,898			Equities	264,293		
384,175			Index linked securities	477,348		
1,128,807			Pooled investment vehicles	1,362,350		
47,205			Derivative contracts	12,111		
	390		Loans		375	
	49,850		Cash held by Fund Managers		111,133	
	26,241		Short term investments		54,269	
14,122			Other investment assets	14,151		
	8,473		Debtors		11,181	
2,138,141	84,954	-		2,217,670	176,958	-
			Financial liabilities			
-40,936			Derivative contracts	-12,886		
-18,387		-32,917	Creditors	-37,354		-9,413
-59,323	-	-32,917		-50,240	-	-9,413
2,078,818	**84,954**	**-32,917**		**2,167,430**	**176,958**	**-9,413**
		2,130,855	**Net Assets at 31 March**			**2,334,975**

Net Gains and Losses on Financial Instruments

31 March 2014 £000		31 March 2015 £000
	Financial Assets	
37,607	Fair Value through profit and loss	107,976
13,383	Loans and receivables	82,116
	Financial Liabilities	
-	Fair Value through profit and loss	-
-	Loans and receivables	-
-	Financial liabilities measured at amortised cost	-
50,990	**Total**	190,092

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 2015 and 31 March 2014, 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	
Values at 31 March 2015	**Level 1**	**Level 2**	**Level 3**	**Total**
	£000	**£000**	**£000**	**£000**
Financial Assets				
Financial Assets at fair value through profit and loss	1,770,208	342,309	105,153	2,217,670
Loans and receivables	176,958	-	-	176,958
Total Financial Assets	**1,947,166**	**342,309**	**105,153**	**2,394,628**
Financial Liabilities				
Financial Liabilities at fair value through profit and loss	-37,354	-12,886	-	-50,240
Financial Liabilities at amortised cost	-9,413	-	-	-9,413
Total Financial Liabilities	**-46,767**	**-12,886**	**-**	**-59,653**
Net Financial Assets	**1,900,399**	**329,423**	**105,153**	**2,334,975**

Values at 31 March 2014	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
	£000	£000	£000	£000
Financial Assets				
Financial Assets at fair value through profit and loss	1,084,715	944,687	108,739	2,138,141
Loans and receivables	84,954			84,954
Total Financial Assets	**1,169,669**	**944,687**	**108,739**	**2,223,095**
Financial Liabilities				
Financial Liabilities at fair value through profit and loss	-18,387	-40,936	-	-59,323
Financial Liabilities at amortised cost	-32,917	-	-	-32,917
Total Financial Liabilities	**-51,304**	**-40,936**	**-**	**-92,240**
Net Financial Assets	**1,118,365**	**903,751**	**108,739**	**2,130,855**

16. 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 14. 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's 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 assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

If the market price of the Fund investments were to increase/decrease in line with these potential market movements, the value of assets available to pay would vary as illustrated in the following table (the prior year comparator is also shown below):

Manager	Asset type	Asset value at 31 March 2015	Potential market movements	Value on increase	Value on decrease
		£000	%	£000	£000
Aberdeen	Global equity	343,880	15%	395,462	292,298
Alliance Bernstein	Broad Bonds	330,169	6%	349,979	310,359
Barings	DAA	371	8%	401	341
BNYM	Global equity	355,519	15%	408,847	302,191
BlackRock	DAA	395,918	8%	427,591	364,245
CBRE	Unlisted property	105,153	12%	117,771	92,535
CBRE	Listed property	30,097	21%	36,417	23,777
Mondrian	Emerging market equity	152,799	23%	187,943	117,655
RLAM	UK Index Linked Gilts	477,474	10%	525,221	429,727
Other	UK Equity	28	23%	34	22
	Loans	375	0%	375	375
	Cash	165,402	0%	165,402	165,402
	Net derivative liabilities	-775	0%	-775	-775
	Net investment balances	-23,203	0%	-23,203	-23,203
Total change in net investment assets available		**2,333,207**		**2,591,465**	**2,074,949**

Manager	Asset type	Asset value at 31 March 2014 £000	Potential market movements %	Value on increase £000	Value on decrease £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
Total change in net investment assets available		**2,155,299**		**2,388,292**	**1,922,306**

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 2015 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 2015	Change in year in the net assets available to pay benefits	
		+50 BPS	-50 BPS
	£000	£000	£000
Cash and cash equivalents	165,402	827	-827
Fixed interest securities	87,417	437	-437
Total change in net investment assets available	**252,819**	**1,264**	**-1,264**

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	£000
Cash and cash equivalents	76,091	380	-380
Fixed interest securities	62,934	315	-315
Total change in net investment assets available	**139,025**	**695**	**-695**

