



# Statement of Accounts

## For the year ended 31 March 2016

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

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

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

<b>Durham County Council</b>	<b>Page</b>
Preface .....	1
Narrative Report .....	3
Statement of Responsibilities for the Statement of Accounts.....	23
Independent Auditor's Report to Durham County Council .....	24
Durham County Council Core Financial Statements.....	27
Movement in Reserves Statement.....	27
Comprehensive Income and Expenditure Statement.....	29
Balance Sheet .....	30
Cash Flow Statement.....	31
Notes to the Accounts.....	32
The Housing Revenue Account .....	137
Collection Fund.....	142
Durham County Council Pension Fund Accounts .....	149
Notes to Durham County Council Pension Fund Accounts.....	151
Annual Governance Statement.....	193
Glossary of Terms used in the Accounts .....	213

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

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

All our plans setting out the aspirations and goals of the Council over the coming four years continue to be influenced and shaped by the Government's ongoing financial austerity programme and fundamental central policy changes which continue to dominate and challenge the Council, local government, and the public sector more generally.

It is the Council's view that the financial landscape for all local authorities will remain extremely challenging until at least 2019/20, resulting in the longest period of austerity in modern times and that this will undoubtedly be worsened by the outcome of the European Referendum vote to leave the European Union.

By the end of 2015/16, the Council had delivered £153.2m of financial savings and our forecasts currently show that the Council will need to make an estimated further £104.8m of savings over the four year period 2016/17 to 2019/20, resulting in a cumulative spending reduction of over £258m since 2010 to the end of 2019/20.

That said, the Council has continued to deliver a high standard of services during 2015/16, while successfully achieving all of our challenging savings targets in very difficult circumstances, in line with the Medium Term Financial Plan. All service groupings of the Council will continue to work together and build on our achievements in order to provide the best possible services for the people of County Durham.

Future savings requirements will have an increased impact on front line services. The emphasis since 2011/12 has been to minimise savings from front line services by protecting them wherever possible whilst maximising savings in management and support functions. This is becoming much more difficult however, as the scope for further savings in managerial and back office efficiencies are becoming exhausted following the delivery of the savings to date.

This document presents the published accounts for Durham County Council for the year ended 31 March 2016 – 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, and provide assurance that it has been accounted for properly, that the financial standing of the Council continues to be safe and secure and that 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**

**Interim Corporate Director Resources**

## 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 so they can:

- Understand the financial position of the Council and the outturn for 2015/16;
- Have confidence in the Council's stewardship of public money and that it 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). The style and format of the Statement of Accounts complies with CIPFA standards and is similar to that used in 2014/15.

This Narrative Report (a change in the requirements for 2015/16 and replacing the previous Explanatory Foreword) 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 2016 and details of the non-financial performance of the Council in 2015/16. The purpose is to provide an understandable guide to 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 review of the issues that have affected the Council's development, performance and position during 2015/16 and those that are likely to impact in the future. This narrative report is structured as below:

1	Message from the Interim Corporate Director Resources
2	Introduction
3	An Introduction to Durham
4	An Introduction to Durham County Council
5	Financial Performance of the Council 2015/16
6	Non-Financial Performance of the Council 2015/16
7	Significant Issues for 2017 and Beyond
8	Corporate Risks
9	Summary Position
10	Receipt of Further Information
11	Explanation of Accounting Statements

### 3. An Introduction to Durham

County Durham is a unique place with a rich cultural history. Durham City has been an important spiritual centre and place of pilgrimage from early medieval times. Today, the castle and cathedral are recognised by UNESCO as a World Heritage site because of their international, cultural and physical significance and are a top attraction in the county for tourists from around the world. The historic market towns of Barnard Castle and Bishop Auckland also date from the Middle Ages. In its later history, County Durham became a centre for the industrial revolution, providing the country and developing empire with coal, steel and ships. The area also saw the development of the world's first passenger steam railway in 1825. An economic past of heavy industry based around mining, metal production and manufacturing leaves a legacy of diverse spatial geography across 12 main towns and numerous villages and smaller communities.

Today, Durham is a county of economic, cultural and environmental contrasts. It stretches from the remote rural North Pennine area of outstanding natural beauty in the west to the more densely populated East Durham heritage coastline, the whole of which has been extensively reclaimed from its heavy industrialised past.

