

## **Audit Committee**

**30 June 2021**

**Statement of Accounts for the year  
ended 31 March 2021**

**Ordinary Decision**

---



## **Report of Paul Darby, Corporate Director of Resources (Interim)**

### **Electoral division(s) affected:**

Countywide

### **Purpose of the Report**

- 1 To present the draft (unaudited) statement of accounts for the year ended 31 March 2021 and raise any significant issues arising from the accounts.

### **Executive Summary**

- 2 The unaudited statement of accounts for Durham County Council for the financial year ended 31 March 2021 was authorised by the responsible financial officer (the Corporate Director of Resources) and published on the council's website on 18 June 2021, in accordance with statutory deadlines.
- 3 The statement of accounts will be available for public inspection for the period covering 1 July 2021 to 11 August 2021.
- 4 The accounts are currently being reviewed by the external auditor (Mazars LLP). Following this review, we will be presenting the final (or audited) statement of accounts to Members of the Audit Committee for approval at the 30 September 2021 meeting.

### **Recommendation**

- 5 It is recommended that Members of the Audit Committee consider the attached statement of accounts of the council for the financial year ended 31 March 2021.

## Background

- 6 The Accounts and Audit (Amendment) Regulations 2021, which stipulate a two stage approval process for the statement of accounts, have extended the statutory audit deadlines for 2020/21 and 2021/22 for local authorities.
- 7 The first statutory deadline requires that the responsible financial officer, by no later than 31 July, should sign and certify that the statement of accounts presents a true and fair view of:
  - (a) the financial position of the council for the year to 31 March previous, and
  - (b) its expenditure and income for the year to 31 March previous, subject to the views of the external auditor.
- 8 The second stage requires that on or before 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 account of the views of the external auditor. This is done in order that the statement of accounts can then be formally published.
- 9 There is a requirement for the council to hold a thirty working day inspection period which can commence at any time, but no later than 1 August 2021. This allows individual local authorities to produce draft accounts and commence inspection periods as soon as practicable for them.
- 10 Despite an extension to the statutory deadlines, and following discussion with external auditors, it was agreed that council officers would, as far as possible, adhere to the deadlines set out in the final accounts timetable for 2020/21 (which was agreed by the Audit Committee in February 2021). The aim was to have the draft accounts approved, published and available for audit by mid-June 2021.
- 11 The unaudited statement of accounts for the council for the financial year ended 31 March 2021 was authorised by the responsible financial officer (the Corporate Director of Resources) and published on the council's website on 18 June 2021, so within the revised statutory deadline.

- 12 The statement of accounts is now subject to audit by Mazars LLP. The audit of the accounts is now underway and upon completion the Auditor's reports will be incorporated into the published version of the document.
- 13 Subject to completion of the external audit, the final statement of accounts for 2020/21 will be presented for approval at the Audit Committee meeting in September 2021.
- 14 The attached draft statement of accounts has been published on the council's website; it will be made available for inspection by the public from 1 July 2021 to 11 August 2021, in line with current regulations.

### **Statement of Accounts**

- 15 The statement of accounts for the financial year 2020/21 has been 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 2015, the Accounts and Audit (Amendment) Regulations 2021 and the 'Code of Practice on Local Authority Accounting 2020/21' (the Code) as published by the Chartered Institute of Public Finance and Accountancy (CIPFA).
- 16 The Code is based on approved accounting standards in England and Wales and 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 are unavoidably technical and complex.
- 17 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**

- 18 Page numbers used in this report refer to the page numbers on the statement of accounts document, not those used in the full pack of reports.
- 19 There are four core statements to provide fundamental information on the financial activities and position of the council:

- (a) Comprehensive Income and Expenditure Statement (page 32)
  - (b) Movement in Reserves Statement (page 33)
  - (c) Balance Sheet (page 34) and
  - (d) Cash Flow Statement (page 35).
- 20 The statement of accounts also includes the accounts of the Collection Fund (commencing on page 145) and Durham County Council Pension Fund (from page 157) as the council is the administering authority.
- 21 The financial position of the council remains healthy. The statement of accounts shows that the council's net worth was £30.607 million at 31 March 2021. Although this represents a decrease of £199.199 million during 2020/21, it is mainly due to a technical accounting entry in relation to an increase in the estimated pension liability which is calculated by the Pension Fund's Actuary, for which statutory arrangements for funding the deficit mean that the financial position of the council remains healthy.
- 22 The council's usable reserves have increased during 2020/21, summary details being:
- (a) The general reserve has increased by £2.203 million to £26.153 million. This reserve is held to cushion the impact of uneven cash flows, unexpected events or emergencies.
  - (b) Earmarked reserves have increased by £63.990 million to £280.830 million. The end of year reserves position is significantly inflated due to the carry forward into 2021/22 of specific COVID-19 related grants received in 2020/21, alongside the carry forward of short term investment budgets included in the 2020/21 budget but not invested due to the impact of COVID-19. The most significant COVID-19 related grant funding carried forward in earmarked reserves relates to Section 31 grant income of £24.863 million to cover the loss of business rate income in 2020/21. This sum has been transferred to an earmarked reserve for application in 2021/22.  
Earmarked reserves are held for specific future purposes.
- 23 The Pension Fund accounts show that its net assets as at 31 March 2021 have increased by £694 million to £3.481 billion. 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**

- 24 The final audit of the statement of accounts is now underway. At the end of this process the external auditor will provide two Audit Completion Reports, one for the council's accounts and a separate report for the Pension Fund accounts. These reports will detail their comments and any recommendations for improvements, based on the position at 31 March 2021.

---

**Contact: Beverley White Tel: 03000 261900**

---

---

## **Appendix 1: Implications**

---

### **Legal Implications**

Compliance with the Accounts and Audit Regulations 2015 and the CIPFA Code of Practice on Local Authority Accounting 2020/21 which is based upon approved accounting standards in England and Wales and constitutes proper accounting practice under the terms of section 21(2) of the Local Government Act 2003.

### **Finance**

This report details the financial position of the council as at 31 March 2021

### **Consultation**

None.

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

None.

### **Climate Change**

None.

### **Human Rights**

None.

### **Crime and Disorder**

None.

### **Staffing**

None.

### **Accommodation**

None.

### **Risk**

None.

### **Procurement**

None.

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

Item	Pages	Explanation of Purpose and Content
Narrative Report	3 - 24	To offer interested parties an easily understandable effective guide to the most significant matters reported in the accounts.
Statement of Responsibilities for the Statement of Accounts	25	Sets out the responsibilities of the council and the Corporate Director of Resources for the statement of accounts.
Independent Auditor's Report to Durham County Council	27 - 31	Once the audit is completed the External Auditor's report will be included here.
<b>Durham County Council Core Financial Statements</b>		
Comprehensive Income and Expenditure Statement (CIES)	32	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.
Movement in Reserves Statement	33	This statement shows the movement in the year on the different reserves held by the council analysed into 'usable' reserves and other reserves.
Balance Sheet	34	The balance sheet shows the value of the assets and liabilities recognised by the council as at 31 March. The net assets of the council (assets less liabilities) are matched by the reserves held by the council.
Cash Flow Statement	35	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	36 - 144	The notes are important in the presentation of a true and fair view. They aim to assist 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. They also include the policies and procedures adopted in compiling the accounts.

<b>Item</b>	<b>Pages</b>	<b>Explanation of Purpose and Content</b>
Collection Fund	145 - 152	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.
Independent Auditor's Report to DCC Pension Fund	153 – 156	Once the audit is completed the External Auditor's report will be included here.
Durham County Council Pension Fund Accounts	157 – 202	Shows the operation and membership of the Pension Fund, the expenditure and income during the year and its financial position at 31 March. Notes providing further information follow the accounts.
Annual Governance Statement	203 - 229	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	230 - 245	To assist readers in understanding terminology used in the statement of accounts.



# Statement of Accounts

## For the year ended 31 March 2021

---

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 of Resources  
Durham County Council  
County Hall  
Durham  
DH1 5UE

e-mail: [help@durham.gov.uk](mailto:help@durham.gov.uk)  
Telephone: 03000 260000

**Paul Darby C.P.F.A.**  
Corporate Director of Resources (Interim)

<b>Durham County Council</b>	<b>Page</b>
Preface .....	1
Narrative Report .....	3
Statement of Responsibilities for the Statement of Accounts.....	25
Independent Auditor's Report to Durham County Council .....	27
<b>Durham County Council Core Financial Statements</b>	
Comprehensive Income and Expenditure Statement.....	32
Movement in Reserves Statement.....	33
Balance Sheet .....	34
Cash Flow Statement.....	35
Notes to the Accounts.....	36
Collection Fund.....	145
Independent Auditor's Report to the Members of Durham County Council.....	153
Durham County Council Pension Fund Accounts.....	157
Notes to Durham County Council Pension Fund Accounts.....	160
Annual Governance Statement.....	203
Glossary of Terms used in the Accounts .....	230

---

## **1. Message from Paul Darby CPFA – Corporate Director of Resources (Interim)**

Durham County Council remains committed to the delivery of its vision and priorities which have been developed in consultation with the public, our partners and stakeholders. The council has continued to effectively manage its resources during a period of increasing cost pressures and a backdrop of many years of government funding reductions. The future funding outlook for the public sector and local government is extremely uncertain. The COVID-19 pandemic and the recovery from it will undoubtedly impact on the council and its communities for a number of years to come.

During 2020/21 the council has faced significant financial impacts as a result of the coronavirus pandemic. The longer-term impact is more difficult to gauge at this stage – however, the pandemic adds further uncertainty to the council's financial position over the medium term.

The financial outlook for the council will continue to be extremely uncertain until the Comprehensive Spending Review and the Fair Funding Review are concluded and the outcomes for the council are clear, and the long term impact of the pandemic and the UK exit from the European Union and associated impacts arising from the Trade Deal are fully understood. The Fair Funding Review, which was originally scheduled for implementation from April 2020 alongside a move to 75% Business Rates Retention (BRR) has been delayed until at least 2022/23.

There is currently no certainty in terms of the quantum of funding available to local government from 2022/23 onwards, nor how this funding will be apportioned between authorities. It is clear however that there are significant risks to the council's funding position depending on the principles that are ultimately agreed for fair funding distribution and how any move to 75% BRR is implemented.

By the end of 2020/21, the council had delivered £242 million of financial savings with additional savings of £5 million approved for 2021/22 in order to balance its budgets. Across this period and through prudent financial management, the council has utilised over £100 million of reserves to balance its budget and accommodate redundancy and early access costs as a result of a 3,000 reduction in our workforce during this period. It is forecast that total savings required for the period 2011/12 to 2024/25 will be £286 million.

Despite these challenges, the council continues to deliver services which are of a high standard and are well regarded. All service groupings of the council continue to work together and build on our achievements to provide the best possible services for the people of County Durham, businesses which operate here and people who visit the county.

The council's Medium Term Financial Plan (MTFP) for the last twelve years has focussed on protecting front line services as far as possible, prioritising back office efficiencies and reductions in management as well as focussing on income generation where possible. As this strategy becomes increasingly more difficult to maintain over time the council's Transformation Programme was designed to ensure all options were exhausted to protect front line services wherever possible. Nevertheless, front line services will inevitably become progressively impacted over the coming years if funding continues to be restricted alongside the presence of unfunded and unavoidable base budget pressures which cannot be accommodated from council tax and business rate income, where Durham suffers from a low tax base due to lower house and property prices relative to other areas.

This document presents the published accounts for Durham County Council for the year ended 31 March 2021 – 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.

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.

**Paul Darby CPFA**  
**Corporate Director of Resources (Interim)**

---

## 2. Introduction

The purpose of the statement of accounts is to give members of the public, 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 in order that they may:

- understand the financial position of the council and the outturn for 2020/21;
- have confidence in the council's stewardship of public money which has been used and accounted for in an appropriate manner; and
- be assured that the financial position of the council is sound and secure.

The statement of accounts begins with this narrative report and has been prepared in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA).

This narrative report provides information about Durham, including key issues affecting the council and its accounts. It also provides a summary of the financial position as at 31 March 2021 and an executive summary of the non-financial performance of the council in 2020/21. The purpose 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 narrative report 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 2020/21 and are likely to impact in the future. This foreword covers and is structured as below:

- 1 Message from the Corporate Director of Resources (Interim)
- 2 Introduction
- 3 An Introduction to Durham
- 4 An Introduction to Durham County Council
- 5 Financial Performance of the council 2020/21
- 6 Non-Financial Performance of the council 2020/21
- 7 Significant Issues for 2020/21 and Beyond
- 8 Corporate Risks
- 9 Summary Position
- 10 Receipt of Further Information
- 11 Explanation of Accounting Statements

## 3. An Introduction to Durham

Many of our distinctive qualities can be explained by our history. In medieval times, Durham held great political importance as a buffer state between England and Scotland with its own autonomous ruler, the Prince Bishop of Durham, holding both spiritual and

secular power in the region and having responsibility for protecting England's northern frontier. As a religious centre, Durham helped to illuminate the Dark Ages. Durham Cathedral was the site of the tomb of St Cuthbert, the great northern saint and a popular site of pilgrimage in medieval times. The cathedral was also the home of the Lindisfarne Gospels, the oldest surviving translation of the Gospels into English and one of the finest illuminated manuscripts in existence. Today, Durham Castle and Cathedral are one of only a few World Heritage Sites in the British Isles and are a major tourist attraction for visitors from all over the world.

Later in our history when coal was king, our mines powered the Industrial Revolution. This area saw the birth of the railways and provided the coal, steel and ships for economic growth across the country and the world. In the nineteenth century the growth of the mining industry transformed the landscape and the population of the county. Colliery villages sprang up and migrant workers from all parts of the British Isles swelled the workforce. Some of the housing erected in our old colliery villages to accommodate the large population increases of the boom years of coal remain, so the built environment in some parts of the county needs regeneration. Despite improvements in recent years, some of these communities still face significant challenges. The demise of mining and heavy industry in the 1980s hit the local economy hard, seeing significant increases in unemployment, with social and economic impacts still felt today. This led to large scale environmental reclamation work to restore the natural beauty of our county and the economic renaissance that continues today.

Today the county has one of the best natural environments in the country, boasting some wonderful countryside from the unspoilt Area of Outstanding Natural Beauty of the North Pennines to the Durham Heritage Coast. The county's industrial heritage is well served by museums such as Beamish, the largest open-air museum in the UK and Locomotion, the National Railway Museum at Shildon, the world's first railway town.

A partnership of public agencies working together with the private sector has redeveloped the economy of the county, investing in leisure and tourism, green technologies, creative industries, financial services, pharmaceuticals and advanced engineering sectors. The University of Durham, the third oldest in England, is a member of the prestigious Russell Group of universities known for their world class teaching and research. Collaboration between local businesses and the University of Durham has led to developments in science, technology and innovation.

The county enjoys good north-south connectivity being on the East Coast Mainline and is served by two airports and two maritime ports in the region. We enjoy relatively traffic free roads in comparison with the rest of the country. However, east-west connectivity within the county needs improvement. Accessibility remains a priority for residents, particularly in rural areas and areas of high deprivation with low car ownership. The county has poorer health outcomes in comparison to some UK measures, partly due to the legacy of heavy industry and the deprivation suffered in some of our communities, which means we have

some challenges. There is a high dependency on benefits in some parts of the county and the introduction of Universal Credit has disproportionately affected County Durham. Children living in poverty and levels of fuel poverty are higher than national averages and the demand for children's social care has increased in line with national trends, putting significant pressure on our public services.

Interesting facts about your county:

- County Durham has a population of 530,094, making it the most populated local authority in the North East and the seventh most populated all-purpose local authority in England.
- 1 in 5 people are aged 0-17 years old.
- 1 in 5 people are aged over 65 years old. This has increased by nearly 36% since 1991.
- Since 2001, County Durham has seen a higher rate of population increase than the North East.
- The number of people aged over 65 is projected to increase by 34% by 2043 and the number of people aged over 85, will increase by 93% over the same time period.
- The county covers an area of 862 square miles making it nearly 20 times the size of Newcastle-upon-Tyne.
- Over a third of the county is made up of accessible green space.
- It has a rich history. Its Norman cathedral and castle were one of the first sites in the UK to be listed as a world heritage site by UNESCO.
- The University of Durham is highly regarded and is a top five UK university (Guardian 2020) and a world top 100 university (QS World Rankings 2020.)
- Durham Constabulary is unique among police forces in the country, having been ranked as outstanding for the last four years.
- There are over 240,000 households in the county with 2 in 5 living in rural areas.
- Over 9,000 homes are off the gas network.
- 40% of dwellings are in terraced properties.
- There are over 14,000 businesses registered in the county and this has increased by nearly 20% in the last 10 years.
- 71.4% of our working age population are in employment.
- It is estimated that 27,600 employments (13%) in County Durham were furloughed during the COVID-19 pandemic and 12,400 self-employed people (64%) have made claims under the government's self-employment income support scheme.
- 1 in 3 people are employed in public administration, health and education. The largest business sectors in the county are construction and scientific and technical industries. Production is the fastest growing sector.
- Nearly a third of our population are aged under 25.

- We have enough renewable energy based in the county to power 157,000 homes a year; that's over 65% of our homes.
- 7% of our domestic refuse goes to landfill.
- Carbon emissions throughout the county have reduced by 52% since 1990.
- There are over 19,000 fewer smokers in County Durham now than in 2012.
- Last year there were just over 86 crimes per 1,000 population.
- There has been a 45% reduction in visitors to core attractions throughout the county due to the COVID-19 pandemic.
- The accommodation and food sector has had the highest estimated number of furloughed employments in County Durham in March 2021 at 6,400 or 24.8% of all eligible jobs.

#### **4. An Introduction to 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 (the council) as a single all-purpose authority providing the full range of local government services to the public.

Interesting facts about the council:

- it had a net revenue budget requirement of £430 million in 2020/21 and a capital budget of £396 million for 2020/21 to 2023/24;
- it employs around 7,935 staff (excluding schools);
- it maintains 3,810 km of highway, over 83,000 street lights, 5,260 illuminated signs, owns and manages 39 libraries, 13 leisure centres, 8 customer access points and 200 schools (excluding academies);
- it consists of 6 service groupings, namely: Adult and Health Services, Chief Executive's Office, Children and Young People's Services, Neighbourhoods and Climate Change, Regeneration, Economy and Growth and Resources;
- There are 249,507 domestic and 15,854 business premises in the county;
- 126 councillors represent 63 electoral divisions within County Durham making it the largest elected body in England outside of the UK Parliament;
- The political makeup of the council on 31 March 2021 (which changed in May 2021 following the local elections) was as follows:
  - 68 Labour councillors,
  - 15 Liberal Democrat councillors,
  - 12 Independent councillors,
  - 10 Conservative councillors,
  - 7 Derwentside Independent councillors,
  - 4 Spennymoor Independent People Before Politics councillors,

- 3 The North East Party councillors,
  - 6 other councillors,
  - 1 Labour and Co-operative councillor.
- its administrative staff are concentrated at five strategic centres in Crook, Seaham, Spennymoor, Meadowfield and County Hall, Durham;
  - there are 14 Area Action Partnerships covering the county providing residents with the opportunity to set local priorities which are acted on through local projects.

## **5. Financial Performance of the Council 2020/21**

### **Revenue Outturn Position**

The council's revenue outturn is shown in the table below. The original net revenue expenditure budget of £439.714 million was approved at the Council meeting on 26 February 2020. The original budget set out how the council planned to allocate its funding during the year to deliver services to the people and communities of Durham. During the financial year, amendments to the council's budget were approved by Cabinet who considered quarterly updates on the council's financial performance.

In overall terms, the outturn was an underspend of £27.356 million when comparing actual net expenditure to the revised budgeted/ planned net expenditure. The underspend represents 6.25% of the revised total net expenditure budget. There was a net surplus for the year in respect of Service Groupings (£5.806 million) which has been allocated or drawn from the individual Cash Limit Reserves to meet future service demands.

The remaining £21.550 million was allocated to the council's General and Earmarked Reserves and is mainly related to the timing of COVID-19 related government grant income, alongside the carry forward of short term investment plans included in the 2020/21 budget but not delivered in year due to the impact of the COVID-19 pandemic.

Section 31 grant income of £24.863 million received to compensate for the loss of business rate income in 2020/21 has been carried forward as an earmarked reserve for application in 2021/22. Local Taxation Income Guarantee grant funding of £1.224 million received in 2020/21, to compensate for 75% of irrecoverable council tax resulting from the pandemic, will also impact on the general fund in 2021/22 and the following two years and has therefore been carried forward in earmarked reserves also.

## Narrative Report

	Original Budget	Revised Budget (Including Qtr 4 Cash Limit Adjustments)	Service Groupings Final Outturn	Variance
	£000	£000	£000	£000
<b>Service Groupings</b>				
Adult and Health Services	129,627	119,106	122,519	3,413
Chief Executive's Office	1,823	2,509	2,481	-28
Children and Young People's Services	123,877	106,092	112,735	6,643
Neighbourhoods and Climate Change	108,622	85,438	91,419	5,981
Regeneration, Economy and Growth	52,770	47,694	54,604	6,910
Resources	25,705	20,062	22,071	2,009
	<b>442,424</b>	<b>380,901</b>	<b>405,829</b>	<b>24,928</b>
<b>Corporate Finance</b>				
Contingencies	8,155	-1,974	-	1,974
Corporate Costs	4,498	1,034	603	-431
Capital, Treasury and Technical Accounting	-31,354	9,564	9,304	-260
Levies	15,991	15,991	15,996	5
	<b>-2,710</b>	<b>24,615</b>	<b>25,903</b>	<b>1,288</b>
<b>Total Net Expenditure</b>	<b>439,714</b>	<b>405,516</b>	<b>431,732</b>	<b>26,216</b>
<b>Funded by:</b>				
Council Tax	-234,458	-234,458	-234,457	1
Use of (-) / contribution to earmarked reserves	-7,700	52,424	52,424	-
COVID-19 Support Grant tranche 1-use of earmarked reserves			-17,521	-17,521
COVID-19 Support Grant tranches 2-4			-27,081	-27,081
COVID-19 Income Guarantee Grant			-8,890	-8,890
Estimated net surplus on Collection Fund	-1,740	-1,740	-1,740	-
Business Rates	-56,083	-56,083	-56,140	-57
Top up grant	-72,780	-72,780	-72,780	-
Levy Account Surplus Grant	-	-	-	-
Revenue Support Grant	-28,070	-28,070	-28,070	-
New Homes Bonus	-7,564	-7,564	-7,564	-
Section 31 Grant	-11,713	-36,576	-36,600	-24
Section 31 Grant - extended reliefs and discounts				-
Local Tax Income Guarantee Grant		-1,224	-1,224	-
Adult/Childrens Pressures Grant	-17,652	-17,652	-17,652	-
Contribution to / from (-) Cash Limit Reserve	-1,954	-1,793	-1,793	-
Budgeted Use of General Reserves				-
<b>Total Funding</b>	<b>-439,714</b>	<b>-405,516</b>	<b>-459,088</b>	<b>-53,572</b>
<b>Variance</b>	<b>-</b>	<b>-</b>	<b>-27,356</b>	<b>-27,356</b>

In the table above, Service Groupings appear to have overspent by £24.928 million. This is mainly due to additional expenditure and loss of income associated with the COVID-19 outbreak of £50.911 million, offset by COVID-19 related underspends of £20.119 million. These £50.911 million of additional costs have been met from COVID-19 related grant funding received from government. After adjusting for COVID-19 related costs there was a net underspend on service groupings outturn of £5.806 million.

The financial impact of COVID-19 in 2020/21 is significant and complex. Since the outbreak of COVID-19 in March 2020, the council has received a number of government

---

grants, to either fund the authorities own COVID-19 related expenditure and lost income, or to passport on to provide financial assistance to local businesses and individuals during the pandemic.

The council has accounted for individual funding streams in accordance with the terms of the grant, whether there were any grant conditions attached and whether the council has been acting as a principal or agent.

Where the council has simply distributed Government funding to another party and is not in control of the distributing amounts to beneficiaries it has acted as an agent of the Government. The council has acted as a principal when it has control in determining who gets funding and/or by what amount.

During the year, the council has had to implement national support schemes at short notice such as the Business Rates Grants Support Schemes; the Council Tax Hardship Support Schemes; Test and Trace Payments; the Winter Support Payments Scheme; Infection Control Schemes and Contain Outbreak Management schemes, as well as dealing with, and implementing, a range of supplier relief schemes. The council has also addressed increased demand for support to vulnerable households, whilst trying to accommodate new ways of working in response to the pandemic.

The government provided four non ringfenced tranches of funding to local authorities for additional costs incurred as a result of COVID-19. This funding is allocated based upon formulae determined by the government and across 2019/20 and 2020/21 the council has received £45.7 million. Of this, £1.1 million was utilised to cover costs incurred in 2019/20, which left £44.6 million of funding available to be applied in 2020/21.

The council submitted returns for support under the government's Income Guarantee Scheme, which requires councils to bear the first 5% of any qualifying income loss after which the government will provide a grant for 75% of subsequent losses. The council has been able to claim £8.89 million from the scheme for 2020/21 following the national lockdowns.

The main reasons contributing to the net cash limit underspends, after excluding COVID-19 related expenditure and lost income, are as follows:

- In Adult and Health Services (AHS) there was a net underspend of £3.473 million. This was mainly due to the spend on adult care packages being under budget. This area of spend was closely monitored to assess the impact of COVID-19 as well as ongoing demographic and procedural/operational changes, where significant MTFP savings have been taken over recent years.
- In Children and Young People's Services (CYPS) there was a cash limit overspend of £1.576 million. This was primarily made up from an overspend within Children's Services relating to the cost of looked after children's placements. The number of

children in the care system has increased significantly in recent years and there has been a trend of increasingly more complex (and expensive) placements to fund - there are now 950 looked after children, compared to an average of 877 in 2019/20. This budget has been increased year on year since 2017/18 with £18.5 million of growth having to be accommodated in the last four years and further growth of £5 million has been agreed for 2021/22 to meet the pressures associated with the increasing number and complex needs of looked after children.

- In Neighbourhoods and Climate Change there was a cash limit underspend of £1.144 million. The main reasons are due to savings relating to vacant posts, delays in implementing two new refuse collection rounds which were budgeted for, lower than expected electricity prices, plus additional income from traffic and street works and highways permits.
- In Regeneration, Economy and Growth there was a cash limit underspend across the service grouping of £1.266 million. The main reasons for this are underspends within housing solutions, planning development, physical development, locality delivery and running costs associated with the administration and civic buildings.
- In Resources there was a cash limit underspend of £1.473 million mainly due to managed underspends on employee costs, savings on supplies and services and additional income.

### **Capital Outturn Position**

The original capital budget for 2020/21, taking into account the budgets approved by Council on 26 February 2020 and adjustments for re-profiling of underspends at 2019/20 year end was £168.856 million. This was agreed by Cabinet on 8 July 2020.

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.

The council spent £119.084 million on its capital programme in 2020/21 compared to the revised forecast capital programme spend estimate of £139.511 million. The capital programme was financed through a number of sources including borrowing, government grants, revenue contributions, earmarked reserves and capital receipts. The following table shows the capital expenditure incurred during the year and how it was financed.

<b>Service Groupings</b>	<b>Revised Budget</b>	<b>Service Groupings Final Outturn</b>	<b>Variance</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Adult & Health Services	-	2	2
Children and Young People's Services	22,977	17,358	-5,619
Neighbourhoods and Climate Change	43,713	35,416	-8,297
Regeneration, Economy and Growth	69,211	62,793	-6,418
Resources	3,610	3,515	-95
<b>Total</b>	<b>139,511</b>	<b>119,084</b>	<b>-20,427</b>
<b>Funded by:</b>			
Grants and Contributions	-55,022	-53,420	1,602
Revenue and Reserves	-29,901	-39,424	-9,523
Capital Receipts	-6,645	-3,988	2,657
Borrowing	-47,943	-22,252	25,691
<b>Total</b>	<b>-139,511</b>	<b>-119,084</b>	<b>20,427</b>

The variance between the revised capital budget and the final outturn for the year was £20.427 million. This underspend of planned expenditure will be re-profiled into and augment the 2021/22 and future years' capital budgets together with the associated financing and therefore this does not represent a financial issue for the council.

## Other Key Financial Items in 2020/21

### Material Assets and Liabilities:

- As at 31 March 2021, the council held:
  - £1,834.4 million of long term assets
  - £363.5 million of current assets
  - £189.8 million of current liabilities and
  - £1,977.5 million of long term liabilities.
- Long Term Assets have decreased by £10.918 million, which is mainly due to a small decrease in the value of property, plant and equipment and in long term investments.
- Current Assets have increased by £50.853 million, which is mainly due to an increase of £27.660 million in Short Term Investments and cash balances of £19.908 million.
- Current Liabilities have increased by £38.590 million, mainly due to an increase of £41.571 million in Short Term creditors.
- Long Term Liabilities have increased by £200.544 million, which is mainly due to an increase in Pension Liabilities of £183.029 million and the movement in Long Term Borrowing of £14.680 million during the year.

## Council's Borrowing Position

- The General Fund Medium Term Financial Plan 2020/21 to 2023/24 and Revenue and Capital Budget 2020/21 Report, approved by Council on 26 February 2020, details the 2020/21 borrowing limits for the council.
- The specific borrowing limits set relate to two of the prudential indicators that are required under the Prudential Code. The council is required to set borrowing limits for the following three financial years. The limits for 2020/21 were as follows:
  - Authorised limit for external debt of £653 million
  - Operational boundary for external debt of £598 million
- As part of the council's Treasury Management service, these indicators are monitored daily, and neither was exceeded during 2020/21. The highest level of external debt incurred by the council during the year was £444.418 million, significantly below both thresholds.

## 6. Non-Financial Performance of the Council 2020/21

The COVID-19 pandemic has significantly impacted on council services with the authority having a lead role in public health and working with other agencies to respond to the national emergency. Some council buildings have closed due to restrictions being introduced to slow the transmission of the virus. Many employees have been redeployed from these services to work on the provision of priority areas.

The council strives to provide the best services for people living in, working in and visiting County Durham. To measure how we are doing and find where we need to improve, we monitor a set of performance indicators. This information is presented to Cabinet meetings every quarter. Key performance indicator progress is reported against two indicator types which comprise of:

- Key target indicators – targets are set for indicators where improvements can be measured regularly and where improvement can be actively influenced by the council and its partners; and
- Key tracker indicators – performance will be tracked but no targets are set for indicators which are long-term and/or which the council and its partners only partially influence.

## Council Plan

We have a three year, high level plan which is underpinned by service planning arrangements and links closely with both the Medium Term Financial Plan (MTFP) and the County Durham Plan. The MTFP sets out how our priorities will be resourced; the County Durham Plan is a spatial representation of our ambitions contained within the Council Plan around housing, jobs and the environment as well as the transport, schools and healthcare infrastructure to support it. It sets out how Durham County Council is to consider corporate

priorities for improvement, and the key actions to be taken to deliver the longer-term goals in the Vision for County Durham 2035 and the council's own transformation agenda.

There are three ambitions for County Durham, plus an additional one specifically for the council which were approved at a meeting of County Council on 21 October 2020. Each of these priorities, alongside the main objectives and achievements are set out below:

- **More and Better Jobs** - focusing on continuing our economic renaissance and ensuring that people can enjoy a thriving economy with more and better jobs and reduced levels of poverty and deprivation.

### Objectives

- Deliver a range of employment sites across the county
- A strong, competitive economy where County Durham is the premier place in the North East to do business
- A broader experience for residents and visitors in the county
- Young people will have access to good quality education, training and employment
- Helping all people into rewarding work
- Fewer people will be affected by poverty and deprivation within the county

### Achievements

- Outstanding success in attracting countywide private and public investment in enterprise and tourism
- £25 million invested in Jade Enterprise Zone
- £178 million invested on Integra 61 warehousing facility at Bowburn including facilitating Amazon development
- £271 million has been invested in one of Europe's leading technology parks at NETPark, Sedgefield
- £13 million has been invested at Forrest Park in Aycliffe preparing for further investment of over £140 million
- £200 million in Bishop Auckland on Kynren, the Auckland Project at the castle and Auckland Tower
- £90 million spent in Barnard Castle by Glaxo Smith Kline on a new manufacturing facility
- Almost £1.5 billion in Durham City, £750 million by the University and over £240 million on the Riverside and other projects
- Plans to create up to 4,000 jobs on the Aykley Heads strategic employment site
- £100 million invested through Project Genesis in Consett
- £17 million spent at Beamish Museum on the 1950s town, upland farm and Georgian coaching inn.

### **More and Better Jobs Statistics / Challenges**

- The employment rate in County Durham has steadily improved since a mid-recession low point in 2015 when it stood at 66.6% and is now 71.4%, which is 4.3% behind the national average.
  - The council distributed £100 million of grant payments to around 9,000 businesses affected by COVID-19 and applied £49 million of business rate reductions to more than 2,200 businesses.
  - An extra £5 million was provided to small businesses not liable for business rate discounts.
  - The council implemented immediate supplier payments and rent deferrals to our commercial tenants.
  - A COVID-19 impact survey carried out by Visit County Durham found that 90% of businesses in the food and hospitality sector were closed and a further 8% had reduced opening hours.
  - Pupils in County Durham achieved an average Attainment 8 score of 48.8 at GCSE compared to a national average of 53.1. The average points score per A-level entry for state funded schools in County Durham was 39.9 compared to a national average of 39.5.
  - Educational attainment decreased at Key Stage 4 (GCSE-level), with County Durham performing worse than the national average, and fewer pupils are in secondary schools judged by Ofsted to be good or outstanding than nationally.
  - There was a net increase of 427 homes across the county.
  - County Durham is in the top 40% most deprived upper-tier authorities in England.
- **Long and Independent Lives** – Improve both the life expectancy and number of years our residents remain in good health by providing children and young people with the best start in life, a high quality environment for everyone to access, promote positive behaviours amongst our residents, more integrated health and social care services and enabling them to live in their own homes for longer.

### **Objectives**

- Children and young people will enjoy the best start in life, good health and emotional wellbeing
- Children and young people with special educational needs and disabilities will achieve the best possible outcomes
- A physical environment that will contribute to good health
- Promotion of positive behaviours
- Better integration of health and social care services
- People will be supported to live independently for as long as possible by delivering more homes to meet the needs of older and disabled people

---

## **Achievements**

- Life expectancy has increased by three years for men and two years for women since 2001/02.
- 19,000 fewer people smoke now than in 2012.
- Teenage pregnancies have almost halved since 2012.
- Effective discharge planning and joint working between health and social care services means that County Durham is one of the best performing areas in the country at delayed transfers of care from hospital.
- We have low rates of permanent admissions to residential or nursing care for older people in comparison with national figures.
- We have excellent levels of satisfaction from clients in receipt of adult social care services compared to national figures.
- The council in partnership with other local organisations work together to support families with problems through our Stronger Families Programme. We have turned around the lives of over 5,400 families.
- 100% of our maintained nursery education providers are rated as good or outstanding by Ofsted.
- The tonnage of carbon emissions from council operations has been reduced by over 55% since 2008/09.
- The council has actively worked to eliminate single use plastics from all its operations and has encouraged over 200 organisations throughout the county to sign up to our plastics pledge and work to eradicate unnecessary plastics from their business.
- 7% of the household waste that we collect now goes to landfill compared to over 60% in 2008.
- To facilitate greater investment, over 18,000 council houses were transferred to the social housing sector in 2015, one of the largest housing transfers in the country.

## **Long and Independent Lives Statistics / Challenges**

- Almost 9 in 10 children under the age of two living in the county's most deprived communities are registered with, and have sustained contact with, a Children's Centre
- Almost a quarter of school children are overweight or obese at reception (age 4-5) and this rises to over a third at year six (age 10 to 11)
- Female life expectancy and healthy life expectancy is statistically significantly lower in County Durham than England
- We have a gap between life expectancy and the number of years lived in good health of 3.6 years for men and 5.2 years for women (significantly wider than national rates)
- We have one of the lowest rates of daily delayed transfers of care from hospital to a social care setting in the country

- 7% of the domestic refuse that we collect goes to landfill sites
- Funding to social care providers was increased by 10% paying £13 million upfront to help with funding and cashflow issues experienced during the pandemic.
- **Connected communities** – Help our residents create caring and welcoming communities where everyone is valued, we can help and support each other and we give everyone the opportunity to realise their potential.

### **Objectives**

- All children and young people will have a safe childhood
- Standards will be maintained or improved across County Durham's housing stock
- Our towns and villages will be vibrant, well used, clean, attractive and safe
- People will have good access to workplaces, services, retail and leisure opportunities
- Communities will come together and support each other
- Delivery of new high-quality housing which is accessible and meets the needs of our residents

### **Achievements**

- Significant investment in increasing workforce capacity both at a managerial and social worker level and effective workforce planning has led to reduced caseloads, better quality and timeliness in children's social care.
- Investment in new IT systems has transformed children's social care performance information available and management oversight has improved compliance in most areas of performance.
- Since 2016, the council in collaboration with a range of partner organisations has played its part in the UK's commitment to support some of the world's most vulnerable refugees and has been recognised nationally as best practice for its resettlement programme.
- A local lettings agency has been established to help secure suitable housing for homeless people and people who find it difficult to access the housing market.
- Durham County Council is only one of two local authorities in the country to achieve the maximum under the Department for Transport's incentive fund in recognition of its efficiency rating and has managed to prioritise and increase investment in its highways.
- The council has approved a £25 million investment fund for towns and villages, to spend on regeneration, purchasing derelict buildings and land and making environmental improvements.
- Over the last 10 years our Area Action Partnerships have completed over 6,000 community projects, benefiting over 30,000 people and helping to secure over £100 million funding.

- The council provided an additional £1 million financial support to vulnerable residents affected by the pandemic through our Welfare Assistance Scheme.
- Over 10,000 residents were supported by our virtual hub, County Durham Together, providing vulnerable residents with access to essential services during the pandemic.
- Last year 22,803 children and families were provided with food and fuel voucher support during the school holidays.
- Over 18,000 households were provided with an additional £4.1 million of support through our Council Tax Hardship Fund.
- We remain one of the few councils in the country to provide up to 100% Council Tax relief to residents – 80% of the circa 36,000 working age claimants in Durham received 100% council tax reduction last year.
- An additional £100,000 was allocated to each of our 14 Area Action partnerships to provide funding for countywide projects and community and voluntary groups adversely affected by the pandemic.
- Over 30,000 people have taken part in volunteering across all sectors in County Durham over the last two years

### **Connected Communities Statistics / Challenges**

- County Durham has a higher than average crime rate (84.5 per 1,000 population compared to 77 nationally)
  - There are around 950 children in care at any one time - this is in addition to around 450 children on a child protection plan and 3,700 children in need
  - The rate of first-time entrants to the youth justice system in County Durham is lower than the national average (176 per 100,000 population aged 10-17 years old compared to 220 nationally)
  - Antisocial behaviour in County Durham is showing an increasing trend, some of which is linked to infringement of COVID-19 regulations.
  - The number of people killed and seriously injured on our roads is showing a long-term reducing trend
  - Standards of cleanliness in County Durham are good although reported incidents of fly-tipping are increasing
  - Domestic abuse was involved in half of all violence against the person crimes during 20/21 and made up 22% of all crime.
- **An Excellent Council** – Rethinking the way that we deliver many of our services in order to meet increasing demand with reducing resources and make sure that we are equipped for the future by reskilling our workforce and working more effectively for the benefit of our residents across organisational boundaries with partner organisations.