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% in developed market currency regions and between 10% and 20% in emerging market currency regions. For prudence, the Fund has applied a fluctuation (as measured by one standard deviation) of 14% for developed market currencies and 20% for emerging market currencies, 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% (or 20% for emerging markets) 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 15	Value on increase	Value on decrease
				£000	£000	£000
Aberdeen	Global Equity	94%	13%	343,880	388,584	299,176
Alliance Bernstein	Broad Bonds	0%	0%	330,169	330,169	330,169
Barings	DAA	2%	1%	371	375	367
BlackRock	DAA	5%	1%	355,519	359,074	351,964
BNYM	Global Equity	94%	13%	395,918	447,387	344,449
CBRE	Global Property	15%	2%	135,250	137,955	132,545
Mondrian	Emerging market equity	100%	19%	152,799	181,831	123,767
RLAM	UK Index Linked Gilts	0%	0%	477,474	477,474	477,474
Other	UK Equity	0%	0%	28	28	28
	Loans	0%	0%	375	375	375
	Cash	0%	0%	165,402	165,402	165,402
	Net derivative assets	0%	0%	-775	-775	-775
	Net investment balances	0%	0%	-23,203	-23,203	-23,203
Total change in net investment assets available				**2,333,207**	**2,464,676**	**2,201,738**

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
Total change in net investment assets available				**2,155,299**	**2,235,660**	**2,074,938**

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 2015, this level of exposure to the Custodian is only 4.8% 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 and Poor's 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 £54.269m as at 31 March 2015 (£26.241m at 31 March 2014). This was held with the following institutions:

	Rating	Balances as at 31 March 2015 £000	Rating	Balances as at 31 March 2014 £000
Bank Deposit Accounts				
Handelsbanken	F1+	1,079		-
Barclays	F1	7,991	F1	4,336
Natwest Bank		-	F1	2,601
Santander UK Plc	F1	7,991	F1	4,309
Fixed Term Deposits				
Royal Bank of Scotland	F1	4,566		-
Bank of Scotland	F1	13,698	F1	10,407
Nationwide Building Society	F1	5,708	F1	4,336
Goldman Sachs	F1	6,849		-
UK Local Authorities		-	N/A	78
Income Bond				
National Savings & Investments	N/A	228	N/A	174
Other				
Money Market Funds	N/A	6,159		-
Total		**54,269**		**26,241**

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's 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.

17. Analysis of Debtors

2013-14 £000		2014-15 £000
1,556	Central government bodies	1,467
5,390	Other local authorities	8,173
15,649	Other entities and individuals	15,692
22,595	**Total debtors**	25,332
	Included in the Net Assets Statement as:	
1,250	Long Term Assets	1,042
14,122	Other Investment Assets	14,151
7,223	Current Assets	10,139
22,595		25,332

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.

18. Analysis of Creditors

2013-14 £000		2014-15 £000
-39	NHS Bodies	-
-742	Central government bodies	-799
-29,132	Other local authorities	-5,378
-21,391	Other entities and individuals	-40,590
-51,304	**Total creditors**	-46,767
	Included in the Net Assets Statement as:	
-18,387	Investment Liabilities - Other balances	-37,354
-32,917	Current Liabilities	-9,413
-51,304		-46,767

Included in the amount due to other local authorities in:

- 2014/15 is a provision of £4.008m for the transfer value due to be paid to South Tyneside Pension Fund. This relates to the group transfer of staff from the former Wear Valley District Council who are now employed by Gentoo;
- 2013/14 is £27.717m relating to the transfer value paid to Teesside Pension Fund for Durham Probation Service staff.

All of the £46.767m is expected to be paid by the Pension Fund within 12 months after the year end.

19. 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 following table refers only to the money purchase AVCs:

	Value at 31 March 2014 £000	* Purchases £000	Sales £000	Change in Market Value £000	Value at 31 March 2015 £000
Equitable Life	2,214	31	181	112	2,176
Prudential	3,438	956	791	246	3,849
Standard Life	1,510	362	221	168	1,819
Total	**7,162**	**1,349**	**1,193**	**526**	**7,844**

* Purchases represent the amounts paid to AVC providers in 2014/15.

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.

20. 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	
		2013/14	**2014/15**
Contributions receivable	Amounts receivable from employers in respect of contributions to the Pension Fund	£96.800m	£98.848m
Debtors	Amounts due in respect of employers and employee contributions	£7.551m	£10.317m
Creditors	Amounts due to the Administering Authority in respect of administration and investment management expenses	£1.356m	£1.370m
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	£1.356m	£1.370m
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 £0.263m	Loans outstanding £0.258m
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= £17.448m Interest = £0.068m	Balance= £35.929m Interest = £0.155m

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 three Members of the Pension Fund Committee who are in receipt of pension benefits from Durham County Council Pension Fund; a further four 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.

21. 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% 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.

22. 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
Financial Assumptions		
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 increase	3.9% pa	5.3% pa
Demographic Assumptions		
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 annual improvement rate of 1.5%	CMI 2012 core projections with long 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

23. 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 22 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

24. 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. The Funding Strategy Statement has been reviewed and updated by the Pension Fund Committee during 2014/15.

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.

25. 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. The Statement of Investment Principles sets out the principles for investing Fund monies.

Annual Governance Statement 2014/15

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.

In January 2014, the Council approved, adopted and published on its website, a revised Local 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 the systems and processes, and culture and values, by which the Council is directed and controlled, and its activities through which it is accountable 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 2015 and up to the date of approval of the Statement of Accounts.