Life expectancy at birth in County Durham has been improving over time for both males and females, although not as fast as for England. The absolute gap is increasing for both males and females. In County Durham, males from the most affluent areas will live 8.2 years longer than those from the most deprived areas. Females in the most affluent areas will live 6.7 years longer than those in the most deprived areas. These gaps have not changed significantly over time. Whilst the gap for males is smaller than the national average and similar to the England average for women, it should be noted that almost 50% of County Durham's population live in deprived areas and life expectancy is relatively low, therefore the difference between the most and least deprived is likely to be limited compared to the national average. There are a number of factors affecting health including lifestyle choices and wider determinants such as the social conditions in which we are born and live.

Durham is the most deprived authority in the North East region in terms of the scale of income deprivation with nearly half (42.4%) of its population living in the 30% most deprived neighbourhoods nationally. Latest data (2011) show that 22.1% of children live in low income families in County Durham compared to 17.5% nationally. 11.4% of households are also defined as living in fuel poverty i.e. they spend more than 10% of their income on fuel to maintain a standard level of warmth.

Interesting facts about your county:

- County Durham has a population of 517,773 the highest population of any local authority area in the North East region and the sixth largest all-purpose council in the country;

- All areas of the county have shown a growth in population since 2001 with Durham City and North Durham experiencing the largest growth rates;
- The working age population in County Durham has increased by 3% since 2001 but the population aged 65+ has increased by 24% in the same period;
- Key industries in County Durham are manufacturing with approximately 97% being small and micro businesses;
- Durham Castle and Cathedral is one of only 17 sites in England considered to be of such cultural importance that it is designated by UNESCO as a World Heritage Site;
- The remote and unspoiled countryside of the Durham Dales forms part of the North Pennines Area of Outstanding National Beauty; and
- The county has one of the finest coastlines in the country which has been recognised by Natural England and granted Heritage Coast status.

#### **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 as a single all-purpose unitary authority providing the full range of local government services to the public.

We operate a leader and cabinet style model of political governance and the cabinet is made up of ten councillors. Our overview and scrutiny function is made up of six committees with an Overview and Scrutiny Management Board providing an oversight of the work of these committees which is made up of 26 councillors and 5 other representatives.

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

Interesting facts about your Council:

- Durham County Council has a gross budget of over £860m and employs around 8,500 staff - excluding schools;
- The Council maintains 3,690 km of highway, over 80,000 street lights, owns and manages 39 libraries, 10 leisure centres, 8 customer access points and 245 schools (excluding academies);

- We have 126 councillors representing 63 electoral divisions within County Durham, making us the largest elected body in England outside of the UK Parliament;
- The political makeup of the Council is as follows:
  - o 96 Labour,
  - o 17 Independent,
  - o 9 Liberal Democrat
  - o and 4 Conservative;
- Our administrative staff are concentrated at five strategic centres in Crook, Seaham, Spennymoor, Meadowfield and in our headquarters at County Hall in Durham;
- The council has 14 Area Action Partnerships which cover the whole county, these give residents the chance to set local priorities which are acted on through local projects.

## **5. Financial Performance of the Council 2015/16**

### **Revenue Outturn Position**

The Council's revenue outturn is shown in the table below. The original budget was set at the Council meeting on 25 February 2015 at £421.821million. The original budget set out how the Council planned to allocate its funding during the year in order to deliver services to the people and communities of Durham. During the financial year amendments were made to the Council's budget on a quarterly basis and approved by Cabinet.

In overall terms, the outturn was a variance (underspend) of £20.092million for the financial year when comparing actual net expenditure to the revised budgeted/planned net expenditure. The surplus for the year in respect of Service Groupings (£15.044million) has been allocated to the individual Cash Limit Reserves to meet future service demands. Of the remaining £5.048million, an additional amount of £4.844million was contributed to the Pension Deficit Earmarked Reserve, in lieu of a possible one off payment into the pension fund in 2016/17 to reduce future liabilities and Medium Term Financial Plan (MTFP) pressures associated with Pension Deficit payments in future years. The remaining balance of £0.204million was allocated to the Council's General Reserve.