### **Objectives**

- Our resources will be managed effectively

- We will create a workforce for the future
- We will design our services with the customer in mind
- We will use data and technology more effectively
- We will actively performance manage our services

### **Achievements**

- The council consistently receives an unqualified opinion on its statement of accounts and an unqualified opinion on its arrangements for securing value for money. In 2019/20, despite the challenges posed by the pandemic, the council concluded its accounts preparation, external audit and received statutory sign off by 30 September when many other authorities could not.
- Durham County Council has delivered £242 million of savings and successfully managed a loss of just under 3,000 posts since the introduction of the Government's austerity programme in 2011.
- Durham County Council leads on Digital Durham, a £35 million initiative to transform broadband speeds for residents and business across the North East which has already provided access to fibre broadband to over 105,000 properties.
- Over 100 council services are available digitally and around a quarter of all contact is transacted digitally with residents.
- We have invested £6 million in apprenticeship programmes benefiting 1,015 new apprentices and existing staff since 2017.
- 5.1% of 16 to 17 year olds are in an apprenticeship in County Durham compared to a national figure of 3.8%.
- The council holds continuing excellence status in the Better Health at Work Award, which recognises the efforts of employers regionally in helping to address health issues of its workforce. We also work with local companies and other organisations to help them achieve the award.
- The council has 181 trained mental health first aiders and 82 time to change (mental health) champions.
- The council has been awarded the Disability Confident Leader status by the Department for Work and Pensions in recognition of its commitment to be a good employer of people with a disability and will support local businesses to become Disability Confident.
- To support local businesses, we paid 97% of undisputed invoices within 30 days last year, with 87% actually paid within 10 working days.

### **An Excellent Council Statistics / Challenges**

- We are a low tax base authority – 84% of all dwellings are in Bands A-C, with 59% in Band A (the lowest Band/value) which inhibits our ability to fund budget pressures from local taxation and makes funding essential local services and the councils budget difficult.

- Almost 70% of our staff had no sickness absence in the last 12 months with four in five staff recording sickness absence of five days or fewer.
- 24% of transactions with the public are now through digital channels, an increase of 9% compared to last year. Satisfaction rates for dealing with the council remain high. 97% felt that their request was knowledgeably and effectively handled and 94% found it easy to contact the right service.
- Superfast broadband coverage in County Durham is at 97%, despite much of our county having some of the sparsest population densities in the country.

## **7. Significant Issues for 2020/21 and Beyond**

### **Economic climate**

The financial outlook for the council will continue to be extremely uncertain until the Comprehensive Spending Review and the Fair Funding Review are concluded and the outcomes known and the long term impact of the coronavirus pandemic and of the UK exit from the European Union and associated impacts arising from the Trade Deal are fully understood. The Fair Funding Review, which was originally scheduled for implementation from April 2020 alongside a move to 75% Business Rates Retention (BRR) has been delayed until at least 2022/23. This ongoing delay makes future planning extremely uncertain.

There is currently no certainty in terms of the quantum of funding available to local government from 2022/23 onwards, nor how this funding will be apportioned between authorities. It is clear however that there are significant risks to the council's funding depending on the principles that are ultimately agreed for fair funding distribution and how any move to 75% BRR is implemented.

By the end of 2020/21, the council had delivered £242 million of financial savings with additional savings of £5 million approved for 2021/22 in order to balance its budgets. Across this period and through prudent financial management the council has utilised over £100 million of reserves to balance its budgets and accommodate redundancy and early access costs as we have managed a significant reduction in our workforce. It is forecast that total savings required for the period 2011/12 to 2024/25 will be £286 million.

The council continues to face a range of significant budget pressures including general inflation, cost pressures in the care sector, increases in the number of adults and children needing support and rising levels of need, increases in demand for everyday services as the population grows, and increases in core costs such as wage increases and inflation. These costs cannot be accommodated from council tax and business rates income, where Durham suffers from a low tax base due to lower house and property prices relative to other areas.

The MTFP sets out the council's approach to achieving a sustainable budget over the medium term whilst ensuring that all revenue resources are directed towards corporate

priorities. The MTFP describes the financial direction of the council over the planning period and outlines the financial pressures it will face.

## **8. Corporate Risks**

The council has an embedded process to manage any risks and assist with the achievement of its strategic objectives, alongside national and local performance targets. The Strategic Risk Register plays an integral role in the production of the Corporate Plan and is subject to a quarterly review by Audit Committee, including when it approves the annual statement of accounts.

The council's key strategic risks are as follows:

- Failure/ inability to respond to and recover from the COVID-19 pandemic, leading to high levels of staff absence, overwhelming pressure on services, and impacts on the safety and wellbeing of the wider community and economy.
- If timely and comprehensive savings plans are not in place across the council, required savings may not be achieved, necessitating extensive utilisation of reserves to balance future years budgets.
- There is significant uncertainty in relation to future funding settlements from government, which will be impacted by the upcoming Comprehensive Spending Review and the Fair Funding Review.
- Risk that the Council fails, in its role as a community leader, to help partners, local businesses and communities make the necessary adaptations and mitigations in pursuit of the target of being a carbon-neutral County by 2050.
- Failure to protect a child from death or serious harm (where service failure is a factor or issue);
- Failure to protect a vulnerable adult from death or serious harm (where service failure is a factor or issue).

## **9. Summary Position**

The council's financial and non-financial performance in 2020/21 continues to be good. The revenue outturn with a £27.356 million underspend (6.25% less than the revised budget) is broadly in line with forecasts reported during the year, with the major variances between the quarter three forecast and the outturn being due to receipt of additional government grant funding. The capital outturn has been managed to minimise the level of re-profiling required at the year end and the council has sufficient reserves and balances to provide financial resilience for 2021/22 and future years.

In 2020/21 the council has faced and dealt successfully with significant challenges. This trend will continue but the council is well placed to adapt to the challenges and take advantage of the opportunities offered. There are risks as highlighted above, but there are well established and robust risk management processes in place and, together with robust financial management and reporting, the council is in a strong position as it moves into 2021/22.

---

## 10. Receipt of Further Information

If you would like to receive further information about these accounts please contact the Corporate Director of Resources at Durham County Council, County Hall, Durham, DH1 5UE.

## 11. Explanation of Accounting Statements

The Statement of Accounts comprises core and supplementary financial statements, and disclosure notes.

The **core statements** are:

- **Comprehensive Income and Expenditure Statement (CIES)**

This 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.

- **Movement in Reserves Statement**

This shows the movement on the different reserves held by the council in year, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and '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 CIES. This is different from the statutory amounts required to be charged to the General Fund Balance 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 before any discretionary transfers to/from earmarked reserves.

- **Balance Sheet**

This shows the value of the assets and liabilities recognised by the council as at 31 March. The net assets (assets less liabilities) are matched by the reserves held by the council. Reserves are reported in two categories. The first category consists of 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 consists of reserves that the council is not able to use to provide services. This category 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**

This presents the changes in cash and cash equivalents during the reporting period. It shows how the council generates and uses cash and cash equivalents by classifying

cash flows into 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.

The **supplementary statements** are:

- **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**

Presents the expenditure and income of the Pension Fund during the year, its financial position at 31 March and the operation and membership of the Fund. Notes providing further information follow the Accounts.

- **Annual Governance Statement**

This provides 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.

**Notes to the Accounts** 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 of Practice on Local Authority Accounting in the United Kingdom (the Code) that is not presented elsewhere in the financial statements, for example sub-classification of 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 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 of 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 of Resources' Responsibilities**

The Corporate Director of 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 of 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 of 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 of Resources**

I certify that the Statement of Accounts, which includes the Pension Fund financial statements, presents a true and fair view of the financial position of the council as at 31 March 2021 and its expenditure and income for the year ended 31 March 2021.

Paul Darby

Corporate Director of Resources (Interim)

18 June 2021

**Certificate of Chairman**

**THIS PAGE IS LEFT INTENTIONALLY BLANK**

**Independent Auditor's Report To The Members Of Durham County  
Council**

**THIS PAGE IS LEFT INTENTIONALLY BLANK**

Comprehensive Income and Expenditure Statement

2019-20 (restated)			Note	2020-21			
Gross Expenditure £000	Gross Income £000	Net Expenditure £000		Gross Expenditure £000	Gross Income £000	Net Expenditure £000	
292,127	-168,310	123,817	Adult and Health Services	316,658	-190,641	126,017	
1,935	-70	1,865	Chief Executive's Office	2,900	-258	2,642	
525,340	-376,826	148,514	Children and Young People's Services	506,049	-370,645	135,404	
119,324	-25,568	93,756	Neighbourhoods and Climate Change	149,211	-27,693	121,518	
150,704	-66,661	84,043	Regeneration, Economy and Growth	129,545	-58,600	70,945	
192,326	-167,386	24,940	Resources	205,291	-175,172	30,119	
3,460	-222	3,238	Corporate Costs	12,137	-23,840	-11,703	
<b>1,285,216</b>	<b>-805,043</b>	<b>480,173</b>	<b>Cost of Services</b>	<b>7,8</b>	<b>1,321,791</b>	<b>-846,849</b>	<b>474,942</b>
68,161	-5,307	62,854	Other Operating Expenditure	11	78,000	-3,692	74,308
47,378	-12,726	34,652	Financing and Investment Income and Expenditure	12	48,763	-9,441	39,322
-	-473,149	-473,149	Taxation and Non Specific Grant Income	13	-	-516,970	-516,970
		<b>104,530</b>	<b>Surplus (-) or Deficit on Provision of Services</b>			<b>71,602</b>	
			<b>Items that will not be reclassified to Surplus (-) or Deficit on Provision of Services</b>				
		9,944	Surplus (-) or deficit on revaluation of PPE / Heritage assets	14,15		-13,952	
		2,985	Impairment losses on non-current assets charged to revaluation reserve	14		236	
		3,538	Surplus (-) or deficit from investments in equity instruments designated at fair value through other comprehensive income	17		-546	
		34,030	Remeasurements of the net defined benefit liability	25,43		139,790	
		473	Difference between actuary's estimate and actual employer's pension contributions	25,43		2,069	
		3,260	Net increase (-) or decrease in pensions assets and liabilities from disposals / acquisitions	25,43		-	
		<b>54,230</b>	<b>Other Comprehensive Income (-) and Expenditure</b>			<b>127,597</b>	
		<b>158,760</b>	<b>Total Comprehensive Income (-) and Expenditure</b>			<b>199,199</b>	

The 2019/20 comparative Cost of Services figures have been restated to reflect the current service structure. There is no net impact on the Cost of Services or the Surplus (-) or Deficit on the Provision of Services.

**2020/21:**

	General Fund Balance	Earmarked Reserves	Capital Receipts Reserve	Total Usable Reserves	Unusable Reserves	Total Council Reserves
	£000	£000	£000	£000	£000	£000
<b>Balance at 1 April 2020 brought forward</b>	23,950	216,840	8	<b>240,798</b>	-10,992	<b>229,806</b>
<b>Movement in Reserves during 2020-21</b>						
Total Comprehensive Income and Expenditure	-71,602	-	-	<b>-71,602</b>	-127,597	<b>-199,199</b>
Adjustments between accounting basis and funding basis under regulations (Note 9)	132,069	-	-	<b>132,069</b>	-132,069	-
<b>Net Increase / Decrease (-) in Year before Transfers to Earmarked Reserves</b>	<b>60,467</b>	-	-	<b>60,467</b>	<b>-259,666</b>	<b>-199,199</b>
Transfer of Dedicated Schools Grant Reserve Deficit at 1 April 2020 to new Adjustment Account (Notes 10 and 25)	-	5,726	-	<b>5,726</b>	-5,726	-
Transfers to / from Earmarked Reserves (Note 10)	-58,264	58,264	-	-	-	-
<b>Balance at 31 March 2021 carried forward</b>	<b>26,153</b>	<b>280,830</b>	<b>8</b>	<b>306,991</b>	<b>-276,384</b>	<b>30,607</b>

**2019/20:**

	General Fund Balance	Earmarked Reserves	Capital Receipts Reserve	Total Usable Reserves	Unusable Reserves	Total Council Reserves
	£000	£000	£000	£000	£000	£000
<b>Balance at 1 April 2019 brought forward</b>	25,106	226,411	8	<b>251,525</b>	137,041	<b>388,566</b>
<b>Movement in Reserves during 2019-20</b>						
Total Comprehensive Income and Expenditure	-104,530	-	-	<b>-104,530</b>	-54,230	<b>-158,760</b>
Adjustments between accounting basis and funding basis under regulations (Note 9)	93,803	-	-	<b>93,803</b>	-93,803	-
<b>Net Increase / Decrease (-) in Year before Transfers to Earmarked Reserves</b>	<b>-10,727</b>	-	-	<b>-10,727</b>	<b>-148,033</b>	<b>-158,760</b>
Transfers to / from Earmarked Reserves (Note 10)	9,571	-9,571	-	-	-	-
<b>Balance at 31 March 2020 carried forward</b>	<b>23,950</b>	<b>216,840</b>	<b>8</b>	<b>240,798</b>	<b>-10,992</b>	<b>229,806</b>

31 March 2020 £000		Notes	31 March 2021 £000
1,763,406	Property, Plant and Equipment	14	1,754,497
14,131	Heritage Assets	15, 46	15,174
6,252	Investment Property	16	6,170
5,081	Intangible Assets		5,726
40,898	Long Term Investments	17	32,624
15,508	Long Term Debtors	17	20,167
<b>1,845,276</b>	<b>Long Term Assets</b>		<b>1,834,358</b>
184,737	Short Term Investments	17	212,397
4,105	Inventories	19	5,569
103,600	Short Term Debtors	20	105,421
20,218	Cash and Cash Equivalents	21	40,126
<b>312,660</b>	<b>Current Assets</b>		<b>363,513</b>
-13,392	Short Term Borrowing	17	-3,461
-129,081	Short Term Creditors	22	-170,652
-6,007	Provisions	23	-4,641
-2,722	Capital Grants Receipts in Advance	35	-11,038
<b>-151,202</b>	<b>Current Liabilities</b>		<b>-189,792</b>
-15,998	Provisions	23	-13,592
-348,963	Long Term Borrowing	17	-363,643
-6,504	Capital Grants Receipts in Advance	35	-11,319
-1,331,291	Other Long Term Liabilities - Pensions	43	-1,514,320
-74,172	Other Long Term Liabilities - Other	38, 39	-74,598
<b>-1,776,928</b>	<b>Long Term Liabilities</b>		<b>-1,977,472</b>
<b>229,806</b>	<b>Net Assets</b>		<b>30,607</b>
240,798	Usable Reserves	24	306,991
-10,992	Unusable Reserves	25	-276,384
<b>229,806</b>	<b>Total Reserves</b>		<b>30,607</b>

<b>2019-20</b>		<b>Notes</b>	<b>2020-21</b>
<b>£000</b>			<b>£000</b>
104,530	Net surplus (-) or deficit on the provision of services		71,602
-108,234	Adjustments to net surplus or deficit on the provisions of services for non-cash movements	26	-224,575
4,813	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	26	3,697
<u>1,109</u>	Net Cash flows from Operating Activities		<u>-149,276</u>
34,001	Investing Activities	27	59,964
-41,468	Financing Activities	28	69,404
<u>-6,357</u>	Net increase (-) or decrease in cash and cash equivalents		<u>-19,908</u>
13,861	Cash and cash equivalents at 1 April	21	20,218
<u><b>20,218</b></u>	<b>Cash and cash equivalents at 31 March</b>	<b>21</b>	<u><b>40,126</b></u>

## Notes to the Accounts

Note	Page
1 Accounting Policies	37
2 Accounting Standards that have been Issued but have not yet been Adopted	61
3 Critical Judgements in Applying Accounting Policies	61
4 Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty	64
5 Material Items of Income and Expense	66
6 Events After the Balance Sheet Date	67
7 Expenditure and Funding Analysis	67
8 Expenditure and Income Analysed by Nature	71
9 Adjustments Between Accounting Basis and Funding Basis Under Regulations	71
10 Transfers to/from Earmarked Reserves	75
11 Other Operating Expenditure	78
12 Financing and Investment Income and Expenditure	78
13 Taxation and Non-Specific Grant Income	79
14 Property, Plant and Equipment	80
15 Heritage Assets	85
16 Investment Properties	86
17 Financial Instruments	87
18 Nature and Extent of Risks Arising from Financial Instruments	92
19 Inventories	98
20 Short Term Debtors	98
21 Cash and Cash Equivalents	99
22 Short Term Creditors	99
23 Provisions	99
24 Usable Reserves	101
25 Unusable Reserves	102
26 Cash Flow Statement - Operating Activities	107
27 Cash Flow Statement - Investing Activities	108
28 Cash Flow Statement - Financing Activities	108
29 Reconciliation of liabilities arising from financing activities	108
30 Agency Services	109
31 Members' Allowances	110
32 Officers' Remuneration	111
33 External Audit Costs	113
34 Dedicated Schools Grant	113
35 Grant Income	116
36 Related Parties	118
37 Capital Expenditure and Capital Financing	124
38 Leases	125
39 Private Finance Initiatives and Similar Contracts	128
40 Impairment and Revaluation Losses	130
41 Termination Benefits	131
42 Pension Schemes Accounted for as Defined Contribution Schemes	131
43 Defined Benefit Pension Schemes	132
44 Contingent Liabilities	140
45 Contingent Assets	141
46 Heritage Assets: Further Information on the Council's Collection	141
47 Exceptional Items	143
48 Pooled Budget - Better Care Fund	143
49 Prior Period Adjustments (PPAs)	144

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**

### **1.1. General Principles**

The Statement of Accounts summarises the council's financial performance for the 2020/21 financial year and its position at the year-end of 31 March 2021. The council is required by the Accounts and Audit Regulations 2015 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 2020/21 (the Code) and the Service Reporting Code of Practice 2020/21 (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.

### **1.2. 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 contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.
- Supplies are recorded as expenditure when they are consumed - where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received, rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument, rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge

made to revenue for the income that might not be collected. The council has a policy of not accruing for manual sundry creditor or sundry debtor provisions for less than £10,000, other than in exceptional circumstances.

### **1.3. Business Improvement District Schemes**

A Business Improvement District (BID) scheme applies 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.

### **1.4. 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.

### **1.5. 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.

### **1.6. 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 where 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.

## **1.7. 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 non-current 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 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 to reduce the overall borrowing requirement calculated by the council on a prudent basis and in accordance with statutory guidance. This annual contribution is known as the minimum revenue provision.

Therefore, so that council tax funds only what is required, the charges to the accounts (depreciation, revaluation and impairment losses and amortisations) are replaced by the minimum revenue provision with the difference being transferred to the Capital Adjustment Account in the balance sheet.

## **1.8. 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. These 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 in exchange for those benefits. These benefits are charged on an accruals basis to the Comprehensive Income and Expenditure

Statement at the earlier of when the council can no longer withdraw the offer of those benefits or when the council recognises costs for restructuring.

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. These are replaced 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 and Young People's Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year. The Adult and Health Services 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 provided by the actuary.
- 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:

- Service cost, comprising:
  - 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.
  - 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 Corporate Costs.
  - 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.
  - 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 Corporate Costs.
- 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.

- 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.

-

### **1.9. 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.

---

## 1.10. 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.

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 using an approach that is based on the business model for holding the financial assets and their cashflow characteristics.

There are three main classes of financial assets measured at:

- amortised cost
- fair value through profit or loss (FVPL), and
- fair value through other comprehensive income (FVOCI)

The council holds most of its investments solely to collect contractual cash flows, which means that the majority of its financial assets are measured at amortised cost.

There are some exceptions e.g. where the council holds strategic investments to help it meet other policy objectives, such as the support of economic development in the county. With these types of investments, the purpose of the contract is not solely concerned with the payment of principal and interest (i.e. where the cash flows do not take the form of a basic debt instrument). For each of these investments a separate assessment has been

made on the appropriate accounting treatment in relation to IFRS 9 for Financial Instruments.

### **Financial Assets Measured at Amortised Cost**

Financial assets measured at amortised cost 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 financial assets held by the council, 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.

The council has given small loans to external or voluntary organisations, but these are for trivial amounts. The council has not provided guarantees against loans they have received from financial institutions. However, the council does have deferred payment policies where individuals are allowed to defer payment against an invoice raised by the council, for example where the council holds a legal charge against a property that enable sums to be reimbursed from sale proceeds at a later date. These are similar to loans at less than market rates and are referred to as soft loans. If any of the lost interest against the soft loan was significant then adjustments would be made to the relevant service revenue account and Balance Sheet. However, the impact on the council's revenue account of soft loans and lost interest is not financially significant and the accounts have not been adjusted to reflect these requirements.

### **Expected Credit Loss Model**

The council recognises expected credit losses on all of its financial assets held at amortised cost or FVOCI, either on a twelve month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the council.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of twelve month expected losses.

### **Financial Assets Measured at Fair Value through Profit or Loss (FVPL)**

Financial assets that are measured at FVPL 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. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

The fair value measurements of the financial assets are based on the following techniques:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the council can access at the measurement date.
- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.
- Level 3 inputs – unobservable inputs for the asset.

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.

An equity instrument can be elected into a FVOCI treatment rather than a FVPL treatment if it is not held for trading. The council has reviewed its assets that would be measured at FVPL on the basis of the business model and has elected to classify instruments as either FVPL or FVOCI on an instrument-by-instrument basis based on the assessed benefit to the council from the chosen classification.

### **1.11. 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.

### **1.12. 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.

### **1.13. 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 has no assets of this nature to be recognised 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 assets.

#### **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 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, or cost information 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 they 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 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.

If you would like more information about Durham County Council’s heritage assets, contact details can be found on the front page of this document.

## **1.14. 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.

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

The Code requires local authorities to produce group accounts to reflect significant activities provided to council tax payers 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 joint arrangements 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.

### **1.16. 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.

### **1.17. 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.

### **1.18. 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.

### **1.19. 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. This annual contribution is known as the minimum revenue provision. Therefore, as council tax funds only what is required, the charges to the accounts (depreciation, revaluation and impairment losses and amortisations) are replaced by the minimum revenue provision, with the difference being transferred to the Capital Adjustment Account in the balance sheet. 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. Where there is a material cost or benefit at the start or end of the lease (e.g. a rent free period at the start of the lease) then charges are made on a

straight-line basis over the life of the lease, even if this does not match the pattern of payments.

## **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. Where there is a material cost in addition to the regular payments (e.g. there is

a premium paid at the commencement of the lease or there are costs of negotiating and arranging the lease), then credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments.

### **1.20. 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 2020/21 (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 Costs. These are costs relating to the council's status as a multifunctional, democratic organisation, the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

### **1.21. 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 current 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 current value. The difference between current 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.
- Council offices – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV)
- School buildings – current value, but because of their specialist nature, are measured at depreciated replacement cost which is used as an estimate of current value
- Surplus assets – the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective
- All other assets – current 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 current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value.

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

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current 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. All valuations undertaken in 2020/21 were either carried out by council staff or by suitably qualified external consultants. In addition to this rolling programme, assets which have been subject to potentially material change as a result of transactions or market conditions 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 or revalued. 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 or revaluation loss is recognised for the shortfall.

Where impairment or revaluation 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.

### **Depreciation**

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

Depreciation is calculated on the following bases:

- Dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer up to a maximum of 50 years.

- Vehicles, plant, furniture and equipment – straight line allocation over the useful life of the asset as advised by a suitably qualified officer, mainly up to a maximum of 10 years, however, some specialised items are depreciated over periods 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.

### **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.

### **1.22. 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.

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 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 (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.

### **1.23. Provisions**

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

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

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

### **1.24. 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.

### **1.25. 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.

### **1.26. 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.

### **1.27. 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.

### **1.28. 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.

### **1.29. 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 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 licence arrangements passed to the School or Governing Bodies and 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.

### **1.30. Collection Fund Statement**

#### **Council Tax Income**

Council tax income included in the Comprehensive Income and Expenditure Statement is the accrued income for the year. The difference between the accrued income for the year and the amount required by regulation to be credited to the General Fund will be taken to the Collection Fund Adjustment Account and included as a reconciling item in the General Fund balance Movement in Reserves Statement. Any balances owed to or from each preceptor will be shown as a creditor or debtor in the council's accounts.

#### **Business Rates Income**

Business Rates income included in the Comprehensive Income and Expenditure Statement is the accrued income for the year. The difference between the accrued income for the year and the amount required by regulation to be credited to the General Fund will be taken to the Collection Fund Adjustment Account and included as a reconciling item in the General Fund balance Movement in Reserves Statement. Any balances owed to or from each preceptor or central government will be shown as a creditor or debtor in the council's accounts.

## **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.

The standards introduced by the 2021/22 Code and relevant for additional disclosures required in the 2020/21 financial statements are:

- Definition of a Business: Amendments to IFRS 3 Business Combinations
- Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7
- Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16.

The above changes in accounting requirements for 2021/22 are minor amendments and are not anticipated to have a material impact on the council's financial performance or financial position.

## **3. Critical Judgements in Applying Accounting Policies**

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

### **Funding of Local Government**

There is a high degree of uncertainty about future levels of funding for local government. However, the council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the council might be impaired as a result of a need to close facilities and reduce levels of service provision.

### **Academy schools**

Twenty schools transferred to academy status in 2020/21. At the completion of a statutory process, the governing bodies of the relevant schools have agreed to change from local authority maintained schools. The assets are removed from the council's Balance Sheet and a loss on disposal is recorded in the Comprehensive Income and Expenditure Statement 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 (now an Academy), Shotton Hall School (now The Academy at Shotton Hall) and Shotton Hall Primary School. The accounting policies for PFI schemes and similar contracts have been applied to the

arrangement and the assets are recognised in the balance sheet as they are deemed to fall within the scope of the International Financial Reporting Interpretations Committee (IFRIC) 12. The total net value of land and buildings for these schools is £4.543m, but this does not include assets relating to Sedgefield Community College and the Academy at Shotton Hall. Further details can be found in Note 39.

Under the PFI arrangement, the contractor is able to renegotiate its financing arrangements, and the council has contracted to share the benefit of the reduction in interest payable by the operator. These gains can be shared in the form of a reduction in the unitary payment for the remaining term of the contract but can also be paid as a cash lump sum. The council's treatment is that, unless the gain is material, it should be recognised as a cash lump sum. In 2020/21, there was no gain.

### 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, or 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, they are 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 as follows:

	Type of School	Nursery Schools	Primary Schools	Secondary Schools	Special Schools	Total
a)	Community	11	128	7	9	155
b)	Voluntary Controlled (VC)	-	13	-	-	13
b)	Voluntary Aided (VA)	-	30	-	-	30
c)	Foundation	-	-	1	-	1
d)	Alternative Provision	-	-	-	1	1
d)	Endowed Parochial	-	1	-	-	1
	<b>Maintained Schools</b>	<b>11</b>	<b>172</b>	<b>8</b>	<b>10</b>	<b>201</b>
e)	Academies	-	40	24	2	66
	<b>Total</b>	<b>11</b>	<b>212</b>	<b>32</b>	<b>12</b>	<b>267</b>

- 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 Voluntary Controlled and Voluntary Aided school land and buildings usually rests with a charity, normally a religious body. Voluntary Controlled 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 Woodlands (Alternative Provision) and the 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 36. By applying certain criteria, 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 2020/21.

### **Pension Fund Advance Payment**

In April 2020 the council made an advance payment of £29.720m to the Pension Fund in respect of amounts due from 2020/21 to 2022/23. The council has spread this charge to the General Fund in equal annual instalments of £9.907m over the three-year period, as permitted by the Code, and the Actuary's Rates and Adjustment Certificate dated 31 March 2020, which sets out the pension contribution rates payable. While the pensions liability is reduced by the full prepayment, the pensions reserve is credited only with the amount charged to the General Fund.

### **Pensions: McCloud Judgement**

All public sector pension schemes were reviewed in 2011 and subsequently reformed to reduce the cost to the taxpayer. Transitional protections were provided to members who were closest to retirement. The transitional protections applied to all active members of public service schemes who were within 10 years of their normal pension age on

1 April 2012. In relation to the LGPS, all members were moved into the new 2014 Scheme, but members within 10 years of normal retirement were given an underpin (or 'better of both') promise, so their benefits would be at least as valuable in terms of amount and when they could be drawn than if they had remained in the 2008 Scheme.

In December 2018 the Court of Appeal ruled against the Government in the 'McCloud/ Sargeant' judgement which found that the transitional protection arrangements put in place when the firefighters' and judges' pension schemes were reformed were age discriminatory. The ruling potentially has implications for all public sector schemes which were reformed around the same time and could lead to members who were discriminated against being compensated.

HM Treasury and the LGPS Scheme Advisory Board (SAB) had paused their reviews following the 'McCloud' judgement in the Court of Appeal. These have now been unpaused and HMT Directions are expected to be made over 2021 which will allow the Treasury and SAB reviews to proceed. It is unlikely the outcome of those reviews will be known in 2021 and at the time of writing no changes in benefits or member contributions are expected until 2024.

Although it is unknown what impact this will have on future employer pension contributions at this stage, the Pension Fund's Actuary has calculated a potential IAS 19 accounting liability which has been included in the current service cost. Where an additional liability arises relating to past service this will result in increased employer contribution rates in the future. Employer contributions towards future service may also increase if the 'better of both' test is extended beyond members within 10 years of normal pension age at 1 April 2012.

#### **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 2021 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Property, plant and equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets.	<p>The impact of a change in valuation or useful life would be to affect the carrying value of the asset in the balance sheet and the charge for depreciation or impairment in the CIES.</p> <p>These changes do not have an impact on the council's General Fund position as the council is not required to fund such non-cash charges from council tax receipts.</p> <p>Accumulated depreciation totalled £309m as at 31 March 2021 and a change in methodology resulting in a 1% movement would only change the Balance Sheet by £3.090m.</p>
Property, plant and equipment	Property, plant and equipment (with the exception of infrastructure, community assets, assets under construction and small value items of vehicles, plant and equipment) are revalued on a periodic basis and tested annually for indicators of impairment. Judgements are required to make an assessment as to whether there is an indication of impairment. Advice has been provided by valuers employed by the council.	<p>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.</p> <p>A 1% change in asset valuation would equate to £17.545m.</p>
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	<p>The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £71.0m</p>

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.	In order to understand the magnitude of the possible volatility in the balance sheet position and to understand which assumptions are most important in determining the size of the liabilities, it is helpful to understand how sensitive the results are to key assumptions. 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 43 and indicate how the figures are sensitive to the assumptions used.
Arrears	At 31 March 2021, the council had a balance of debtors of £132.049m. A review of significant balances suggested that an impairment of doubtful debts of 22.74% (£30.034m) 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 £30.034m to be set aside as an allowance.

## 5. Material Items of Income and Expense

There are no material items of Income and Expenditure to be disclosed separately in the Statement of Accounts in 2020/21.

---

## **6. Events After the Balance Sheet Date**

### **Non-adjusting Event - Academy Schools**

Four local authority schools have converted since the end of 2020/21 and sixteen more are planning to convert to Academy status during 2021/22. These were non-adjusting events in 2020/21. This change in status will lead to the removal of these schools from the Balance Sheet in 2021/22 and the loss on disposal will be charged to the Comprehensive Income and Expenditure Statement below the Net Cost of Services. The estimated loss on disposal is £18.250m, which is the carrying value of the assets in the balance sheet.

## **7. Expenditure and Funding Analysis**

The objective of the Expenditure and Funding Analysis is to demonstrate to council tax payers how the funding available to the council (i.e. government grants, rents, council tax and business rates) for the year has been used in providing services in comparison with those resources consumed or earned by councils in accordance with generally accepted accounting practices. The Expenditure and Funding Analysis also shows how this expenditure is allocated for decision making purposes between the council's services. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

2019-20 (restated)				2020-21		
Net Expenditure Chargeable to the General Fund £000	Adjustments between Funding and Accounting Basis £000	Net Expenditure in the Comprehensive Income and Expenditure Statement £000		Net Expenditure Chargeable to the General Fund £000	Adjustments between Funding and Accounting Basis £000	Net Expenditure in the Comprehensive Income and Expenditure Statement £000
121,400	2,417	123,817	Adult and Health Services	121,367	4,650	126,017
2,101	-236	1,865	Chief Executive's Office	2,453	189	2,642
110,334	38,180	148,514	Children and Young People's Services	88,882	46,522	135,404
68,418	25,338	93,756	Neighbourhoods and Climate Change	87,739	33,779	121,518
46,598	37,444	84,042	Regeneration, Economy and Growth	37,121	33,824	70,945
18,720	6,221	24,941	Resources	17,720	12,399	30,119
3,583	-345	3,238	Corporate Costs	603	-12,306	-11,703
<b>371,154</b>	<b>109,019</b>	<b>480,173</b>	<b>Net Cost of Services</b>	<b>355,885</b>	<b>119,057</b>	<b>474,942</b>
-400,707	25,064	-375,643	Other Income and Expenditure	-437,330	33,990	-403,340
40,280	-40,280	-	Adjustments between Funding and Accounting basis outside the CIES	20,979	-20,979	-
<b>10,727</b>	<b>93,803</b>	<b>104,530</b>	<b>Surplus (-) or Deficit</b>	<b>-60,466</b>	<b>132,068</b>	<b>71,602</b>
-251,517			Opening General Fund Balance (including earmarked reserves) at 1 April	-240,790		
-			Transfer of Dedicated Schools Grant Reserve Deficit to new Adjustment Account (Notes 10 and 25)	-5,726		
10,727			Surplus (-) or Deficit on General Fund Balance in year	-60,466		
<b>-240,790</b>			<b>Closing General Fund Balance (including earmarked reserves) at 31 March</b>	<b>-306,982</b>		

The 2019/20 comparative Cost of Services figures have been restated to reflect the current service structure. There is no net impact on the Cost of Services or the Surplus (-) or Deficit on the Provision of Services.

### Note to the Expenditure and Funding Analysis

This note provides a reconciliation of the main adjustments to net expenditure chargeable to the General Fund balance to arrive at the amounts in the Comprehensive Income and Expenditure Statement.

2019-20 (restated)				2020-21				
Adjustments for Capital Purposes	Net change for the Pensions Adjustments	Other Differences	Total Adjustments	Adjustments between Funding and Accounting Basis	Adjustments for Capital Purposes	Net change for the Pensions Adjustments	Other Differences	Total Adjustments
£000	£000	£000	£000		£000	£000	£000	£000
200	2,215	2	2,417	Adult and Health Services	115	4,033	502	4,650
-	-193	-43	-236	Chief Executive's Office	-	159	30	189
29,004	7,449	1,727	38,180	Children and Young People's Services	27,384	18,083	1,055	46,522
23,171	2,401	-234	25,338	Neighbourhoods and Climate Change	26,497	6,461	821	33,779
33,896	3,296	252	37,444	Regeneration, Economy and Growth	26,397	6,687	740	33,824
2,989	3,117	115	6,221	Resources	3,301	8,135	963	12,399
-	-345	-	-345	Corporate Costs	-	-12,306	-	-12,306
<b>89,260</b>	<b>17,940</b>	<b>1,819</b>	<b>109,019</b>	<b>Net Cost of Services</b>	<b>83,694</b>	<b>31,252</b>	<b>4,111</b>	<b>119,057</b>
-3,836	28,900	-	25,064	Other Income and Expenditure from the Funding Analysis	4,260	29,730	-	33,990
-37,824	-	-2,456	-40,280	Adjustments between Funding and Accounting basis outside the CIES	-54,248	-	33,269	-20,979
<b>47,600</b>	<b>46,840</b>	<b>-637</b>	<b>93,803</b>	<b>Difference between surplus (-) or deficit on General Fund Balance in year and CIES surplus (-) or deficit</b>	<b>33,706</b>	<b>60,982</b>	<b>37,380</b>	<b>132,068</b>

The 2019/20 comparative Cost of Services figures have been restated to reflect the current service structure. There is no net impact on the Cost of Services or the Surplus (-) or Deficit on the Provision of Services.

### Adjustments for capital purposes

- **For services** - adds in depreciation, amortisation, revenue expenditure funded from capital under statute, impairment and revaluation gains and losses
- **Other Income and Expenditure:**
  - **Other operating expenditure** – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.
  - **Financing and investment income and expenditure** – adjusts for movements in the fair value of investment properties
  - **Taxation and non-specific grant income and expenditure** – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The Taxation and Non Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.
- **Adjustments between Funding and Accounting basis outside the CIES** – the statutory charges for capital financing i.e. minimum revenue provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.

## Net Change for the Pensions Adjustments

Net change for the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income:

- **For services** this represents the removal of the employer pension contributions made by the council as allowed by statute and the replacement with current service costs and past service costs.
- **Financing and investment income and expenditure** – the net interest on the defined benefit liability.

## Other Differences

Other differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute:

- **For services** this represents the movement in the accrual made for the cost of employee holiday entitlements
- **Adjustments between Funding and Accounting basis outside the CIES:**
  - represents the difference between what is chargeable under statutory regulations for council tax and NDR that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.
  - recognises adjustments to the General Fund for the timing differences for premiums and discounts.

## Segmental Income

Revenue received from external customers is analysed on a segmental basis as follows:

2019-20 (restated)		2020-21
£000		£000
-42,230	Adult and Health Services	-34,972
-21	Chief Executive's Office	-6
-21,359	Children and Young People's Services	-14,069
-15,227	Neighbourhoods and Climate Change	-13,913
-36,871	Regeneration, Economy and Growth	-21,276
-7,405	Resources	-5,334
-191	Corporate Costs	-263
<u>-123,304</u>	<b>Total</b>	<u>-89,833</u>

The 2019/20 comparative figures have been restated to reflect the current service structure. There is no net impact on the total.

## 8. Expenditure and Income Analysed by Nature

The following table analyses expenditure and income both within and outside of the cost of services in the Comprehensive Income and Expenditure Statement, and reconciles to the surplus or deficit on the provision of services.