3. THE GOVERNANCE FRAMEWORK

The key elements of the systems and processes that comprise the Council's governance arrangements are detailed in the Council's Local Code of Corporate Governance, which is documented in the Council's Constitution. This sets out the key documents and processes that determine the way the Council is directed and controlled to meet the six core principles of the CIPFA/ SOLACE Framework.

The following sections demonstrate assurance that the Council has complied with each of these principles in practice, and also highlights where we have further improved our corporate governance arrangements during 2014/15.

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 2015 - 2018;
- Altogether healthier – improving health and wellbeing, supported by the Joint Health and Wellbeing Strategy 2015 - 2018;
- 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 2014 - 2017 and the Police and Crime Plan 2015 - 2017.

The SCS was renewed and launched in November 2014 and identified six new areas of cross-thematic focus that will benefit from additional joined up working: Job Creation, Volunteering, Inequalities, Alcohol, Mental Wellbeing and Think Family. 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 2015 -2018 was approved in April 2015 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 2015 - 2018 (MTFP) was approved by the Council in February 2015. 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, during the four years up to the end of March 2015, a sum of £136.9m of savings has 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.

In April 2014, the Council submitted the County Durham Plan to the Government and this was followed by an examination in public. In February 2015, the Independent Planning Inspector published his interim report rejecting the plan in parts. Following legal advice and further correspondence with the Planning Inspectorate, the Council has submitted an application for judicial review in May 2015 in order to challenge the inspectorate's findings. A decision is expected from the High Court on whether our application for judicial review can proceed in June 2015.

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. Peer challenges were also completed during the year at a service level and in partnerships such as the Local Safeguarding Children's Board, Health and Wellbeing Board and the Youth Offending Service.

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 improve or maintain service delivery and key examples that demonstrate where good governance enabled this during 2014/15 are:-

- Successfully completed the transfer of ownership of the Council's housing stock to the new County Durham Housing Group Ltd on 13 April 2015, representing a significant opportunity to increase investment in homes, local neighbourhoods and housing services to further improve the lives of tenants;
- Reviewed and updated the Debt Management Strategy. The Strategy has been amended to include specific reference to and provisions for Pension Fund Debtors;
- Established and embedded corporate working groups to co-ordinate the approach to processing debtors and creditors through the Oracle e-Business suite. These groups meet monthly and have helped improve invoice payment performance and adherence to corporate policies and procedures.

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 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 the Chartered Institute of Public Finance and Accountancy (CIPFA), to facilitate meaningful comparisons with other organisations. The results of these benchmarking exercises demonstrate that the Council compares favourably against other Councils in the majority of cases. Nevertheless, in the context of continuous improvement, the Council assesses any weaknesses identified from these exercises where improvements in performance can be achieved. Independent assurance of our VFM was also gained from our External Auditor, who issued an unqualified VFM conclusion for our 2013/14 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 Corporate Directors and the Assistant Chief Executive during the year. Members have robustly scrutinised the performance of the Council, demonstrated by a number of key scrutiny reviews of Council services during 2014/15, which are outlined in the Overview and Scrutiny Annual Report.

The Annual Statement of Accounts was approved by the Audit Committee in September 2014, 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 External Auditor in both their Audit Completion 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:

- Financial Awareness training was given to budget holders;
- Phase 2 of the Office Accommodation Programme has commenced and a report is scheduled to go to Cabinet in July 2015 setting out strategic options for the future;
- Following its roll out in 2013/14, the Business Intelligence module of the Oracle e-Business Suite is now fully utilised and is providing improved management information, which is recognised in the Finance Customer Satisfaction Survey undertaken in February 2015;
- Rollout of the ICON income management system was completed, leading to improvements in the collection and accounting of income through a range of payment channels;
- An improved robust approach to capital project outputs and financial monitoring was implemented;
- A Procurement Training Programme was developed and delivered to over 100 officers across the Council.

A programme management approach for key corporate projects has been established and embedded, supported by project management training across the Council. Examples which demonstrate that rigorous programme management has enabled effective delivery of major projects including the transfer of Community Buildings and the Housing Stock Transfer. 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 demonstrated by the Council being highly commended in the Local Government Chronicle awards for its programme on waste management, recycling and rubbish collection.

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. Following the completion in 2013/14 of a major programme to transfer control of around 100 public buildings to the local community, the Council established the Community Assets programme. A key element of the programme is to work with local communities and our partners to consider alternative ways of continuing to provide front line services within communities, and community organisations were invited to make expressions of interest to take over or run assets and services within the county.

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 2015.

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.

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.

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 in April 2013. 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 Council has appointed the Corporate Director Resources as Chief Financial Officer and Section 151 Officer to fulfil the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010). The Chief Financial Officer, who is a member of the CMT and reports directly to the Chief Executive, has been involved in all CMT discussions, and has reviewed all reports to Cabinet which have financial implications. The Chief Financial Officer has also provided an opinion under section 25 of the Local Government Act 2003 on the reserves for the Council, which Members considered when setting the budget.

The Children Act 2004 requires every top tier local authority to appoint a Director of Children's Services with professional responsibility for the leadership, strategy and effectiveness of local authority children's services. The Council completed a Local Test of Assurance (LTA) in accordance with statutory guidance, and Audit Committee will be asked to approve this in July 2015. The purpose of the LTA is to ensure that the focus on outcomes for children and young people is not weakened or diluted as a result of combining this statutory role with other functions.