	Original Budget	Revised Budget (Including Qtr 4 Cash Limit Adjustments)	Service Groupings Final Outturn	Variance
	£'000	£'000	£'000	£'000
<b>Service Groupings</b>				
Assistant Chief Executive	10,163	10,458	10,200	-258
Children and Adults Services	251,450	248,775	238,084	-10,691
Neighbourhood Services	104,236	104,855	103,995	-860
Regeneration and Economic Development Resources	41,535	26,828	25,012	-1,816
Resources	15,855	16,842	15,423	-1,419
<b>Sub - Total</b>	<b>423,239</b>	<b>407,758</b>	<b>392,714</b>	<b>-15,044</b>
<b>Corporate Finance</b>				
Contingencies	5,690	3,194	0	-3,194
Centrally Held Budgets	0	-1,572	-1,548	24
Corporate Costs	4,980	4,439	4,181	-258
Capital, Treasury and Technical Accounting	-12,088	-4,543	-5,982	-1,439
Levies	0	16,555	16,555	0
<b>Sub - Total</b>	<b>-1,418</b>	<b>18,073</b>	<b>13,206</b>	<b>-4,867</b>
<b>Total Net Expenditure</b>	<b>421,821</b>	<b>425,831</b>	<b>405,920</b>	<b>-19,911</b>
<b>Funded By:</b>				
Council Tax	-174,134	-174,134	-174,137	-3
Use of (-) / contribution to earmarked reserves	-11,511	22,149	22,305	156
Estimated net surplus on Collection Fund	-500	-500	-500	0
Start up Funding Assessment	-215,540	-215,540	-215,541	-1
New Homes Bonus	-8,322	-8,322	-8,323	-1
New Homes Bonus - Re-imbursement	-377	-377	-374	3
Section 31 Grant - Small business rate relief	-2,398	-2,398	-2,475	-77
Section 31 Grant - Settlement Funding Assessment Adj.	-919	-919	-919	0
Section 31 Grant - Retail Adjustment	-1,681	-1,681	-1,779	-98
Education Services Grant	-6,002	-6,002	-6,006	-4
Forecast contribution to / from (-) Cash Limit Reserve	-437	-15,107	-15,107	0
Forecast contribution from HRA Reserve	0	-23,000	-23,156	-156
<b>Total Funding</b>	<b>-421,821</b>	<b>-425,831</b>	<b>-426,012</b>	<b>-181</b>
<b>Variance</b>	<b>0</b>	<b>0</b>	<b>-20,092</b>	<b>-20,092</b>

The main variances contributing to the underspend are as follows:

- There were cost pressures in respect of Home to School Transport and high demand and increased costs relating to 'Looked After Children' that were offset in Children and Adults Services (CAS) by the early achievement of a number of future year MTFP management and support service proposals. This, together with the careful management and control of vacancies and general budgets across the Adults area of the service has created a net underspend for the year of approximately £6.5million. A review of short term funds across adult care produced an additional estimated £3million of monies available to support future pressures. £1.1million of this one-off sum is to be carried forward to future years for specific projects, with the balance contributing to the CAS Cash Limit Reserve in 2015/16;
- £3.194million of the Contingencies budget remained unspent at the end of the financial year; and
- There has been an overachievement of investment income of £1.536m which is due to the higher than anticipated levels of cash balances held during 2015/16. This is due in the main to lower than expected use of reserves and



re-profiling of capital expenditure originally anticipated to be expended in 2015/16.

### Capital Outturn Position

The original General Fund capital budget for 2015/16, taking into account the budgets approved by Council on 25 February 2015 and adjustments for re-profiling of underspends at 2014/15 year end was £167.216 million. This was agreed by Cabinet on 15 July 2015.

Throughout the year, the Capital Member Officer Working Group (MOWG) has continually reviewed progress in delivering the capital programme to take into account changes in planning and delivery timescales and analysis of changes in demands on resources. Regular updates to the capital programme were reported to and approved by Cabinet as part of the quarterly budgetary control reports in year. Requests for re-profiling capital programme underspends at 31 March 2016 have also been considered by MOWG.