2019-20		2020-21
£000		£000
	<b>Expenditure</b>	
550,781	Employee benefits expenses	570,531
664,266	Other service expenditure	686,373
100,831	Depreciation, amortisation and other capital charges	96,702
29,229	Precepts and levies	29,634
38,929	Amounts of non-current assets written off on disposal	48,366
16,719	Interest payable	16,949
1,400,755	Total Expenditure	1,448,555
	<b>Income</b>	
-132,099	Fees, charges and other service income	-98,508
-5,307	Capital receipts	-3,692
-294,369	Council Tax and non domestic rates	-274,883
-833,041	Grants and contributions	-957,185
-31,409	Other income	-42,685
-1,296,225	Total Income	-1,376,953
<b>104,530</b>	<b>Surplus (-) or Deficit on Provision of Services</b>	<b>71,602</b>

## Revenue from Contracts with Service Recipients

The council is required to follow the requirements of IFRS 15 Revenue from Contracts with Customers, however has concluded that the impact is not material and therefore no changes have been made to the accounts.

## 9. 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.

### General Fund Balance

This is the statutory fund into which all council receipts are required to be paid and out of which all liabilities of the council are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the General Fund Balance, which is not necessarily in accordance with proper accounting practice. This balance therefore summarises the resources that the council is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the council is required to recover) at the end of the financial year.

### **Capital Receipts Reserve**

This holds the proceeds from the disposal of land or other assets which are restricted by statute from being used, other than to fund new capital expenditure or be set aside to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes at the year end.

**2020-21:**

	Usable Reserves		Movement in Unusable Reserves £000
	General Fund Balance £000	Capital Receipts Reserve £000	
<b>Adjustments to Revenue Resources</b>			
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:			
• Pensions Costs (transferred to (or from) the Pensions Reserve)	-60,983	-	60,983
• Financial Instruments (transferred to the Financial Instruments Adjustment Account)	144	-	-144
• Council Tax and NDR (transfers to or from Collection Fund)	-31,092	-	31,092
• Holiday pay (transferred to the Accumulated Absences Account)	-4,109	-	4,109
• Dedicated Schools Grant deficit (transferred to the DSG Adjustment Account)	-2,321	-	2,321
• Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital items (these items are charged to the Capital Adjustment Account):			
○ Depreciation and amortisation of non-current assets	-62,009	-	62,009
○ Revaluation and impairment losses on non-current assets, and movements in the fair value of Investment Properties	-17,854	-	17,854
○ Amounts of non-current assets written off on disposal or sale	-48,371	-	48,371
○ Revenue expenditure funded from capital under statute	-16,839	-	16,839
○ Capital grants and contributions credited to the CI&E Statement	53,420	-	-53,420
<b>Total Adjustments to Revenue Resources</b>	<b>-190,014</b>	<b>-</b>	<b>190,014</b>
<b>Adjustments between Revenue and Capital Resources</b>			
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	3,697	-3,219	-478
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)	-	-	-
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	14,824	-	-14,824
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	39,424	-	-39,424
<b>Total Adjustments between Revenue and Capital Resources</b>	<b>57,945</b>	<b>-3,219</b>	<b>-54,726</b>
<b>Adjustments to Capital Resources</b>			
Use of the Capital Receipts Reserve to finance capital expenditure	-	3,708	-3,708
Application of capital grants unapplied to finance capital expenditure	-	-	-
Cash payments in relation to deferred capital receipts	-	-489	489
<b>Total Adjustments to Capital Resources</b>	<b>-</b>	<b>3,219</b>	<b>-3,219</b>
<b>Total Adjustments</b>	<b>-132,069</b>	<b>-</b>	<b>132,069</b>

**2019-20:**

	Usable Reserves		Movement in Unusable Reserves £000
	General Fund Balance £000	Capital Receipts Reserve £000	
<b>Adjustments to Revenue Resources</b>			
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:			
• Pensions Costs (transferred to (or from) the Pensions Reserve)	-46,841	-	46,841
• Financial Instruments (transferred to the Financial Instruments Adjustment Account)	144	-	-144
• Council Tax and NDR (transfers to or from Collection Fund)	2,313	-	-2,313
• Holiday pay (transferred to the Accumulated Absences Account)	-1,819	-	1,819
• Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital items (these items are charged to the Capital Adjustment Account):			
o Depreciation and amortisation of non-current assets	-64,593	-	64,593
o Revaluation and impairment losses on non-current assets, and movements in the fair value of Investment Properties	-22,516	-	22,516
o Amounts of non-current assets written off on disposal or sale	-38,919	-	38,919
o Revenue expenditure funded from capital under statute	-13,722	-	13,722
o Capital grants and contributions credited to the CI&E Statement	49,032	-	-49,032
<b>Total Adjustments to Revenue Resources</b>	<b>-136,921</b>	<b>-</b>	<b>136,921</b>
<b>Adjustments between Revenue and Capital Resources</b>			
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	5,297	-4,866	-431
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)	-3	3	-
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	14,071	-	-14,071
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	23,753	-	-23,753
<b>Total Adjustments between Revenue and Capital Resources</b>	<b>43,118</b>	<b>-4,863</b>	<b>-38,255</b>
<b>Adjustments to Capital Resources</b>			
Use of the Capital Receipts Reserve to finance capital expenditure	-	5,641	-5,641
Application of capital grants unapplied to finance capital expenditure	-	-	-
Cash payments in relation to deferred capital receipts	-	-778	778
<b>Total Adjustments to Capital Resources</b>	<b>-</b>	<b>4,863</b>	<b>-4,863</b>
<b>Total Adjustments</b>	<b>-93,803</b>	<b>-</b>	<b>93,803</b>

## **10. Transfers to/from Earmarked Reserves**

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

Notes to the Accounts

	31 March 2019	2019-20 Out (restated)	Transfers In	31 March 2020	2020-21 Out	Transfers In	31 March 2021
	£000	£000	£000	£000	£000	£000	£000
<b>Adult and Health Services</b>							
Social Care Reserve	25,406	-226	491	25,671	-2,220	1,070	24,521
Public Health Reserve	4,459	-489	1,275	5,245	-607	4,987	9,625
<b>Chief Executive's Office</b>							
Grant Reserve	80	-2	8	86	-	-	86
Operational Reserve	256	-192	55	119	-106	417	430
<b>Children and Young People's Services</b>							
Children's Services Reserve	3,155	-1,419	49	1,785	-617	1,467	2,635
DSG Reserve	-349	-3,458	-	-3,807	-	7,931	4,124
Education Reserve	12,909	-952	673	12,630	-3,790	6,104	14,944
Balances held by schools under a scheme of delegation	17,690	-1,741	-	15,949	-	15,225	31,174
<b>Neighbourhoods and Climate Change</b>							
Community Protection Reserve	583	-139	132	576	-126	697	1,147
Environmental Services Reserve	1,168	-362	677	1,483	-234	3,588	4,837
North Pennines AONB Partnership Reserve	1,467	-	444	1,911	-784	-	1,127
Partnerships and Community Engagement Reserve	4,423	-691	1,872	5,604	-526	1,407	6,485
Technical Services Reserve	1,713	-911	-	802	-658	1,900	2,044
<b>Regeneration, Economy and Growth</b>							
Business Growth Fund Reserve	604	-	-	604	-150	150	604
Corporate Property and Land Reserve	1,173	-	183	1,356	-245	802	1,913
Culture and Sport Reserve	3,630	-1,445	98	2,283	-130	13,137	15,290
Economic Development Reserve	3,116	-1,043	50	2,123	-108	3,884	5,899
Employability and Training Reserve	57	-	219	276	-	-	276
Funding and Programmes Management Reserve	478	-	28	506	-1	36	541
Housing Regeneration Reserve	638	-165	-	473	-	-	473
Housing Solutions Reserve	2,027	-88	261	2,200	-122	1,444	3,522
Match Fund Programme Reserve	1,587	-373	-	1,214	-371	-	843
Planning Reserve	1,315	-453	-	862	-694	-	168
Town and Villages Regeneration Reserve	10,000	-233	10,000	19,767	-683	5,000	24,084
Transport Reserve	491	-286	541	746	-274	723	1,195
<b>Resources</b>							
Corporate Reserve	425	-	104	529	-376	526	679
Council Tax Hardship Reserve	-	-	-	-	-	2,820	2,820
COVID-19 Support Grants Reserve	-	-	-	-	-	4,873	4,873
Customer Services Reserve	335	-19	-	316	-66	-	250
DWP Grant Reserve	1,389	-815	-	574	-	1,321	1,895
Elections Reserve	764	-	95	859	-	854	1,713
Financial Services Reserve	-	-	-	-	-	93	93
Grant Reserve	154	-	-	154	-	-	154
Housing Benefit Subsidy Reserve	1,141	-	401	1,542	-1,542	-	-
Human Resources Reserve	300	-	23	323	-	69	392
ICT Reserves	1,477	-254	19	1,242	-279	203	1,166
Internal Audit and Corporate Fraud Reserve	-	-	80	80	-	45	125
Legal Reserves	379	-38	110	451	-16	100	535
Operational Reserve	61	-3	-	58	-	141	199
Operations and Data Reserves	50	-12	-	38	-	-	38
Registrars Trading Reserve	200	-	-	200	-50	-	150
Revenue and Benefits Reserve	758	-134	230	854	-329	381	906
System Development Reserve	368	-14	-	354	-46	-	308
Transformation Reserve	1,690	-413	-	1,277	-310	-	967
<b>Corporate</b>							
Budget Support Reserve	29,660	-10,488	-	19,172	-2,732	-	16,440
Business Support Reserve	-	-32	1,064	1,032	-726	1,642	1,948
Capital Reserve	2,510	-1,810	-	700	-427	-	273
Collection Fund Deficit Reserve	-	-	-	-	-	24,863	24,863
Commercialisation Support Reserve	5,800	-24	2,600	8,376	-	1,720	10,096
Covid-19 Support Grant Reserve	-	-	17,521	17,521	-17,521	-	-
Equal Pay Reserve	14,993	-5,014	-	9,979	-500	-	9,479
ER/VR Reserve	8,648	-5,301	-	3,347	-1,354	2,000	3,993
Feasibility Study Reserve	500	-	-	500	-	-	500
Inspire Programme Reserve	886	-556	-	330	-84	-	246
Insurance Reserve	9,988	-2,600	2,682	10,070	-506	-	9,564
Levelling Up Feasibility Reserve	-	-	-	-	-	1,000	1,000
Local Taxation Income Guarantee Grant Reserve	-	-	-	-	-	1,224	1,224
Office Accommodation Capital Reserve	32,944	-8,589	384	24,739	-22,794	-	1,945
Recovery Support Reserve	-	-	-	-	-	8,236	8,236
<b>Cash Limit Reserves</b>	12,915	-10,380	9,224	11,759	-2,234	6,248	15,773
<b>Total</b>	<b>226,411</b>	<b>-61,164</b>	<b>51,593</b>	<b>216,840</b>	<b>-64,338</b>	<b>128,328</b>	<b>280,830</b>

---

The 2019/20 comparative figures have been restated to reflect the current service structure. There is no net impact on the total.

The significant earmarked reserves at 31 March 2021, together with a brief explanation of their purpose, were as follows:

**Social Care Reserve:** to fund future health and social care-related projects, in particular to support further integrated work with local NHS partners.

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

**Dedicated Schools Grant (DSG) and Education Reserves:** 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.

Legislation came into force in November 2020 changing the way in which deficit earmarked DSG reserves have to be accounted for. This means that the council can no longer hold a deficit earmarked DSG reserve and must instead transfer the deficit balance to a new account in unusable reserves. In order to comply with this new legislation the DSG High Needs Block (HNB) deficit balance of £5.726m, part of the DSG reserve balance brought forward at 1 April 2020, has been transferred from earmarked reserves to a new unusable reserve.

**Balances Held by Schools:** surplus or deficit balances of locally managed schools, which are committed to be spent on the education service.

**Partnerships and Community Engagement Reserve:** to provide resources to support a range of partnership and community programmes.

**Culture and Sport Reserve:** to provide resources to support future cultural and sporting projects.

**Economic Development Reserve:** to provide resources to enable the future development of the county.

**Town and Villages Regeneration Reserve:** to provide resources to improve local communities within County Durham.

**Budget Support Reserve:** to enable the council to protect frontline services for a period and ensure that the council is able to plan effectively and consult fully on future years' savings plans.

**Collection Fund Deficit Reserve:** in 2020/21, businesses were able to access significant business rate reductions linked to COVID-19. The council was compensated for this loss of income via a Section 31 grant. The sum has been carried forward in an earmarked

reserve for application in line with the Collection Fund deficit which will impact on the general fund in 2021/22.

**Commercialisation Support Reserve:** to provide resources to enable the council to improve value for money in the context of its commercialisation agenda.

**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.

**Recovery Support Reserve:** to provide resources to support the county's recovery from the impact of the COVID-19 pandemic.

**Cash Limit Reserves:** to carry forward underspends to meet future service demands.

## 11. Other Operating Expenditure

2019-20 £000		2020-21 £000
13,149	Parish council precepts	13,638
16,080	Levies	15,996
3	Payments to the Government Housing Capital Receipts Pool	-
33,622	Losses / - Gains on the disposal of non-current assets	44,674
<u>62,854</u>	<b>Total</b>	<u>74,308</u>

## 12. Financing and Investment Income and Expenditure

2019-20 £000		2020-21 £000
16,719	Interest payable and similar charges	16,949
28,900	Pensions net interest on the net defined benefit liability	29,730
-4,299	Interest receivable and similar income	-3,169
1,568	Impairment of Financial Investments	272
-1,970	Income and expenditure in relation to investment properties and changes in their fair value	-415
-6,266	Other investment income	-4,045
<u>34,652</u>	<b>Total</b>	<u>39,322</u>

**13. Taxation and Non-Specific Grant Income**

<b>2019-20</b>		<b>2020-21</b>
<b>£000</b>		<b>£000</b>
-235,704	Council tax income *	-240,103
-58,665	Non domestic rates	-34,780
-141,129	Non-ringfenced government grants	-199,862
-37,651	Capital grants and contributions	-42,225
<u>-473,149</u>	<b>Total</b>	<u>-516,970</u>

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

## 14. Property, Plant and Equipment

Movement on Balance 2020/21:

	Operational				Non-Operational		Total £000
	Land & Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	
<b>Cost or valuation</b>							
At 1 April 2020	1,239,919	97,262	665,786	1,456	34,787	25,565	2,064,775
Additions	24,643	10,270	37,893	2	666	29,927	103,401
Revaluation increases/(decreases)	-22,459	-	-	-	4,689	-	-17,770
Derecognition - disposals	-48,537	-35,220	-	-	-2,234	-	-85,991
Assets reclassified (to)/from Held for Sale	-	-	-	-	-	-	-
Other reclassifications	-	-	-	-	-112	-	-112
Other movements in cost or valuation	12,655	-	149	7	96	-13,818	-911
<b>At 31 March 2021</b>	<b>1,206,221</b>	<b>72,312</b>	<b>703,828</b>	<b>1,465</b>	<b>37,892</b>	<b>41,674</b>	<b>2,063,392</b>
<b>Accumulated Depreciation and Impairment</b>							
At 1 April 2020	-53,105	-66,532	-181,486	-88	-156	-	-301,367
Depreciation charge	-34,061	-9,264	-17,176	-	-13	-	-60,514
Depreciation written out on revaluation	15,479	-	-	-	158	-	15,637
Impairment losses/(reversals)	-278	-	-	-	-	-	-278
Derecognition - disposals	2,742	34,870	-	-	7	-	37,619
Assets reclassified (to)/from Held for Sale	-	-	-	-	-	-	-
Other reclassifications	-	-	-	-	-	-	-
Other movements in cost or valuation	29	-	-15	-	-7	-	7
<b>At 31 March 2021</b>	<b>-69,194</b>	<b>-40,926</b>	<b>-198,677</b>	<b>-88</b>	<b>-11</b>	<b>-</b>	<b>-308,896</b>
<b>Net Book Value</b>							
At 31 March 2021	1,137,027	31,386	505,151	1,377	37,881	41,674	1,754,496
At 31 March 2020	1,186,814	30,730	484,300	1,368	34,631	25,565	1,763,408
The Revaluations / Impairments above:							
Revaluation increases/(decreases)	-22,459	-	-	-	4,689	-	-17,770
Depreciation written out	15,479	-	-	-	158	-	15,637
Impairment losses/(reversals)	-278	-	-	-	-	-	-278
	<b>-7,258</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,847</b>	<b>-</b>	<b>-2,411</b>
Are recognised as follows:							
Revaluation / depreciation in the Revaluation Reserve	7,543	-	-	-	6,324	-	13,867
Revaluation / depreciation in the Surplus/Deficit on the Provision of Services	-14,523	-	-	-	-1,477	-	-16,000
Impairment losses in the Revaluation Reserve	-236	-	-	-	-	-	-236
Impairment losses in the Surplus/Deficit on the Provision of Services	-42	-	-	-	-	-	-42
	<b>-7,258</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,847</b>	<b>-</b>	<b>-2,411</b>

## Comparative Movements in 2019/20:

	Operational				Non-Operational		Total £000
	Land & Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	
<b>Cost or valuation</b>							
At 1 April 2019	1,276,292	93,675	630,561	2,985	40,158	9,887	2,053,558
Additions	28,554	10,570	35,225	65	444	22,925	97,783
Revaluation increases/(decreases)	-30,703	-	-	-	-4,740	928	-34,515
Derecognition - disposals	-43,354	-6,978	-	-	-3,072	-	-53,404
Assets reclassified (to)/from Held for Sale	-	-	-	-	-	-	-
Other reclassifications	-	-	-	-	-	-	-
Other movements in cost or valuation	9,130	-5	-	-1,594	1,997	-8,175	1,353
<b>At 31 March 2020</b>	<b>1,239,919</b>	<b>97,262</b>	<b>665,786</b>	<b>1,456</b>	<b>34,787</b>	<b>25,565</b>	<b>2,064,775</b>
<b>Accumulated Depreciation and Impairment</b>							
At 1 April 2019	-21,987	-64,030	-165,244	-88	-200	-	-251,549
Depreciation charge	-37,548	-9,432	-16,242	-	-173	-	-63,395
Depreciation written out on revaluation	4,749	-	-	-	279	-	5,028
Impairment losses/(reversals)	-4,789	-	-	-	-1,145	-	-5,934
Derecognition - disposals	6,381	6,930	-	-	1,174	-	14,485
Assets reclassified (to)/from Held for Sale	-	-	-	-	-	-	-
Other reclassifications	-	-	-	-	-	-	-
Other movements in cost or valuation	89	-	-	-	-91	-	-2
<b>At 31 March 2020</b>	<b>-53,105</b>	<b>-66,532</b>	<b>-181,486</b>	<b>-88</b>	<b>-156</b>	<b>-</b>	<b>-301,367</b>
<b>Net Book Value</b>							
At 31 March 2020	1,186,814	30,730	484,300	1,368	34,631	25,565	1,763,408
At 31 March 2019	1,254,305	29,645	465,317	2,897	39,958	9,887	1,802,009
The Revaluations / Impairments above:							
Revaluation increases/(decreases)	-30,703	-	-	-	-4,740	928	-34,515
Depreciation written out	4,749	-	-	-	279	-	5,028
Impairment losses/(reversals)	-4,789	-	-	-	-1,145	-	-5,934
	<b>-30,743</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-5,606</b>	<b>928</b>	<b>-35,421</b>
Are recognised as follows:							
Revaluation / depreciation in the Revaluation Reserve	-7,158	-	-	-	-3,723	938	-9,943
Revaluation / depreciation in the Surplus/Deficit on the Provision of Services	-18,795	-	-	-	-739	-10	-19,544
Impairment losses in the Revaluation Reserve	-2,439	-	-	-	-546	-	-2,985
Impairment losses in the Surplus/Deficit on the Provision of Services	-2,351	-	-	-	-598	-	-2,949
	<b>-30,743</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-5,606</b>	<b>928</b>	<b>-35,421</b>

## Depreciation

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

- 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 of up to 25 years
- Infrastructure – 40 years
- Surplus Assets – Buildings up to 50 years, Land not depreciated

## Revaluations

Valuations as at 1 April 2020 have been carried out by RICS Chartered Surveyors and Registered Valuers under the direction and supervision of the Head of Corporate Property and Land. The valuations covered a range of assets, but focussed on assets in the Regeneration, Economy and Growth service grouping, under the rolling programme whereby 20% of assets are valued each year. This provides a full revaluation every five years, in line with statutory requirements. Surplus Properties, Investment Properties and Assets Held for Sale were also subject to their annual revaluation as at 1 April 2020.

The significant assumptions applied in estimating the values are:

- Depreciated Replacement Cost (DRC) method has been used where the asset is used by the council to deliver services, but the property is of a specialist nature in that there is little or no market evidence to support value;
- Existing Use Value has been used where the asset is used by the council to deliver services but is not specialised and there is market evidence to support value;
- the condition and state of repair of the assets is acceptable for the purpose for which they are used. Given that the council has a regular maintenance programme for its assets, there will be no significant deterioration within the estimated life expectancy of each asset;
- the council has good title to each asset with no adverse or restrictive covenants which could affect the use or the asset;
- the assets are fit for the purpose for which they are used and will continue to remain so physically, complying with fire, health and safety or any other statutory regulation;
- the current use will continue for the foreseeable future and the use will remain viable;
- the existing use has planning permission;
- the assets are not affected by any ground conditions / stability or contamination which would materially prejudice the valuation;
- the assets are free from contamination and deleterious or hazardous substances;
- no allowance has been made for taxation, acquisition, realisation or disposal costs or other expenses;

- the assets provided by PFI contracts will be effectively maintained by the contractor up to the end of the contract with each being fit for purpose; and
- an assumption that the transaction takes place in the principle market, or in the absence of the principle market, the most advantageous market for the asset is used for assets valued at fair value.

An annual review of market conditions was undertaken by the council's valuer at 31 March 2021, to ensure that the value of assets was not materially misstated. The conclusion was that changes in market conditions during the year meant that the value of some assets had changed significantly. It was decided that for all assets on these sites it was appropriate to carry out a full revaluation. Other assets, where valuation changes were minimal, were left unchanged.

In total in 2020/21, the council revalued £252m of its land and buildings, community and surplus assets and assets held for sale, equal to 20% of the £1,246m gross value for these asset categories. For the remaining £994m there were revaluations in 2019/20 (£78m or 6%), 2018/19 (£716m or 57%), 2017/18 (£39m or 3%) and 2016/17 (£95m or 8%), with £66m (5%) being valued at historic cost.

All of the revaluations made were undertaken under challenging circumstances, where the economic conditions that existed as a result of actions taken to address the COVID-19 pandemic meant that comparable evidence was limited and a basis for significantly changing values was not available. The valuer's opinion is that over the next twelve months it is foreseeable that the economy will suffer a shock as the effects of the actions taken during the pandemic unwind and they anticipate that when this happens there will be a significant and unprecedented impact on all sectors of the property market. Other factors anticipated to affect values are the Government Green Agenda and changes as a result of revised post-Brexit trading arrangements. We will therefore monitor all sectors and fully analyse the impact on the council's assets as reliable evidence emerges.

### **Surplus Property**

The council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Inputs to the valuation techniques are categorised within the fair value hierarchy, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets;
- Level 2: inputs other than those in Level 1 that are observable, directly or indirectly; and
- Level 3: unobservable inputs.

When the fair values cannot be measured based on quoted prices in active markets for identical properties (i.e. Level 1 inputs), their fair value is measured using valuation techniques (e.g. quoted prices for similar properties or the discounted cash flow model). Where possible, the inputs to these valuation techniques are based on observable data but where this is not possible judgement is required in establishing fair values. These

judgements typically include considerations such as uncertainty and risk. However, changes in the assumptions used could affect the fair value of the council's assets.

The fair value for the above properties at 31 March 2021 (£37.881m) has been based on the market approach using current market conditions and recent sales prices and other relevant information for similar assets in the local area. Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs are significant, leading to the properties being categorised at Level 2 in the fair value hierarchy.

### **Capital Commitments**

At 31 March 2021 the council had entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment that were budgeted to cost £48.279 million in future years. Similar commitments at 31 March 2020 were £65.828 million. The commitments at 31 March 2021 are:

• New Council Headquarters	£16.303m
• Durham History Centre	£14.438m
• Digital Durham	£8.892m
• New Elvet Bridge	£3.680m
• Bowburn Primary	£1.215m
• Horden (Peterlee) Rail Station	£1.195m
• Jade Business Park Factory Build	£1.009m
• Green Homes Phase 1A	£0.993m
• Social Services Information Database (SSID) Replacement	£0.555m

## 15. Heritage Assets

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

	Museum Collection and Artefacts £000	Artwork, Public Art and Sculptures £000	Monuments, Statues and Historic Buildings £000	Civic Regalia and Silverware £000	Total Assets £000
<b>Cost or valuation</b>					
At 1 April 2020	8,961	659	3,353	1,158	14,131
Additions	-	-	56	-	56
Revaluations	84	-	-	-	84
Assets reclassified from / -to Property Plant and Equipment	-	-	903	-	903
<b>At 31 March 2021</b>	<b>9,045</b>	<b>659</b>	<b>4,312</b>	<b>1,158</b>	<b>15,174</b>
<b>Cost or valuation</b>					
At 1 April 2019	8,961	659	4,116	1,158	14,894
Additions	-	-	122	-	122
Depreciation	-	-	2	-	2
Assets reclassified from / -to Property Plant and Equipment	-	-	-887	-	-887
<b>At 31 March 2020</b>	<b>8,961</b>	<b>659</b>	<b>3,353</b>	<b>1,158</b>	<b>14,131</b>

### 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.

## 16. Investment Properties

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

2019-20 £000		2020-21 £000
-2,160	Rental Income from Investment Property	-2,226
-	Direct Operating Expenses arising from Investment property	-
<u>-2,160</u>	<b>Net (-) Gain / Loss</b>	<u>-2,226</u>

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

2019-20 £000		2020-21 £000
6,442	Balance at start of the year	6,252
	Additions:	
-	Enhancements	-
-	Revaluations	1,618
-	Disposals	-
-190	Net gains / (-) losses from fair value adjustments	-1,812
	Transfers:	
-	(-)To / from Property, Plant and Equipment	112
<u>6,252</u>	<b>Balance at end of the year</b>	<u>6,170</u>

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.

The fair value for the above properties at 31 March 2021 (£6.170m) has been based on the market approach using current market conditions and recent sales prices and other relevant information for similar assets in the local area. Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs are significant, leading to the properties being categorised at Level 2 in the fair value hierarchy.

## 17. Financial Instruments

### Categories of Financial Instruments – 2020/21

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

#### Financial Assets

A financial asset is a right to future economic benefits controlled by the council that is represented by cash, equity instruments or a contractual right to receive cash or other financial assets or a right to exchange financial assets and liabilities with another entity that is potentially favourable to the council.

The financial assets held by the council during the year are accounted for under the following three classifications:

- Financial assets held at amortised cost - these are assets where cash payments are receivable on specified dates. The amount in the Balance Sheet represents the outstanding balance owed (which for a loan will include principal and accrued interest receivable) net of a loss allowance reflecting the likelihood that the borrower or debtor will be unable to meet their contractual commitments to the council.
- Fair Value Through Other Comprehensive Income (FVOCI) – these assets are measured and carried at fair value. All gains and losses due to changes in fair value are accounted for through the Financial Instruments Revaluation Reserve.
- Fair Value Through Profit and Loss (FVTPL). These assets are measured and carried at fair value. All gains and losses due to changes in fair value are recognised in the CIES as they occur.

In addition, to balance to asset and liability totals in the balance sheet, these notes include the value of financial assets that the council considers are outside the scope of the above classes. These include capital transactions that are covered by Statutory Regulations, the Local Authorities(Capital Finance and Accounting) (England) Regulations 2003 S25 and also tax-based debtors.

#### Financial Liabilities

A financial liability is an obligation to transfer economic benefits controlled by the council and can be represented by a contractual obligation to deliver cash or financial assets or an obligation to exchange financial assets and liabilities with another entity that is potentially unfavourable to the council. The majority of the council's financial liabilities held during the year are measured at amortised cost, while others are tax based creditors that are considered outside of the scope.

The values for financial instruments carried in the Balance Sheet are as follows:

## Financial Assets

	Long-term				Current				Total	
	Investments		Debtors		Investments		Debtors			
	31 March 2020	31 March 2021	31 March 2020	31 March 2021	31 March 2020	31 March 2021	31 March 2020	31 March 2021	31 March 2020	31 March 2021
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Fair value through profit or loss	-	-	-	-	-	-	-	-	-	-
Amortised cost	29,677	20,402	11,757	14,729	204,955	252,523	77,566	89,801	323,955	377,455
Fair value through other comprehensive income - designated equity instruments	7,272	7,818	-	-	-	-	-	-	7,272	7,818
<b>Total financial assets</b>	<b>36,949</b>	<b>28,220</b>	<b>11,757</b>	<b>14,729</b>	<b>204,955</b>	<b>252,523</b>	<b>77,566</b>	<b>89,801</b>	<b>331,227</b>	<b>385,273</b>
Outside of the Scope	3,949	4,404	3,751	5,438	-	-	26,034	15,619	33,734	25,461
<b>Total</b>	<b>40,898</b>	<b>32,624</b>	<b>15,508</b>	<b>20,167</b>	<b>204,955</b>	<b>252,523</b>	<b>103,600</b>	<b>105,420</b>	<b>364,961</b>	<b>410,734</b>

The current investments include cash and cash equivalent balances.

## Financial Liabilities

	Long-term				Current				Total	
	Borrowings		Creditors		Borrowings		Creditors			
	31 March 2020	31 March 2021	31 March 2020	31 March 2021	31 March 2020	31 March 2021	31 March 2020	31 March 2021	31 March 2020	31 March 2021
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Amortised cost	-348,963	-363,643	-74,172	-74,598	-13,392	-3,461	-76,736	-139,245	-513,263	-580,947
<b>Total financial liabilities</b>	<b>-348,963</b>	<b>-363,643</b>	<b>-74,172</b>	<b>-74,598</b>	<b>-13,392</b>	<b>-3,461</b>	<b>-76,736</b>	<b>-139,245</b>	<b>-513,263</b>	<b>-580,947</b>
Outside of the Scope	-	-	-	-	-	-	-52,346	-31,407	-52,346	-31,407
<b>Total</b>	<b>-348,963</b>	<b>-363,643</b>	<b>-74,172</b>	<b>-74,598</b>	<b>-13,392</b>	<b>-3,461</b>	<b>-129,082</b>	<b>-170,652</b>	<b>-565,609</b>	<b>-612,354</b>

## Soft Loans

The council can sometimes make loans at less than market rates, where a service objective justifies making a concession (soft loans). 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.

## 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:

	2019-20		2020-21	
	Restated			
	Surplus or deficit on the provision of services £000	Other comprehensive income and expenditure £000	Surplus or deficit on the provision of services £000	Other comprehensive income and expenditure £000
Net gains / losses on:				
Financial assets measured at amortised cost	1,568	-	16,949	-
Investments in equity instruments designated at fair value through other comprehensive income	-	3,538	-	-546
<b>Total net gains/losses</b>	<b>1,568</b>	<b>3,538</b>	<b>16,949</b>	<b>-546</b>
<b>Interest revenue</b>	<b>-3,696</b>	<b>-</b>	<b>-3,050</b>	<b>-</b>
<b>Interest expense</b>	<b>16,719</b>	<b>-</b>	<b>16,949</b>	<b>-</b>

The 2019/20 balance for losses on financial assets measured at amortised cost has been re-stated to include expected credit losses for past advances to care providers

2019/20 net gains and losses have also been amended to include losses from investments in equity instruments designated at FVOCI.

## Fair Value of Financial Assets and Financial Liabilities

### Fair Value Through Profit or Loss

The council has no assets that fall in this category. This follows a decision to reclassify a number of its investments in equity instruments, that fall under the definition of Fair Value Through Profit or Loss, as Fair Value through Other Comprehensive Income as these investments are held for strategic economic development purposes and not for trading. This decision protects council taxpayers from any future movements in the value of these shareholdings until such time as the shares are sold or released.

**Amortised Cost**

These are carried at cost as this is a fair approximation of their value, as reflected in the following table:

<b>31 March 2020</b>			<b>31 March 2021</b>	
Carrying Amount	Fair Value		Carrying Amount	Fair Value
£000	£000		£000	£000
184,737	184,737	Short term investments	212,397	212,397
29,677	29,677	Long term investments	20,402	20,402
77,566	77,566	Short term debtors	89,801	89,801
11,757	11,757	Long term debtors	14,729	14,729
<b>303,737</b>	<b>303,737</b>	<b>Total Investments and Debtors</b>	<b>337,329</b>	<b>337,329</b>

The short term investments included here exclude cash and cash equivalents that are detailed in Note 21.

**Fair Value Through Other Comprehensive Income**

<b>31 March 2020</b>	<b>Recurring fair value measurements</b>	<b>Input level in fair value hierarchy</b>	<b>Valuation technique used to measure fair value</b>	<b>31 March 2021</b>
£000				£000
7,120	Newcastle International Airport Ltd	Level 3	Inputs other than quoted prices in active markets that are observable for the asset	7,666
-	Durham Tees Valley Airport Ltd	Level 3		-
152	Atom Bank	Level 3		152
<b>7,272</b>	<b>Total</b>			<b>7,818</b>

These are investments in equity instruments that the council elected to treat as Fair Value Through Other Comprehensive Income rather than Fair Value Through Profit or Loss at the inception of the IFRS 9 Financial Instruments accounting standard on 1st April 2018.

The reason for this election was that the investments are held for strategic economic development purposes rather than trading. This decision protects council taxpayers from movements in the value of these shareholdings until such time as the shares are sold or released.

The shares in these companies are not traded in an active market and the total fair value of £7.818m has been calculated using valuation techniques that are not based on observable current market transactions or available market data.

No dividend was received for the year ended 31 December 2020 (£0.620m was received for the year ended 31 December 2019).

### Financial Liabilities

Financial liabilities are carried on the balance sheet at amortised cost (in long term liabilities with accrued interest in current 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 (level 2), using the following assumptions:

- For all loans, new borrowing rates from the PWLB have been applied to provide the fair value under PWLB debt redemption procedures;
- 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.

Values have been calculated using a financial model provided by Link Asset Services. This valuation applies the net present value approach, which provides an estimate of the value of payments in the future in today's terms as at the balance sheet date. This is a widely accepted valuation technique commonly used by the public sector. Our accounting policy uses new borrowing rates to discount the future cash flows.

The fair values calculated are as follows:

31 March 2020			31 March 2021	
Carrying Amount	Fair Value		Carrying Amount	Fair Value
£000	£000		£000	£000
-288,974	-308,146	PWLB borrowing	-278,972	-313,214
-69,605	-91,090	Non-PWLB borrowing	-84,447	-114,167
-71,072	-71,072	Short term creditors	-132,845	-132,845
-4,605	-4,605	Short term finance lease liability	-5,186	-5,186
-38,060	-38,060	Long term finance lease liability	-39,702	-39,702
-37,170	-37,170	PFI liability	-36,111	-36,111
<b>-509,486</b>	<b>-550,142</b>	<b>Total Liabilities</b>	<b>-577,263</b>	<b>-641,225</b>

Although the balance sheet values for the above balances include interest accrued for borrowing, the carrying amounts shown above exclude these amounts.

If the council were to seek to avoid the projected loss by repaying the loans to the PWLB, the PWLB would raise a penalty charge for early redemption in addition to charging a

premium for the additional interest that will not now be paid. The exit price for the PWLB loans including the penalty charge would be £358.927m at 31 March 2021.

### **Transfers between Levels of the Fair Value Hierarchy**

There were no transfers between input levels in the fair value hierarchy during the year.

## **18. Nature and Extent of Risks Arising from Financial Instruments**

The council's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by a central treasury team, under policies approved by the council in the annual treasury management strategy. The council provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk and the investment of surplus cash.

The council's activities expose it to a variety of financial risks, including:

- 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
- refinancing and maturity risk – the possibility that the council might be required to renew a financial instrument on maturity at disadvantageous rates or terms
- market risk – the possibility that financial loss may arise for the council as a result of changes in such measures as interest rates and stock market movements.

### **Credit Risk**

Credit risk arises from deposits with banks and financial institutions and 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 minimum credit ratings from the three major credit ratings agencies. The Annual Investment Strategy also imposes a maximum sum to be invested with a financial institution located within each rating category and country.

Risk also arises from loans to local businesses, in order to encourage regeneration and economic development in the area. Any new investments are only agreed after significant due diligence checks have been carried out and is agreed through the Annual Investment Strategy, which is contained within the council's approved Treasury Management Strategy.

## Amounts Arising from Expected Credit Losses

An Expected Credit Loss (ECL) is the probability-weighted estimate of credit losses (i.e., the present value of all cash shortfalls) over the expected life of a Financial Instrument. An assessment of these losses must be made at each balance sheet date and these are shown as Impairment Losses in the Income, Expense, Gains and Losses table. The council recognises that the Covid 19 pandemic has the potential to affect future losses and has made an assessment of the potential impact. The council's conclusion is that one of its loans, to Newcastle International Airport Limited, is likely to be subject to a loss as a result of the pandemic and this is detailed below.

For the council's treasury management investments with banks and financial institutions the council's treasury management advisors provided a credit risk assessment that helped in determining whether credit risk had increased since the investments were initially recognised. Based on this assessment a loss allowance for each investment has been recalculated as at 31 March 2021. The result is that the calculated provision required at 31 March 2021 has increased to £0.042m (£0.037m at 31 March 2020).

A summary of the credit quality of the council's investments at 31 March 2021 is shown as follows:

	Lowest long term rating	Balance at 31 March 2021	Historical rate of default	Estimated maximum exposure to default at 31 March 2021
		£000	%	£000
<b>Deposits with banks and financial institutions</b>				
Local Authorities	AA	65,595	0.00	-
Banks (less than 1 year)	AA	43,708	0.02	-
Banks (less than 1 year)	A+	92,708	0.05	29
Banks (less than 1 year)	A	-	0.05	-
Banks (less than 1 year)	A-	21,865	0.05	4
Building Societies (less than 1 year)	A	30,611	0.05	7
Building Societies (less than 1 year)	A-	21,865	0.05	1
		<u>276,352</u>		<u>42</u>

The councils maximum exposure to credit loss from these deposits is the full balance at 31 March 2021.

Other loans are generally issued to subsidiaries and joint ventures so are all low credit risk arrangements by nature. Each of the bodies to which loans have been issued have been considered to assess their ongoing financial stability and viability. Consideration has been given to whether there has been any late payment against contractual cashflows as well

as looking at the current financial position of each organisation. An assessment of the likelihood of default within the next twelve months has been determined for each loan.