Members and Officers work together on the work programme 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.

Members' remuneration is overseen by an independent panel, and their report was approved by Council in January 2015.

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.

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 an ethical framework was adopted accordingly.

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. Internal Audit also completed a review of Gifts and Hospitalities and a report recommending improved arrangements for maintaining registers was approved by Corporate Management Team in March 2015.

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's 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 approved by Corporate Management Team in September 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 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 2014/15, 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.

During the year, improvements were made to the way the Council uses its powers under the Regulation of Investigatory Powers Act 2000 (RIPA):-

- A new CCTV Policy and Code of Practice were implemented; and
- Following a favourable inspection by Office of Surveillance Commissioner, two recommendations for improvement were implemented.

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. Amendments made to the Constitution during the year include updated officer scheme of delegations, the inclusion of a civic handbook and an update to the Members' Allowance Scheme.

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.

The following improvements to governance arrangements in this area were implemented during the year:-

- The process for responding to Petitions, which is included in the Constitution, was revised. Overview and Scrutiny Management Board now oversee the status of petitions received;
- Revised guidance on the Officer Scheme of Delegations was issued;
- Amended Decision Making Guidance was circulated; and
- The Local Government Transparency Code was implemented.

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.

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.

An updated Counter Fraud and Corruption Strategy was approved by Audit Committee in May 2014. To further strengthen fraud awareness across the Council, training was rolled out to services in 'high risk' areas. Sessions were also delivered to the Audit Committee in July 2014 and through the Durham Managers programme in February 2015. This will continue during 2015/16. Work has also progressed during the year to improve the effectiveness of the Strategy, which 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:

- The County Durham Plan;

- Joint Health and Wellbeing Strategy;
- The Council's MTFP;
- Joint Strategic Needs Assessment; and
- Flood Risk Management Authorities flood mitigation plans for County Durham.

A number of key in-depth evidence based reviews have also been carried out by Overview and Scrutiny Committees (OSC) including:

- Organised Crime, looking at community intelligence, illegal waste sites and the potential financial risk to the Council;
- Self-Harm amongst children and young people;
- Tourism Marketing undertaken by Visit County Durham; and
- Customer First Strategy, focusing on ensuring that the Council's key objectives regarding customer service provision are delivered.

The Chairs of the Council's Adults Wellbeing and Health OSC and Children and Young Peoples' OSC were interviewed as part of a peer challenge undertaken in respect of the Health and Wellbeing Board. Key issues addressed included how the Health and Wellbeing Board had developed its relationships with the statutory Health Scrutiny Committee and how decisions of the Health and Wellbeing Board were subject to robust Scrutiny. Feedback from the peer challenge team stated that Durham is in a strong place and is at the forefront of health and wellbeing boards.

A diagnostic review was undertaken on the Local Safeguarding Children Board by the Local Government Association in October 2014 which provided and external view of its effectiveness and impact on safeguarding and protecting children.

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 to reflect the refresh of the co-optee appointments. 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 include:

- 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;
- Cross party representation on all Overview and Scrutiny Committees serves to promote an independent, non-partisan approach in their activities;

- A Joint Health Scrutiny Committee with Hartlepool and Stockton Borough Councils formally engages and responds to proposals to reconfigure emergency medical and critical care services at North Tees and Hartlepool NHS Foundation Trust.

The Police and Crime Panel, which includes councillors from Durham County Council and from Darlington Borough Council, scrutinises the annual report, decisions and actions of the Police and Crime Commissioner (PCC). In March 2015, the Panel approved the refreshed Police and Crime Plan 2015 – 2017. An update on activity from the Panel is 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.

An Audit Charter, which was approved in line with Public Sector Internal Audit Standards (PIAS), is in place. The Council's self-assessment against both the principles of the CIPFA Statement on the Role of Head of Internal Audit and the PIAS, which were presented to Audit Committee in June 2014, illustrates a high degree of compliance.

A Corporate Complaints policy is in place for non-statutory complaints, and 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.

To strengthen the Council's arrangements for maintaining good-quality information, a number of further improvements to governance in this area have been implemented in 2014/15. For example:

- An online Data Protection Act training module was developed, which the majority of officers had completed by April 2015;
- Specialist data protection training was delivered for 60 social workers during September and October 2014;
- Completion of the Information Governance Toolkit for Public Health;

- Through the continued development and availability of dashboards and use of the Geographical Information System (GIS), the decision making processes have been enhanced;
- A Data Protection Practical Guide was developed for use within Customer Services; and
- The Neighbourhoods Service strengthened information governance arrangements by developing Document Retention Registers and updating associated guidelines. The updated guidelines protect both data subjects and staff by stipulating the retention periods for different classes of document and specifying the actions to be taken when those records are no longer of further administrative use.

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; Organisational Development Strategy; Health, Safety and Wellbeing 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, and the Member Learning and Development Policy, both of which were revised in October 2014. Induction training was provided for new Members elected during 2014/15 and individual training and development plans exist for all Members.