The Council spent £115.421million on its capital expenditure in 2015/16 compared to the revised forecast spend of £131.734million, representing an underspend of £16.313million. The Capital Programme was financed through a number of sources including borrowing, Government grants, revenue contributions, earmarked reserves and capital receipts. The capital expenditure incurred during the year and financing of this expenditure is shown in the table below:

	Revised Budget	Service Groupings Final Outturn	Variance
	£'000	£'000	£'000
<b>Service Groupings</b>			
Assistant Chief Executive	3,990	1,454	-2,536
Children and Adults Services	40,682	34,868	-5,814
Neighbourhood Services	40,903	37,721	-3,182
Regeneration and Economic Development Resources	34,543	31,993	-2,550
	11,616	9,385	-2,231
<b>Total</b>	<b>131,734</b>	<b>115,421</b>	<b>-16,313</b>
<b>Funded By:</b>			
Grants and Contributions	-52,318	-52,172	146
Revenue and Reserves	-13,167	-23,770	-10,603
Capital Receipts	-16,631	-10,183	6,448
Borrowing	-49,618	-29,296	20,322
<b>Total</b>	<b>-131,734</b>	<b>-115,421</b>	<b>16,313</b>

The variance between the revised capital budget and the final outturn for the year was £16.313million. This underspend of planned expenditure will be re-profiled into 2016/17 and future years, together with the associated financing and therefore this does not present any financial issues for the Council.

## Other Key Financial Items in 2015/16

### Material Assets and Liabilities:

- As at 31 March 2016, the Council held £1,631.844million of Long Term Assets, £265.185million of Current Assets, £128.696million of Current Liabilities and £1,200.204million of Long Term Liabilities.
- Long Term Assets have reduced by £185.485million, which includes the following significant items:
  - A reduction of £167.475million in Property, Plant and Equipment assets which is mainly due to the transfer of the Housing Stock to the County Durham Housing Group Limited which took place on 13 April 2015, and assets written out of the balance sheet due to schools converting to Academy status.
  - A reduction of £18.250million in Long Term Investments mainly due to a £20million investment maturing in 2016/17 and as a result it was moved to Short Term Investments.
- Current Assets have increased by £31.397million, which includes the following significant items:
  - An increase of £73.188million in Short Term Investments due to investment management activities which result in movements between Short Term Investments, Long Term Investments and Cash and Cash Equivalents.
  - A reduction of £6.947million in Short Term Debtors, most of which is due to debts relating to Housing which were sold to the County Durham Housing Group Limited as part of the stock transfer.
  - A reduction of £39.772million in Cash and Cash Equivalents due to investment management activities and day to day cash flow changes.
- Current Liabilities have decreased by £7.152million, which includes the following significant items:
  - A reduction of £5.574million in the Cash and Cash Equivalents (overdraft).
  - An increase of £8.638million in Short Term Borrowing from Long Term Borrowing due to a number of loans maturing in 2016/17.
  - A reduction of £6.820million in Short Term Creditors.
- Long Term Liabilities have decreased by £248.518million in year, which includes the following significant items:
  - An increase of £4.866million in Long Term Provisions which takes into account an increase of £5.175million in the provision for appeals in respect of Business Rates.
  - A reduction of £221.531million in Long Term Borrowing, reflecting the repayment of £211.738million of outstanding Housing debt in 2015/16

as a result of the stock transfer and the movement of loans maturing in 2016/17 which were moved to Short Term Borrowing.

- A reduction of £31.450million in Other Long Term Liabilities mainly due to a reduction of £32.016million in the Pension Fund Liability.

#### Council's Borrowing Position:

- The Medium Term Financial Plan 2015/16 to 2017/18, Revenue and Capital Budget 2015/16 and 2015/16 Council House and Garage Rent Proposals Report, approved by Council on 25 February 2015, details the 2015/16 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 2015/16 were as follows:
  - Authorised limit for external debt of £561million.
  - Operational boundary for external debt of £508million.
- As part of the Council's Treasury Management operation, these indicators are monitored on a daily basis, and neither was exceeded during 2015/16. The highest level of external debt incurred by the Council during the year was £457.375million.

## 6. Non-Financial Performance of the Council 2015/16

Against a backdrop of reducing resources and changing demand it is critical that the Council continues to actively manage performance and ensure that the impact on the public of the difficult decisions the Council has had to make is minimised.

The Council works hard 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 compiled in quarterly reports and discussed at 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.

Throughout 2015/16 the Council improved or maintained performance in 67% of the key target performance indicators compared with 76% in 2014/15. 70% of the target indicators

were approaching, meeting or exceeding target compared to 77% in 2014/15. Performance for tracker indicators is more positive with 83% improved or maintained compared to 65% in 2014/15. 93% of Council Plan actions have been achieved or are on target to be achieved by the deadline, the same proportion as in 2014/15.

You can find the full Quarter Four 2015/16 Performance Management Report on our website - [Cabinet agenda and minutes 15 June 2016 \(Agenda Item 5\)](#).