The only loan against which a loss has been calculated is the loan to Newcastle International Airport Limited. This is a loan for £9.385m which is the council's maximum exposure to credit loss against the loan. Due to major curtailments in the airport's operations as a result of the Covid-19 pandemic the council has agreed to modify the terms of these loans and has accepted that under the unprecedented circumstances the airport can defer interest repayments for the following three and a half years (two years had been agreed at the end of 2019/20) with catch up payments to be made in instalments over a later period. Under the loan agreement the council is entitled to compound interest for any late payments and this has been factored into the repayments the airport will make once the catch up payments commence. This has resulted in a further restatement of the loan value with a cumulative modification loss of £0.804m (£0.796m in 2019/20) being recognised. Furthermore, the council looked at several observable factors regarding the robustness of the airport operations going forward and has calculated an expected lifetime loss provision of £0.180m (£0.118m in 2019/20) in the event all repayments are not made or are further delayed at some time in the future.

The council has previously provided cash flow support to care providers to enable them to continue providing their services to the council. An assessment of the likelihood that these payments will not be repaid has been made and a loss provision of £0.198m has been made (£0.654m in 2019/20)

The council does not generally allow credit for customers, although £17.889m of the £33.604m balance of Other Debtors (Note 20) is past its due date for payment and the council has made an impairment allowance totalling £7.539m to allow for expected credit losses. The balance that is past its due date for payment can be analysed by age as follows:

31 March 2020		31 March 2021	
£000		£000	
15,840	Less than three months	7,740	
2,299	Between three and six months	2,718	
1,494	Between six months and one year	2,932	
3,490	More than one year	4,499	
<u>23,123</u>	<b>Total</b>	<u>17,889</u>	

For other financial instruments, whose carrying amount best represents the maximum exposure to credit risk, no expected credit losses have been calculated.

---

## **Collateral and Other Credit Enhancements**

The council holds legal charges on properties where clients require the assistance of social services but cannot afford to pay immediately. The total collateral at 31 March 2021 was £2.223m (£2.628m at 31 March 2020).

## **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.

## **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 2020 (restated) £000		31 March 2021 £000
13,393	Less than one year	3,461
207	Between one and two years	10,373
63,182	Between two and five years	53,691
40,960	Between five and ten years	91,903
55,408	Between ten and fifteen years	6,348
1,515	Between fifteen and twenty years	2,686
4,734	Between twenty and twenty five years	6,078
182,956	More than twenty five years	192,564
<u>362,355</u>	<b>Total Short and Long Term Borrowing</b>	<u>367,104</u>

The total liability at 31 March 2020 is unchanged but the amounts shown for individual periods have been restated to more accurately reflect the timing of annuity loan repayments.

### 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 the council's assessment strategy, at 31 March 2021, if interest rates had been 1% higher with all other variables held constant, the financial effect would be a decrease of £59.044m 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.

As at 31 March 2021, the council has undertaken two forward borrowing deals with Phoenix Group:

- £15m: start date 13/08/2021, end date 13/08/2071, at 2.793%
- £10m: start date 15/02/2022, end date 15/02/2072, at 2.807%

## 19. Inventories

	Balance outstanding at start of year £000	Purchases £000	Recognised as an expense in the year £000	Balance outstanding at year-end £000
<b>Year to 31 March 2021</b>				
Consumable Stores	3,230	6,732	-5,534	4,428
Maintenance Materials	391	164	-155	400
Client Services Work in Progress	-	-	-	-
Rechargeable Works	484	651	-394	741
<b>Total</b>	<b>4,105</b>	<b>7,547</b>	<b>-6,083</b>	<b>5,569</b>
<b>Year to 31 March 2020</b>				
Consumable Stores	3,421	4,088	-4,279	3,230
Maintenance Materials	439	80	-128	391
Client Services Work in Progress	-	-	-	-
Rechargeable Works	750	484	-750	484
<b>Total</b>	<b>4,610</b>	<b>4,652</b>	<b>-5,157</b>	<b>4,105</b>

## 20. Short Term Debtors

<b>31 March 2020</b>			<b>31 March 2021</b>	
<b>£000</b>			<b>£000</b>	
52,634	Central government bodies		32,935	
3,728	Other local authorities		7,035	
3,197	NHS bodies		6,102	
	Other entities and individuals:			
22,766	Council Tax		30,956	
2,231	Non-Domestic Rates		4,275	
33,604	Other		47,546	
	Less Impairment Allowance:			
-16,134	Council Tax		-20,033	
-1,279	Non-Domestic Rates		-2,462	
-6,781	Other		-7,539	
<u>93,966</u>			<u>98,815</u>	
9,634	Payments in advance		6,605	
<u>103,600</u>	<b>Total Debtors</b>		<u>105,420</u>	

## 21. Cash and Cash Equivalents

2019-20		2020-21
£000		£000
457	Cash at bank	410
-2,601	Overdraft	-3,370
21,486	Cash held on demand (call accounts)	43,086
876	Deposits held for liquidity purposes	-
<u>20,218</u>	<b>Cash and Cash Equivalents balance</b>	<u>40,126</u>

## 22. Short Term Creditors

31 March 2020		31 March 2021
£000		£000
-30,294	Central government bodies	-60,474
-1,541	Other local authorities	-840
-1,038	NHS bodies	-951
	Other entities and individuals:	
-12,460	Accumulated Absences Account	-16,569
-5,664	Short term finance lease and PFI liabilities	-6,400
-3,647	Collection Fund prepayments	-4,128
-10,013	Section 106 agreements	-11,774
-4,889	Pension Fund	-5,442
-36,747	Other	-43,794
<u>-106,293</u>		<u>-150,372</u>
-22,788	Receipts in Advance	-20,280
<u>-129,081</u>	<b>Total Creditors</b>	<u>-170,652</u>

## 23. Provisions

Provisions are made where an event has taken place that gives the council a legal or constructive obligation that will probably require settlement by a transfer of economic benefits or service potential at some point in the future, and a reliable estimate can be made of the amount of the obligation. The estimated cost is charged as an expense to the appropriate service in the Comprehensive Income and Expenditure Statement in the year that the council becomes aware of the obligation. When payments are eventually made, they are charged to the provision in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year and any provisions which are no longer required are credited back to the relevant service line in the Comprehensive Income and Expenditure Statement.

The provisions at 31 March 2021 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. The following table sets out the movement on the insurance provision during 2020/21.

### **Equal Pay**

The council has outstanding equal pay complaints from existing and former staff who are seeking financial redress in respect of periods when unequal pay is alleged to have been paid. A significant number of grievances and claims have been settled in earlier years and agreements regarding the remaining cases are expected to be settled in 2021/22. These have therefore been included as a short-term provision in the balance sheet, as set out in the following table.

### **NDR Appeals**

Local authorities are liable for successful appeals against business rates charged to businesses. A provision has been recognised for the best estimate of the amount that will be successfully appealed in relation to 2020/21 and previous years. In general the estimate is calculated using the Analyse Local system designed specifically to forecast the effects of outstanding appeals and other threats to rateable values in local lists. The estimate has been calculated by applying historic trend analysis to open appeals lodged with the VOA relating to the 2010 list and historic estimates for likely appeals raised relating to the 2017 list. Whilst the settlement of these appeals is outside of the council's control, it is considered likely that 2010 list appeals will be settled within the next financial year and are therefore classified as a short-term provision.

The provision included in the following table represents the council's share of the provision held for successful appeals against business rates.

	Insurance £000	Equal Pay £000	NDR Appeals £000	Total £000
<b>Balance at 1 April 2020</b>	8,729	67	13,209	22,005
Additional provisions made in 2020/21	3,247	-	1,964	5,211
Amounts used in 2020/21	-1,053	-	-4,817	-5,870
Unused amounts reversed in 2020/21	-3,113	-	-	-3,113
<b>Balance at 31 March 2021</b>	<b>7,810</b>	<b>67</b>	<b>10,356</b>	<b>18,233</b>
<b>As shown in Balance Sheet</b>				
Long Term Provisions	5,844	-	7,748	13,592
Short Term Provisions	1,966	67	2,608	4,641
<b>Balance at 31 March 2021</b>	<b>7,810</b>	<b>67</b>	<b>10,356</b>	<b>18,233</b>

## 24. Usable Reserves

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

31 March 2020 £000		31 March 2021 £000
8	Usable Capital Receipts Reserve	8
23,950	General Fund Balance	26,153
216,840	Earmarked Reserves	280,830
<b>240,798</b>	<b>Total</b>	<b>306,991</b>

### Usable Capital Receipts Reserve

Proceeds of non-current assets' sales available to meet future capital investment.

### 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 10 and are resources set aside for future spending plans.

## 25. Unusable Reserves

31 March 2020		31 March 2021
£000		£000
635,727	Revaluation Reserve	593,414
6,994	Financial Instruments Revaluation Reserve	7,539
685,715	Capital Adjustment Account	708,047
-1,352	Financial Instruments Adjustment Account	-1,208
596	Deferred Capital Receipts	585
-12,460	Accumulated Absences Account	-16,569
-1,331,292	Pensions Reserve	-1,534,133
5,080	Collection Fund Adjustment Account	-26,012
-	DSG Deficit Adjustment Account	-8,047
<u>-10,992</u>	<b>Total</b>	<u>-276,384</u>

### 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.

2019-20		2020-21
£000		£000
678,992	<b>Balance at 1 April</b>	635,727
20,448	Upward revaluation of assets	59,957
-33,377	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	-46,241
<u>-12,929</u>	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	<u>13,716</u>
-22,624	Difference between fair value depreciation and historical cost depreciation	-19,584
-7,712	Accumulated gains on assets sold or scrapped	-36,445
<u>-30,336</u>	Amount written off to the Capital Adjustment Account	<u>-56,029</u>
<u>635,727</u>	<b>Balance at 31 March</b>	<u>593,414</u>

## Financial Instruments Revaluation Reserve

The Financial Instruments Revaluation Reserve contains the gains made by the council arising from increases in the value of its investments that are measured at fair value through other comprehensive income. 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.

2019-20 £000		2020-21 £000
10,532	<b>Balance at 1 April</b>	6,994
-3,538	Upward or downward revaluation of investments not credited to the Surplus/Deficit on the Provision of Services	545
<u>6,994</u>		<u>7,539</u>
-	Accumulated gains on assets sold and maturing assets written out to the Comprehensive Income and Expenditure Statement as part of Other Investment Income	-
<u><u>6,994</u></u>	<b>Balance at 31 March</b>	<u><u>7,539</u></u>

## 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 9 provides details of the source of all the transactions posted to the account, apart from those involving the Revaluation Reserve.

2019-20 £000		2020-21 £000
702,632	<b>Balance at 1 April</b>	685,715
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
-66,349	Charges for depreciation and impairment of non-current assets	-60,556
-19,378	Revaluation losses on Property, Plant and Equipment	-16,000
-1,192	Amortisation of intangible assets	-1,495
-13,722	Revenue expenditure funded from capital under statute	-16,839
-38,919	Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	-48,371
<u>-139,560</u>		<u>-143,261</u>
30,336	Adjusting amounts written out of the Revaluation Reserve	56,029
<u>-109,224</u>	Net written out amount of the cost of non-current assets consumed in the year	<u>-87,232</u>
	Capital financing applied in the year:	
10,471	Use of Capital Receipts Reserve to finance new capital expenditure	3,988
-4,830	Write down of capital loan repaid in year as a capital receipt	-280
49,032	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	53,420
14,071	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	14,824
23,753	Capital expenditure charged against the General Fund and HRA balances	39,424
<u>92,497</u>		<u>111,376</u>
<u>-190</u>	Movements in the fair value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	<u>-1,812</u>
<u>685,715</u>	<b>Balance at 31 March</b>	<u>708,047</u>

### Deferred Capital Receipts Reserve

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

2019-20 £000		2020-21 £000
943	<b>Balance at 1 April</b>	596
484	Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	493
-831	Transfer to the Capital Receipts Reserve upon receipt of cash	-504
<u>596</u>	<b>Balance at 31 March</b>	<u>585</u>

### 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.

Despite COVID-19 restrictions, employees were encouraged to continue to take annual leave during 2020/21. The number of days untaken leave that could be carried forward to be taken by the end of the following financial year i.e. 31 March 2022 was however increased. In line with working time regulations, all employees must have taken at least 28 days leave, including 8 days for bank holidays (pro-rata for part-time employees), meaning a maximum carry forward of 11 days (previously 5) for those entitled to 31 days leave in the year. This, along with a revised method of capturing outstanding leave as at 31 March has led to an increase in the accrual for 2020/21.

<b>2019-20</b>		<b>2020-21</b>
<b>£000</b>		<b>£000</b>
-10,641	<b>Balance at 1 April</b>	-12,460
10,641	Settlement or cancellation of accrual made at the end of the preceding year	12,460
-12,460	Amounts accrued at the end of the current year	-16,569
-1,819	Amount by which officer 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	-4,109
<u>-12,460</u>	<b>Balance at 31 March</b>	<u>-16,569</u>

### 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 43.

2019-20 £000		2020-21 £000
-1,246,687	<b>Balance at 1 April</b>	-1,331,291
-34,030	Remeasurements of the net defined benefit liability	-139,790
-473	Adjustment for previous year's difference between actuary's estimate and actual employers' pension contributions	-2,069
2,930	Net increase in assets from disposals / acquisitions	-
-6,190	Net increase in liabilities from disposals / acquisitions	-
-117,930	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	-125,670
71,089	Employer's pensions contributions and direct payments to pensioners payable in the year	64,687
<u>-1,331,291</u>	<b>Balance at 31 March</b>	<u>-1,534,133</u>

### Collection Fund Adjustment Account

The collection fund adjustment account manages the differences arising from the recognition of council tax and non domestic rates income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers and business rates payers compared with the statutory arrangements for paying across amounts to the General Fund from the collection fund.

2019-20 £000		2020-21 £000
2,767	<b>Balance at 1 April</b>	5,080
2,313	Amount by which council tax and non-domestic rates income credited to the CIES is different from council tax and non-domestic rates income calculated for the year in accordance with statutory requirements	-31,092
<u>5,080</u>	<b>Balance at 31 March</b>	<u>-26,012</u>

### Dedicated Schools Grant Adjustment Account

The Dedicated Schools Grant Adjustment Account statutorily ring-fenced unusable reserve required by School and Early Years Finance (England) Regulations 2020.

The regulations require that, where an authority has a deficit in respect of its schools budget for a financial year beginning on 1 April 2020, 1 April 2021 or 1 April 2022, the authority:

- a. must not charge to a revenue account an amount in respect of that deficit; and
- b. must charge the amount of the deficit, to an account established, charged and used solely for the purpose of recognising deficits in respect of its schools budget.

2019-20 £000		2020-21 £000
-	<b>Balance at 1 April</b>	-
-	Transfer of High Needs Block deficit balance at 1 April from Dedicated Schools Grant earmarked reserve	-5,726
-	<b>Restated Balance at 1 April</b>	-5,726
-	In year High Needs Block deficit	-2,321
-	<b>Balance at 31 March</b>	-8,047

## 26. Cash Flow Statement – Operating Activities

The cash flows for operating activities include the following items:

2019-20 £000 (restated)		2020-21 £000
18,287	Interest paid	17,221
-3,696	Interest received	-3,050
-620	Dividends received	-119

The interest paid for 19/20 has been restated reflecting Financial Instruments note 17

The surplus or deficit on the provision of services has been adjusted for the following non-cash movements:

2019-20 £000		2020-21 £000
-63,401	Depreciation	-60,514
-22,325	Impairment and downward revaluation	-17,854
-1,192	Amortisation	-1,495
1,819	Transfer to/from Accumulated Absences account	4,109
-147	Increase/decrease in the provision for bad debts	-757
-1,620	Increase/decrease in creditors	-24,526
24,933	Increase/decrease in debtors	5,476
-505	Increase/decrease in inventory	1,464
-46,841	Pension liability	-60,983
-38,919	Carrying amount of non-current assets sold	-48,371
39,964	Other non-cash items	-21,124
-108,234		-224,575

The surplus or deficit on the provision of services has been adjusted for the following items that are investing and financing activities:

2019-20 £000		2020-21 £000
4,813	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	3,697
4,813	<b>Net cash flows from investing activities</b>	3,697

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

<b>2019-20</b>		<b>2020-21</b>
<b>£000</b>		<b>£000</b>
94,353	Purchase of property, plant and equipment, investment property and intangible assets	98,415
393,123	Purchase of short-term (not considered to be cash equivalents) and long-term investments	297,128
6,267	Other payments for investing activities - external trading	4,045
-4,813	Proceeds from the sale of property, plant and equipment, non-current assets held for sale, investment property and intangible assets	-3,697
-406,109	Proceeds from short-term (not considered to be cash equivalents) and long-term investments	-278,288
-48,820	Other receipts from investing activities (inc. external trading)	-57,639
<u>34,001</u>	<b>Net cash flows from investing activities</b>	<u>59,964</u>

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

<b>2019-20</b>		<b>2020-21</b>
<b>£000</b>		<b>£000</b>
-60,000	Cash receipts of short-term and long-term borrowing	-15,063
-189	Other receipts from financing activities	67,221
6,696	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	7,031
12,025	Repayments of short-term and long-term borrowing	10,215
-	Other payments for financing activities	-
<u>-41,468</u>	<b>Net cash flows from financing activities</b>	<u>69,404</u>

**29. Reconciliation of liabilities arising from financing activities**

2020/21:

	<b>1 April</b>	<b>Financing</b>	<b>Changes which are not</b>		<b>31 March</b>
	<b>2020</b>	<b>cash flows</b>	<b>financing cash flows</b>		<b>2021</b>
			<b>Acquisition</b>	<b>Other</b>	
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Long term borrowings	-371,210	-15,063	-	-	-386,273
Short term borrowings	8,918	10,215	-	-	19,133
Lease liabilities	-42,665	5,973	-6,577	-1,618	-44,887
On balance sheet PFI liabilities	-37,172	1,058	-	-	-36,114
Total liabilities from financing activities	<u>-442,129</u>	<u>2,183</u>	<u>-6,577</u>	<u>-1,618</u>	<u>-448,141</u>

2019/20:

	1 April 2019	Financing cash flows	Changes which are not financing cash flows		31 March 2020
			Acquisition	Other	
	£000	£000	£000	£000	£000
Long term borrowings	-311,210	-60,000	-	-	-371,210
Short term borrowings	-3,107	12,025	-	-	8,918
Lease liabilities	-42,711	5,685	-5,639	-	-42,665
On balance sheet PFI liabilities	-38,183	1,011	-	-	-37,172
Total liabilities from financing activities	-395,211	-41,279	-5,639	-	-442,129

### 30. Agency Services

The council provides a range of services to other bodies such as Durham Police, Crime and Victims' Commissioner, County Durham and Darlington Fire and Rescue Authority, Academies, 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 2020/21 £7.225m (£7.871m in 2019/20) was received for services including Finance, Information and Communications Technology, Human Resources, Legal Advice and Support, Inspections and Subject Reviews, Cleaning, Care Connect, Ground Maintenance and Crematorium Services.

The overall decrease in Agency Services from 2019/20 to 2020/21 is due to a decrease in services provided to Academies, Housing Associations (including Believe Housing), and Schools outside of Durham County Councils net off against an increase in services provided to the North East Combined Authority and other non-local authority bodies. The cost of providing these services is met by the income received.

Since the outbreak of COVID-19 the council has received a number of government grants where it has acted as an agent of the Government whereby it distributed funding to provide financial assistance to local businesses and individuals throughout the pandemic. The council acted as agent for the following government grants received in 2020/21, which were not included in the council's CIES as they were not awarded to the council:

- Test & Trace Support Payment Grant of £1.243m
- Infection Control Fund of £11.114m
- Rapid Testing Fund of £1.262m
- Business Support Funding of £163.302m

### 31. Members' Allowances

The council paid the following amounts to Members of the council during the year.

<b>2019-20</b>		<b>2020-21</b>
<b>£000</b>		<b>£000</b>
1,675	Basic Allowance	1,662
287	Special Responsibility Allowance	285
5	Broadband Allowance	5
61	Expenses	7
<b>2,028</b>	<b>Total</b>	<b>1,959</b>
		<b>1,959</b>

## 32. Officers' Remuneration

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

Name	Period	Salary, Fees	Expenses	Compensation	Pensions	Total
		and Allowances	Allowances	for Loss of Office	Contribution	
		£	£	£	£	£
Chief Executive - Terry Collins (01/04/20 - 31/12/20)	2020-21	151,307	-	-	-	151,307
	2019-20	196,343	-	-	-	196,343
Chief Executive (interim) - John Hewitt (01/01/21 - 31/03/21)	2020-21	50,436	-	-	9,331	59,766
Corporate Director - Resources (01/04/20 - 31/12/20)	2020-21	114,502	-	-	21,183	135,685
	2019-20	148,583	-	-	24,813	173,396
Corporate Director (interim) - Resources (01/01/21 - 31/03/21)	2020-21	38,167	-	-	7,061	45,228
Corporate Director - Children and Young Peoples Services	2020-21	152,669	-	-	26,851	179,520
	2019-20	148,171	-	-	13,806	161,977
Corporate Director - Adult and Health Services	2020-21	152,669	-	-	28,244	180,913
	2019-20	148,789	272	-	24,813	173,874
Corporate Director - Regeneration, Economy and Growth (01/04/20 - 21/06/20)	2020-21	37,146	-	-	6,872	44,018
	2019-20	160,965	184	-	26,881	188,030
Corporate Director - Regeneration, Economy and Growth (22/06/20 - 31/03/21)	2020-21	118,319	-	-	21,889	140,207
Corporate Director - Neighbourhood and Climate Change	2020-21	153,468	-	-	28,392	181,859
Director - Transformation and Partnerships * (01/04/19 - 06/12/19)	2020-21	-	-	-	-	-
	2019-20	121,297	-	112,895	14,522	248,715
Head of Legal and Democratic Services (Monitoring Officer)	2020-21	119,954	14	-	22,191	142,159
	2019-20	116,744	244	-	19,496	136,484

\* The post of Director of Transformation and Partnerships was deleted with voluntary redundancy of the postholder

Payments to council employees receiving more than £50,000 remuneration in year (excluding employer's pension contributions) are set out in the following table (which excludes details of the senior employees, shown in the previous table).

The 'Other Staff' column in the table includes employees which provide educational support services within schools. Of the 216 'Other Staff' in 2020/21 there are no

employees paid on Leadership Teacher grades and 39 employees paid on Soulbury grades. The costs associated with providing the educational support services are recovered through Service Level Agreements from schools within County Durham and also a number of schools outside of the Durham area.

Remuneration band	2019-20 Number of Employees			2020-21 Number of Employees		
	School Staff	Other Staff	Total	School Staff	Other Staff	Total
£50,000 - £54,999	128	47	175	119	55	174
£55,000 - £59,999	91	55	146	76	55	131
£60,000 - £64,999	68	49	117	55	35	90
£65,000 - £69,999	37	6	43	55	34	89
£70,000 - £74,999	25	5	30	23	6	29
£75,000 - £79,999	8	4	12	7	1	8
£80,000 - £84,999	5	8	13	4	8	12
£85,000 - £89,999	3	2	5	4	-	4
£90,000 - £94,999	2	6	8	3	1	4
£95,000 - £99,999	2	2	4	2	3	5
£100,000 - £104,999	-	5	5	2	4	6
£105,000 - £109,999	1	1	2	-	4	4
£110,000 - £114,999	2	1	3	2	1	3
£115,000 - £119,999	-	8	8	1	4	5
£120,000 - £124,999	-	-	-	-	4	4
£125,000 - £129,999	-	-	-	-	-	-
£130,000 - £134,999	-	1	1	-	-	-
£135,000 - £139,999	1	2	3	-	1	1
	<u>373</u>	<u>202</u>	<u>575</u>	<u>353</u>	<u>216</u>	<u>569</u>

The cost of exit packages comprises 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.

The following table sets out the number and total cost of exit packages by type and cost band:

Exit package cost band (including special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band	
	2019-20	2020-21	2019-20	2020-21	2019-20	2020-21	2019-20 £000	2020-21 £000
£0 - £20,000	7	-	32	3	39	3	387	37
£20,001 - £40,000	2	-	28	5	30	5	871	149
£40,001 - £60,000	1	-	14	-	15	-	704	-
£60,001 - £80,000	-	-	14	-	14	-	870	-
£80,001 - £100,000	-	-	6	-	6	-	621	-
£100,001 - £150,000	-	-	5	2	5	2	570	277
£150,001 - £250,000	-	-	-	-	-	-	-	-
<b>Total</b>	10	-	99	10	109	10	4,023	463

### 33. 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 2020/21, and up to 2022/23, is Mazars LLP.

2019-20 £000	2020-21 £000
193 Fees payable with regard to external audit services carried out by the appointed auditor for the year	193
- Fees payable in the year for the certification of grant claims and returns by the appointed auditor for Public Sector Appointments Ltd (PSAA)	-
28 Fees payable in the year for other services carried out by the appointed auditor not on behalf of PSAA	28
<b>221 Total</b>	<b>221</b>

### 34. 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 and Early Years (England) Regulations 2018. 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 2020/21 are as follows:

	<b>Central Expenditure £000</b>	<b>ISB £000</b>	<b>Total £000</b>
A Final DSG for 2020/21 before Academy Recoupment			415,918
B Academy figure recouped for 2020/21			-140,099
C Total DSG after Academy Recoupment for 2020/21			275,819
Plus			
D Brought forward from 2019/20			-3,806
Less			
E Carry forward to 2020/21 agreed in advance			-
F Agreed initial budgeted distribution in 2020/21	59,200	212,813	272,013
G In year adjustments	-	-487	-487
H Final budgeted distribution for 2020/21	59,200	212,326	271,526
Less			
I Actual central expenditure	-64,932		-64,932
Less			
J Actual ISB deployed to schools		212,802	212,802
Plus			
K Local authority contribution for 2020/21	-	-	-
L Carry forward to 2021/22	-5,732	-476	-6,208
Plus			
M Carry forward to 2021/22 agreed in advance			-
N Carry forward to 2021/22			-6,208

- A Final DSG figure before any amount has been recouped from the council, excluding the January 2021 early years block adjustment.
- B Figure recouped from the council in 2020/21 by the DfE for the conversion of maintained schools into Academies.
- C Total figure after EFA Academy recoupment for 2020/21.
- D Figure brought forward from 2019/20 as agreed with the Department.
- E Any amount which the council decided after consultation with the Schools Forum to carry forward to 2021/22 rather than distribute in 2020/21 – this may be the difference between estimated and final DSG for 2020/21, or a figure (positive or negative) brought forward from 2019/20 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 2020/21.
- 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 2020/21 which will have the effect of substituting for DSG in funding the Schools Budget.
- L Carry forward to 2021/22:
- 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 2021/22 already agreed (E).
- M Carry forward to 2021/22 already agreed (E)
- N Carry forward on central expenditure (L) plus carry forward on ISB (L) plus/minus any carry forward to 2021/22 already agreed (E)

New provisions have been put into Regulation 8, paragraphs (7) and (8), and Schedule 2 Part 8 of the School and Early Years Finance (England) Regulations 2020, so that local authorities are required to carry forward overspends of DSG to their schools budget either in the year immediately following or the year after. They can apply to the secretary of state to disregard this requirement. In the case of the secretary of state giving such permission, this may be for all or part of the sum requested by a local authority, and permission may be given subject to conditions.

All of the deficit will be carried forward into the financial year following the new year, using Regulation 8(7)(c).

This reflects the statutory requirement that a deficit must be carried forward to be funded from future DSG income, unless the secretary of state authorises the local authority not to do this.

### 35. Grant Income

The council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement during the year.

2019-20 £000		2020-21 £000
	<b>Credited to Taxation and Non Specific Grant Income:</b>	
	Non Ring-fenced Government Grants:	
-27,621	Revenue Support Grant	-28,071
-71,613	Top Up Grant	-72,780
-11,348	Section 31 Grants	-36,600
-427	Levy Account Surplus Grant	-
-18,588	Covid 19 Support Grant	-27,082
-4,822	Social Care Support Grant	-17,651
-6,709	New Homes Bonus Scheme Grant	-7,564
-	CLG Sales Fees and Charges Grant	-8,890
-	Local Tax Income Guarantee Scheme - Council Tax	-1,224
-37,652	Capital Grants and Contributions	-42,225
<u>-178,780</u>		<u>-242,087</u>

**Grant and Contribution Income Credited to Services**

2019-20 £000		2020-21 £000
	<b>Credited to Services:</b>	
	<b>Covid-related Grants</b>	
-	Adult Social Care Infection Control Fund	-2,098
-	Business Support Funding	-23,293
-	Clinically Extremely Vulnerable	-1,697
-	Contain Outbreak Management Fund	-10,483
-	Coronavirus Job Retention Scheme (furlough)	-1,954
-	Council Tax Hardship Fund	-6,964
-	Covid Winter Grant Scheme	-2,523
-	Rapid Testing Fund	-387
-	Workforce Capacity Fund	-1,411
-		-50,810
	<b>Other Grants</b>	
-3,401	Additional Grant for Schools	-3,950
-1,165	Apprenticeship Levy digital account	-1,310
-1,268	Arts Council England - NE	-1,792
-29,034	Clinical Commissioning Groups-Better Care Fund	-30,515
-2,624	DCSF Grant	-3,273
-281,074	Dedicated Schools Grant (DSG)	-275,916
-800	DEFRA Grant	-2,139
-1,091	Department of Health Grant	-1,361
-1,170	Discretionary Housing Payment Grant	-1,513
-322	Durham Police, Crime and Victims' Commissioner	-305
-549	DWP New Burdens Grant	-342
-745	Education Authorities-other	-757
-8,128	Education Funding Agency	-9,508
-930	Educational Visits	-
-4,048	ERDF Grant	-4,435
-5,017	ESF Grant	-2,793
-5,353	General Contributions	-1,593
-795	Heritage Lottery Fund Grant	-764
-1,870	Home Office Grant - Syrian Vulnerable Persons	-1,127
-1,928	Housing Benefit - Admin Grant	-1,998
-129,699	Housing Benefit Grant - Rent Allowance	-118,483
-423	Housing Benefit Grant - Rent Rebate	-419
-29,959	Improved Better Care Fund	-29,959
-916	Local Council Tax Support Scheme Administration Grant	-917
-3,356	MHCLG Grant	-4,936
-11,599	NHS - Care Costs	-26,768
-3,190	NHS - Joint Arrangements	-4,591
-581	NNDR Cost of Collection Allowance	-575
-15,552	North East Combined Authority	-15,456
-977	Other Local Authorities	-1,382
-5,519	PFI Grants	-5,519
-47,412	Public Health Grant	-49,159
-19,644	Pupil Premium Grant	-18,945
-3,023	Skills Funding Agency	-2,911
-2,413	Teacher Pay Grant	-2,611
-4,860	Teacher Pension Grant	-7,784
-1,726	Think Family Grant	-1,720
-4,045	Universal Infant Free School Meals Grant	-3,905
-611	Youth Offending Teams Grant	-626
-6,379	Other Grants and Contributions	-11,329
-643,196		-653,386
-643,196		-704,196

## Capital Grants and Contributions Receipts 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 provider. The balances at the year end are as follows:

2019-20		Capital Grants and Contributions Receipts in Advance	2020-21	
Long Term £000	Short Term £000		Long Term £000	Short Term £000
-3,294	-	Broadband Delivery UK	-5,319	-591
-104	-	Darlington Borough Council	-	-104
-2,188	-354	Department for Transport	-1,450	-819
-	-	Department for Business Energy & Industrial Strategy	-3,380	-4,760
-	-50	Durham University	-	-
-	-149	Education & Skills Funding Agency	-	-369
-	-	Environment Agency	-	-300
-	-281	European Commission	-	-398
-108	-61	Gateshead Council	-	-169
-	-26	Groundwork North East	-	-31
-	-18	Heritage Lottery Fund	-	-
-	-26	Highways England	-	-30
-	-10	Historic England	-	-54
-	-	Homes England	-	-128
-281	-548	Home Loan Recycled Fund	-1,040	-
-	-	Local Government Association	-	-20
-63	-	Middlesbrough Council	-	-63
-	-746	Ministry of Housing, Communities and Local Govt	-	-1,104
-	-	North East Combined Authority	-	-662
-167	-71	North Tyneside Council	-	-91
-	-	Office for Low Emission Vehicles	-	-338
-170	-	Redcar and Cleveland Borough Council	-	-170
-57	-26	South Tyneside Council	-	-83
-	-156	Stockton Borough Council	-	-156
-	-58	Sunderland City Council	-	-
-	-	Sustrans	-	-300
-71	-135	Tees Valley Combined Authority	-	-207
-	-	Warm Homes Fund	-80	-65
-1	-7	Other	-50	-23
<u>-6,504</u>	<u>-2,722</u>	<b>Total Capital Grants and Contributions Receipts in Advance</b>	<u>-11,319</u>	<u>-11,035</u>

## 36. 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 2020/21 is shown in Note 31.

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 £0.157m in 2020/21 (£0.174m in 2019/20). 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 Citizens Advice Bureau (CAB) delivering advice services across the county, which received financial support to the value of £0.725m in 2020/21 (£0.767m in 2019/20)
- Groundwork North East, carrying out environmental works for which there were transactions of £0.688m in 2020/21 (£0.767m in 2019/20).
- Durham Community Action, formerly Durham Rural Community Council, providing support to communities throughout County Durham £0.193m in 2020/21 (£0.189m in 2019/20)
- Consett YMCA (Delta North) for work done with various schools £0.179m in 2020/21 (£0.449m in 2019/20)
- Durham Christian Partnership £0.147m in 2020/21 (£0.091m in 2019/20)
- Cornforth Partnership £0.193m in 2020/21 (£0.129m in 2019/20)
- Glebe Centre £nil in 2020/21 (£0.020m in 2019/20)
- Easington Regeneration Partnership £0.017m in 2020/21 (£0.010m in 2019/20)
- South Durham Enterprise Agency £0.255m in 2020/21 (£0.009m in 2019/20)
- Pelton Fell Community Partnership £0.009m in 2020/21 (£0.020m in 2019/20)

- Craghead Community Association £nil in 2020/21 (£0.026m in 2019/20)
- Arts Council £nil in 2020/21 (£0.005m in 2019/20)

During 2020/21, works and services to the value of £0.246m (£0.188m in 2019/20) 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:

Chief Officer	Related party declaration
Corporate Director of Resources (Interim)	Designated Section 73 Officer for North East Combined Authority

### Entities Controlled or Significantly Influenced by the Council

The Code of Practice requires local authorities to produce Group Accounts to reflect significant activities provided to council taxpayers by other organisations in which the council has an interest. The council has considered its interests in its subsidiaries, associates, joint ventures and other bodies, both quantitatively and qualitatively, and has concluded all entities are not considered to be material and therefore have not been consolidated into the Group Financial Statements.

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.

### Chapter Homes

Chapter Homes Durham Limited was established as a private company limited by shares on 10 August 2015 and is owned 100% by Durham County Council. The Company has been established as a trading company to develop council owned land for market housing sale and private market rent to generate revenue income, capital receipts and contribute to housing regeneration in County Durham.

The unaudited draft company accounts for the full year 2020/21 have been prepared. In 2020/21 Chapter Homes Durham Limited had turnover of £5.438m (£4.740m in 2019/20), made a profit before taxation of £0.456m (£0.454m in 2019/20) no taxation has yet been determined, no dividend was paid. Chapter Homes had net assets of £4.901m at 31 March 2021 (£4.076m at 31 March 2020).

During 2020/21 Durham County Council paid Chapter Homes £nil (2019/20 £1.359m) mainly due to a contribution towards S106 Affordable Housing instalments.

---

**Forrest Park (Newton Aycliffe) Limited**

This is a joint venture arrangement of which the council owns 51% of the share capital of the Company. The Company has been established to develop Forrest Park as a prime location for manufacturing, logistics and administration. The aims of the Company will be to develop the site and maximise economic benefits from the commercial developments. The Company was established on 31 March 2016. The unaudited draft company accounts for the full year 2020/21 have been prepared. In 2020/21 Forrest Park (Newton Aycliffe) Limited had profits of £0.945m before taxation (loss of £0.039m in 2019/20). The net assets of the company total £2.737m at 31 March 2021 (£1.964m at 31 March 2020).

**Durham Villages Regeneration Limited**

This is a joint venture arrangement of which the council has 50% of the voting rights of the Company and 49% of the share capital. The Company operates as a public-private partnership formed to regenerate communities. The Company's principal activities during the year were private house building and property development. The Company accounts for 2020/21 are not yet available, however the draft unaudited management accounts show at 31 March 2021 Durham Villages Regeneration Limited made an operating profit before taxation of £0.935m for 2020/21 (£1.335m for 2019/20) and estimated £0.757m for 2020/21 after taxation (£1.081m in 2019/20).

During 2020/21 Durham County Council received income of £0.119m (2019/20 £0.000m) due to receipts for the share of the surplus generated in the business.

**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 2021 are £3.433m (31 March 2020: £3.782m). Durham County Council is the administrative body and employing authority for the crematorium.

It should be noted that the Central Durham Crematorium Joint Committees Annual Governance and Accountability Return is still subject to limited assurance review and copies can be obtained from the Registered Office at County Hall, Durham, DH1 5UT, or alternatively accessed via the DCC website.

During 2020/21 Durham County Council received income of £0.510m (2019/20 £0.445m) due to receipts for the share of the surplus generated in the business.

**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 2021 are £0.908m (31 March

2020: £0.868m). Durham County Council is the administrative body and employing authority for the crematorium.

It should be noted that the Mountsett Crematorium Joint Committees Annual Governance and Accountability Return is still subject to limited assurance review and copies can be obtained from the Registered Office at County Hall, Durham, DH1 5UT, or alternatively accessed via the DCC website.

During 2020/21 Durham County Council received income of £0.228m (2019/20 £0.228m) due to receipts for the share of the surplus generated in the business.

### **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. The unaudited draft company accounts for the full year 2020/21 have been prepared. In 2020/21 Service Direct NewCo Limited had turnover of £1.169m (2019/20: £1.188m), £0.002m operating profits before taxation (£0.004m: 2019/20), no dividend was paid, and had net assets of £0.023m at 31 March 2021 (£0.022m at 31 March 2020).

### **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 16th 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. The council holds a 12.15% interest in NALAHCL, valued at £7.666m (£7.120m in 2019/20). 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 spread of Covid 19 towards the end of 2019/20 led to a sudden decline in air travel which resulted in the value of the shareholding being impaired. During 2020/21 air travel to and from the airport was significantly reduced and whilst a vaccine towards the virus has been developed the travel sector has yet to see any significant increases in passenger numbers. As a result, the majority of the impairment recognised last year has been retained. The shares have been revalued in year using a combination of the discounted cash flow of income method together with the guideline public company method of the market approach to derive a fair value measurement that complies with IFRS13 and IFRS9.

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 2020 (£0.620m was received for the year ended 31 December 2019).

Members of the LA7 entered into a loan agreement with NIAL Group Limited in 2012/13, issuing £67.665m shareholder loan notes (of which DCC shareholder loan notes share is £9.385m). The agreement stipulated that loan notes will be repayable in 2032 with interest being received up to that date on a six monthly basis.