The Council continues to be a member of the North East Public Service Academy, which promotes excellence in learning across the public sector. Improvements to further develop the capacity and capability of officers during the year include:

- The "The Durham Manager" development programme was enhanced after seeking feedback from managers through a course evaluation and focus groups programme;
- Following extensive consultation, a revised Organisational Development Strategy was finalised in July 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; and
- The Mental Wellbeing in the Workplace Policy, procedure and toolkit, which is based on the Health and Safety Executive Stress Standards, has replaced the Stress Management Policy and Toolkit. A focus group was established during 2014/15 with representation from service groupings, public health, trade unions, occupational health, human resources and health and safety, and this group will be involved in reviewing the policy during 2015/16.
- Several improvements have been made to increase the number and quality of individual appraisals undertaken across the Council with a view to enhancing individual and organisational performance, such as performance appraisal training

and electronic data management of appraisal documentation. Assurance has been gained through an internal audit of the appraisal process and quarterly performance reports to CMT, which show that completion rates have increased significantly during 2014/15.

A revised corporate Health and Safety policy was launched in May 2014, and a revised Health and Safety and Wellbeing strategy was issued in June 2014. Independent assurance over the effectiveness of the Council's Occupational Health Service was demonstrated when it was 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. The Council also continues to support employees through the change process with, for example, Jobcentre Plus information sessions and confidential counselling services through the Employee Assistance Programme.

A programme of actions has been implemented to improve attendance and the management of sickness absence and associated costs, such as mandatory attendance management training for managers, improved reporting to managers when triggers are exceeded to enable timely action to be taken, and Attendance Management Groups which identify and implement service specific responses to reduce sickness absence. Assurance has been gained through a review of the operation of Attendance Management Groups by service groupings to identify areas of good practice.

The Council has taken steps, in consultation with various organisations, including the Royal Society for the Prevention of Accidents, to improve arrangements around managing water safety. A revised Water Safety Policy has been drafted and this will be finalised in June 2015, following consultation with the Council's Water Safety Group and Health, Safety and Wellbeing Strategic Group.

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. There are several examples of effective partnership working by the Council, including County Durham Economic Partnership (CDEP). The EU Investment Plan was created through the CDEP and used to inform the strategic approach developed through the Strategic Economic Plan and North East European Structural and Investment Fund (ESIF) Strategy for the effective use of funds to address Durham priorities. Clarity on relationships between the Council and these partners is provided through the County Durham Economic Partnership governance prospectus.

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.

In achieving Council of the Year at the 2014 Local Government Chronicle Awards, the Council impressed judges with its community engagement arrangements across the Council, collaborative community strategies, a pioneering approach to engaging local communities through area action partnerships and participatory budgeting.

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.

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.

The Council's new website, which was launched October 2014, includes much-improved functionality for online interactions with customers. The site has also made it easier for residents to communicate with the Council because of its responsive design, which adapts its display to the type of device being used. Under new website governance arrangements, the Corporate Website Group ensures a co-ordinated approach for any website developments.

Following extensive consultation with customers, employees and council members, the implementation of the Customer First Strategy, which aims to put the people it serves at the heart of everything it does, is well underway. In addition to the new website, projects include streamlining telephone numbers and using telephone systems better to provide an integrated call centre. Delivery of the Strategy will be supported by the procurement of a new customer relationship management system, following a review of the existing system.

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 Chief Internal Auditor and Corporate Fraud Manager, and also by comments made by the external auditors and other review agencies and inspectorates.

Prior to 13 April 2015, we were in a group relationship with East Durham Homes and Dale and Valley Homes and have undertaken 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 2014/15. 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.

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 2013/14 Annual Governance Statement

Following the production of the Annual Governance Statement for 2013/14, no improvement actions were identified.

Conclusion

In conclusion, we are satisfied that the Council's corporate governance arrangements in place during 2014/15 were sound. As a result of the review of governance arrangements, and the work of both internal and external audit, we have identified one action as being necessary to improve governance arrangements in 2015/16. This is shown in the table below.

Governance Improvements required during 2015/16

<u>Proposed Improvements</u>

No.	Actions to be taken	Lead Officer
1	Production of County Durham Plan Strategy in response to interim report from Planning Inspector	Head Of Planning and Assets, Regeneration and Economic Development

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.

Agency Services

These are services that are performed by or for another Authority or public body, where the principal (the Authority responsible for the service) reimburses the agent (the Authority carrying out the work) for the costs of the work.

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 (CIES) but where expenditure has not yet been incurred

Capital Receipts

The proceeds from the sale of capital assets such as land, and buildings. These sums can be used to finance capital expenditure.

Carbon Reduction Commitment (CRC)

The 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 (CIES)

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.

Council Tax Requirement

This is the estimated revenue expenditure on General Fund services that needed to be financed from the Council Tax after deducting income from fees and charges, certain specific grants and any funding from reserves.

Creditors

Persons or bodies to whom sums are owed by the Council.

CSR

Comprehensive Spending Review.

Current Service Cost

Current Service Cost is the increase in the present value of a defined benefit pension scheme's liabilities expected to arise from employee service in the current period, i.e. the ultimate pension benefits "earned" by employees in the current year's employment.