## **Council Plan 2016-2019**

The Council Plan is the high level plan and is underpinned by a series of plans for service groupings. The Council Plan and service plans cover three years and are updated annually.

The Plan links closely with the Budget/Medium Term Financial Plan (MTFP) and sets out how we will consider our corporate priorities for improvement, and the key actions we will take, working with our partners, to deliver the longer-term goals in the Sustainable Community Strategy and our own improvement agenda.

The actions within the Plan are structured around the five priority themes for County Durham, plus an additional one specifically for the council:

- **Altogether Wealthier** - focusing on creating a vibrant economy and putting regeneration and economic development at the heart of all our plans. This theme remains the top priority of the Council, with its main aim to improve the economy and job prospects across the county.

### **Objectives**

- Thriving Durham City
- Vibrant and successful towns
- Sustainable neighbourhoods and rural communities
- Competitive and successful people
- A top location for business

### **Achievements 2015/16**

- Established 'Chapter Homes' a new housing delivery company which will build new housing for market rent and sale commencing with Phase 1 in Newton Aycliffe which will provide 125 homes.
- Hosted the 4th Lumiere festival in November 2015, which attracted around 200,000 visitors to the City, along with the Magna Carta exhibition in the summer of 2015 which attracted 25,000 visitors from across the globe.

- Supported the development of Bishop Auckland as a major tourist destination including a medieval open air night show 'Kynren' which will create employment in the town and visitors to the area.
  - Supported the opening of Hitachi rail manufacturing in Newton Aycliffe and the creation of thousands of high value employment opportunities.
  - Secured £20m of additional funding to provide additional infrastructure in Newton Aycliffe and Sedgefield to support additional high tech and manufacturing employment opportunities.
  - Successful completion of traffic projects in Durham City; Sunderland Bridge Roundabout and Milburngate Bridge which was completed ahead of schedule.
  - Secured over £18m of European and external funding to support a major employment support programme for young people in the county.
  - Delivered physical regeneration improvements to enhance the economic viability of major town centres, including: footpath, lighting, signage and seating at Peterlee, Seaham, Crook and Consett.
  - Delivered superfast broadband through the Digital Durham programme with over 63,040 premises able to access improved broadband services since the programme began in April 2014.
  - Durham County Council was awarded the PATROL Annual Report Award (Parking and Traffic Regulations Outside London) for proactively publishing information about traffic management to help the public better understand parking regulations. This good practice approach has been adopted by other local authorities.
  - Transferred our remaining housing stock to the County Durham Housing Group Ltd.
- **Altogether Better for Children and Young People** - enabling children and young people to develop and achieve their aspirations, and to maximise their potential in line with Every Child Matters.

### **Objectives**

- Children and young people realise and maximise their potential
- Children and young people make healthy choices and have the best start in life
- A Think Family approach is embedded in our support for families

### **Achievements 2015/16**

- New 'Families First' teams have been established across the county, made up of social workers, family support workers and other

specialist staff who have a wide range of skills and expertise to help children, young people and their families achieve and maintain good progress. The teams also work with the voluntary and community sector to ensure that there are long-term sustainable plans in place for the family when they no longer need our support.

- Established a Multi-Agency Safeguarding Hub (MASH) which works as a central point for the screening, gathering, sharing and analysing of information about children who may be at risk of harm or who may need support services.
- Successfully completed Phase 1 of the Stronger Families Programme, to improve poor school attendance, unemployment, youth crime and adult anti-social behaviour, as well as a wide range of local criteria such as health, housing and domestic abuse. By March 2015, 1,320 families had a successful intervention (100% of County Durham overall target).
- Engaged with over 8,000 secondary school pupils through the Student Voice Survey to determine their views on a range of subjects and issues to inform our services, in particular our Education services.
- The council became responsible for commissioning 0-5 years health services including the health visitor service. Whilst carrying out our statutory duties, we have also reviewed commissioning for services for 5-19 year olds and are putting in place an integrated approach to health improvement services and service delivery for 0-19 year olds.

- **Altogether Healthier** – improving Health and Wellbeing.

- **Objectives**

- Children and young people make healthy choices and have the best start in life
- Reduce health inequalities and early deaths
- Improve the quality of life, independence and care and support for people with long term conditions
- Improve the mental and physical wellbeing of the population

- **Achievements 2015/16**

- The County Durham Health and Wellbeing Board, which promotes integrated working between commissioners of health services, public health and social care and includes representatives from the council and health services was shortlisted for a national award for its effectiveness.