Due to major curtailments in the airport's operations as a result of the Covid-19 pandemic the council has agreed to modify the terms of these loans and has accepted that under the unprecedented circumstances the airport can defer interest repayments for the following three and a half years (two years had been agreed at the end of 2019/20) with catch up payments to be made in instalments over a later period. Under the loan agreement the council is entitled to compound interest for any late payments and this has been factored into the repayments the airport will make once the catch up payments commence. This has resulted in a further restatement of the loan value with a cumulative modification loss of £0.804m (£0.796m in 2019/20) being recognised. The increase in loss recognised is charged to the financing and investment income and expenditure line of the CIES. Furthermore, the council looked at several observable factors regarding the robustness of the airport operations going forward resulting in an expected lifetime loss provision of £0.180m (£0.118m in 2019/20) in the event all repayments are not made or further delayed at some time in the future.

At 31 March 2021 the income from interest receivable was in arrears by £1.396m (£0.537m at 31 March 2020). Otherwise there are no outstanding balances owed to or from NIAL at the year end.

NIAL Group Limited made a loss before tax of £34.025m and a loss after tax of £31.835m for the year ended 31 December 2020. In the previous year, the Group made a profit before tax of £11.007m and a profit after tax of £7.502m.

### **Teesside International Airport Limited (Durham Tees Valley Airport Limited)**

The council holds 1.45% of the total shareholding in Teesside International Airport Limited. For the year ended 31 March 2020, Teesside International Airport Limited made a loss before taxation of £1.737m (loss of £5.725m for year ended 31 March 2019) and a loss of £4.291m after taxation (loss of £4.291m for year ended 31 March 2019). The Company accounts for 2020/21 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.

### **Durham County Cricket Club**

As at 31 March 2021 the council holds £3.160m (£3.439m at 31 March 2020) in redeemable preference shares in Durham Cricket Community Interest Company. This is on the condition that the company will repay the amount of share capital within the fixed period of 10 years from June 2017 or even earlier at the discretion of the company. The Company accounts for the year ended 30 September 2020 are not yet available. For the year ended 30 September 2019, the Company made a profit before tax of £0.140m and a profit after tax of £0.140m. In the previous year the Company made a loss before tax of £1.155m and a loss after tax of £1.136m.

### **Durham County Council Pension Fund**

Durham County Council administers the Durham County Council Pension Fund on behalf of 110 bodies, including borough, parish and town councils, colleges, academy schools, statutory bodies and admitted bodies. During 2020/21, the Pension Fund had an average balance of £43.377m (£38.895m in 2019/20) of surplus cash deposited with the council. In 2020/21 the council paid the fund a total of £0.061m (£0.319m in 2019/20) in interest on these deposits.

## **37. Capital Expenditure and Capital Financing**

The total amount of capital expenditure incurred in the year is shown in the following table (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.

<b>2019-20</b>		<b>2020-21</b>
<b>£000</b>		<b>£000</b>
457,660	<b>Opening Capital Financing Requirement</b>	476,095
	Capital investment:	
92,144	Property, Plant and Equipment	96,824
5,634	Property, Plant and Equipment - Finance Leases	8,195
122	Heritage Assets	56
1,865	Intangible Assets	2,139
1,970	Acquisition of share and loan capital	3,225
14,027	Revenue Expenditure Funded from Capital under Statute	16,840
	Sources of finance:	
-10,471	Capital receipts	-3,988
-49,032	Government grants and other contributions	-53,420
	Sums set aside from revenue:	
-23,753	- Direct revenue financing	-39,424
-14,071	- Minimum Revenue Provision	-14,824
476,095	<b>Closing Capital Financing Requirement</b>	491,718
	<b>Explanation of movements in year</b>	
12,801	Increase/(decrease) in underlying need to borrow (supported by government financial assistance)	9,046
-	Increase/(decrease) in underlying need to borrow (unsupported by government financial assistance)	
5,634	Assets acquired under finance leases	6,577
18,435	<b>Increase/(decrease) in Capital Financing Requirement</b>	15,623

## 38. 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:

(Restated)		
<b>31 March 2020</b>		<b>31 March 2021</b>
<b>£000</b>		<b>£000</b>
3,617	Other Land and Buildings	3,560
14,622	Vehicles, Plant, Furniture and Equipment	16,345
18,239		19,905

The balance for Other Land and Buildings at 31 March 2020 has been restated to include a hydro-turbine that has not been included previously.

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:

<b>31 March 2020</b>		<b>31 March 2021</b>
<b>£000</b>		<b>£000</b>
	Finance lease liabilities (net present value of minimum lease payments):	
4,605	Current	5,186
38,060	Non-Current	39,702
17,209	Finance costs payable in future years	16,993
<u>59,874</u>	<b>Minimum lease payments</b>	<u>61,881</u>

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

<b>31 March 2020</b>			<b>31 March 2021</b>		
Minimum Lease Payments <b>£000</b>	Finance Lease Liabilities <b>£000</b>		Minimum Lease Payments <b>£000</b>	Finance Lease Liabilities <b>£000</b>	
5,838	4,605	Not later than one year	6,440	5,186	
13,128	9,236	Later than one year and not later than five years	14,277	10,291	
40,908	28,824	Later than five years	41,164	29,411	
<u>59,874</u>	<u>42,665</u>		<u>61,881</u>	<u>44,888</u>	

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

The council has not sub-let any of the vehicles and equipment under finance leases, but it has sub-let properties at Freemans' Reach that were acquired under a finance lease. The total of future minimum sublease payments expected to be received under these leases was £21.789m at 31 March 2021 (£21.280m at 31 March 2020). This forms part of the balance in the table below showing operating lease income receivable where the council is the lessor.

The council is facilitating a major regeneration scheme in the centre of Durham City comprising a mixed use development of homes, offices, restaurants, shops, a cinema and hotel. The development is being delivered and funded by the private sector. The council is committed to taking a 35 year lease on practical completion of the development. In accordance with the council's accounting policy, assets held under finance leases are

recognised at the commencement of the lease, but this has not yet taken place. The lease will be recognised and accounted for when the lease is actually completed which is anticipated to be at the time of practical completion of the development in November 2022.

### *Operating Leases*

The council has acquired a number of operational land and building assets by entering into operating leases. The minimum lease payments due under non-cancellable leases in future years are:

<b>31 March 2020</b>		<b>31 March 2021</b>
<b>£000</b>		<b>£000</b>
2,478	Not later than one year	1,401
3,030	Later than one year and not later than five years	2,226
2,056	Later than five years	1,629
<u>7,564</u>		<u>5,256</u>

Other land and buildings acquired under operating leases have been sub-let. The following table sets out the expenditure and income in relation to these leases which has been charged against, and credited to, the cost of services line within the comprehensive income and expenditure statement.

<b>31 March 2020</b>		<b>31 March 2021</b>
<b>£000</b>		<b>£000</b>
1,086	Minimum lease payments	1,064
-3,331	Sublease payments receivable	-755
<u>-2,245</u>		<u>309</u>

## **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 childcare and community centres
- for economic development purposes to provide suitable affordable accommodation for local businesses
- for other purposes as the council determines as being beneficial to its interests.

The minimum lease payments receivable under non-cancellable leases in future years are:

<b>31 March 2020</b>		<b>31 March 2021</b>
<b>£000</b>		<b>£000</b>
6,156	Not later than one year	8,691
14,334	Later than one year and not later than five years	19,304
15,596	Later than five years	16,732
<u>36,086</u>		<u>44,727</u>

## **39. Private Finance Initiatives and Similar Contracts**

### **Schools**

In 2009/10, the council signed a Private Finance Initiative (PFI) 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.

Two of the schools have become Academies since the construction date. Shotton Hall School became an Academy on 1 February 2011 and Sedgefield Community College became an Academy on 1 March 2020. The council has granted the Academies lease of the land and buildings at a peppercorn rent for 125 years. The PFI contract remains with the council and the Academies have signed agreements with the council to cover the operation of the contract as it affects the Academies and the Academies' contributions to meeting the costs of the contract.

The assets associated with PFI schools that have transferred to academy status (Shotton Hall and Sedgefield Community College) are not reflected in the council's balance sheet as the assets were written out in 2010/11 and 2019/20 retrospectively.

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 2020 £000		31 March 2021 £000
23,547	Net book value at 1 April	4,117
69	Additions	25
-506	Depreciation	-83
-	Revaluations	-
-18,993	Disposals	-
<u>4,117</u>	Net book value at 31 March	<u>4,059</u>

In addition to the net book value of £4.059m 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 £0.483m and the total net value of land and buildings for these schools carried forward is £4.542m.

### 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 2020/21 are summarised as follows:

<b>31 March 2020</b> <b>£000</b>	<b>31 March 2021</b> <b>£000</b>
38,182 <b>Balance outstanding at start of year</b>	37,171
-1,011 Payments during the year	-1,060
<b>37,171 Balance outstanding at year-end</b>	<b>36,111</b>

### Estimates of Future Payments Due

	Payments for Services £000	Reimbursement of Capital Expenditure £000	Interest £000	Total £000
Payable in 2021-22	2,773	1,214	3,664	7,651
Payable within two to five years	11,588	6,510	13,236	31,334
Payable within six to ten years	17,290	11,452	12,214	40,956
Payable within eleven to fifteen years	18,749	16,935	5,379	41,063
Payable within sixteen to twenty years	-	-	-	-
<b>Total</b>	<b>50,400</b>	<b>36,111</b>	<b>34,493</b>	<b>121,004</b>

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

Other reasons why costs might vary 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 council recognised a cash lump sum gain of £2.881m from a re-financing exercise in 2018/19 and there are no plans for further re-financing at this stage.

## 40. Impairment and Revaluation Losses

The value of the council's assets has been reduced by £62.284m in 2020/21 (£57.324m in 2019/20), 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.

## 41. Termination Benefits

The council terminated the contracts of a number of employees in 2020/21. The value of the redundancy payments charged to services in 2020/21 was £0.735m and in 2019/20 was £3.439m. The following table analyses the payments made in the relevant financial years. The majority of the payments made in 2020/21 were due to the rationalisation of services within the council.

2019-20 (restated) £000		2020-21 £000
228	Adult and Health Services	144
76	Chief Executive's Office	57
1,282	Children and Young People's Services	289
64	Neighbourhoods and Climate Change	1
271	Regeneration, Economy and Growth	94
1,518	Resources	150
3,439		735

The 2019/20 comparative figures have been restated to reflect the current service structure. There is no net impact on the total cost of termination benefits.

In addition to the above redundancy payments, the pension enhancement value in 2020/21 was £0.731m and in 2019/20 was £1.821m.

## 42. 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 2020/21, the council paid £25.092m to the Teachers' Pensions Scheme in respect of teachers' retirement benefits, representing 23.68% of pensionable pay (£23.242m in 2019/20, representing 16.48% to 31 August 2019 and 23.68% from 1 September 2019).

There were no contributions remaining payable at the year-end. The contributions due to be paid in the next financial year are estimated to be £23.855m.

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 43.

### **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 2020/21, the council paid £0.067m to the NHS Pension scheme in respect of former NHS staff retirement benefits, representing 16.88% of pensionable pay (£0.063m or 16.88% in 2019/20). There were no contributions remaining payable at the year-end. The contributions due to be paid in the next financial year are estimated to be £0.075m.

## **43. 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 career average revalued earnings 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 of 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 six investment managers who are appointed by the committee to invest the Fund's assets in compliance with constraints imposed by the Fund's Investment Strategy Statement 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 council 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 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:

2019-20			2020-21	
Local Government Pension Scheme	Discretionary Benefits Arrangements		Local Government Pension Scheme	Discretionary Benefits Arrangements
£000	£000		£000	£000
<b>Comprehensive Income and Expenditure Statement</b>				
Cost of services:				
Service cost comprising:				
89,030	-	- Current service cost	107,830	-
-	-	- Past service cost (including curtailments)	1,500	-
-	-	- Settlement	-13,390	-
Financing and Investment Income and Expenditure:				
27,420	1,480	- Net interest on net defined benefit liability	28,430	1,300
116,450	1,480	Total Post Employment Benefits Charged to the Surplus or Deficit on the Provision of Services	124,370	1,300
Other Post Employment Benefits Charged to the Comprehensive Income and Expenditure Statement:				
Remeasurement of the net defined benefit liability comprising:				
157,990	-	- Return on plan assets (excluding the amount included in the net interest expense)	-425,220	-
-77,110	-440	- Actuarial gains and losses due to changes in financial assumptions	617,170	3,710
-92,010	-1,090	- Actuarial gains and losses due to changes in demographic assumptions	-	-
46,990	-300	- Actuarial gains and losses due to liability experience	-52,150	-3,720
152,310	-350	Total Post Employment Benefits Charged to the Comprehensive Income and Expenditure Statement	264,170	1,290
<b>Movement in Reserves Statement</b>				
-116,450	-1,480	Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post employment benefits in accordance with the Code	-124,370	-1,300
Actual amount charged against the General Fund Balance for pensions in the year:				
66,119	-	- Employer's contributions payable to the scheme	59,942	-
-	4,971	- Direct retirement benefits payable to pensioners	-	4,745

## 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:

2019-20			2020-21		
Funded Liabilities: Local Government Pension Scheme	Unfunded Liabilities: Discretionary Benefits Arrangements		Funded Liabilities: Local Government Pension Scheme	Unfunded Liabilities: Discretionary Benefits Arrangements	
£000	£000		£000	£000	
-3,098,380	-58,940	Present value of the defined benefit obligation	-3,736,780	-55,410	
1,823,960	-	Fair value of plan assets	2,278,630	-	
<u>-1,274,420</u>	<u>-58,940</u>	<b>Net liability arising from defined benefit obligation</b>	<u>-1,458,150</u>	<u>-55,410</u>	
2,179	-111	Difference between actuary's figures and actual contributions	-678	-74	
<u>-1,272,241</u>	<u>-59,051</u>	<b>Adjusted Total*</b>	<u>-1,458,828</u>	<u>-55,484</u>	

\* To produce a more accurate assessment of the council's IAS 19 liability, the adjusted total line shows the net liabilities per the actuary's figures adjusted for actual contributions made to the scheme.

In 2020/21 the net liability arising from defined benefit obligation has been reduced by £13.390m to recognise the transfer to academy status of a number of schools. This comprises a £8.960m reduction in assets and a £22.350m reduction in liabilities. In view of the significant value, this has been allowed for as a settlement event, with the reduction recognised in the Comprehensive Income and Expenditure Statement, in Corporate Costs.

In 2019/20, academy transfers led to an increase in net liability of £3.260m, comprising a £2.930m increase in assets and a £6.190m increase in liabilities. This was allowed for as a decrease of assets and liabilities, with no impact on the Comprehensive Income and Expenditure Statement.

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

2019-20			2020-21	
Funded Liabilities: Local Government Pension Scheme	Unfunded Liabilities: Discretionary Benefits Arrangements		Funded Liabilities: Local Government Pension Scheme	Unfunded Liabilities: Discretionary Benefits Arrangements
£000	£000		£000	£000
1,968,460	-	<b>Opening fair value of scheme assets</b>	1,823,960	-
46,850	-	Interest Income	36,530	-
-157,990	-	Remeasurement gain / loss (-)	420,620	-
45,310	5,080	Contributions from employer	80,440	4,820
15,640	-	Contributions from employees into the scheme	16,040	-
-97,240	-5,080	Benefits paid	-94,980	-4,820
2,930	-	Net increase in assets from disposals / acquisitions	-	-
-	-	Settlements	-8,960	-
<b>1,823,960</b>	<b>-</b>	<b>Closing fair value of scheme assets</b>	<b>2,273,650</b>	<b>-</b>

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

2019-20			2020-21	
Funded Liabilities: Local Government Pension Scheme	Unfunded Liabilities: Discretionary Benefits Arrangements		Funded Liabilities: Local Government Pension Scheme	Unfunded Liabilities: Discretionary Benefits Arrangements
£000	£000		£000	£000
3,132,620	64,370	<b>Opening balance at 1 April</b>	3,098,380	58,940
89,030	-	Current service cost	107,830	-
74,270	1,480	Interest cost	65,340	1,300
15,640	-	Contributions by scheme participants	16,040	-
		Remeasurement gains (-) and losses:		
-77,110	-440	Actuarial gains and losses due to changes in financial assumptions	617,170	3,710
-92,010	-1,090	Actuarial gains and losses due to changes in demographic assumptions	-	-
46,990	-300	Actuarial gains and losses due to liability experience	-52,150	-3,720
-	-	Past service cost (including curtailments)	1,500	-
-97,240	-5,080	Benefits paid	-94,980	-4,820
6,190	-	Net increase in liabilities from disposals / acquisitions	-	-
-	-	Settlements	-22,350	-
<b>3,098,380</b>	<b>58,940</b>	<b>Closing balance at 31 March</b>	<b>3,736,780</b>	<b>55,410</b>

**Local Government Pension Scheme Assets comprised:**

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

<b>31 March 2020</b>			<b>31 March 2021</b>		
Fair Value of scheme assets £000			Fair Value of scheme assets £000		
£000	%		£000	%	
859,085	47.1	Equity investments	1,255,525	55.1	
147,741	8.1	Property	143,554	6.3	
519,829	28.5	Government bonds	362,302	15.9	
224,347	12.3	Corporate bonds	410,153	18.0	
72,958	4.0	Cash	107,096	4.7	
<b>1,823,960</b>	<b>100.0</b>	<b>Total</b>	<b>2,278,630</b>	<b>100.0</b>	

At 31 March 2020, a small proportion (7%) of the Pension Fund's investments were in unquoted property assets. As none of these investments are publicly listed there is a degree of estimation involved in the valuations. The impact of Covid 19 resulted in a significant reduction in the number of transactions in the market and consequently the relevant observable data available upon which to base a valuation judgement. As such, a material valuation uncertainty clause was included in a number of the Pension Fund's property valuation reports due to the possible impact of Covid 19. Therefore there is less certainty and a higher degree of caution should be attached to the valuations of these unquoted assets than would normally be the case. There is a risk that the valuations in 2019/20 may have been under or over stated in the accounts.

**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 Solutions UK Limited, an independent firm of actuaries; estimates for the County Council Pension Fund being based on the latest full valuation of the scheme as at 31 March 2019.

The principal assumptions used by the actuary are:

2019-20			2020-21	
Local Government Pension Scheme	Discretionary Benefits Arrangements		Local Government Pension Scheme	Discretionary Benefits Arrangements
<b>Mortality assumptions:</b>				
Longevity at 65 for current pensioners:				
22.2	22.2	- Men	22.3	22.3
24.2	24.2	- Women	24.3	24.3
Longevity at 65 for future pensioners:				
23.2	n/a	- Men	23.3	n/a
25.7	n/a	- Women	25.8	n/a
<b>Principal financial assumptions (% per annum)</b>				
2.3	2.3	- Rate for discounting scheme liabilities	2.1	2.1
2.0	2.0	- Rate of inflation (CPI)	2.7	2.7
2.0	2.0	- Rate of increase in pensions	2.7	2.7
3.0	n/a	- Rate of increase in salaries	3.7	n/a

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below are based on reasonably possible changes to the assumptions occurring at the end of the reporting period and assume 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 2019/20.

The approximate impact of changing the key assumptions on the present value of the funded defined benefit obligation as at 31 March 2021 and the projected service cost for the year ending 31 March 2022 is set out in the following table:

**Discount rate assumption**

<b>Adjustment to discount rate</b>	<b>+ 0.1% per annum</b>	<b>Base Figure</b>	<b>- 0.1% per annum</b>
Present value of total obligation (£000)	3,665,780	3,736,780	3,811,520
Change in present value of total obligation	-1.9%		2.0%
Projected service cost (£000)	116,950	121,070	125,310
Approximate change in projected service cost	-3.4%		3.5%

**Rate of general increase in salaries**

<b>Adjustment to salary increase rate</b>	<b>+ 0.1% per annum</b>	<b>Base Figure</b>	<b>- 0.1% per annum</b>
Present value of total obligation (£000)	3,747,990	3,736,780	3,725,570
Change in present value of total obligation	0.3%		-0.3%
Projected service cost (£000)	121,070	121,070	121,070
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**

<b>Adjustment to pension increase rate</b>	<b>+ 0.1% per annum</b>	<b>Base Figure</b>	<b>- 0.1% per annum</b>
Present value of total obligation (£000)	3,800,310	3,736,780	3,676,990
Change in present value of total obligation	1.7%		-1.6%
Projected service cost (£000)	125,310	121,070	116,950
Approximate change in projected service cost	3.5%		-3.4%

**Post retirement mortality assumption**

<b>Adjustment to mortality age rating assumption *</b>	<b>- 1 year</b>	<b>Base Figure</b>	<b>+ 1 year</b>
Present value of total obligation (£000)	3,875,040	3,736,780	36,023,260
Change in present value of total obligation	3.7%		-3.6%
Projected service cost (£000)	126,150	121,070	116,110
Approximate change in projected service cost	4.2%		-4.1%

\* 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 Council'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 2020. Funding levels are monitored on an annual basis.

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 £51.130m contributions to the scheme in 2021/22 (£80.440m paid in 2020/21, including a £19.813m payment in April 2020 in respect of amounts due from 2021/22 to 2022/23. The advance payment is held on the Balance Sheet and the charge will be released to the Comprehensive Income and Expenditure Statement in 2021/22 and 2022/23, £9.907m each year).

The weighted average duration of the defined benefit obligation for scheme members is 19.7 years at 31 March 2021 (19.7 years at 31 March 2020).

#### **44. Contingent Liabilities**

##### **a) 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.

##### **b) 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 it is likely that the council will have to make settlement payments however, it is unclear as to how many claimants have live claims and the settlement values.

##### **c) 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 £7.2m.

The council's insurance adviser initially recommended that adequate provision should be held against future calls in the range of 25% to 30%. As at 31 March 2015 the council provided for 28% (£0.774m) of the value of the total potential liability in the Scheme of Arrangement, after the levy payments totaling £0.856m were made in 2013/14 and 2014/15. However, during 2015/16 a further levy of £0.616m was paid and as a result of a further deterioration in the MMI balance sheet it was felt prudent to increase the provision

to 34% of the outstanding liability net of the levy payments made to date. Based upon further information received from our Insurance Adviser during 2017/18, the provision was increased to 50%. As the provision is not for the total amount of the potential liability, there is the possibility of future claims, the council considers there to be a contingent liability as it has no certainty about the timing or the amount of any future liability.

Any increase in the provision in respect of the Scheme of Arrangement will be met from the Insurance Reserve.

#### **d) Tribunal and Court Claims**

The council is currently involved in a small number of tribunal and court claims where potentially damages may be awarded against the council. The council feels it has a strong case to defend the claims. However, there is no certainty of the outcome of these cases, or of amounts involved therefore a contingent liability has been included in the accounts.

#### **e) Warranties in relation to LSVT of Housing Stock**

The council has given Believe Housing (formerly known as County Durham Housing Group (CDHG)) certain warranties in relation to staff transferring, property and environmental pollution. These warranties to both Believe Housing 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.

## **45. Contingent Assets**

### **LSVT - VAT Shelter**

The council and a number of registered providers in Durham have in place VAT shelter arrangements agreed at the time when the stock was transferred to those registered providers under LSVT, to enable them 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. The council is entitled to a 50% share of VAT recovered by the registered providers from this VAT shelter arrangement. Under the VAT shelter arrangements, during 2020/21, the council received and recognised £1.287m from three registered providers, namely Believe, Livin and North Star.

## **46. 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 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 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 Easter Saturday until the end of 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.

## **47. Exceptional Items**

There were no exceptional items in 2020/21.

## **48. Pooled Budget – Better Care Fund**

The council has entered into a Pooled Budget arrangement under the Better Care Fund (BCF) Agreement for Health and Social Care initiatives. The BCF was introduced by the Government on 1 April 2015 and the Pooled Budget arrangement supports the BCF vision of improving the health and wellbeing of the people of County Durham and reducing health inequalities.

The pooled fund is subject to an agreement under Section 75 of the Health Service Act 2006.

The Pooled Budget partners consist of Durham County Council (Local Authority) and from 01 April 2020 NHS County Durham Clinical Commissioning Group (which was formed by the merger of North Durham Clinical Commissioning Group and Durham Dales, Easington and Sedgfield Clinical Commissioning Group).

The Pooled Budget is hosted by the Local Authority on behalf of the partners to the agreement.

For accounting purposes the CCG and the Local Authority have agreed that joint control does not exist and the council has therefore only accounted for its share of income and expenditure within the Comprehensive Income and Expenditure Statement.

The Pooled Budget is hosted by the Local Authority on behalf of the three partners to the agreement.

For accounting purposes the CCGs and the Local Authority have agreed that joint control does not exist and the council has therefore only accounted for its share of income and expenditure within the Comprehensive Income and Expenditure Statement.

<b>31 March 2020</b>		<b>31 March 2021</b>
<b>£000</b>		<b>£000</b>
	<b>Funding Provided to BCF</b>	
29,959	Local Authority (revenue)	29,959
6,159	Local Authority (capital)	6,988
<u>43,032</u>	CCGs	<u>45,235</u>
79,150		82,182
	<b>Expenditure met from BCF</b>	
58,994	Local Authority (revenue)	60,474
6,159	Local Authority (capital)	6,988
<u>13,997</u>	CCGs	<u>14,720</u>
79,150		82,182
<u>-</u>	<b>Net (-) surplus / deficit on pooled budget</b>	<u>-</u>
-	Authority share of the net surplus / deficit arising from pooled budget	-

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

There were no prior period adjustments in 2020/21

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, Crime and Victims' 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

2019-20		2020-21		
		Council Tax £000	NNDR £000	Total £000
	<b>Income</b>			
-282,055	Council Tax due from Taxpayers	-293,976	-	-293,976
-119,054	Income from Business Ratepayers	-	-68,427	-68,427
<u>-401,109</u>	<b>Total Income</b>	<u>-293,976</u>	<u>-68,427</u>	<u>-362,403</u>
	<b>Expenditure</b>			
	<b>Precepts and Demands</b>			
235,424	Durham County Council	248,096	-	248,096
28,680	Durham Police, Crime and Victims' Commissioner	30,509	-	30,509
14,463	County Durham & Darlington Fire & Rescue Authority	14,951	-	14,951
	<b>Payment of Previous Year's Surplus</b>			
736	Central Government	-	858	858
2,152	Durham County Council	899	841	1,740
173	Durham Police, Crime and Victims' Commissioner	116	-	116
126	County Durham & Darlington Fire & Rescue Authority	59	17	76
	<b>Business Rates</b>			
55,375	Payment to Central Government	-	57,053	57,053
	Payment to Durham County Council, including Renewable Energy			
54,401		-	56,074	56,074
	Payment to Durham County Council, Renewable Energy - Prior year's surplus			
72		-	-	-
581	Costs of Collection - Business Rates	-	574	574
	Payment to County Durham and Darlington Fire & Rescue Authority			
1,107		-	1,141	1,141
	<b>Bad &amp; Doubtful Debts</b>			
3,722	Write Offs	5,354	557	5,911
656	Change in Provision for Bad Debts	4,528	2,414	6,942
-2,326	Provision for Appeals	-	-5,822	-5,822
<u>395,342</u>	<b>Total Expenditure</b>	<u>304,512</u>	<u>113,707</u>	<u>418,219</u>
-5,764	Movement on Fund Balance	10,536	45,280	55,816
-4,426	Surplus(-) /Deficit on Fund Brought Forward	-220	-9,949	-10,169
<u><b>-10,190</b></u>	<b>Fund Balance Carried Forward</b>	<u><b>10,316</b></u>	<u><b>35,331</b></u>	<u><b>45,647</b></u>
	<b>Allocated to :</b>			
-4,975	Central Government	-	17,666	17,666
-5,059	Durham County Council	8,707	17,312	26,019
-21	Durham County Council - Renewable Energy	-	-	-
-24	Durham Police, Crime and Victims' Commissioner	1,086	-	1,086
-111	County Durham and Darlington Fire & Rescue Authority	523	353	876
<u><b>-10,190</b></u>		<u><b>10,316</b></u>	<u><b>35,331</b></u>	<u><b>45,647</b></u>

---

## 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

Durham County Council is the billing authority for its administrative area and collects council tax to cover its own requirements, plus those of Durham Police, Crime and Victims' Commissioner, County Durham and Darlington Fire and Rescue Authority and where applicable, Town and Parish Councils.

Council tax is a tax levied on a domestic property broadly in accordance with the value of property. The properties in each Town and Parish Council area are classified into one of eight bands (A to H) according to its value and based upon information provided by the Valuation Office Agency (VOA).

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 applied to each band to convert the properties into Band D equivalents and finally an allowance for non-collection is applied to produce the tax base.

The council tax base is divided into the County Council demand and the precepts requested by Durham Police, Crime and Victims' 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.

The following table shows the property value bandings and the Band D equivalent properties in 2020/21.

Property Value	Council Band	Number of Properties	Proportion of Band 'D'	Band 'D' Equivalent Properties
Up to £ 40,000	Band A	143,844	6/9ths	95,896
Over £ 40,000 up to £ 52,000	Band B	34,007	7/9ths	26,450
Over £ 52,000 up to £ 68,000	Band C	30,712	8/9ths	27,300
Over £ 68,000 up to £ 88,000	Band D	21,669	9/9ths	21,669
Over £ 88,000 up to £120,000	Band E	10,473	11/9ths	12,800
Over £120,000 up to £160,000	Band F	4,081	13/9ths	5,895
Over £160,000 up to £320,000	Band G	2,188	15/9ths	3,647
Over £320,000	Band H	277	18/9ths	554
		247,251		194,211
Net effect of discounts, reliefs, exemptions and premiums				52,469.0
<b>Chargeable Properties (Taxbase) 2020/21:</b>				<b>141,742.0</b>
The Council Tax Base for 2019/20 was		139,738.8		

In 20/21, the Band D charge was £1,974.84 (£1,899.39 in 2019/20) made up of Durham County Council £1,654.12 (£1,590.65 in 2019/20), Durham Police, Crime and Victims' Commissioner £215.24 (£205.24 in 2019/20) and County Durham and Darlington Fire and Rescue Authority £105.48 (£103.50 in 2019/20). In addition, Band D Town and Parish precepts between £0 and £305.27 (£0 and £303.38 in 2019/20) were chargeable and there were some areas with no Town or Parish Council.

Any surplus or deficit on the Collection Fund – Council Tax (estimated in mid-January each year) is normally 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. However, in July 2020 the government announced that repayments to meet any collection fund deficits accrued in 2020/21 will instead be phased over a three-year period (2021/22 to 2023/24) to ease immediate pressures on budgets.

The Collection Fund - Council Tax estimated a £5.720m deficit for 2020/21, and this amount is to be spread over three years. Therefore the account is credited with two-thirds of the deficit (£3.814m), leaving the actual in year declared deficit as £1.907m. The declared position after taking into account the undeclared deficit as at 31 March 2020 of £0.854m is a total deficit of £2.760m which will be distributed to major preceptors during 2021/22. At 31 March 2021, the actual outturn was a deficit of £10.316m (surplus of £0.220m at 31 March 2020).

### 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 2021 have been analysed by age of debt and stage of recovery action being taken. These have been put into three broad categories, as set out in the following table, alongside the percentage provision applied:

Category of Arrears	Year	Percentage provision applied
1. No reminders yet sent	2020/21	25%
	2019/20	55%
	2018/19	85%
	2017/18	95%
	2015/16 & 2016/17	99%
	2014/15 & older	100%
2. First, second or final reminder	2020/21	45%
	2019/20	75%
	2018/19	85%
	2017/18	95%
	2015/16 & 2016/17	99%
	2014/15 & older	100%
3. Summons (including liability orders, bailiff and bankruptcy)	2020/21	50%
	2019/20	85%
	2018/19	85%
	2017/18	95%
	2015/16 & 2016/17	99%
	2014/15 & older	100%

At 31 March 2021, the calculated provision of £23.791m covered 64.55% of arrears (£19.263m, 71% at 31 March 2020).

### Collection Fund – Council Tax Balance

The Collection Fund - Council Tax balance at 31 March 2021 amounted to a deficit of £10.316m (surplus of £0.220m at 31 March 2020).

Durham County Council and the major preceptors, Durham Police, Crime and Victims' 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:

<b>Authority</b>	<b>Year end Surplus (-)/ Deficit on Collection Fund £000</b>	<b>Provision for Bad Debts £000</b>	<b>Arrears £000</b>	<b>Overpayments and Prepayments £000</b>
Durham County Council	8,707	-20,033	30,956	-3,409
Durham Police, Crime & Victims' Commissioner	1,086	-2,562	3,968	-436
County Durham & Darlington Fire & Rescue Authority	523	-1,197	1,853	-203
<b>Total Allocated</b>	<b>10,316</b>	<b>-23,792</b>	<b>36,777</b>	<b>-4,048</b>

### iii. Business Rates (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 2020/21, the general multiplier was £0.512 (£0.504 in 2019/20) and the small business multiplier was £0.499 (£0.491 in 2019/20). The total non-domestic rateable value for Durham County Council at 31 March 2021 was £321.710m in accordance with the VOA schedule dated 28 March 2021 (£316.542m at 31 March 2019/20).

From 1 April 2013, the Business Rates Retention Scheme (BRRS) 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 2020/21 were estimated before the start of the year on the NNDR1 return, a statutory document submitted in January 2020. In addition, during 2020/21, the estimated surplus for 2019/20 was paid to shareholders as shown in the Income and Expenditure Account.

The estimated outturn for 2020/21 was included on the NNDR1 for 2021/22, submitted in January 2021. This predicted a deficit of £40.910m (surplus £1.717m estimated for 2019/20) of which Durham County Council's share would be £20.046m (surplus of £0.841m for 2019/20). As with Council Tax the in year deficit calculated in January 2021 is eligible to be spread over a three year period (2021/22 to 2023/24) to ease immediate pressures on budgets. The in year Business Rates deficit for 2020/21 eligible to be spread over three years was calculated by taking the in year deficit as at January 2021 and excluding the additional reliefs awarded which are fully funded by Section 31 grant income.

Therefore, the deficit eligible to be spread over three years is £1.138m (£0.379m per 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 2021, the actual outturn was a deficit of £35.331m (surplus of £9.970m, including an accrual of £0.021m for Renewable Energy in 2019/20). Income from Renewable Energy amounted to £0.163m (£0.155m in 2019/20).

### 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 2021 have been analysed by age of debt and stage of recovery action being taken. These have been put into three broad categories, as set out in the following table, alongside the percentage provision applied:

Category of Arrears	Year	Percentage provision applied
1. No reminders yet sent	2020/21	25%
	2019/20	55%
	2018/19 & older	100%
2. First, second or final reminder	2020/21	45%
	2019/20	75%
	2018/19 & older	100%
3. Summons (including liability orders, bailiff and bankruptcy)	2020/21	50%
	2019/20	95%
	2018/19 & older	100%

At 31 March 2021, the calculated provision of £5.024m covered 57.10% of arrears (£2.611m, 57.27% at 31 March 2020).

### Provision for Appeals

Business Ratepayers are entitled to appeal to the VOA 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 the 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 2021, the provision for appeals was estimated at £21.134m (£26.957m at 31 March 2020).

### Collection Fund Balance - Business Rates

The Collection Fund – Business Rates balance at 31 March 2021 amounted to a deficit of £35.311m (surplus of £9.970m including Renewable Energy at 31 March 2020).

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 the 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 2021.

Authority	Year-end Surplus (-) / Deficit on Collection Fund £000	Provision for Bad Debts £000	Business Rates Arrears £000	Business Rates Overpayments and Prepayments £000	Provision for Appeals £000
Durham County Council	17,312	-2,462	4,275	-720	-10,356
Central Government	17,666	-2,512	4,366	-734	-10,567
County Durham & Darlington Fire & Rescue Authority	353	-50	87	-15	-211
<b>Total Allocated</b>	<b>35,331</b>	<b>-5,024</b>	<b>8,728</b>	<b>-1,469</b>	<b>-21,134</b>

**Independent Auditor's Report to the Members of Durham County  
Council Pension Fund**

**THIS PAGE IS LEFT INTENTIONALLY BLANK**

**THIS PAGE IS LEFT INTENTIONALLY BLANK**

**THIS PAGE IS LEFT INTENTIONALLY BLANK**

## Certificate

**THIS PAGE IS LEFT INTENTIONALLY BLANK**

## Fund Account

2019-20				2020-21	
£000	£000		Notes	£000	£000
<b>DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED IN THE FUND</b>					
-106,029		Contributions Receivable	8	-147,634	
-8,910		Transfers in from Other Pension Funds	9	-4,128	
-4		Other Income		-3	
	-114,943				-151,765
126,817		Benefits Payable	10	129,937	
12,556		Payments to and on Account of Leavers	11	3,990	
	139,373				133,927
	<b>24,430</b>	<b>Net Withdrawals / -Additions from Dealings with Members, Employers and Others</b>			<b>-17,838</b>
	15,589	<b>Management Expenses</b>	12		13,187
	<b>40,019</b>	<b>Net Withdrawals / -Additions Including Fund Management Expenses</b>			<b>-4,651</b>
<b>RETURN ON INVESTMENTS</b>					
-30,524		Investment Income	13	-20,665	
186,297		Profit and Losses on Disposal of Investments and Change in Market Value of Investments	15	-668,983	
	<b>155,773</b>	<b>Net Returns on Investments</b>			<b>-689,648</b>
	<b>195,792</b>	<b>NET INCREASE (-) / DECREASE IN THE NET ASSETS AVAILABLE FOR BENEFITS DURING THE YEAR</b>			<b>-694,299</b>

## Net Assets Statement

31 March 2020		31 March 2021		
£000	£000	Notes	£000	£000
<b>INVESTMENT ASSETS</b>				
273,429		Equities	15	387,003
624,790		Bonds	15	48,905
831,111		Pooled Investment Vehicles	15	1,009,355
<b>Pooled Funds:</b>				
976,643		Global Equity	15	1,450,550
-		Bonds	15	458,726
3,696		Infrastructure	15	10,750
-		Private Credit	15	3,255
<u>2,907</u>		Private Equity	15	<u>8,610</u>
	2,712,576			3,377,154
252		Loans	15	223
<b>Other Cash Deposits:</b>				
52,716		Fund Managers	15	50,651
32,720		Short Term Investments	15	43,051
15,898		Derivative Contracts	15	3,650
	<u>101,586</u>			<u>97,575</u>
	2,814,162			3,474,729
<b>Other Investment Assets</b>				
1,594		Dividend Accruals	15,18	1,528
725		Tax Recovery	15,18	736
9,030		Other Investment Balances	15,18	<u>1,598</u>
	<u>11,349</u>			<u>3,862</u>
	<b>2,825,511</b>	<b>Total Investment Assets</b>		<b>3,478,591</b>
<b>INVESTMENT LIABILITIES</b>				
-16,378		Derivative Contracts	15	-2,838
-24,998		Other Investment Balances	19	-1,307
	<u>-41,376</u>	<b>Total Investment Liabilities</b>		<u>-4,145</u>
	<b>2,784,135</b>	<b>NET INVESTMENT ASSETS</b>		<b>3,474,446</b>
	-	<b>Long Term Assets</b>	18	-
<b>Current Assets</b>				
8,436		Contributions Due from Employers	18	9,279
<u>1,101</u>		Other Current Assets	18	<u>1,874</u>
	9,537			11,153
<b>Current Liabilities</b>				
<u>-7,425</u>		Current Liabilities	19	<u>-5,053</u>
	<u>-7,425</u>			<u>-5,053</u>
	<b><u>2,786,247</u></b>	<b>NET ASSETS OF THE FUND AVAILABLE TO PAY BENEFITS AT 31 MARCH</b>		<b><u>3,480,546</u></b>

The Pension Fund's accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the reported accounting period. The actuarial present value of promised retirement benefits, which does take account of such obligations, is disclosed in Note 24.