Curtailment

Curtailments will show the cost of the early payment of pension benefits if any employee has been made redundant in the previous financial year.

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.

Derecognition

Financial assets and liabilities will need to be removed from the Balance Sheet once performance under the contract is complete or the contract is terminated.

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.

External Audit

The independent examination of the activities and accounts of Local Authorities to ensure the accounts have been prepared in accordance with legislative requirements and proper practices and to ensure the Authority has made proper arrangements to secure value for money in its use of resources.

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.

Financial Regulations

These are the written code of procedures approved by the Council, intended to provide a framework for proper financial management. Financial regulations usually set out rules on accounting, audit, administrative and budgeting procedures.

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.

General Fund

This is the main revenue fund of the Authority and includes the net cost of all services financed by local taxpayers and Government grants.

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 arm's 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.

Large Scale Voluntary Transfer (LSVT)

A Large Scale Voluntary Transfer (LSVT) involves the council transferring ownership of its homes with the agreement of its tenants to a new or existing Registered Provider.

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 Debt

Net debt is the Council's borrowings less cash and liquid resources.

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.

Reporting Standards

The Code of Practice prescribes the accounting treatment and disclosures for all normal transactions of a Local Authority. It is based on International Financial Reporting Standards (IFRS), International Standards (IAS) and International Financial Reporting Interpretations Committee (IFRIC) plus UK Generally Accepted Accounting Practice (GAAP) and Financial Reporting Standards (FRS).

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.

Tenanted Market Value

The transfer price a Registered Provider will pay for the housing stock it acquires through a Large Scale Voluntary Transfer.

Transfer Agreement – Housing Stock Transfer

The Transfer Agreement is the contract which sets out the rights, responsibilities, covenants and requirements of Durham County Council, and County Durham Housing Group (CDHG). It also contains all the necessary arrangements to enable CDHG to receive and manage the properties and the Council to enforce all the promises made to tenants during the consultation period. The Transfer Agreement takes the form of a contract for sale with numerous schedules and annexes containing supporting information.

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.

Audit Committee

27 July 2015

External Audit: Audit Progress July 2015

Report of the External Auditor

Purpose of the Report

1. This report requests that the Committee note the external auditor's progress report on the external audit of Durham County Council to date.

Background

2. The report sets out an update of the work completed by Mazars (external auditor) in respect of the following: -

   - Summary of Audit Progress
   - Emerging Issues and Developments

3. The external auditor's report is attached at Appendix 2.

Summary of Audit Progress

4. Since the last progress report in June we have now commenced our work on the audit of the statement of accounts for both the Council and the Pension Fund and on the Value for Money conclusion for the Council.

5. The results of this work will be presented to the Audit Committee at its meeting on 30 September 2015 in our Audit Completion Reports.

Emerging Issues and Developments

6. This section provides an update on other areas that members of the Committee may find useful.

Recommendation

7. The Committee is requested to note the contents of the external auditor's progress report.

Contact: Catherine Banks Tel: 03000 267452

Appendix 1: Implications

Finance

No direct implications as a result of this 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 Discrimination Act

None

Legal Implications

None

Durham County Council
Audit Progress Report
July 2015

Contents

Our reports are prepared in the context of the Audit Commission's 'Statement of responsibilities of auditors and audited bodies'. Reports and letters prepared by appointed auditors and addressed to Members or employees of Durham County Council are prepared for the sole use of the Council. We take no responsibility to any Member or employee in their individual capacity or to any third party.

Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales.

01 Introduction

The purpose of this report is to update the Audit Committee of Durham County Council (the Council) on progress in delivering our responsibilities as your external auditors.

We have also highlighted key emerging national issues and developments which may be of interest to Committee Members.

If you require any additional information, please contact us using the contact details at the end of this update.

02 2014/15 audit progress

2014/15 audit

Since our last Audit Progress Report, in June 2015, we have now commenced our work on the audit of the statement of accounts for both Durham County Council (the Council) and Durham County Council Pension Fund (the pension fund) and on the Value for Money conclusion for the Council.

The results of this work will be included in our Audit Completion reports which will be presented to the Audit Committee on 30 September 2015.

We expect to complete our audit work and deliver our opinions by the deadline of 30 September 2015.

Significant risk issues update - Durham County Council Pension Fund

We note here an update to the significant risks reported in the Audit Strategy Memorandum for the pension fund which was presented to audit committee in May and to pension fund committee in June.

Oracle Upgrade
Description of the risk In July 2014 the Council upgraded the Oracle suite of programs to version R12.1.3. This is a significant upgrade to the General Ledger (and associated modules) during the year with a resulting risk of errors arising during the data conversion process.
How we will address this risk We will assess the process and controls over the data conversion. In addition, we will undertake a range of substantive procedures including: • carrying out an IT risk assessment; • assessing management's own controls over the conversion process; and • considering what additional procedures are necessary as a result of the above to ensure that balances have been correctly migrated to the new system.

This risk was mentioned in the Council report also applied to the pension fund and as such should also be included in the pension fund report as a significant risk.
The work has now been completed and, as reported to audit committee, there are no issues to report to members on this work.