These accounts should therefore be read in conjunction with the information contained within 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 (Transitional Provisions, Savings and Amendments) Regulations 2014 (as amended)
- LGPS (Management and Investment of Funds) Regulations 2016

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 of Resources is responsible for the administration of the Pension Fund. He is assisted by the Pensions Administration and Pension Fund Accounting 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 pension 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.

	2016/17	2017/18	2018/19	2019/20	2020/21
Contributing Members	18,630	19,219	20,116	20,901	21,340
Pensioners in Payment	18,139	18,618	19,404	20,109	20,652
Pensioners Deferred	15,104	15,746	15,987	16,420	16,595

In comparison to the figures reported at 31 March 2020, the number of pensionable employees in the Fund at 31 March 2021 has increased by 439 (2.10%), the number of pensioners has increased by 543 (2.70%) and deferred pensioners have increased by 175 (1.07%).

Contributions represent the total amounts receivable from:

- employing authorities (of which there were 110 at 31 March 2021), 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. Further detailed information is provided in Notes 10 and 8 accordingly.

2019-20			2020-21	
Benefits	Contributions		Benefits	Contributions
£000	£000		£000	£000
93,368	-62,686	Administering Authority	96,890	-96,562
25,785	-34,213	Scheduled Bodies	25,187	-39,354
7,664	-9,130	Admission Bodies	7,860	-11,718
<b>126,817</b>	<b>-106,029</b>		<b>129,937</b>	<b>-147,634</b>

## 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 2020/21 (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 to pay pension benefits. 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 2019/20, the results of which

determined the contribution rates effective from 1 April 2020 to 31 March 2023. Details of the latest valuation are included in Note 23.

### **3. Accounting Standards issued but not yet 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.

No such accounting standards have been identified for 2020/21 that are applicable to the pension fund accounts.

### **4. Statement of Accounting Policies**

#### **Significant accounting policies**

The accounting policies set out below have been applied consistently to all periods presented in these accounts. The accounts have been prepared on the accruals basis of accounting (except individual transfer values to and from the scheme, which are accounted for on a cash basis). The Fund has a policy of accruing for items of £10,000 or over, unless in exceptional circumstances.

#### ***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;
- Employers' augmentation contributions are accounted for in the year in which they become due;
- Employers' 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 in full in the year in which the transfer value is agreed by Durham County Council Pension Fund.

### **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.

### **Management expenses**

All management expenses, which include administrative expenses, investment management expenses and oversight and governance costs, are accounted for on an accruals basis.

All staffing and overhead costs of the pensions administration team are allocated to the Pension Fund as administrative expenses.

Fees of the external Investment Managers and Custodian are agreed in the respective mandates governing their appointments. Note 12 provides further information regarding the basis of Investment Managers' fees. 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.

Oversight and governance costs include costs relating to the Pension Fund accounting team, which are apportioned on the basis of staff time spent on the Fund and include all associated overheads, plus legal, actuarial and investments advisory services.

### **Investment income**

Investment income is accounted for as follows:

- dividend income 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 using the effective interest rate of the financial instrument as at the date of acquisition;
- 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.

## **Voluntary and Mandatory Scheme Pays (VSP, MSP) and Lifetime Allowances**

Members are entitled to request the Pension Fund pays their tax liabilities due in respect of annual allowance and life time allowance in exchange for a reduction in pension. Where the Fund pays member tax liabilities direct to HMRC it is treated as an expense in the year in which the payment occurs.

## ***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 that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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 traded on an exchange are accounted for on a bid market price basis, where Investment Managers provide valuations in this manner;
- fixed interest securities 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 managed funds 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 managed funds are valued at the reported price;
- unitised, unquoted managed property funds are valued at the net asset value adjusted for cash flows or a single price advised by the fund manager;

- shares in the Border to Coast Pensions Pool (BCPP) have been valued at cost as a proxy for fair value;
- investments in private equity funds and unquoted infrastructure funds are valued based on the fund's share of the net assets in the private equity fund or infrastructure fund using the latest financial statements published by the respective fund managers, adjusted for cashflows;
- derivative contracts outstanding at the year-end are included in the Net Assets Statement at fair value (as provided by Investment Managers) and gains and losses arising are recognised in the Fund Account as at 31 March. The value of foreign currency contracts is based on market forward exchange rates at the reporting date. The value of all other derivative contracts is determined using exchange prices at the reporting date.

Where Investment Managers are unable to supply investment valuations in line with the above policies, valuations will be included as supplied by the Investment Manager, usually at mid-market price.

### **Cash and Cash Equivalents**

Cash comprises cash in hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with insignificant risk of change in value.

### **Contingent Assets**

A contingent asset arises where an event has taken place that gives a possible asset which will only be confirmed by the occurrence of uncertain future events not wholly within the control of the Pension Fund. Contingent assets are not recognised in the Net Assets Statement however details are disclosed in Note 22.

### **Investment Transactions**

Investment transactions arising up to 31 March but not settled until later are accrued in the accounts. All purchases and sales of investments in foreign currency are accounted for in sterling at the prevailing rate on the transaction date.

### **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 in the Fund Account as part of the Change in Value of Investments.

Other financial liabilities classed as amortised cost are carried at amortised cost i.e. the amount carried in the Net Asset Statement is the outstanding principal repayable plus

accrued interest. Any interest charged is accounted for on an accruals basis and included in administration costs.

### **Actuarial present value of promised retirement benefits**

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards. As permitted under IAS 26 the Pension Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the accounts (Note 24).

### **Additional Voluntary Contributions (AVCs)**

The Fund provides an additional voluntary contribution (AVC) scheme for its members, the assets of which are invested separately from those of the Fund. In accordance with LGPS Regulations, AVCs are not recognised as income or assets in the Pension Fund Accounts, however a summary of the scheme and transactions are disclosed in Note 20 to these accounts.

If, however, AVCs are used to purchase extra years' service from the Pension Fund, this is recognised as contribution income in the Fund's accounts on an accruals basis. Amounts received in this way can be found in Note 8 as additional contributions from members.

### **Prior Period Adjustments**

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

### **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.

## **5. Critical judgements in applying accounting policies**

The preparation of the statements in accordance with the Code of Practice on Local Authority Accounting 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 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. These assumptions are summarised in Note 24.

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

The Pension Fund Accounts contain estimated figures that are based upon assumptions made about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that actual results may differ from the estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Items for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual differs from assumptions
Actuarial Valuation	Estimation of the net liability to pay pensions depends on a number of complex judgements including the discount rate used, the salary increase projections, expected changes in retirement ages, mortality rates and returns on pension fund assets. A firm of actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied. Note 23 summarises the results of the actuarial valuation.	The Actuary calculated the funding ratio to be 94% as at 31 March 2019 (the last triennial valuation). If the following figures were to differ from the assumptions used in the calculation, there would be a reduction in the funding ratio to: <ul style="list-style-type: none"> <li>- 86% if life expectancy increases by 2 years</li> <li>- 78% if discount rate falls by 1%</li> <li>- 78% if inflation increases by 1%</li> <li>- 82% if equities fall by 25%</li> <li>- 91% if pensionable pay increases by 1%</li> </ul>
Private Equity and Infrastructure	Private equity, infrastructure and global property are based on valuations provided by the manager of the funds in which the Fund has invested. These are based on the Private Equity Valuation Guidelines in the US and the International Private Equity and Venture Capital Valuation Guidelines outside the US as adopted by the British Venture Capital Association in the UK and the valuation principles of IFRS and US GAAP. These investments are not publicly listed and as such there is a degree of estimation in their valuation.	The Fund has a total of £8.610m included for private equity and £10.750m for infrastructure. Based on the sensitivity numbers included in Note 17 there is a possibility that this could be under or over stated in the accounts by £2.066m, and £1.666m respectively.
Fair Value of Investments	The Accounts are as at 31 March 2021 and all the investments held by the fund are valued as at that date using the best estimate possible of 'fair value', as detailed in 'Significant Accounting Policies - Valuation of Investments'.	The use of estimates for investment values is greatest for those assets classified at Level 3 which means there is a risk that these investments may be over/ under-stated in the accounts. The total value of Level 3 investments (explained in Note 16) is £198.164m at 31/3/21 (£193.099m at 31/3/20). This consists of the Fund's unlisted property holding, Private Equity and Private Infrastructure. In line with the market risk section within Note 17, there is a risk that the value of the Fund may be over/ under stated in the accounts by £28.944m at 31/3/21 (£28.172m at 31/3/20), which represents the potential market movement on the value of the unlisted property.

## 7. Events After the Reporting Period

There have been no events after 31 March 2021 which require any adjustments to be made to these accounts.

**8. Contributions Receivable**

2019-20 £000		2020-21 £000
	<b>Employer Contributions:</b>	
-68,437	Normal	-83,814
-2,738	Augmentation	-2,262
-8,662	Deficit Funding	-33,874
	<b>Member Contributions:</b>	
-26,111	Normal	-27,590
-81	Additional Contributions	-94
<b>-106,029</b>		<b>-147,634</b>
-62,686	Administering Authority	-96,562
-34,213	Scheduled Bodies	-39,354
-9,130	Admission Bodies	-11,718
<b>-106,029</b>		<b>-147,634</b>

**9. Transfers in From Other Pension Funds**

2019-20 £000		2020-21 £000
-8,910	Individual Transfers	-4,128
<b>-8,910</b>		<b>-4,128</b>

**10. Benefits Payable**

2019-20 £000		2020-21 £000
107,103	Pensions	110,209
22,017	Commutations and Lump Sum Retirement Benefits	20,560
1,999	Lump Sum Death Benefits	3,279
-4,302	Recharged Benefits	-4,111
<b>126,817</b>		<b>129,937</b>
93,368	Administering Authority	96,890
25,785	Scheduled Bodies	25,187
7,664	Admission Bodies	7,860
<b>126,817</b>		<b>129,937</b>

## 11. Payments To and On Account of Leavers

2019-20		2020-21
£000		£000
332	Refunds to Members Leaving Service	229
72	Payments for Members Joining State Scheme	-1
12,152	Individual Transfers to Other Schemes	3,762
<b>12,556</b>		<b>3,990</b>

## 12. Management Expenses

Administration expenses include the cost of the administering authority in supporting the Fund.

Investment management expenses include any expenses in relation to the management of the Fund's assets. Investment manager 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; when applicable an ad-valorem fee is payable to the other managers.

Oversight and governance costs include costs relating to the pension fund accounting team, plus legal, actuarial and investments advisory services.

2019-20			2020-21	
£000	£000		£000	£000
	1,124	Administration Expenses		999
		Investment Management Expenses		
9,109		Management Fees	5,998	
410		Performance Fees	78	
136		Custody Fees	120	
<u>3,827</u>		Transaction Costs	<u>5,233</u>	
	13,482			11,429
	983	Oversight and Governance Costs		759
	<b>15,589</b>			<b>13,187</b>

Included within oversight and governance costs is the external audit fee payable to Mazars LLP in 2020/21 of £0.020m (£0.032m in 2019/20). No fees have been paid to Mazars in 2020/21 in respect of non-audit work.

### 13. Investment Income

2019-20 £000		2020-21 £000
-2,829	Interest from Bonds	-1,203
-9,197	Dividends from Equities	-6,398
-742	Interest on Cash Deposits	-209
-17,756	Income from Pooled Investment Vehicles	-12,855
<b>-30,524</b>		<b>-20,665</b>

### 14. Taxation

The Code 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.

### 15. Investments

#### Analysis by Investment Manager

The following Investment Managers were employed during 2020/21 to manage the Pension Fund's assets:

- AB (Formerly AllianceBernstein Limited)
- BlackRock Investment Management UK Limited (BlackRock)
- CB Richard Ellis Collective Investors Limited (CBRE)
- Mondrian Investment Partners Limited (Mondrian)
- Royal London Asset Management (RLAM)
- Border to Coast Pension Partnership (BCPP)

Durham County Council is one of eleven equal partners in the Border to Coast Pension Partnership Ltd (BCPP) which has been formed as a result of the Local Government

Pension Scheme (Management and Investment of Funds) Regulations 2016. These regulations require all Local Government Pension Scheme Funds (LGPS) in England and Wales to combine their assets into a small number of investment pools. BCPP is one of these investment pools.

It is anticipated that all assets belonging to the Fund will be transferred to BCPP as and when BCPP launch investment funds which match our investment strategy and satisfy due diligence. BCPP will be responsible for managing investments in line with the Fund's Investment Strategy and asset allocation requirements.

In line with the Fund's strategic asset allocation, during 2020/21, the Fund continued the development of its private markets portfolio through BCPP and successfully transitioned all of its Index Linked Gilt allocation into the pool.

The strategic asset allocation as at 31 March was as follows:

<b>31 March 2020</b>	<b>Asset Class</b>	<b>31 March 2021</b>
%		%
40	Global Equities	40
15	Global Bonds	15
0	Dynamic Asset Allocation	0
13	Global Property	13
10	Private Markets	10
7	Emerging Market Equities	7
15	Sterling Indexed Linked Bonds	15
<b>100</b>		<b>100</b>

Although the strategic asset allocation was reviewed and agreed during 2020/21, the Fund holds assets that have yet to be transferred into BCPP as we await the required product launch. Due to the requirement to pool our assets, asset reallocation has temporarily been suspended and consequently actual allocations vary from the strategic allocation.

The actual market values of investments held by each Investment Manager as at 31 March were as follows:

31 March 2020				31 March 2021			
£000	%	Investment Manager	Asset Class	£000	%		
<b><u>Investments managed by BCPP asset pool:</u></b>							
976,643	35.32		Global Equities	1,450,550	42.31		
2,907	0.11		Private Equity	8,610	0.25		
-	0.00		Private Credit	3,255	0.10		
-	0.00		Bonds	458,726	13.38		
3,696	0.13		Infrastructure	10,750	0.31		
<b>983,246</b>	<b>35.56</b>			<b>1,931,891</b>	<b>56.35</b>		
<b><u>Investments managed outside of BCPP asset pool:</u></b>							
391,519	14.16	AB	Global Bonds	577,005	16.83		
385,835	13.96	BlackRock	Dynamic Asset Allocation	418,827	12.22		
227,434	8.23	CBRE	Global Property	240,036	7.00		
184,824	6.68	Mondrian	Emerging Market Equities	259,676	7.57		
591,121	21.38	RLAM	Investment Grade Sterling Bonds	-	0.00		
833	0.03	BCPP	Unquoted UK Equity	1,182	0.03		
<b>1,781,566</b>	<b>64.44</b>			<b>1,496,726</b>	<b>43.65</b>		
<b>2,764,812</b>	<b>100.00</b>			<b>3,428,617</b>	<b>100.00</b>		

The totals in the above table include all assets held by Investment Managers on behalf of the Fund, including cash and derivatives. The total as at 31 March 2021 excludes loans of £0.223m, cash invested by the administering authority of £43.051m, other investment assets of £3.862m and other investment liabilities of £1.307m (£0.252m, £32.720m, £11.349m and £24.998m respectively as at 31 March 2020).

Of the total value of net investment assets reported in the Net Assets Statement as at 31 March 2021, £3,429m (98.68%) is invested through Investment Managers (£2,764m or 99.31% at 31 March 2020).

**Reconciliation of Movements in Investments 2020/21**

<b>Investment Category</b>	<b>Value at 31 March 2020</b>	<b>Purchases at Cost</b>	<b>Sales Proceeds</b>	<b>Change in Market Value</b>	<b>Value at 31 March 2021</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Equities	273,429	208,480	-191,966	97,060	387,003
Bonds	624,790	618,409	-1,227,445	33,151	48,905
Pooled Investment Vehicles	831,111	256,207	-140,952	62,989	1,009,355
<b>Pooled Funds:</b>					
Global Equity	976,643	-	-	473,907	1,450,550
Bonds	-	477,889	-	-19,163	458,726
Infrastructure	3,696	7,367	-	-313	10,750
Private Credit	-	3,300	-	-45	3,255
Private Equity	2,907	4,812	-	891	8,610
	<b>2,712,576</b>	<b>1,576,464</b>	<b>-1,560,363</b>	<b>648,477</b>	<b>3,377,154</b>
<b>Derivative Contracts:</b>					
Futures, Margins & Options	2,264	8,412	-6,553	-5,241	-1,118
Forward Foreign Currency	-2,744	18,420	-19,409	5,663	1,930
	<b>2,712,096</b>	<b>1,603,296</b>	<b>-1,586,325</b>	<b>648,899</b>	<b>3,377,966</b>
<b>Other Investment Balances:</b>					
Loans	252				223
Other Cash Deposits	85,436			20,084	93,702
Dividend Accruals	1,594				1,528
Tax Recovery	725				736
Other Investment Balances	-15,968				291
<b>Net Investment Assets</b>	<b>2,784,135</b>			<b>668,983</b>	<b>3,474,446</b>

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

**Reconciliation of Movements in Investments 2019/20**

<b>Investment Category</b>	<b>Value at 31 March 2019</b>	<b>Purchases at Cost</b>	<b>Sales Proceeds</b>	<b>Change in Market Value</b>	<b>Value at 31 March 2020</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Equities	348,884	144,241	-174,844	-41,945	276,336
Bonds	575,582	2,459,266	-2,430,894	20,836	624,790
Infrastructure	-	3,838	-	-142	3,696
Pooled Investment Vehicles	1,962,121	1,428,673	-1,429,090	-153,950	1,807,754
	<u>2,886,587</u>	<u>4,036,018</u>	<u>-4,034,828</u>	<u>-175,201</u>	<u>2,712,576</u>
Derivative Contracts:					
Futures, Margins & Options	1,711	5,622	-7,609	2,540	2,264
Forward Foreign Currency	1,348	55,940	-58,770	-1,262	-2,744
	<u>2,889,646</u>	<u>4,097,580</u>	<u>-4,101,207</u>	<u>-173,923</u>	<u>2,712,096</u>
Other Investment Balances:					
Loans	279				252
Other Cash Deposits	77,843			-12,374	85,436
Dividend Accruals	1,642				1,594
Tax Recovery	639				725
Other Investment Balances	8,728				-15,968
<b>Net Investment Assets</b>	<u><b>2,978,777</b></u>			<u><b>-186,297</b></u>	<u><b>2,784,135</b></u>

Purchases and sales of derivatives are recognised in the Reconciliation of Movements in Investments tables as follows:

- Futures – on close out or expiry of the futures contract the variation margin balances held in respect of unrealised gains or losses are recognised as cash receipts or payments, depending on whether there is a gain or loss.
- Options – premiums paid and received are reported as payments or receipts together with any close out costs or proceeds arising from early termination.
- Forward currency contracts – forward foreign exchange contracts settled during the period are reported on a net basis as net receipts and payments.

**Analysis of Investments**

<b>31 March 2020</b>			<b>31 March 2021</b>	
£000	£000		£000	£000
<b>ASSETS INVESTED THROUGH FUND MANAGERS</b>				
<b>Bonds</b>				
562,076		UK - Public Sector - Quoted	-	
56,829		Overseas - Public Sector - Quoted	39,689	
5,885		Overseas - Corporate - Quoted	9,216	
	<u>624,790</u>			<u>48,905</u>
<b>Equities</b>				
42,148		UK Quoted	48,778	
833		UK Unquoted	1,182	
230,447		Overseas Quoted	337,043	
	<u>273,428</u>			<u>387,003</u>
<b>Pooled Investment Vehicles</b>				
81,236		Managed funds - Non Property - UK Quoted	63,308	
1,507,070		Managed Funds - Non Property - Overseas Quoted	725,481	
1,388		Unit Trusts - Property - UK Quoted	1,489	
19,426		Unit Trusts - Property - UK Unquoted	21,611	
31,564		Unit Trusts - Property - Overseas Quoted	40,273	
167,070		Unit Trusts - Property - Overseas Unquoted	157,193	
	<u>1,807,754</u>			<u>1,009,355</u>
<b>Derivative Contracts</b>				
15,898		Assets	3,650	
-16,378		Liabilities	-2,838	
	<u>-480</u>			<u>812</u>
52,716	<u>52,716</u>	<b>Fund Managers' Cash</b>	50,651	<u>50,651</u>
<b>ASSETS INVESTED THROUGH THE POOL</b>				
-		Global Equity	1,450,550	
-		Bonds	458,726	
3,696		Infrastructure	10,750	
-		Private Credit	3,255	
2,908		Private Equity	8,610	
	<u>6,604</u>			<u>1,931,891</u>
<b>2,764,812</b>		<b>NET ASSETS INVESTED</b>		<b>3,428,617</b>
<b>OTHER INVESTMENT BALANCES</b>				
32,720		Short Term Investments (via DCC Treasury Management)	43,051	
252		Loans	223	
11,349		Other Investment Assets	3,862	
-24,998		Other Investment Liabilities	-1,307	
	<u><b>2,784,135</b></u>	<b>NET INVESTMENT ASSETS</b>		<u><b>3,474,446</b></u>

## 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:

31 March 2020		Derivative Contracts	31 March 2021	
£000	£000		£000	£000
		<b>Forward Foreign Currency</b>		
8,291		Assets	3,298	
<u>-11,035</u>		Liabilities	<u>-1,368</u>	
	-2,744	<b>Net Forward Foreign Currency</b>		1,930
		<b>Futures</b>		
5,820		Assets	235	
<u>-2,123</u>		Liabilities	<u>-1,469</u>	
	3,697	<b>Net Futures</b>		-1,234
		<b>Options</b>		
1,787		Assets	117	
<u>-3,220</u>		Liabilities	<u>-1</u>	
	-1,433	<b>Net Options</b>		116
	<u><b>-480</b></u>	<b>Net Market Value of Derivative Contracts</b>		<u><b>812</b></u>

The Pension Fund invests in the following types of derivatives:

#### i. Forward Foreign Currency Contracts

Currency is bought and sold by investment managers 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.

The following tables list all of the forward foreign currency contracts held by the investment managers (BlackRock, CBRE and Royal London) on 31 March 2021 and 31 March 2020.

**31 March 2021**

Settlement	Currency Bought	Local Value	Currency Sold	Local Value	Asset Value £000	Liability Value £000
0 to 1 month	AUD	6,559,050	EUR	-6,521,263	38	
0 to 1 month	USD	6,321,471	SEK	-6,559,050		-238
0 to 1 month	EUR	38,489,416	EUR	-36,989,173	1,500	
0 to 1 month	GBP	2,556,266	EUR	-2,582,541		-26
0 to 1 month	EUR	10,119,735	USD	-9,969,438	150	
0 to 1 month	USD	164,000,000	JPY	-162,819,120	1,181	
0 to 1 month	GBP	25,759,026	GBP	-26,000,000		-241
0 to 1 month	USD	4,500,000	GBP	-4,536,727		-37
0 to 1 month	USD	4,200,000	USD	-4,254,883		-55
0 to 1 month	ZAR	8,479,646	GBP	-8,620,791		-141
0 to 1 month	ZAR	3,261,402	GBP	-3,365,578		-104
1 to 3 months	GBP	23,865	USD	-33,327		-1
1 to 3 months	GBP	15,867,761	AUD	-28,515,240	125	
1 to 3 months	GBP	57,165,686	USD	-79,616,365		-523
1 to 3 months	GBP	24,724	USD	-34,433		-
1 to 3 months	GBP	1,457,153	EUR	-1,702,898	4	
1 to 3 months	GBP	2,077,085	DKK	-18,050,282	7	
1 to 3 months	GBP	23,118,380	JPY	-3,501,532,931	138	
1 to 3 months	GBP	599,711	AUD	-1,077,714	5	
1 to 3 months	GBP	42,902,983	EUR	-50,138,465	124	
1 to 3 months	GBP	1,137,896	SEK	-13,511,377	14	
1 to 3 months	GBP	1,960,991	JPY	-297,013,590	11	
1 to 3 months	GBP	199,953	USD	-278,481		-2
1 to 3 months	GBP	528,287	EUR	-618,314	1	
					<b>3,298</b>	<b>-1,368</b>
<b>Net Forward Foreign Currency Contracts at 31 March 2021</b>						<b>1,930</b>

**31 March 2020**

Settlement	Currency bought	Local Value	Currency sold	Local Value	Asset Value £000	Liability Value £000
0 to 1 month	GBP	69,729,236	EUR	-71,855,092		-2,126
0 to 1 month	EUR	5,800,000	SEK	-4,954,002	180	
0 to 1 month	SEK	31,278,994	EUR	-2,566,886		-21
0 to 1 month	SEK	31,244,107	EUR	-2,566,886		-23
0 to 1 month	EUR	54,645,000	USD	-49,296,137		-928
0 to 1 month	GBP	5,610,385	JPY	-5,978,420		-368
0 to 1 month	JPY	1,000,000,000	GBP	-7,566,723		-94
0 to 1 month	USD	4,168,416	GBP	-3,200,000	161	
0 to 1 month	GBP	107,751,242	USD	-113,166,758		-5,416
0 to 1 month	USD	8,330,000	GBP	-6,386,905	329	
0 to 1 month	USD	30,000,000	GBP	-24,201,921		-14
0 to 1 month	USD	7,300,000	HKD	-5,908,844		-23
0 to 1 month	USD	10,500,000	IDR	-7,181,986	1,284	
0 to 1 month	IDR	30,943,500,000	USD	-1,693,138		-159
0 to 1 month	IDR	30,933,000,000	USD	-1,693,138		-160
0 to 1 month	IDR	30,939,300,000	USD	-1,693,138		-159
0 to 1 month	IDR	14,479,500,000	USD	-790,131		-72
0 to 1 month	IDR	17,354,750,000	USD	-947,351		-87
0 to 1 month	IDR	30,071,725,000	USD	-1,648,794		-158
0 to 1 month	USD	8,340,000	JPY	-6,824,278		-100
0 to 1 month	USD	10,500,000	KRW	-8,212,280	253	
0 to 1 month	USD	1,970,000	KRW	-1,574,393	14	
0 to 1 month	USD	2,950,000	KRW	-2,359,310	19	
0 to 1 month	KRW	6,984,675,000	USD	-4,474,747	145	
0 to 1 month	KRW	2,683,800,000	USD	-1,741,523	33	
0 to 1 month	KRW	5,343,537,500	USD	-3,487,078	47	
0 to 1 month	KRW	2,665,735,000	USD	-1,737,492	26	
0 to 1 month	KRW	1,523,970,000	USD	-991,701	16	
0 to 1 month	USD	15,800,000	SGD	-12,426,730	312	
0 to 1 month	USD	1,905,000	SGD	-1,516,009	20	
0 to 1 month	USD	5,430,000	SGD	-4,331,698	46	
0 to 1 month	SGD	3,384,266	USD	-1,866,494	50	
0 to 1 month	SGD	3,360,463	USD	-1,866,494	37	
0 to 1 month	SGD	6,705,621	USD	-3,728,956	69	
0 to 1 month	SGD	3,352,857	USD	-1,864,478	35	
0 to 1 month	SGD	10,038,766	USD	-5,595,450	90	
0 to 1 month	SGD	3,348,995	USD	-1,866,494	30	
0 to 1 month	SGD	3,344,890	USD	-1,864,478	30	
0 to 1 month	USD	26,500,000	TWD	-21,149,396	216	
0 to 1 month	TWD	126,862,106	USD	-3,409,462		-19
0 to 1 month	TWD	120,881,400	USD	-3,241,165		-11
0 to 1 month	TWD	130,867,750	USD	-3,511,263		-14
0 to 1 month	TWD	65,078,300	USD	-1,749,584		-10
0 to 1 month	TWD	120,559,800	USD	-3,241,165		-19
0 to 1 month	TWD	120,399,000	USD	-3,241,165		-24
0 to 1 month	TWD	23,034,150	USD	-616,789		-1
0 to 1 month	TWD	60,380,400	USD	-1,620,583		-7
0 to 1 month	TWD	3,610,800	USD	-96,751		0
0 to 1 month	TWD	23,769,544	USD	-637,964		-3
1 to 3 months	GBP	1,742,031	EUR	-1,891,867	65	
1 to 3 months	GBP	218,056	USD	-260,533	8	
1 to 3 months	GBP	39,409	USD	-47,086	1	
1 to 3 months	GBP	278,635	AUD	-555,876	5	

Settlement	Currency bought	Local Value	Currency sold	Local Value	Asset Value £000	Liability Value £000
1 to 3 months	GBP	518,707	AUD	-1,034,820	9	
1 to 3 months	GBP	24,411,095	JPY	-3,254,975,453	41	
1 to 3 months	GBP	40,993,265	EUR	-44,519,185	1,524	
1 to 3 months	GBP	21,295	USD	-25,443	1	
1 to 3 months	GBP	1,239,097	SEK	-14,827,034	32	
1 to 3 months	GBP	17,530,144	AUD	-34,972,638	289	
1 to 3 months	GBP	3,313,986	JPY	-441,886,922	6	
1 to 3 months	GBP	68,346,261	USD	-81,660,112	2,588	
1 to 3 months	GBP	2,274,724	DKK	-18,436,640	84	
1 to 3 months	GBP	1,294,123	USD	-1,661,000	0	-44
1 to 3 months	GBP	7,769,634	EUR	-8,943,000	0	-155
1 to 3 months	USD	1,646,000	GBP	-1,268,771	57	0
1 to 3 months	GBP	1,953,847	EUR	-2,234,000	0	-26
1 to 3 months	GBP	15,021,579	USD	-19,345,000	0	-563
1 to 3 months	EUR	3,884,000	GBP	-3,433,275	8	0
1 to 3 months	GBP	5,131,124	EUR	-5,643,000	131	0
1 to 3 months	USD	1,519,000	GBP	-1,312,668	0	-89
1 to 3 months	EUR	2,559,000	GBP	-2,409,759	0	-142
					<b>8,291</b>	<b>-11,035</b>
<b>Net forward foreign currency contracts at 31 March 2020</b>						<b>-2,744</b>

## ii. Futures

When there is a requirement to hold cash assets, but the Investment Manager does not want this cash to be out of the market, index based futures contracts are bought which have an underlying economic value broadly equivalent to the cash held in anticipation of cash outflow required. Outstanding exchange traded futures contracts, held by BlackRock are as follows:

<b>2020-21</b>					
Type	Expires	Product Description	Currency	Market Value at 31 March 21 £000	
<b>Assets</b>					
Overseas Equity	1 to 3 months	MSCI SING IX ETS APR 21	SGD	40	
Overseas Equity	1 to 3 months	EMINI FINANCIAL SELECT SECTOR JUN	USD	22	
Overseas Equity	1 to 3 months	EURO STOXX 50 JUN 21	EUR	151	
Overseas Equity	0 to 1 month	EURO STOXX BANK JUN 21	EUR	22	
<b>Total Assets</b>					<b>235</b>
<b>Liabilities</b>					
Overseas Equity	1 to 3 months	S&P500 EMINI JUN 21	USD	-702	
Overseas Equity	1 to 3 months	IBEX 35 INDEX APR 21	EUR	-56	
Overseas Equity	1 to 3 months	MSCI WORLD INDEX JUN 21	USD	-333	
UK Equity	1 to 3 months	FTSE 100 INDEX JUN 21	GBP	-15	
Overseas Equity	1 to 3 months	NASDAQ 100 E-MINI JUN 21	USD	-338	
Overseas Fixed Interest	1 to 3 months	US 10YR NOTE JUN 21 21/6/2021	USD	-25	
<b>Total Liabilities</b>					<b>-1,469</b>
<b>Net Futures Contracts at 31 March 2021</b>					
					<b>-1,234</b>

**2019-20**

Type	Expires	Product Description	Currency	Market Value at 31 March 20	
				£000	£000
<b>Assets</b>					
Overseas Equity	1 to 3 months	EURO STOXX 50 JUN 20	EUR	339	
Overseas Equity	1 to 3 months	CBOE VIX MAY 20	USD	907	
Overseas Fixed Interest	1 to 3 months	US 10YR NOTE JUN 20 19/6/2020	USD	1,646	
Overseas Equity	0 to 1 month	CBOE VIX APR 20	USD	<u>2,928</u>	
<b>Total Assets</b>					<b>5,820</b>
<b>Liabilities</b>					
Overseas Equity	3 to 6 months	CBOE VIX AUG 20	USD	-269	
Overseas Equity	3 to 6 months	CBOE VIX JUL 20	USD	-181	
Overseas Equity	1 to 3 months	S&P500 EMINI JUN 20	USD	-690	
UK Equity	1 to 3 months	FTSE 100 INDEX JUN 20	GBP	-983	
<b>Total Liabilities</b>					<b>-2,123</b>
<b>Net Futures Contracts at 31 March 2020</b>					<b><u>3,697</u></b>

**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, 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.

**2020-21**

Type	Expires	Product Description	Currency	Market Value at 31 March 21	
				£000	£000
<b>Assets</b>					
Overseas Equity	1 to 3 months	MSCI EMERGING MARKETS INDEX JUN C @ 1450	USD	114	
Overseas Equity	0 to 1 month	S&P 500 INDEX APR P @ 3885	USD	<u>3</u>	
<b>Total Assets</b>					<b>117</b>
<b>Liabilities</b>					
Overseas Equity	0 to 1 month	S&P 500 INDEX APR P @ 3690	USD	<u>-1</u>	
<b>Total Liabilities</b>					<b>-1</b>
<b>Net Options at 31 March 2021</b>					<b><u>116</u></b>

**2019-20**

Type	Expires	Product Description	Currency	Market Value at 31 March 20	
				£000	£000
<b>Assets</b>					
Overseas Equity	1 to 3 months	EURO STOXX 50 INDEX 01-JAN-2050 19/6/2020 C @ 3550.000	EUR	12	
Overseas Equity	1 to 3 months	NASDAQ 100 INDEX ND 01-JAN-2050 19/6/2020 P @ 7200.000	USD	732	
Overseas Equity	6 to 12 months	EURO STOXX 50 INDEX 01-JAN-2050 18/12/2020 C @ 4000.000	EUR	11	
Overseas Equity	6 to 12 months	EURO STOXX 50 INDEX 01-JAN-2050 18/12/2020 C @ 2900.000	EUR	1,032	
<b>Total Assets</b>					<b>1,787</b>
<b>Liabilities</b>					
Overseas Equity	1 to 3 months	EURO STOXX 50 INDEX 01-JAN-2050 19/6/2020 P @ 2125.000	EUR	-182	
Overseas Equity	1 to 3 months	EURO STOXX 50 INDEX 01-JAN-2050 19/6/2020 P @ 2450.000	EUR	-662	
Overseas Equity	6 to 12 months	EURO STOXX 50 INDEX 01-JAN-2050 18/12/2020 C @ 3050.000	EUR	-681	
Overseas Equity	0 to 1 month	SPX VOLATILITY INDEX UX 01-JAN-2050 15/4/2020 C @ 37.500	USD	-1,384	
Overseas Equity	1 to 3 months	SPX VOLATILITY INDEX UX 01-JAN-2050 20/5/2020 C @ 45.000	USD	-311	
<b>Total Liabilities</b>					<b>-3,220</b>
<b>Net Options at 31 March 2020</b>					<b>-1,433</b>

**Investments Exceeding 5% of the Fund available to Pay Benefits at 31 March**

The investments in the following table individually represented more than 5% of the Pension Fund's total net assets available for benefits at 31 March:

**Investments Exceeding 5% of the Market Value of the Fund**

At 31 March 2020		Name of Fund	Investment Manager	At 31 March 2021	
£m	%			£m	%
976.64	35.05	GLOBAL EQUITY ALPHA A ACC	BCPP	1450.55	41.68
-	-	STERLING INDEX-LINKED BOND	BCPP	458.73	13.18
391.52	14.05	Diversified Yield Plus	AB	577.00	16.58

**16. Financial Instruments****Classification of Financial Instruments**

Accounting policies describe how different asset classes of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised.

The following table analyses the carrying amounts of financial assets and liabilities by category and Net Assets Statement heading:

2019-20			2020-21		
Fair Value through Profit and Loss	Financial Assets at Amortised Cost	Financial Liabilities at Amortised Cost	Fair Value through Profit and Loss	Financial Assets at Amortised Cost	Financial Liabilities at Amortised Cost
£000	£000	£000	£000	£000	£000
<b>Financial Assets</b>					
276,336			387,003		
624,790			48,905		
1,807,754			1,009,355		
<b>Pooled Funds:</b>					
-			1,450,550		
-			458,726		
3,696			10,750		
-			3,255		
-			8,610		
15,898			3,650		
	252			223	
	52,716			50,651	
	32,720			43,051	
	11,349			3,862	
	9,537			11,153	
2,728,474	106,574	-	3,380,804	108,940	-
<b>Financial Liabilities</b>					
-16,378			-2,838		
		-32,423			-6,360
-16,378	-	-32,423	-2,838	-	-6,360
<b>2,712,096</b>	<b>106,574</b>	<b>-32,423</b>	<b>3,377,966</b>	<b>108,940</b>	<b>-6,360</b>
					<b>3,480,546</b>
<b>2,786,247 Net Assets at 31 March</b>					

### Net gains and losses on financial instruments

31 March 2020		31 March 2021
£000		£000
<b>Financial Assets</b>		
-173,923	Fair Value through profit and loss	648,899
-12,374	Financial assets measured at amortised cost	20,084
<b>Financial Liabilities</b>		
-	Fair Value through profit and loss	-
-	Financial liabilities measured at amortised cost	-
<b>-186,297</b>	<b>Total</b>	<b>668,983</b>

## **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, exchange traded derivatives 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 include unquoted property funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The following tables provide analyses of the financial assets and liabilities of the Fund as at 31 March 2021 and 31 March 2020, grouped into Levels 1, 2 and 3, based on the level at which the fair value is observable. The tables also include assets and liabilities held at amortised cost in order to balance to the totals shown in the Net Asset Statement:

	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	Total
Values at 31 March 2021	Level 1 £000	Level 2 £000	Level 3 £000	£000
<b>Financial Assets</b>				
Financial Assets at Fair Value through Profit and Loss	3,177,964	4,676	198,164	3,380,804
Financial assets at Amortised Cost	108,940	-	-	108,940
<b>Total Financial Assets</b>	<b>3,286,904</b>	<b>4,676</b>	<b>198,164</b>	<b>3,489,744</b>
<b>Financial Liabilities</b>				
Financial Liabilities at Fair Value through Profit and Loss	-1,470	-1,368		-2,838
Financial Liabilities at Amortised Cost	-6,360			-6,360
<b>Total Financial Liabilities</b>	<b>-7,830</b>	<b>-1,368</b>	<b>-</b>	<b>-9,198</b>
<b>Net Financial Assets</b>	<b>3,279,074</b>	<b>3,308</b>	<b>198,164</b>	<b>3,480,546</b>

	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	Total
Values at 31 March 2020	Level 1 £000	Level 2 £000	Level 3 £000	£000
<b>Financial Assets</b>				
Financial Assets at Fair Value through Profit and Loss	2,526,250	9,125	193,099	2,728,474
Financial Assets at Amortised Cost	106,574			106,574
<b>Total Financial Assets</b>	<b>2,632,824</b>	<b>9,125</b>	<b>193,099</b>	<b>2,835,048</b>
<b>Financial Liabilities</b>				
Financial Liabilities at Fair Value through Profit and Loss	-5,343	-11,035		-16,378
Financial Liabilities at Amortised Cost	-32,423			-32,423
<b>Total Financial Liabilities</b>	<b>-37,766</b>	<b>-11,035</b>	<b>-</b>	<b>-48,801</b>
<b>Net Financial Assets</b>	<b>2,595,058</b>	<b>-1,910</b>	<b>193,099</b>	<b>2,786,247</b>

**RECONCILIATION OF FAIR VALUE MEASUREMENTS WITHIN LEVEL 3**

Period 2020/21	Market Value 01 April 2020 £000	Purchases	Sales During	Unrealised Gains / (Losses) £000	Realised Gains / (Losses) £000	Market Value 31 March 2021 £000
		During the Year and Derivative Payments £000	the Year and Derivative Payments £000			
Pooled Investment Vehicles	186,495	13,296	-8,693	-12,047	-247	178,804
Private Equity	2,908	4,812	-	890	-	8,610
Infrastructure	3,696	7,367	-	-313	-	10,750
	<b>193,099</b>	<b>25,475</b>	<b>-8,693</b>	<b>-11,470</b>	<b>-247</b>	<b>198,164</b>

**RECONCILIATION OF FAIR VALUE MEASUREMENTS WITHIN LEVEL 3**

Period 2019/20	Market Value 01 April 2019 £000	Purchases	Sales During	Unrealised Gains / (Losses) £000	Realised Gains / (Losses) £000	Market Value 31 March 2020 £000
		During the Year and Derivative Payments £000	the Year and Derivative Payments £000			
Pooled Investment Vehicles	171,029	23,498	-14,737	3,969	2,736	186,495
Private Equity	-	2,907	-125	126	-	2,908
Infrastructure	-	3,854	-15	-143	-	3,696
	<b>171,029</b>	<b>30,259</b>	<b>-14,877</b>	<b>3,952</b>	<b>2,736</b>	<b>193,099</b>

**17. Nature and Extent of Risk Arising From Financial Instruments****Risk and risk management**

The Pension Fund's activities expose it to a variety of financial risks. The key risks are:

- i. **Market Risk** - the possibility that financial loss may arise for the Fund as a result of changes in, for example, interest rates movements;
- ii. **Credit Risk** - the possibility that other parties may fail to pay amounts due to the Fund;
- iii. **Liquidity Risk** - the possibility that the Fund might not have funds available to meet its commitments to make payments.

The Fund's primary long-term risk is that its assets will fall short of its liabilities (i.e. promised benefits payable to members). The aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and maximise the opportunity for gains across the whole fund portfolio. This is achieved through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate

risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The administering body manages these investment risks as part of its overall Pension Fund risk management programme.

The Fund's assets are managed by a number of Investment Managers, as disclosed in Note 15. By dividing the management of the assets between a number of managers risk is further controlled. 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.

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. Risk exposure is limited by applying maximum exposure restrictions on individual investments to each Investment Manager's portfolio.

### **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. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.

The Fund's Investment Managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the Fund to ensure it is within limits specified in the Fund Investment Strategy.

### **Other Price Risk – Sensitivity Analysis**

In consultation with the Fund's investment advisers, an analysis of historical volatility and implied market volatility has been completed. From this, it has been determined that the potential market movements in market price risk, as shown in the following table, are reasonably possible for the 2020/21 reporting period. The analysis assumed that all other variables remain the same.

If the market price of the Fund investments were to increase / decrease in line with these potential market movements, the value of assets available to pay benefits would vary as illustrated in the following table (the prior year comparator is also provided):

Manager	Asset Type	Asset Value	Potential	Value on	Value on
		at 31 March	Market	Increase	Decrease
		2021	Movements	£000	£000
		£000	%		
AB	Broad Bonds	577,005	7.0%	617,395	536,615
BlackRock	DAA	388,721	10.6%	429,925	347,517
CBRE	Unlisted Property	178,804	14.1%	204,015	153,593
CBRE	Listed Property	41,762	20.5%	50,323	33,201
Mondrian	Emerging Market Equity	257,789	26.3%	325,588	189,990
BCPP	Unquoted UK Equity	1,182	0.0%	1,182	1,182
BCPP	Global Equity	1,450,550	17.5%	1,704,396	1,196,704
BCPP	Private Equity	8,610	24.0%	10,676	6,544
BCPP	Infrastructure	10,750	15.5%	12,416	9,084
BCPP	Private Credit	3,255	10.6%	3,600	2,910
BCPP	UK Index Linked Bonds	458,726	9.8%	503,681	413,771
	Loans	223	0.0%	223	223
	Cash	93,702	0.0%	93,702	93,702
	Net Derivative Assets	812	0.0%	812	812
	Net Investment Balances	2,555	0.0%	2,555	2,555

**Total Change in Net Investment Assets Available**

**3,474,446**

**3,960,489**

**2,988,403**

Manager	Asset Type	Asset Value	Potential	Value on	Value on
		at 31 March	Market	Increase	Decrease
		2020	Movements	£000	£000
		£000	%		
AB	Broad Bonds	391,518	7.0%	418,924	364,112
BlackRock	DAA	349,557	11.9%	391,154	307,960
CBRE	Unlisted Property	186,497	14.2%	212,980	160,014
CBRE	Listed Property	32,952	25.6%	41,388	24,516
Mondrian	Emerging Market Equity	181,549	30.3%	236,558	126,540
RLAM	UK Index Linked Gilts	586,424	9.4%	641,548	531,300
BCPP	Unquoted UK Equity	833	0.0%	833	833
BCPP	Global Equity	976,643	22.6%	1,197,364	755,922
BCPP	Private Equity	2,907	36.5%	3,968	1,846
BCPP	Infrastructure	3,696	17.0%	4,324	3,068
	Loans	252	0.0%	252	252
	Cash	85,436	0.0%	85,436	85,436
	Net Derivative Assets	-480	0.0%	-480	-480
	Net Investment Balances	-13,649	0.0%	-13,649	-13,649

**Total Change in Net Investment Assets Available**

**2,784,135**

**3,220,600**

**2,347,670**

### 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 2021 and the effect of a +/- 25 Basis Points (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 2021  £000	Change in Year in the Net Assets Available to Pay Benefits	
		+25 BPS	-25 BPS
		£000	£000
Cash and Cash Equivalents	93,702	234	-234
Fixed Interest Securities	48,905	122	-122
<b>Total Change in Net Investment Assets Available</b>	<b>142,607</b>	<b>356</b>	<b>-356</b>

Asset Type	Asset Values at 31 March 2020  £000	Change in Year in the Net Assets Available to Pay Benefits	
		+25 BPS	-25 BPS
		£000	£000
Cash and Cash Equivalents	85,436	214	-214
Fixed Interest Securities	63,884	160	-160
<b>Total Change in Net Investment Assets Available</b>	<b>149,320</b>	<b>374</b>	<b>-374</b>

### Currency Risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than GBP (the functional currency of the Fund). The Fund'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 likely fluctuation associated with foreign exchange rate movements is expected to be 10% for developed market currencies and 15% in emerging market currencies. This is based upon the adviser's analysis of long-term historical movements in the month end exchange rates of a broad basket of currencies against the pound. This analysis assumes that all other variables, in particular interest rates, remain constant.

The following table exemplifies, by Investment Manager, to what extent a 10% (or 15% 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 (the prior year comparator is also provided):

Manager	Currency Exposure by Asset Type	Level of Unhedged Exposure	Total Volatility	Asset Value at 31 March 21	Value on Increase	Value on Decrease
				£000	£000	£000
AB	Broad Bonds	0%	0%	577,005	577,005	577,005
BlackRock	DAA	5%	10%	388,721	390,665	386,777
CBRE	Global Property	18%	10%	220,566	224,536	216,596
Mondrian	Emerging Market Equity	100%	15%	257,789	296,457	219,121
BCPP	Unquoted UK Equities	0%	0%	1,182	1,182	1,182
BCPP	Global Equity	88%	10%	1,450,550	1,577,908	1,323,192
BCPP	Private Equity	93%	10%	8,610	9,411	7,809
BCPP	Infrastructure	93%	10%	10,750	11,750	9,750
BCPP	Private Credit	74%	10%	3,255	3,496	3,014
BCPP	UK Indexed Linked Bonds	0%	0%	458,726	458,726	458,726
	Loans	0%	0%	223	223	223
	Cash	22%	10%	93,702	95,763	91,641
	Net Derivative Assets	0%	0%	812	812	812
	Net Investment Balances	0%	0%	2,555	2,555	2,555
<b>Total Change in Net Investment Assets Available</b>				<b>3,474,446</b>	<b>3,650,489</b>	<b>3,298,403</b>

Manager	Currency Exposure by Asset Type	Level of Unhedged Exposure	Total Volatility	Asset Value at 31 March 20	Value on Increase	Value on Decrease
				£000	£000	£000
AB	Broad Bonds	0%	0%	391,518	391,518	391,518
BlackRock	DAA	5%	10%	349,557	351,305	347,809
CBRE	Global Property	15%	10%	219,449	222,741	216,157
Mondrian	Emerging Market Equity	100%	15%	181,549	208,781	154,317
RLAM	UK Index Linked Gilts	0%	0%	586,424	586,424	586,424
BCPP	Unquoted UK Equities	0%	0%	833	833	833
BCPP	Global Equity	86%	10%	976,643	1,060,634	892,652
BCPP	Private Equity	100%	10%	2,907	3,198	2,616
BCPP	Infrastructure	100%	10%	3,696	4,066	3,326
	Loans	0%	0%	252	252	252
	Cash	21%	10%	85,436	87,230	83,642
	Net Derivative Assets	0%	0%	-480	-480	-480
	Net Investment Balances	0%	0%	-13,649	-13,649	-13,649
<b>Total Change in Net Investment Assets Available</b>				<b>2,784,135</b>	<b>2,902,853</b>	<b>2,665,417</b>

## ii. Credit Risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities. The Fund's entire investment portfolio is exposed to some form of credit risk with the exception of the derivatives positions, where the risk equates to the net market value of a positive derivative position. 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, and the risk is mitigated by the Custodian's high "tier one" capital ratio, conservative balance sheet management and a high and stable credit rating. As at 31 March 2021, this level of exposure to the Custodian is 1.5% of the total value of the portfolio (1.9% as at 31 March 2020).

Surplus cash is invested by Durham County Council only with financial institutions which meet identified minimum credit criteria, in accordance with the Fitch, Moody's and Standard & Poors' Credit Ratings Services. The council's Investment Strategy sets out the maximum amounts and time limits in respect of deposits placed with each financial institution; deposits are not made unless they meet the minimum requirements of the investment criteria.

The Fund believes it has managed its exposure to credit risk. No credit limits were exceeded during the reporting period and the Fund does not expect any losses from non-performance by any of its counterparties in relation to deposits. The pension fund has experienced no defaults from fund managers, brokers or bank accounts over the past five years.

The cash holding under its treasury management arrangements was £43.051m as at 31 March 2021 (£32.720m as at 31 March 2020). This was held with the following institutions:

	Rating as at 31 March 2021	Balances as at 31 March 2021 £000	Rating as at 31 March 2020	Balances as at 31 March 2020 £000
<b>Bank Deposit Accounts</b>				
Handelsbanken	F1+	6,809	F1+	3,025
Bank of Scotland	F1	1,362		-
<b>Fixed Term Deposits</b>				
Bank of Scotland	F1	-	F1	4,929
Yorkshire Building Society	F1	3,406		-
Close Brothers	F2	3,406	F1	2,464
Nationwide Building Society	F1	4,769		-
Goldman Sachs	F1	4,769	F1	-
Santander UK Plc	F1	4,769	F1	4,929
Landesbank Hessen-Thuringen				
Girozentrale (Helaba)	F1+	-		1,232
Standard Chartered	F1	3,542		-
UK Local Authorities	N/A	10,219	N/A	13,862
Unrated Building Societies	N/A			2,156
<b>Income Bond</b>				
National Savings & Investments	N/A	-	N/A	123
<b>Other</b>				
Money Market Funds	N/A	-	N/A	-
<b>Total</b>		<b>43,051</b>		<b>32,720</b>

### iii. Liquidity Risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. Steps are taken to ensure that the Fund has adequate cash resources to meet its commitments. Management prepares quarterly cash flow forecasts to understand and manage the timing of the Fund's cash flows. The appropriate strategic level of cash balances to be held forms part of the Fund Investment Strategy and rebalancing policy.

The vast majority of the Fund's investments are readily marketable and may be easily realised if required. Some investments may be less easy to realise in a timely manner but the total value of these types of investments is not considered to have any adverse consequences for the Fund.

Durham County Council invests the cash balances of the Fund in line with its Treasury Management Policy and as agreed by the Pension Fund Committee. The council manages its liquidity position to ensure that cash is available when needed, through the risk management procedures set out in the prudential indicators and treasury and investment strategy reports, and through a comprehensive cash flow management system.

Regulation 5 of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, 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. As disclosed in Note 19, The Fund expects all liabilities to be paid within 12 months of the year end.

## 18. Analysis of Debtors

2019-20 £000		2020-21 £000
	<b>Included in the Net Assets Statement as:</b>	
11,349	Other Investment Assets	3,862
9,537	Current Assets	11,153
<u>20,886</u>		<u>15,015</u>

All of the £15.015m is due to be received within 12 months after the year end.

## 19. Analysis of Creditors

2019-20 £000		2020-21 £000
	<b>Included in the Net Assets Statement as:</b>	
-24,998	Investment Liabilities - Other balances	-1,307
-7,425	Current Liabilities	-5,053
<u>-32,423</u>		<u>-6,360</u>

All of the £6.360m is expected to be paid by the Pension Fund within 12 months after the year end.

## 20. Additional Voluntary Contributions (AVCs)

AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. The Pension Fund offers two types of AVC arrangement:

- purchase of additional pension, which is invested as an integral part of the Fund's assets;
- money purchase scheme, managed separately by Utmost (formerly 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 2020 £000	* Purchases £000	Sales £000	Change in Market Value £000	Value at 31 March 2021 £000
Utmost (formally Equitable Life)	1,440	10	184	169	1,435
Prudential	7,744		TO BE CONFIRMED		
Standard Life	1,601	149	272	278	1,756
<b>Total</b>	<b>10,785</b>	<b>159</b>	<b>456</b>	<b>447</b>	<b>3,191</b>

\* Purchases represent the amounts paid to AVC providers in 2020/21

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 4 (1) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

## 21. Related Party Transactions

Related parties are bodies or individuals that have the potential to control or influence the Pension Fund or to be controlled or influenced by the Pension Fund. Influence in this context is expressed in terms of a party:

- being potentially inhibited from pursuing at all times its own separate interests by virtue of the influence over its financial and operating policies; or
- actually subordinating its separate interests in relation to a particular transaction.

Related parties of the Pension Fund fall into three categories:

- Employer related
- Member related
- 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	
		2019/20	2020/21
Contributions Receivable	Amounts receivable from employers in respect of contributions to the Pension Fund	£106.029m	£147.634m
Debtors	Amounts due in respect of employers and employee contributions	£8.020m	£9.071m
Creditors	Amounts due to the Administering Authority in respect of administration and investment management expenses	£1.830m	£1.535m
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	£1.830m	£1.535m
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 £0.185m	Loans outstanding £0.169m
Investment Income	Part of the Pension Fund's cash holding is invested in money markets by Durham County Council. The average surplus cash balance during the year and interest earned were:	Balance = £38.895m Interest = £0.319m	Balance = £43.059m Interest = £0.061m

## b) Member Related

Member related parties include:

- Members 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 on an annual basis. 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.

As at 31 March 2021 there were 5 Members of the Pension Fund Committee in receipt of pension benefits from Durham County Council Pension Fund; 1 further member was a deferred member of the Pension Fund.

In accordance with the LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014, with effect from 8 May 2017 elected Members are no longer allowed to be 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.

There were no material related party transactions between any officers or their families and the Pension Fund.

The key management personnel of the Fund are the Members of the Pension Fund Committee, the Corporate Director of Resources, the Head of Corporate Finance and Commercial Services, the Finance Manager - Revenue, Pensions and Technical and the Pensions Manager. The proportion of employee benefits earned by key management personnel relating to the Pension Fund is set out below:

2019-20 £000		2020-21 £000
103	Short-term benefits	107
15	Post-employment benefits	24
<u>118</u>		<u>131</u>

**22. Contingent Assets****a) Pension Contributions On Equal Pay Payments**

Originally equal pay settlements were not deemed to be pensionable however, an element of choice has since been introduced. Individuals can choose to have their settlements considered to be pensionable. This provision has now been added to the agreements that individuals with pending equal pay settlements sign.

There is no certainty that an individual will pay pension contributions on their equal pay settlement. The agreements signed by individuals are 'open-ended' in that an individual's ability to determine their settlement as 'pensionable' is not time limited, so the timing of any liability to pay contributions are not certain, and therefore it is not possible to estimate the value of any future contributions. However, 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, therefore it is not possible to estimate the value of any reclaims.

Up until 1 July 1997 UK Pension Funds were entitled, under UK tax law, to reclaim tax credits attaching to dividends received from UK resident companies. However, Pension Funds which received dividends designated by UK companies as FIDs, or dividends received from overseas companies, were not entitled to a refundable tax credit. Since UK sourced dividends came with a 20 percent tax credit, the net investment income return from UK companies paying such dividends was significantly higher than UK companies paying FIDs or dividends from overseas companies, for which no credit was available. As a result there was a disincentive for Pension Funds to invest in such companies.

The UK tax law which gave rise to these consequences was arguably contrary to EU law, notably Article 56EC, in that it treated UK Pension Funds investing directly into overseas companies, or UK companies paying FIDs, less favourably than UK companies paying ordinary dividends.

The legal arguments to support the strongest element of the FID and Manninen type claims (for EU sourced dividends and FIDs) are considered to be very good. The points in issue are currently being considered at the High Court via a Group Litigation Order containing over 65 UK Pension Funds, including Durham County Council Pension Fund.

### **c) Withholding Tax (WHT) Claims**

Pension funds, investment funds and other tax exempt bodies across Europe have in recent years been pursuing claims against a number of EU Member States for the recovery of withholding taxes suffered on EU sourced dividend income. These claims were made in the light of the Fokus Bank (Case E-1/04) ruling in December 2004 on the grounds that the WHT rules of those Member States are in breach of the free movement of capital principle of the EC Treaty. The legal arguments used to support Fokus claims are strong and rely on existing case law. The EU Commission announced that it is taking action against a number of member states which operate discriminatory rules regarding the taxation of outbound dividends.

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, therefore it is not possible to estimate the value of these claims.

## **23. Funding Arrangements**

In line with Regulation 62 of the Local Government Pension Scheme Regulations 2013 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 2019.

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 2019 actuarial valuation the Fund was assessed as being 94% funded (81% at 31 March 2016). This corresponded to a deficit of £195.5m (£529.3m at 31 March 2016).

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 aggregate employer future service contribution rate (the primary contribution rate, a weighted average of all employers' primary rates) is 17.9% of pensionable pay.

The aggregate employer total contribution rate (primary plus secondary) required to restore the funding ratio to 100%, using a recovery period of 18 years from 1 April 2020, is 21.8% of pensionable pay (assuming the membership remains broadly stable and pay increases are in line with assumptions).

Across the Fund as a whole, the contributions required to remove the shortfall using a recovery period of 18 years from 1 April 2020 would be £12.5m per annum, increasing at 3.1% per annum. This is equivalent to approximately 3.0% per annum of pensionable pay (assuming the membership remains broadly stable and pay increases are in line with assumptions).

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 2019	Valuation as at 31 March 2016
<b>Financial Assumptions</b>		
Discount rate for periods in service	4.25% pa	4.5% pa
Discount rate for periods after leaving service	4.25% pa	4.5% pa
Rate of revaluation of pension accounts	2.1% pa	2.0% pa
Rate of pension increases on:		
- non Guaranteed Minimum Pensions	2.1% pa	2.0% pa
- post 1988 Guaranteed Minimum Pensions	1.9% pa	1.8% pa
Pensionable pay increase	3.1% pa	3.5% pa
<b>Demographic Assumptions</b>		
Post-retirement mortality assumption (normal health) - base table	Standard SAPS S2N tables with scaling factors for actives and deferreds of 110% (males) and 105% (females) and 100% for pensioners	Standard SAPS S2P tables with scaling factors of 95% for men and 100% for women
Post-retirement mortality assumption - future improvements	CMI 2018 projections with Sk=7.5, A=0.0 long annual improvement rate of 1.5%	CMI 2014 core projections with long annual improvement rate of 1.5%
Retirement cash sum	Each member is assumed to surrender pension on retirement, such that total cash received is 85% of the maximum amount permitted	Each member is assumed to surrender pension on retirement, so total cash received is 80% of the maximum amount permitted

## 24. Actuarial Present Value of Promised Retirement Benefits

The CIPFA Code of Practice indicates that Pension Fund accounts should disclose the actuarial present value of promised retirement benefits as set out in the accounting standard IAS 26 and that the actuarial present value should be calculated on assumptions set in accordance with IAS 19 rather than on funding assumptions (set out in Note 23 to these accounts).

The Pension Fund Accounts do not take account of the liabilities to pay pensions and other benefits in the future. Instead, as permitted under IAS 26, the Pension Fund has opted to disclose the actuarial present value of promised retirement benefits by way of this note to the accounts. This requires the actuarial valuation of the liabilities on an IAS 19 basis to be prepared at triennial valuations only, the most recent being as at 31 March 2019.

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 2016 are provided for comparison purposes.

	Value as at 31 March 2019 £m	Value as at 31 March 2016 £m
Fair value of net assets	2,982	2,321
Actuarial present value of the promised retirement benefits	4,512	3,365
Surplus / -deficit in the Fund as measured for IAS26 purposes	-1,530	-1,044

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 2019 (% p.a.)	31 March 2016 (% p.a.)
Discount rate	2.4	3.4
CPI Inflation *	2.2	1.8
Rate of increase to pensions in payment	2.2	1.8
Rate of increase to deferred pensions *	2.2	1.8
Rate of general increase in salaries **	3.2	3.3

\* In excess of Guaranteed Minimum Pension increases in payment for members whose State Pension Age is on or before 5 April 2016 where appropriate

\*\* In addition, we have allowed for the same age related promotional salary scales as used in the actuarial valuation of the Fund at the appropriate date

## 25. Funding Strategy Statement

The Local Government Pension Scheme Regulations 2013 require administering authorities to prepare a Funding Strategy Statement. This statement has been adopted by the Pension Fund Committee and has been published on the County Council's website at [durham.gov.uk](http://durham.gov.uk).

The purpose of the Funding Strategy Statement is to:

- establishes a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;
- supports the regulatory requirement of the desirability of maintaining as nearly constant a primary rate of employer contribution rates as possible;
- enables overall employer contributions to be kept as constant as possible and (subject to the Administering Authority not taking undue risks and ensuring that the regulatory requirements are met) at reasonable cost to the taxpayers, scheduled, designating and admitted bodies;
- ensures that the regulatory requirements to set contributions so as to ensure the solvency and long-term cost efficiency of the Fund are met; and
- takes a prudent longer-term view of funding the Fund's liabilities.

The intention is for this Strategy to apply comprehensively for the Fund as a whole to reflect its best interests, recognising that there will always be conflicting objectives which need to be balanced and reconciled. Whilst the position of individual employers must be reflected in the Statement, it must remain a single Strategy for the Administering Authority to implement and maintain.

### **Investment Strategy Statement**

In accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, the Pension Fund has prepared and reviewed a written statement of its investment policy. The Investment Strategy Statement sets out the principles for investing Fund monies. The document can be found on the council's website at [durham.gov.uk](http://durham.gov.uk).

---

## Annual Governance Statement 2020/21

### INTRODUCTION

1. This statement meets the requirements of Regulation 6 (1) of the Accounts and Audit (England) Regulations 2015 in relation to the publication of an Annual Governance Statement (AGS). It explains how the Council's arrangements for the governance of its affairs complied with its Local Code of Corporate Governance for the year ended 31 March 2021.

### COVID19 PANDEMIC

2. The review of effectiveness for 2020/21 was conducted in the midst of the Council's response to the Covid-19 pandemic, which has persisted throughout the period covered by the review. This statement includes a description of how the Council's governance systems were deployed and adapted during the year because of the impacts of Covid-19.
3. These changes include: new ways of working and emergency arrangements; changes to 'business as usual' activities, including cessation or reduced frequency or scale of activities; and longer-term changes to priorities, projects, strategies and plans. An assessment of the effectiveness of those revised arrangements against the Framework principles has been made.

### CONTEXT

4. Summarised information relating to the constitution, structure, budget and services provided by Durham County Council, along with key statistical information about County Durham can be found on the [About Us](#) page on the Council's website.

### SCOPE OF RESPONSIBILITY

5. 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.
6. The Accounts and Audit (England) Regulations 2015 require the Council to prepare an AGS, 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.
7. 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 and performance.
8. In May 2019, 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”.

## THE PURPOSE OF THE GOVERNANCE FRAMEWORK

9. The governance framework comprises the systems, processes, culture and values by which the Council is directed and controlled, and its activities through which it accounts to, engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of sustainable economic, social and environmental benefits for the people of County Durham.
10. 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 occurring and the impact should they occur, and to manage them efficiently, effectively and economically.
11. The governance framework has been in place across the Council for the year ended 31 March 2021 and up to the date of approval of the Statement of Accounts.

## THE GOVERNANCE FRAMEWORK

12. The key elements of the Council’s governance arrangements are detailed in the Council’s [Local Code of Corporate Governance](#). This sets out the key documents and processes that determine the way the Council is directed and controlled to meet the seven core principles of the CIPFA/ SOLACE Framework.
13. 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 March 2021.
14. 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 [County Durham Vision 2035](#). The Head of Strategy is the designated scrutiny officer to discharge the functions required under the Localism Act 2011.
15. 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 2020/21.

## REVIEW OF EFFECTIVENESS

16. 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 by comments made by the external auditors and other review agencies and inspectorates.

17. 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

18. 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 AGS to demonstrate how far the Council complies with the principles of good governance and recommending improvements.
- Internal Audit provides independent assurance on the effectiveness of the corporate governance framework;
- External Audit provides an independent opinion on whether the AGS is materially accurate.

19. The review was also informed by a statement provided by each Corporate Director 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.

20. The Chief Internal Auditor and Corporate Fraud Manager provides an independent opinion on the adequacy and effectiveness of the system of internal control, risk management and governance arrangements which will be incorporated in the Annual Internal Audit Report to the Audit Committee in June 2021. This opinion is based on audit reviews undertaken during the year which found all systems reviewed to give substantial or moderate assurance, except in three cases where limited assurance was reported. In the main, these issues related to specific areas and did not reflect weaknesses in the underlying governance arrangements.

21. We are satisfied that, whilst the coronavirus pandemic has had an impact in reducing the overall number of individual assurance audits delivered than would normally be expected, in prioritising audit activity to areas of key risk and when taken together with work other sources of assurance being identified from within services themselves, sufficient internal audit work has been undertaken to allow us to draw a reasonable conclusion as to the adequacy and effectiveness of the Council's system of internal control. Based on the work undertaken, we are able to provide a **Moderate** overall assurance opinion on the adequacy and effectiveness of internal control operating across the Council in 2020/2021. The level and nature of internal audit work

undertaken has therefore not required the Interim Chief Internal Auditor and Corporate Fraud Manager to provide a formal Limitation on the Opinion to be delivered and as such there are no qualifications to this opinion. This moderate opinion ranking provides assurance that there is a sound system of control in place, but there are some weaknesses and evidence of non-compliance with controls or ineffective controls.

22. Aligned to the seven principles of good governance, a detailed account of how the Council's governance arrangements have operated during 2020/21 is included in **appendix A**. An update on improvements identified in the 2019/20 Annual Governance Statement is included in **appendix B**.
23. The ways in which the Council's governance systems have been deployed and adapted in response to the Covid-19 pandemic are incorporated into the body of the statement, aligned to the principles of good governance.

## **CONCLUSION**

24. We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit Committee. In conclusion, we are satisfied that the Council's corporate governance arrangements in place during 2020/21 were fit for purpose in accordance with the governance framework. Through the review of governance arrangements, and the work of both internal and external audit, we have identified eight actions as part of ongoing improvements to further strengthen governance arrangements in 2021/22. These are shown in **appendix C**.

## **APPROVAL OF ANNUAL GOVERNANCE STATEMENT**

Signed:

Amanda Hopgood  
Leader of Durham County Council

John Hewitt  
Chief Executive (Interim)

Paul Darby  
Corporate Director of Resources (Interim)

## **APPENDIX A: Governance Arrangements during 2020/21**

A full description of the Council's governance arrangements is set out in the [Local Code of Corporate Governance](#). Aligned to the seven principles of good governance, the following paragraphs provide a detailed account of how the Council's governance arrangements have operated during 2020/21.

### **Principle A: Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law**

#### **Behaving with integrity**

1. In September 2019, the Standards Committee agreed that proposed changes to the [Code of Our Values, Behaviours and Conduct](#) be considered by the Constitution Working Group and by full Council. The amendments provided clarification on employees' obligations in relation to [gifts and hospitality](#).
2. Our core values have been invaluable in shaping the response to Covid-19: -
  - (a) We will work together to achieve the best for people.
  - (b) We put people and communities at the heart of everything we do and value our employees.
  - (c) We value, trust and support each other.
  - (d) We embrace change and look for better ways to deliver services.
3. The [register of gifts, interests and hospitality for members](#) is available online. Staff declarations are maintained and monitored by their Head of Service.
4. The Procurement Strategy and Planning Group revised the Contract Procedure Rules in the [Constitution](#) to ensure that they reflect current practice, guidance and relevant legislation.
5. In January 2021, the Council agreed to a [members' allowance scheme for 2021-22](#), taking into account the views of the independent remuneration panel, which the Council is required by law to establish and maintain.

#### **Demonstrating strong commitment to ethical values**

6. The [2019/20 annual report of the standards committee](#), which is responsible for promoting and maintaining high standards of conduct by councillors, was presented to Council in January 2021. At its first meeting in 2021/2022, the Committee will be asked to agree its work programme for the year.
7. A quarterly customer feedback report is presented to the Overview and Scrutiny Management Board, summarising performance in dealing with corporate and statutory complaints, and identifying actions to improve service provision.
8. The [Slavery and human trafficking statement 2020-21](#) explains how the Council aims to understand and address all potential modern slavery and human trafficking risks related to its business. It outlines the steps in place to ensure modern slavery or human

trafficking does not occur in the Council's own business, and the preventative measures to ensure this extends to any of its supply chains. This statement is subject to continual annual review and is published on the Council's website.

### Respecting the rule of law

9. The [Environment, Health & Consumer Protection enforcement policy](#) sets out the standards and guidance applied by officers authorised to act on behalf of the Council in its role as regulator and enforcement agency. Officers must have regard to codes of conduct, legislation and other statutory provisions, and adhere to the 'principles of good regulation' when exercising regulatory functions to improve outcomes without imposing unnecessary burdens on individuals and businesses.
10. Through the [Counter Fraud & Corruption Strategy](#), the Council is committed to a zero-tolerance approach to fraud and corruption against the Council and its partners. The Corporate Fraud team vigorously pursues all reports of fraud, for example, council tax reduction scheme fraud, false insurance claims and blue badge misuse, with successful prosecutions featuring in the [news pages](#) of the Council's website. The team was shortlisted in the Acknowledge category of the Fighting Fraud & Corruption Locally Awards 2020, and the [Protecting the Public Purse - Annual Report 2019/2020](#) gives an account of their work between 1 April 2019 and 31 March 2020. Since 2015, the team has uncovered or intercepted over £11.5m of fraud, investigating over 4,350 cases across the authority, handling a diverse range of investigations.
11. In September 2020, following consultation, Cabinet approved the designated areas for selective licensing under the council's Housing and Homelessness Strategies. The scheme aims to drive up standards within the increasingly significant private rented sector in the county, and thereby improve communities. Progress was reported in the [Housing Update](#) to Economy and Enterprise Overview and Scrutiny Committee (E&E OSC) in December 2020.
12. In November 2020, Safer and Stronger Communities Overview and Scrutiny Committee received an update on [enforcement and intervention activities of the Public Protection Service](#) in relation to licensing, neighbourhoods, trading standards and safer communities. Due to the pandemic, much of the work concerned issues that arose due to national and local restrictions.

## Principle B: Ensuring openness and comprehensive stakeholder engagement.

### Openness

13. The Council seeks to make decisions that are open about actions, plans, resource use, forecasts, outputs and outcomes, with a presumption for openness and, where relevant, giving reasons for keeping any decision confidential. Clear reasoning and evidence are provided for decisions, being explicit about the criteria, rationale and considerations used, to ensure that the impact and consequences of those decisions are clear. These commitments are demonstrated, for example, by the decision made by Cabinet on the [Leisure Transformation and New Build Site Selection Update](#) report, which sought approval of the three preferred sites for the new build leisure centres for

Seaham, Chester-le-Street and Bishop Auckland, following which further detailed feasibility studies will be completed.

### Engaging comprehensively with institutional stakeholders

14. The Leader of the Council is the chair of the County Durham Partnership, which is the strategic partnership covering most partnerships in County. The Council continues to engage in the North East Local Enterprise Partnership and Combined Authority, taking a regional perspective and seeking to work across broader partnerships to secure investment. Examples of partnership working: -
  - (a) Implemented a Regional Adoption Agency from 1<sup>st</sup> April 2021. This is a new Partnership between Cumbria County Council, Sunderland City Council (Together for children) and Durham County Council which will result in a new single contact arrangement where people wish to enquire/apply about becoming an adopter and a greater sharing of adoption data between the three council.
  - (b) [DurhamWorks Programme – Youth Employment Initiative](#).
  - (c) A [Housing Update](#) on work undertaken with the private housing sector working in partnership with registered providers, including rough sleeping in the county and the response to Covid-19, to E&E OSC in December 2020.
15. The Consultation Officer Group supports the Council's approach to engaging stakeholders and oversees major consultations, which help improve services and influence decision-making.
16. The [Statement of Community Involvement](#) sets out our advice on how town and parish councils and Neighbourhood Forums should seek to involve and consult on the preparation of Neighbourhood Plans.
17. A refresh of the [Work Programme 2020/21](#) was presented to Corporate Overview and Scrutiny Management Board (COSMB) in June 2020. As with other committees, the scrutiny function adapted its work programme to the pandemic situation using new regulations that enabled virtual committee meetings. Agendas were kept short to focus on priorities, progress meetings smoothly and manage workloads efficiently and effectively.
18. The Council and its partners were guided by The Contain Framework, published by the Department of Health and Social Care in July 2020, which set out how national, regional and local partners would work with businesses, institutions such as schools, hospitals and care homes, and the public at a local level to prevent, manage and contain outbreaks. It aimed to support local decision-makers by clarifying their responsibilities and empowering them to take preventative action and make decisions locally, supported by mechanisms which safeguard national assets and interests.
19. The [framework for good workforce mental health in County Durham businesses](#) was developed for small and medium sized businesses and voluntary and community sector organisations, which are less likely to have equitable access to good quality training and support for owners and employees. Also, the negative impact of poor mental health and wellbeing in these workplaces is likely to be bigger in terms of staff absence and reduced productivity.
20. Members of County Durham and Darlington Local Accident and Emergency Board compiled the [County Durham and Darlington System Winter Plan 2020/21](#), which was

based on each organisation's recovery and reset plans following the first wave of Covid-19, and took into account the need to continue with the full restoration of services, whilst managing winter pressures and the risk of a further surges and outbreaks - Adults, Wellbeing and Health Overview and Scrutiny Committee 9/11/20 (AWH OSC).

21. The [County Durham Care Partnership System Response to the Covid-19 Pandemic](#) outlined the Partnership's response to the pandemic in the period up to June 2020 and plans for recovery and future service delivery, and set out the key challenges and opportunities across the range of settings and services, including ongoing engagement with the local population.
22. A new partnership structure was agreed by the County Durham Partnership in September 2020, which comprises: Health and Wellbeing Board (and Outbreak Engagement Board) – Statutory; Safe Durham Partnership – Statutory; Economic Partnership; and Environment and Climate Change Partnership.
23. The Prevention Steering Group, which identifies areas of work where the Partnership needs to concentrate its efforts with early interventions to reduce demand on services and impacts on people, communities, business and organisations that support them, has been expanded to become the County Durham Together Partnership.

### Engaging with individual citizens and service users effectively

24. A presentation to Children and Young People's Overview and Scrutiny Committee (CYP OSC) by the corporate director in July 2020 on the impact of Covid-19 on children and young people's services outlined the input from children, families and schools in shaping the response and next steps.
25. The significant level of uncertainty associated with the 2021/22 budget setting process resulted in the focus of consultation on [Medium Term Financial Plan 2021/22 to 2024/25](#) being on seeking views from Area Action Partnerships on the approach being taken by the council in planning for the 2021/22 budget process. Presentations were made to 14 Area Action Partnership Boards between 14 October 2020 and 25 November 2020 providing a 2021/22 Budget and Medium-Term Financial Plan consultation and budget update.
26. Public consultation exercises were undertaken during the year on a range of issues, including the North East Transport Plan, the County Durham Plan Main Modifications document and the location of leisure centres at Bishop Auckland, Chester-le-Street and Seaham. The full list can be found on the [Consultations](#) pages of the website.
27. The Council uses various channels of communication and feedback mechanisms, including social media (Twitter, Facebook, Instagram and YouTube) to reach out to and meet the needs of its communities.
28. Our 14 [Area Action Partnerships \(AAPs\)](#) held autumn events where they met virtually to gather the views of residents and businesses on a wide range of issues. In addition, AAP Board meetings and task and finish groups have also moved to virtual meeting to enable them to continue. – the Council had a dedicated £1.4 million coronavirus support fund, which was shared amongst AAPs across the county, to ensure local projects were able to help those in need during the coronavirus pandemic.