03 National publications and other updates

This section contains updates on the following:

1. **Consultation on regulation of auditors, Financial Reporting Council, *May 2015***
2. **Public Sector Audit Appointments 2014/15 - Mazars Annual Regulatory Compliance and Quality Report*, June 2015***

1. Consultation on regulation of auditors, Financial Reporting Council, *May 2015*

In July 2014, the Financial Reporting Council (FRC) issued a consultation document seeking views on the way in which it should give effect to three specific responsibilities delegated to it under the Local Audit and Accountability Act 2014 i.e.:

- guidance on the recognition of individuals as key audit partners;
- regulations for the keeping of the Register of Local Auditors;
- regulations for local audit firms on the requirement to publish transparency reports.

The FRC has now published a feedback statement to this consultation together with the Guidance and Regulations as per the link below.
https://www.frc.org.uk/News-and-Events/FRC-Press/Press/2015/May/FRC-publishes-feedback-statement-on-the-Regulation.aspx
The areas consulted on included:

- transparency report requirements;
- register of local auditor requirements; and
- approval of engagement leads for local audits.

2. Public Sector Audit Appointments 2014/15 Mazars Annual Regulatory Compliance and Quality Report*, June 2015*

Public Sector Audit Appointments Limited (PSAA) monitors the performance of all its audit firms. The results of their monitoring provide audited bodies and other stakeholders with assurance that auditors within their regime are delivering high-quality audits.

There are two strands to the monitoring:

- audit quality- applying annual quality review programme (QRP) to the audit work undertaken for the year ending 2013/14; and
- regulatory compliance- reporting quarterly on audit firms' compliance with the 2014/15 regulatory requirements as set out in the Terms of Appointment

Extract from 2014/15 Annual Regulatory Compliance and Quality Report below

Overall Mazars performance

The firm is meeting our standards for overall audit quality and our regulatory compliance requirements. We calculated the red, amber, green (RAG) indicator for overall audit quality and regulatory compliance using the principles detailed in Appendices 1 and 2. For 2014/15, Mazars combined audit quality and regulatory compliance rating was green.

Figure 1: 2015 Comparative performance for audit quality and regulatory compliance

BDO	DT	EY	GT	KPMG	Mazars	PwC

The full report can be viewed at: http://www.psaa.co.uk/audit-quality/principal-audits/mazars-audit-quality/

04 Contact details

Please let us know if you would like further information on any items in this report.

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Audit Committee

27 July 2015

Strategic Risk Management
Progress Report for the Quarter April to June 2015

Report of Don McLure, Corporate Director Resources

Purpose of the Report

1 The purpose of this report is to highlight the strategic risks facing the Council and to give an insight into the work carried out by the Corporate Risk Management Group during the period April to June 2015.

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 the 'gross risk' assessment), 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 2015, there were 27 strategic risks, two less than at 31 March 2015.

5 In summary, the key risks to the Council remain as being:

(a) 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;

(b) Ongoing Government funding cuts which now extend to at least 2019/20 will continue to have an increasing major impact on all Council services;

(c) Potential restitution of search fees going back to 2005;

(d) If we were to fail to comply with Central Government's Public Services Network Code of Connection criteria for our computer applications, this would put some of our core business processes at risk, such as Revenues and Benefits, which rely on secure transfer of personal data;

(e) The future strategic direction of the Council and the County will be adversely impacted if the County Durham Plan is not adopted.

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

7 Appendix 4 of the report lists all of the Council's strategic risks as at 30 June 2015.

8 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

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

Contact: David Marshall Tel: 03000 269648

Appendix 1: Implications

Finance – There are no direct financial implications but effective risk management helps to avoid or minimise financial loss.

Staffing - Staff training needs are addressed in the risk management training plan.

Risk – This report supports the delivery of the objectives of the Council's Risk Management Strategy.

Equality and Diversity/Public Sector Equality Duty – ACE Management Team has identified the potential failure to consider equality implications of decisions on communities as a strategic risk.

Accommodation - None

Crime and disorder - None

Human rights - None

Consultation - ACE Management Team has identified the potential failure to consult with communities on major service and policy changes as a strategic risk.

Procurement – None.

Disability issues – None.

Legal Implications – There are no direct implications but effective risk management helps to ensure compliance with legal and regulatory obligations.

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 Chief Internal Auditor and Corporate Fraud Manager, 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 employees 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 monitors the progress of risk management across the Council, advises 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 and Assistant Chief Executive 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, can 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 2015, there were 27 strategic risks, a reduction of 2 from 31 March 2015.

The following matrix categorises the strategic risks according to their Net risk evaluation as at 30 June 2015. To highlight changes in each category during the last quarter, the number of risks as at 31 March 2015 is shown in brackets.

Overall number of Strategic Risks as at 30 June 2015

Impact					
Critical	1 (2)	1 (1)	2 (3)		1 (1)
Major		4 (3)	4 (4)	1 (1)	
Moderate			8 (8)	4 (5)	1 (1)
Minor					
Insignificant					
Likelihood	Remote	Unlikely	Possible	Probable	Highly Probable

In the above matrix;

- The risk assessed as Critical/Highly Probable is, "Ongoing Government funding cuts which now extend to at least 2019/20 will continue to have an increasing major impact on all Council services."