29. The Council is continuing to build on progress in attracting inward investment and Development in the County through the new [Durham powered by people](#) campaign, which engaged with a range of stakeholders across the business community to support economic growth across the county.
30. [Durham County News](#), the Council's magazine for residents is issued to every household in the County four times a year in line with the [recommended code of practice for local authority publicity](#).
31. In December 2020, COSMB received an update on improvements being delivered through the [Integrated Customer Services Programme \(Enabling Smarter Working\)](#). The programme aims to enhance customer experience by making it easier to connect with the right person, with the right information at the right time. Over the preceding year we had seen an increase in customer satisfaction and improved first point of contacts, and a reduction in avoidable and unanswered contacts.
32. The Council's website highlights Covid-19 [support for residents](#) (including financial support, testing, self-isolating, housing advice, bereavement support, service changes, mental health and wellbeing), [support for businesses](#) (including financial support, postponing business rates, personal protective equipment (PPE), information for suppliers, jobs support for affected businesses), and the [latest statement from LA7 Leaders](#).
33. In February 2021, a report to E&E OSC gave background information on the [Towns and Villages Investment Plan](#). The [strategy](#), agreed by Cabinet October 2020, was subject to consultation across all 14 area action partnerships, representing the whole of County Durham.
34. The Voluntary and Community Sector (VCS) has been critical to the success of the County's pandemic response in supporting individuals and local communities, and helped mobilise community networks and assets to provide an immediate response supporting the vulnerable in need during the lockdown.
35. As part of the Outbreak Control Plans for Covid-19 each local authority area needs to have in place a Local Outbreak Engagement Board, which is a public-facing Board led by council Members to communicate openly with the public. In County Durham this is the Health and Wellbeing Board.

### Principle C: Defining outcomes in terms of sustainable economic, social, and environmental benefits.

#### Defining outcomes

36. The Council conducts a number of strategic assessments of need, which have been brought together into an [Integrated Needs Assessment](#) (INA). This brings together the evidence base and a wide range of strategic assessments to inform strategic planning across the council and by the county's thematic partnerships. The [INA](#) provides links to data, analysis, external frameworks, local profiles, strategies and plans relevant to life in County Durham. An online data mapping site is being developed.

37. The [County Durham Vision 2035](#) was agreed by the County Durham Partnership and Cabinet in September 2019. This vision will be delivered through an integrated framework of partnership and organisational plans and strategies across the County Durham Partnership. The vision is structured around three externally focused results-based ambitions of 'more and better jobs', 'long and independent lives' and 'connected communities'.
- (a) The More and Better Jobs ambition has a wide-ranging focus which includes not only development of the economy and creating jobs, but also working with young people and adults to help them into work, through good quality education and training.
  - (b) The Long and Independent Lives ambition focuses strongly on the health and wellbeing of the local population, including ensuring that all of our children and young people get the best start in life, and services for children with special educational needs and disabilities (SEND) are improved. The ambition has a strong focus on improving mental as well as physical wellbeing.
  - (c) The Connected Communities ambition focuses on making life better in local communities across the County. On how we ensure that children and young people have safe lives in safe communities where people support each other, and have access to high quality housing, good transport links and vibrant town and village centres. As it is a broad ambition, performance reporting is split into two areas of focus: safer communities, and sustainable communities.
38. In September 2019, Cabinet received an update on the Poverty Action Strategy and Poverty Action Plan, through which the council and its partners aim to address and alleviate poverty in the county.
39. [The County Durham Strategic Partnership Approach to Early Help for Children, Young People and Families](#) sets out our partnership vision, priorities and approach for providing effective, targeted and coordinated 'early help' in County Durham in order to address inequalities, promote opportunity and secure better outcomes for children, young people and their families. The strategy focuses on supporting family and community resilience. The strategy also outlines the collective responsibility across key partners for identifying children and young people who require additional help and support.
40. In July 2019, Cabinet adopted the [Housing Strategy](#), the aims of which are better housing support for residents and the [Homelessness Strategy](#), which aims to prevent homelessness by providing housing advice, assistance and support for older and vulnerable people. In March 2021, Cabinet approve the content of the [Targeted Delivery Plans](#), which are an integral part of the County Durham Housing Strategy and relate to maintaining and improving the existing housing stock and the wider housing environment.
41. Despite this very challenging financial period, the scale and sustained level of government spending cuts and the impact on the council's finances, this report includes some very positive outcomes for the people of County Durham including: -
- (a) significant short-term investment in a broad range of priority front line services;
  - (b) continued support to protect working age households in receipt of low incomes through the continuation of the existing Council Tax Reduction Scheme;
  - (c) ongoing work with health partners to ensure health and social care funds are maximised for the benefit of vulnerable people;

- (d) significant investment in capital expenditure including investment in leisure provision, in our town centres and infrastructure.
42. The Joint Health and Wellbeing Strategy is being reviewed to incorporate the new Vision and any changes required as a result of the Covid-19 epidemic.
43. There are clear links between the Financial Management Code and the Governance Framework, particularly with its focus on achieving sustainable outcomes.
44. County Durham Placed Based Commissioning and Delivery Plan 2020 – 2025. Six month review report went to [Health and Wellbeing Board, 11 September 2020](#). All Commissioning strategies are to be reviewed following restructure of integrated commissioning function.
45. In June 2020, COSMB were presented an updated [Work Programme 2020/21](#), which was framed around Covid-19 and in the context of the new shared County Durham Vision 2035 based on the three strategic ambitions – ‘more and better jobs’, ‘long and independent lives’ and ‘connected communities’.
46. In February 2021, AWH OSC received an account of our pandemic response and an updated [Covid-19 Local Outbreak Control Plan](#), the overarching focus of which is to protect the health of local residents and reduce any onward transmission of the virus.
47. In February 2021, Cabinet approved the [Towns and Villages Investment Plan](#), a long-standing priority of the Council, which will lead to the re-use of derelict buildings, walking and cycling improvements, public realm and leisure schemes for our towns and villages across the county.

### Sustainable economic, social and environmental benefits

48. In February 2019, the Council declared a Climate Change Emergency, and set targets to reduce its own carbon emissions and make County Durham carbon neutral by 2050. Response to consultation demonstrated that residents supported and wanted to be actively involved in taking forward the [Climate Change Emergency Response Plan](#), which was approved by Cabinet in February 2020. In February 2021, Cabinet endorsed a new corporate [Environmental Statement](#) and agreed to implement it across all Council services.
49. In November 2020, the AWH OSC were presented with a report on a [health impact assessment](#) conducted in response to the Covid-19 pandemic, with findings and recommendations being developed into a system-wide recovery plan for health inequalities, which will be integrated into key strategic partnership plans such as the Joint Health and Wellbeing Strategy and the County Durham System Plan.
50. An update on the development and implementation of the [framework for good workforce mental health in County Durham businesses](#) was presented to Health and Wellbeing Board in November 2020. The framework recognises that small and medium sized businesses and organisations in the voluntary and community sector are less likely, as a result of their size and potentially limited resources, to have equitable access to good quality training and support for owners and employees.

## Principle D: Determining and planning the interventions necessary to optimise the achievement of the intended outcomes

### Determining interventions

51. The Council continues to ensure that decision makers receive an objective and rigorous analysis of options, highlighting risks and considering feedback from service users and relevant stakeholders. An example is the report to Cabinet in November 2020 on [Local Council Tax Reduction Scheme 2021/22 and Council Tax Covid-19 Hardship Fund Payments](#).
52. To inform decision-making on interventions, the Service Restoration Group receives weekly updates from the Covid-19 Policy Monitoring and Analysis sub-group to provide an overview of new and updated policies and highlight those requiring action. This report is also provided for information to Covid-19 CMT, the Health Protection Assurance Board and the Recovery Group.

### Planning interventions

53. The [Medium Term Financial Plan 2021/22 to 2024/25 \(MTFP\)](#) was approved by the Council in February 2021. 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).
54. Assurance over the delivery of the [Council Plan](#) and the [MTFP](#) is gained by detailed and frequent monitoring undertaken by Corporate Management Team (CMT) and the £7.8m of savings proposed for [MTFP \(11\)](#) period results in the council having saved £250 million since 2011/12; with £242 million being delivered by 31 March 2021. The forecast £36 million shortfall across the [MTFP \(11\)](#) period would result in total savings up to 2024/25 of £286 million having to be realised. The Council's strategy since 2010/11 has been to protect front line services as far as possible and the 2021/22 proposals are in line with this strategy both in terms of savings being realised and additional investment.
55. [Quarterly performance reports](#), which answer key performance questions rather than rely on performance indicators, have been aligned to the new [Council Plan](#) and [County Durham Vision 2035](#).
56. Early Covid-19 planning interventions activity include: -
- The [Local Outbreak Control Plan](#) was published on the Council's website in June 2020 and endorsed by [Health and Wellbeing Board, 14 July 2020](#). It has been periodically updated throughout the year.
  - A report on the [Public Health Response to Covid-19](#) was presented to AWH OSC in July 2020, highlighting that understanding gained from a [health impact assessment of Covid-19](#) would inform recommendations for further action.
  - The [County Durham Care Partnership System Response to the Covid-19 Pandemic](#), reported to AWH OSC in July 2020, set out plans for recovery and future service delivery. It also outlined the key challenges and opportunities across, adult social care and commissioning, primary care, acute hospitals, care homes, mental health and learning disability services during the pandemic.

- (d) A [presentation by the corporate director](#) to Children and Young People's Overview and Scrutiny Committee in July 2020 described the impacts of Covid-19 on children's services, the responses to date and outlined the next steps.
  - (e) In June 2020, COSMB agreed a [work programme](#) for coming year in the context of the challenges the Council faces, primarily the response to and recovery from the pandemic, ongoing austerity, the shared County Durham Vision 2035 and the Council's Transformation Programme.
57. A [Covid-19 update presentation](#) by the Director of Public Health to H&WB in March 2021 included a local update and the next steps – route out of lockdown.
58. A report presented to COSMB in January 2021, entitled [Workplace Transformation: Enabling Smarter Working](#), gave an overview of workplace transformation and smarter working activity, the impact, response and learning from the Covid-19 pandemic and future plans to develop our workplace model. It notes that careful consideration of the benefits and challenges experienced will support evidence-based decision making and underpin new working practices which mitigate and control risks to work and wellbeing, as well as capitalising on the benefits.
59. In January 2021, COSMB was presented with the [Poverty Issues](#) report, which included a summary of the actions to respond to the negative financial impacts experienced by residents as a result of the Covid-19 pandemic.
60. The Business, Economy, Regeneration Strategy Recovery Group (a subgroup of the County Durham Economic Partnership) was established to assess and address the economic implications of the pandemic for County Durham to provide the assistance that businesses need to restart and grow the economy of County Durham. It is focusing on six key areas: business support; employability and skills; infrastructure; intelligence; strategy and lobbying; communication.
61. The coronavirus crisis has put thousands of jobs and hundreds of businesses at risk and some businesses have closed, and the Council has responded to help mitigate the impact. For example, in Durham City, Durham AAP have supported Durham BID with an area budget grant of £40,000 which will enable them to utilise new and old technologies to get key messages out to local people to look at new ways to encourage people to come into Durham to shop, eat and drink in a responsible way.

### Optimising achievement of intended outcomes

62. The Company Governance Group has oversight of the Council's companies' governance arrangements as set out in its terms of reference, which cover its purpose, role and membership. Initially, the Group will report its progress biannually to Corporate Management Team. Training on Local Authority Companies and the role of directors has been provided to Extended Management Team and other senior managers as appropriate. This will ensure that those officers who work with, or who are, appointed as Directors understand roles and responsibilities, can identify and manage conflicts of interests and will provide resilience in the Council's resourcing of the companies. The Group is also considering the Council's strategic approach to its companies and joint venture arrangements.
63. The [Transformation Programme](#) reports to a Transformation Board, consisting of Cabinet members and the Corporate Management Team, chaired by the Leader of the

Council. It is co-ordinated through a Steering group made up of senior officers leading on aspects of the programme and chaired by the Director of Transformation.

64. The [EU funding Update](#) to E&E OSC in March 2021 gave an update on the status of the European Union Structural and Investment Funds Programme (ESIF), which has been supporting investment in innovation, businesses, skills and employment, creating jobs and growth in the County. The report includes a recommendation to support the principle for County Durham to continue making a case for the maximum allocation from the UK Shared Prosperity Fund (to replace ESIF) which at least matches what it would have received under the next EU programme, and that the Fund is allocated on a needs basis, flexible in nature and locally controlled.
65. In October 2020, E&E OSC received a report with information on the [activity undertaken by Visit County Durham](#) to develop and promote County Durham as a tourism destination prior to the Covid-19 pandemic, work undertaken to support the tourism sector during the pandemic and detail of recovery plans.

### Principle E: Developing the Council's capacity, including the capability of its leadership and the individuals within it

#### Developing the Council's capacity

66. The Council's Inspire Programme seeks to enable flexible working through digital and mobile technology, make our workspaces more cost effective and productive, and support collaboration between teams across the organisation. Three projects supporting these aims that were completed before the pandemic have proved vital in maintaining services after the lockdown: -
- (a) A reform of business support services seeks to increase the use of digital solutions to create a more consistent service, improved management information and less labour-intensive administrative processes.
  - (b) A major upgrade to the email, calendar and related systems will deliver numerous benefits, including increased storage capacity, online collaborative working, reduced paper usage and improved data security.
  - (c) A comprehensive development plan for the ResourceLink computer system sets out priorities for streamlining and digitising transactional HR and payroll processes, leading to a reduction in back office administrative tasks. Employees have improved access to personal information, reducing the need for printing and posting documents.
67. The new [Digital Strategy](#) sets out the Council's digital ambitions for the County. It provides a framework within which these ambitions can be delivered and aligns to the interlocking objectives of the revised Council Vision and the Transformation Programme. The new strategy is set out under three main themes: Digital Customer; Digital Organisation; Digital Communities.
68. The latest version of Office 365 has been rolled out across the council, offering a number of new tools that proved invaluable, especially during the lockdown period of the response to Covid-19: -
- Virtual meetings hosted with online agendas and papers.

- Greater collaboration enabled through storing, sharing and even simultaneous co-authoring of documents.
- Communications between staff enhanced through functions that show colleagues' availability, and enable instant messaging, screen-sharing and continuous connectivity through a range of devices.
- Sharing of information, posts and conversations in public and private online spaces.

69. The Covid-19 pandemic has seen a reprioritisation of partners' efforts to manage their response and the cancellation of some partnership meetings. All meetings have now been resumed and are taking place through Microsoft Teams. The pandemic is likely to have a further negative impact on people already living in poverty in County Durham. Our response to this ongoing public health crisis has been to develop alternative service delivery models, adapt and do differently and use technology for workforce training, drop ins and interventions.
70. The Council set up a Covid-19 compliance team to support local businesses through education, support and proportionate regulation. The principal role of this team is to visit relevant business premises across the County to ensure compliance, including the investigation of related complaints. They will provide advice and support to businesses on how to operate in a Covid-19 secure way in accordance with legislation, Government and sector guidance.
71. Implemented an Integrated Commissioning Unit for Adult and Children's Services which integrates the commissioning function for adults and children's services between the Clinical Commissioning Group and the Council.
72. [Changes to services](#) affected by the national lockdown are set out on the Council's website.
73. The Council's Apprenticeship Strategy 2019 to 2022 is being delivered through the People and Talent Management service, which is working with service managers and maintained schools to identify opportunities for new and existing employees to support workforce development and planning. The Council was acknowledged as one of the top 100 UK employers for [apprenticeships](#).

### Developing the capability of the Council's leadership and other individuals

74. The Overview and Scrutiny Management Board, supported by its five committees, makes decision-making processes transparent, accountable and inclusive and seeks 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](#).
75. The Durham Learning and Development system hosts our new Performance and Development Review scheme, which was launched for leaders, managers and core employees in 2019. The Durham Leadership Way programme outlines the expectations of leaders and managers together with a development and support offer. The Durham Leadership and Management Development Programme includes several mandatory courses, including coaching as a management style and mental health awareness for managers. Other courses are linked to corporate priorities, management skills and your personal development. During 2020/21, managers attended mandatory

---

training throughout the year to develop their skills as part of the corporate learning programme.

76. The Council is committed to continually reviewing the development needs of members and officers and continues to be a member of the North East Public Service Academy, which promotes excellence in learning across the public sector.
77. Employees' needs, in terms of training, development, health and wellbeing, are delivered through the Organisational Development Strategy and the Health, Safety and Wellbeing Strategy. The Council continues to support employees through the change process with, for example, Jobcentre Plus information sessions and confidential counselling services through the Employee Assistance Programme. An intranet page has been specifically created for employees in relation to mental health and wellbeing and provides support and guidance for managers and non-management employees.
78. The council has been awarded the better health at work continuing excellence award following achievement of gold award status, demonstrating significant work relating to mental health, including our work around World Mental Health Day WMHD, Time to Talk day, Mental Health Awareness Week, staff wellbeing during Covid-19 (survey and focus groups) and the Power of 5. The assessor commented that it is apparent that the Council has been proactive in its response to the rapid and enforced change to working conditions that have presented multiple challenges for all organisations but have presented a particular challenge for local authorities.
79. The Inspiring People Awards (formerly Great Staff, Great Stuff) reflect the aspirations of our Inspire [Transformation Programme](#). The scheme culminates in a celebration of the very best of our employees, teams and projects – those who are making a massive difference to residents and communities or who are delivering innovative projects and solutions to help both the council and our customers.
80. The [Quarter 1 2020/21 Health, Safety and Wellbeing Performance Report](#) noted that emphasis was placed on employee mental health and wellbeing because of the dramatically different ways of working that were enforced as a result of Covid-19. A depot drive through facility was set up to ensure that equipment such as office chairs and desks could be obtained through facilities management and guidance was provided to employees, highlighting the key aspects of safe homeworking. An intranet Wellbeing Portal was developed to provide employees with useful information to help them look after their wellbeing and other support was made available, including regular, real-time communication and help with family related matters. For those employees who remained at work providing essential services, risk assessments and control measures were swiftly introduced to manage Covid-19 related risks.
81. In support of the Council's strategic ambition that communities will come together to support each other, the County Durham Together Community Hub was established in response to the pandemic to coordinate food provision, social contact, welfare support, volunteering and be the central coordination function for the voluntary and community sector.
82. A Covid-19 Community Champions programme has been developed to ensure that as the pandemic continues, key messages are shared within communities, and that these messages are trusted, concise and clear.

## Principle F: Managing risks, data and performance through robust internal control and strong public financial management

### Managing risk

83. Risk management continues to be embedded in decision making and key business processes and the Risk Management Policy and Strategy, which defines key roles and responsibilities and is reviewed annually, underpins this. The Audit Committee has gained assurance that the Council's strategic risks are being effectively managed through reports issued in [September 2020](#), [November 2020](#) and [February 2021](#). In January 2021, the Council received a report from the [Chairman of the Audit Committee](#) on its work between September 2019 and August 2020, and how the Committee continues to provide for good governance across the Council.
84. Officers from the Council's corporate risk management group meet fortnightly to oversee the management of risks arising from the pandemic and continually report the latest position to corporate management team.
85. The Council is also jointly responsible for responding to civil emergencies (such as severe weather events, network power losses and the Covid-19 pandemic) through the County Durham and Darlington Local Resilience Forum. The arrangements for managing the risk of such events are explained, and a copy of the latest Community Risk Register can be found, on the [Local Resilience Forum](#) web page. One of the intended outcomes of the Council's [Transformation Programme](#) is to help make communities become more self-reliant and resilient, so the Council's website includes advice for [business and care services on planning for emergency situations](#). The Council has worked closely with the Local Resilience Forum in responding to the challenges of the pandemic.
86. Following the United Kingdom's exit from the European Union (EU) on 31 January 2020, the 11-month transition period, which largely kept arrangements the same, expired on 31 December 2020. Instead, a new trade agreement between the UK and EU was concluded on 30 December 2020 and came into effect on 1 January 2021. There continues to be significant uncertainty in relation to the flow of products, services, information and people between the two trading parties, and in turn the cost and regulation of products, goods and services. The EU Exit Task & Finish Group was re-convened, chaired by the Corporate Director of Neighbourhoods and Climate Change, with representatives from key services groupings.
87. Several challenges and uncertainties lie ahead, and these are being monitored through the Council's strategic risk management reporting arrangements: -
- (a) The financial outlook for the council and the whole of local government remains extremely challenging.
  - (b) The implications of the UK leaving the European Union, including the position of EU citizens living in the UK and UK nationals living in the EU.
  - (c) Capacity issues caused by nationwide hard-to-recruit posts in children's social care.
  - (d) Funding pressures in adult social care.
  - (e) Recovery from the effects of the Covid-19 pandemic

- (f) The Council's role as a community leader, to help partners, local businesses and communities make the necessary adaptations and mitigations in pursuit of the target of being a carbon-neutral County by 2050 (climate change).

### Managing performance

88. The [County Durham Partnership](#), which is the strategic partnership for the County, is made up of key public, private and voluntary sector partners. Its' role includes monitoring performance towards implementing [County Durham Vision 2035](#), and considering strategically how plans align and where efficiencies and value can be maximised through integration, shared services and joint commissioning.
89. 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](#) and through performance clinics between the Chief Executive, individual Corporate Directors and the Director of Transformation and Partnerships during the year.
90. To manage and measure service improvement, the Council has a locally led planning and performance management framework that links to the [County Durham Vision 2035](#) and the [Council Plan](#). The format of performance reports has been realigned to the ambitions in the new Council vision. We are developing online (near) real-time performance dashboards using business intelligence and reporting services tools to provide more immediate views and visualisations of performance as part of a business intelligence programme. Examples available in children's social care and customer services.
91. The Quality Improvement Board is chaired by the Corporate Director of Children and Young People's Services and meets monthly to provide strategic oversight and lead improvements in quality.
92. 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. An update on activity from the Panel is presented to each meeting of the Council's [Safer and Stronger Communities Overview and Scrutiny Committee](#).
93. Risk management and internal control are acknowledged as integral parts of the Council's performance management framework and crucial to the achievement of objectives. To reflect this, internal audit continuously reviews risks with reference to strategic objectives, and a register of strategic risks is compiled linking each item to the relevant strategic objective. Internal audit progress updates were provided to Audit Committee in [June 2020](#), [September 2020](#), [November 2020](#) and [February 2021](#).

### Robust internal control

94. Revised versions of the [Internal Audit Strategy, Charter and Plan for 2020/21](#) were approved by Audit Committee in June 2020.
95. Updated versions of the [Counter Fraud & Corruption Strategy and Fraud Response Plan](#), and the [Anti-Money Laundering Policy](#) were presented to Audit Committee in June and July 2018. [Protecting the Public Purse - Annual Report 2019/2020](#).

## Managing data

96. The designated Senior Information Risk Officer is the Corporate Director of Resources, and the designated Data Protection Officer is the Strategic Manager, Executive Support. The council has an Information Governance Group, with representatives from all services, which meets regularly and formulates regulatory responses to the Information Commissioner's Office and handles day-to-day management issues around information governance.

## Strong public financial management

97. The Council has appointed the Corporate Director Resources as Chief Financial Officer and Section 151 Officer (Local Government Act 1972) to fulfil the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2016). The Chief Financial Officer, who is a member of the Corporate Management Team (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.

98. In September 2020, the outcome of the [Redmond review](#) into the oversight of local audit and the transparency of local authority financial reporting was provided to Audit Committee. Recommendations, which address issues in relation to financial resilience and transparency of financial reporting, were considered by officers as part of the 2020/21 final accounts preparations.

99. In February 2021, an update was given to Audit Committee on the Council's [accounting policies](#) to be applied in the preparation of the 2020/21 Statement of Accounts. The following reports provide assurance that the Council's financial management supports both long-term achievement of outcomes and short-term financial and operational performance: -

- (a) [Treasury Management Outturn 2019/20](#)
- (b) [Final Outturn for the General Fund and Collection Fund 2019/20](#)
- (c) [Update on the delivery of the Medium Term Financial Plan 8](#)
- (d) [Update on the delivery of the Medium Term Financial Plan 9](#)
- (e) [Report under Section 25 of Local Government Act 2003 - Reserves](#)
- (f) [Pension Fund Annual External Audit Letter 2019/20](#)

100. A value for money self-assessment against the National Audit Office Code of Practice was completed, with input from Internal Audit, and sent to the external auditors for review by 30 September 2021. It is anticipated that the Council will achieve full compliance.

101. A self-assessment, with input from Internal Audit, demonstrated a high degree of compliance with the CIPFA Financial Management Code. A small number of actions for improvement, identified as part of the work undertaken, are planned for completion during 2021/22.

## Principle G: Implementing good practices in transparency, reporting and audit to deliver effective accountability

### Implementing good practice in transparency

102. The Council is committed to being open and transparent about how it works and how decisions are made. In line with the Local Government Transparency Code, information is published on a [transparency and accountability web page](#) about how money is spent, how services are purchased, land and assets owned, structures and salaries, and fraud. As required by law, the sum paid to each county councillor is also published. The Council has also been publishing open datasets through the Data Mill North website.
103. Reports about complaints against members are included in part A of the Standards Committee agenda rather than part B (consideration of exempt or confidential information).

### Implementing good practices in reporting

104. The Council's commitment to regular reporting to stakeholders on performance, value for money and stewardship of resources is evidenced throughout this statement. Other examples include: -
- (a) [Annual report of the Director of Public Health 2020](#)
  - (b) [Local Safeguarding Children Board Annual Report 2019/20](#)
  - (c) [Corporate Parenting Panel Annual Report 2018-19](#)
  - (d) [Transport Asset Management Plan Annual Update](#)
  - (e) [Protecting the Public Purse Annual Report 2019/20](#)
105. The Local Code of Corporate Governance is reviewed annually before being considered for approval by the Audit Committee and County Council.
106. The [Statement of Accounts 2019/20](#), incorporating the Annual Governance Statement for 2019/20, was approved by the Audit Committee in September 2020, taking account of the views of the External Auditor, in line with the Accounts and Audit Regulations 2015. External Audit also provides an independent opinion on whether the Annual Governance Statement is materially accurate.

### Assurance and effective accountability

107. A review of the effectiveness of Internal Audit, incorporating the Internal Audit Service and the Audit Committee, has been undertaken and was reported to the Audit Committee in June 2020. This review concluded that the Council's system of internal audit is considered to be effective, which in turn allows the opinion of the Chief Internal Auditor and Corporate Fraud Manager to be relied upon.
108. In May 2019, Audit Committee approved revised [Terms of Reference](#) incorporating the Chartered Institute of Public Finance and Accountancy's model Terms of Reference defined in the Practical Guidance for Local Authorities 2018. The Committee also completed a core knowledge and [self-assessment](#) against the good practice for Audit Committees in Local Authorities guidance, and no significant gaps were identified.

109. In June 2020, the Audit Committee approved responses to a range of [questions from the External Auditor](#) to provide evidence of how management and those charged with governance are discharging their responsibilities, to discharge their duties under International Standards for Auditing.
110. Assurance can also be taken from the following external independent sources that, through good governance, the Council continues to maintain and improve the quality of services: -
- (a) The [External Audit Annual Letter 2019/20](#) summarises the work undertaken for Durham County Council and Durham County Council Pension Fund for the year.
  - (b) The [Audit Completion Report \(Statement of Accounts\)](#) summarises the external auditor's conclusions for the year ended 31 March 2020.
  - (c) The [External Audit, Audit Strategy Memorandum, February 2021](#) sets out the audit plan in respect of the audit of Durham County Council for the year ending 31 March 2021.
  - (d) External Audit Progress reports in [November 2020](#) and [February 2021](#).
  - (e) The [Audit Completion Report \(Pension Fund\)](#) summarises the external auditor's conclusions for the year ended 31 March 2020.
111. Regulatory inspections
- (a) Each Children's home is inspected by the regulator, Ofsted.
  - (b) Ofsted Inspection of Aycliffe Secure Children's Home.

## **APPENDIX B: Update on improvements identified in the 2019/20 Annual Governance Statement**

Following the production of the Annual Governance Statement for 2019/20, six improvement actions were identified for 2020/21.

<b>No.</b>	<b>Actions to be taken</b>	<b>Links to the Local Code of Corporate Governance (ref)</b>	<b>Lead Officer</b>	<b>Timescale</b>
1	MTEP and Financial Strategy Group for Education will monitor progress on the implementation of the strategic review of educational provision to ensure that the intended outcomes are achieved.	Optimising the achievement of intended outcomes with robust mechanisms for making decisions, which are reviewed continually (4.34).	Corporate Director, Children and Young People Services	March 2021
<p><b><u>Update:</u></b>  <b>This action is on complete.</b>            The Education Review Board was established in May 2020 and meets approximately monthly to monitor progress as intended</p>				
2	Implement and embed the new Corporate Property and Land Service, as approved by CMT and members, adopting the corporate landlord model.	Developing the Council's capacity through effective use of assets and improving the use of resources (4.37 – 4.38). Head of Strategy, October 2019	Head of Corporate Property and Land	December 2021
<p><b><u>Update:</u></b>  <b>This action is in progress.</b>            The recent establishment of the corporate property board is helping develop a more strategic approach to managing the estate along with the development of strategic policies for land and buildings. The response to Covid-19 has impacted on the delivery of full implementation. It is anticipated that the new arrangements will be effectively embedded by December 2021</p>				
3	Undertake a review of governance arrangements of the County Durham Partnership.	Engaging effectively with institutional stakeholders and developing formal and informal partnerships (4.21).	Head of Partnerships and Community Engagement	May 2020
<p><b><u>Update:</u></b>  <b>This action is complete.</b>            In September 2020, the County Durham Partnership agreed a revised governance framework focussed on delivering the County Durham Vision 2035. This followed widespread consultation including the Thematic Partnership Boards, the Integrated Care Board, the Better Together Forum and members of each partnership.</p>				

No.	Actions to be taken	Links to the Local Code of Corporate Governance (ref)	Lead Officer	Timescale
4	Review High Needs Special Educational Needs Provision (HN SEND), including development of a HN SEND Sustainability Plan, to bring this expenditure within Dedicated Schools Grant funding levels.	Improving the use of its resources to ensure that they are allocated in a way that realises outcomes effectively and efficiently (4.38)	Head of Education and Skills	March 2021
<p><b>Update:</b>  <b>This action is complete.</b>            The HNB five-year financial plan, which aims to recover the deficit and ensure that spending is kept to within available resources, was approved by Cabinet in July 2020. The SEND and Inclusion Resources Board meets monthly to oversee HNB spend and the Sustainability Plan, including consideration of any impacts from the coronavirus pandemic and the subsequent recovery period. A further report on progress is due to be presented to Cabinet in April 2021.</p>				
5	The governance surrounding the Council's companies require refinement and efforts have begun to ensure all necessary documentation is in place and that key officers are aware of their roles and responsibilities with regards to the companies they are involved with.	Creating the conditions to ensure that the statutory officers, other key post holders, and members, are able to fulfil their responsibilities in accordance with legislative and regulatory requirements (3.14)	Head of Legal and Democratic Services	March 2021
<p><b>Update:</b>  <b>This action is complete.</b>            The Company Governance Group oversees the Council's Companies Governance arrangements on behalf of the Council. An update on the Group's work will be presented to CMT in March 2021. Training in March 2021 will ensure that those officers who work with, or who are appointed as, Directors understand roles and responsibilities, can identify and manage conflicts of interests and will provide resilience in the Council's resourcing of the Companies. The Group is also considering the Council's strategic approach to, and structure of, its' Companies and joint venture arrangements.</p>				
6	Implement the actions identified in the Children's Social Care Services improvement plan agreed with Ofsted.	The Council welcomes peer challenge, reviews and inspections from regulatory bodies and seeks to ensure that recommendations are implemented (4.67).	Head of Children's Social Care	March 2021

No.	Actions to be taken	Links to the Local Code of Corporate Governance (ref)	Lead Officer	Timescale
	<p><b>Update:</b>  <b>This action is complete.</b></p> <p>There continues to be a well-established governance structure in place to support, monitor and update the improvement activity taking place within Children’s Social Care following the ILACS inspection in 2019. This is led by the Social Care Quality Improvement Board, which is chaired by the Head of Children’s Social Care and includes all senior managers from the Service. The programme includes the continued implementation of a new social work practice model (‘Signs of Safety’), continued investment from the Council, a new sufficiency strategy for children looked after developed with the integrated commissioning unit and robust Performance and Quality Assurance Systems which help to provide insight and oversight of the progress being made and the difference we are making to the lives of children and families. The Ofsted ILACS framework continues to support regular engagement with Ofsted and the latest Annual Engagement Meeting was held in October 2020 with senior colleagues from Ofsted and the Children and Young Peoples Service Management Team to review progress against the improvement plan and also reflect on how the service has responded to the challenges of Covid-19. This was a positive meeting and also included discussion around some of our new improvement priorities such as the launch of the new leadership academy to strengthen high quality practice and an update on the new model of working for Children with a Disability, including transitions.</p>			

**APPENDIX C: Proposed Governance Improvements required during 2020/21**

As a result of the review of governance arrangements, and the work of both internal and external audit, eight improvement actions have been identified to further strengthen governance arrangements in 2020/21. These are shown in the table below.

No.	Actions to be taken	Lead Officer & Timescale
1	Implement and embed the new Corporate Property and Land Service, as approved by CMT and members, adopting the corporate landlord model.	Head of Corporate Property and Land  December 2021
Developing the Council's capacity through effective use of assets and improving the use of resources (4.37 – 4.38).		
2	Implement the actions identified in the Children's Social Care Services improvement plan agreed with Ofsted.	Head of Children's Social Care  September 2021
<b>Links to the Local Code of Corporate Governance (ref):</b> The Council welcomes peer challenge, reviews and inspections from regulatory bodies and seeks to ensure that recommendations are implemented (4.67).		
3	Review the approach to residential and nursing care, taking into account market reshaping required as a result of capacity in the market, the Covid-19 pandemic and changing preferences in terms of care, with the aim of ensuring a sustainable and high-quality care market (2023).	Head of Integrated Commissioning  March 2022
<b>Links to the Local Code of Corporate Governance (ref):</b> D3.1 Optimising achievement of intended outcomes: optimise the achievement of outcomes (3.34) Rationale: significant governance improvement to optimise the achievement of Council objectives (better integration of health and social care services).		
4	Development and embedding of the County Durham Together model to promote joined up service delivery and enable easier access to preventative services available in local communities.	Gill O'Neill, Deputy Director of Public Health  March 2023
<b>Links to the Local Code of Corporate Governance (ref):</b> Sustainable economic, social and environmental benefits: ensure fair access to services (3.29) Rationale: significant governance improvement to optimise the achievement of a Council objective (better integration of health and social care services).		
5	Undertake a review of Home to School Transport policy and commissioning arrangements to better understand and address escalating budget pressures.	Head of Education and Skills  March 2022
<b>Links to the Local Code of Corporate Governance (ref):</b> Developing the Council's capacity: improve the use of resources to ensure that they are allocated in a way that realises outcomes effectively and efficiently (3.38)		

No.	Actions to be taken	Lead Officer & Timescale
6	Deliver the actions set out within the Looked After Children Placement Sufficiency Strategy to ensure best outcomes and cost-effective placement costs to address escalating budget pressures within Children's Social Care	Head of Children's Social Care and Head of Integrated Commissioning  March 2022
<b>Links to the Local Code of Corporate Governance (ref):</b> Developing the Council's capacity: improve the use of resources to ensure that they are allocated in a way that realises outcomes effectively and efficiently (3.38)		
7	Development of a post Covid Economic Development / Recovery Plan for the County, factoring in opportunities and issues presented through the Levelling Up, ensuring a robust and ambitious economic plan that is co-developed with the community, focused on inclusive growth and prosperity.	Corporate Director of Regeneration, Economy and Growth  October 2022
<b>Links to the Local Code of Corporate Governance (ref):</b> Planning interventions: arrangements for planning the interventions for the achievement of its intended outcomes (3.33)		
8	Assess ongoing medium financial impacts of Covid in terms of additional recurring costs and reduced income to inform future MTFP planning.	Corporate Director of Resources  March 2022
<b>Links to the Local Code of Corporate Governance (ref):</b> Strong public financial management: FM supports long-term outcomes/short-term financial and operational performance. FM is integrated at all levels of planning and control (3.58)		

### **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.

### **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 or Losses**

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). 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. Also known as 'Third Party Payments'.

**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.

**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 council'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 council. This figure is then used in the calculation of the council's minimum revenue provision.

### **Capital Grants Unapplied**

Grants that have been recognised as income in the Comprehensive Income and Expenditure Statement (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.

**Carrying Amount**

The Balance Sheet value recorded of either an asset or a liability.

**CYPS**

Children and Young People's 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.

**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 Durham Police and Crime Commissioner and County Durham and Darlington Fire and Rescue Service.

**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.

**Comprehensive Income and Expenditure Statement (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 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.

### **Current Value**

The current value of an asset reflects the economic environment prevailing for the service or function the asset is supporting at the reporting date.

### **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 non-current 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 Instruments Revaluation Reserve**

This reserve contains the gains made by the authority arising from increases in the value of its investments that are measured at fair value through other comprehensive income.

### **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 council 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.

## **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 originating 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).

## **Income**

Increases in economic benefits during the accounting period in the form of inflows or enhancements of assets, or decreases of liabilities that result in an increase in reserves or net worth.

## **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 non-current 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 council 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.

**Large Scale Voluntary Transfer (LSVT)**

A Large Scale Voluntary Transfer 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 non-current 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.

**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.

**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.

### **MHCLG / CLG**

Ministry of Housing, Communities and Local Government – the government department that directs local authorities in England.

### **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 that the council must charge to the income and expenditure account to provide for the repayment of debt. 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 council 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 council 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 the council but not directly occupied, used or consumed in the delivery of services, or for the service or strategic objectives of the council. 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 council 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 council's Collection Fund. There are two major preceptors in Durham County Council's Collection Fund: Durham Police and Crime Commissioner and County Durham and Darlington Fire and Rescue Service.

### **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 local 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.

### **REAL**

Regeneration and Local Services.

### **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**

Income arising as a result of the council's normal operating activities.

**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 non-current 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.

### **Service Recipient**

A party that has contracted with the council to obtain goods or services that are an output of the council's normal operating activities in exchange for consideration.

### **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 council 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.

### **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.

### **T&P**

Transformation and Partnerships.

### **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.

### **Third Party Payments**

See 'Agency Services'.

### **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 Believe Housing. It also contains all the necessary arrangements to enable Believe Housing 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 Payments**

The cost of payments to individuals for which no goods or services are received in return by the council, for example Adult Social Care direct payments or Housing Benefit payments.

### **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 is 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.