- The risk assessed as Moderate/Highly Probable is, "Potential restitution of search fees going back to 2005."

These risks are reported in more detail in section 5 below.

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

1 New Risks

No new risks have been added to the strategic risk register during the quarter.

However, the planned repair works to Milburngate Bridge, due to start on the 12 July 2015, will see major disruption to the traffic flow through Durham City Centre. Numerous mitigating actions have been completed, including notifying the public over the last several months through social media, websites and roadside signage; completing the repairs during the school holidays, and creating diversions away from the bridge. Whilst travel disruption is inevitable, it is felt that everything possible has been done by the Council to alleviate as much of the disruption as possible.

2 Increased Risks

No significant risks have increased during the quarter.

3 Removed Risks

Two risks were removed this quarter:-

- Gypsy Roma Travellers set up camp / events on Council land without permission. (NS)

- Coastal erosion and environmental improvements may be adversely impacted if a programme of repairs to Seaham North Pier isn't undertaken. (NS)

Both risks now fall below the risk appetite and will be monitored at operational level.

4 Reduced Risks

The net risk score on the implementation of the new banking contract risk has reduced from Critical/ Possible to Major/ Unlikely following the BACS transfer which was successfully completed on the 11th May.

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 5 PSN Code of Connection		Risk 2 Ongoing Government funding cuts
Major				Risk 3 County Durham Plan	
Moderate					Risk 4 Restitution of Search Fees
Minor					
Insignificant					
Net Likelihood	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	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 2019/20 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	RED Risk Owner: Ian Thompson	Altogether Wealthier	The future strategic direction of the Council and the County will be adversely impacted if the County Durham Plan is not adopted.	Major	Probable	• Hearing sessions may be re-convened to seek to demonstrate Inspectors failings. • Commence Judicial Review.		This risk will be re-assessed once the results of the judicial review are known.

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
4	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. Central Government has now agreed to underwrite a
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 for our computer applications, this would put some of our core business processes at risk, such	Critical	Possible	An ongoing project is in place to ensure compliance. Servers that cannot be made compliant or effectively relocated will be switched off.		A backup ICT site is now in place. The equipment has been installed, data has been transferred, and a full test is planned once remedial electrical work is carried out at the Council's primary data site. This will remain on

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

Based on the **Net** risk assessment as at 30 June 2015, the following tables highlight the risks for each Corporate Theme.

Corporate Theme – Altogether Better Council

Ref	Service	Risk
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 2019/20 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	If we were to fail to comply with Central Government's Public Services Network Code of Connection criteria for our computer applications, this would put some of our core business processes at risk, such as Revenues and Benefits, which rely on secure transfer of personal data
5	RED	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.
6	NS	If Local Authority Schools and other LA services choose not to take Council Services, together with the loss of community buildings DCH homes both Technical and Building Services could see a loss of business.
7	NS	The Council will not be able to maintain its non-educational and non-housing buildings to current repairs standards.
8	ACE	Serious breach of law regarding management of data/information, including an unauthorised release requiring notification to ICO
9	ACE	Risk that the Council does not respond to the Government's changes to Welfare Reform
10	RES	The Council could suffer significant adverse service delivery and financial impact if the new banking contract is not properly implemented.
11	ACE	Failure to consult with communities on major service & policy changes leading to legal challenge & delays in implementation

Ref	Service	Risk
12	RES	Major Interruption to IT Service Delivery
13	RES	Serious breach of Health and Safety Legislation
14	ACE	Failure to consider equality implications of decisions on communities leading to legal challenge and delays in implementation
15	RES	Due to the current economic climate and amount of change occurring across the Council, there is potential for increases in fraud and error.

Altogether Better for Children and Young People

	Service	Risk
16	CAS	Adverse financial and operational impacts from the transfer of health visitor commissioning responsibilities for 0-5 year olds from NHS England to Durham County Council by 1st October 2015.

Altogether Greener

No significant strategic risks have been identified under this theme.

Altogether Healthier

	Service	Risk
17	CAS	Adverse financial and operational impact of the Care Act 2014 on adult social care services
18	CAS	Additional operational and financial burden as a result of recent supreme court judgement relating to the threshold applied in determining whether an individual is deprived of their liberty.

Altogether Safer

	Service	Risk

19	CAS	Failure to protect child from death or serious harm (where service failure is a factor or issue)
20	ACE	Failure to prepare for, respond to and recover from a major incident or interruption, and to provide essential services.
21	CAS	A service failure of Adult Safeguarding leads to death or serious harm to a service user.
22	NS	Damage to Highways assets as a result of a severe weather event.
23	CAS	Risk of poor implementation of the Transforming Rehabilitation programme leading to fragmented offender management services and a rise in re-offending.
24	RED	Serious injury or loss of life due to Safeguarding failure (Transport Service)

Altogether Wealthier

	Service	Risk
25	RED	The future strategic direction of the Council and the County will be adversely impacted if the County Durham Plan is not adopted.
26	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.
27	RED	There is a potential lack of available match funding within the public sector as a whole in County Durham and the NE LEP area, which could impact upon the ability to fully utilise external funding and in particular the European Structural Funds programme for 2014-2020.