- Survey results show that service users and carers in the county were more satisfied with the care and support services they received than the national average.
  - The number of people whose discharge from hospital was delayed is lower in County Durham than nationally and regionally.
  - County Durham was selected as a national pilot site for a diabetes prevention programme. The programme is led by Public Health in partnership with Clinical Commissioning Groups and is one of only seven in the country.
  - We launched an online directory of care and support services called LOCATE, which provides local people with details of available services and information.
  - Joint Consett Academy and Leisure Centre opened.
  - Pearl Izumi Tour Service cycle race attracted 12,500 spectators to Durham City contributing almost £300,000 to the local economy.
- **Altogether Safer** - creating a safer and more cohesive county.

### **Objectives**

- Reduce anti-social behaviour
- Protect vulnerable people from harm
- Reduce re-offending
- Alcohol and substance misuse harm reduction
- Implement measures to promote a safe environment
- Embed the Think Family approach

### **Achievements 2015/16**

- The County Durham Youth Offending Service received an award for its work on Speech, Language and Communication Needs, to support young people who offend.
- Supported the establishment of the Durham Tees Valley Community Rehabilitation Company, which aims to reduce re-offending in the county, protect the public and provide successful and effective rehabilitation services for offenders.
- Introduced an integrated drug and alcohol recovery service and developed six recovery centres across the county, to provide consistent, high quality, recovery-focused interventions for all people irrespective of age or level of substance misuse.
- The number of first time entrants to the youth justice system continues to reduce. We have achieved an 82.9% reduction in first time entrants, from 1,129 in 2007/08 to 193 in 2014/15.

- Durham has the lowest overall crime rate when compared to similar police force areas.
  - Implemented a Multi-Agency Intervention Service (MAIS) to provide tailor-made support to help vulnerable and 'at risk' adults.
  - Introduced a programme of riverside safety improvements in Durham City in partnership with Durham City Safety Group.
  - Promoted a safer and healthier road environment by introducing Phase 1 of part-time 20 mph speed limits on main and distributor roads near schools in the county.
  - New, revised open water safety policy/procedures outlining how open water risks are managed and promoting good practice across privately owned open water sites.
- **Altogether greener** - ensuring an attractive and 'liveable' local environment, and contributing to tackling global environmental challenges.

### **Objectives**

- Deliver a clean, attractive and sustainable environment
- Maximise the value and benefits of Durham's natural environment
- Reduce carbon emissions and adapt to the impact of climate change

### **Achievements 2015/16**

- Delivered a programme of effective campaigns to tackle environmental crime, including dog-fouling, fly-tipping and litter.
- Reduced the carbon footprint of our operations through re-programming our refuse and recycling routes, reducing energy across our buildings and reducing business mileage.
- Replaced 32,000 street lights as part of the Street Lighting Energy Reduction Programme saving energy costs to the taxpayer and reducing carbon emissions.
- Increased energy production from landfill capping where electricity is generated from landfill gas.
- Delivered a programme of waste campaigns designed to help reduce contamination in household recycling ('Bin It Right') and encourage students to recycle waste ('Green Move Out').
- Extended wildflower planting schemes to roundabouts and verges helping reverse the trend of habitat loss and creating food and homes for wildlife.
- Continuation of the work of our Community Action Teams to improve the condition of local housing and environments.



- 
- Delivered our flood defence programme including the refurbishment of Seaham's historic North Pier and flood prevention works at Witton Gilbert.
  - Development of the Air Quality Action Plan to improve air quality across Durham City.
  - Refurbished three waste transfer stations giving improved recycling facilities and more scope to recycle.
  - Fly Tipping incidents continue to fall following education and proactive enforcement activity.
  - Over 96% of waste collected by the council has been diverted from landfill to recycling reuse, composting and generating energy.
- **Altogether better council** - ensuring corporate improvements are achieved against the five priority themes.

### **Objectives**

- Putting the customer first
- Working with our communities
- Effective use of resources
- Support our people through change

### **Achievements 2015/16**

- Delivered £153.2m of financial savings to 31 March 2016 since the beginning of austerity in 2011.
- A new website which is quicker and easier to use was launched last year which is also better to use with tablets and mobile phones.
- Procurement of a new customer system to more effectively track and manage communications with and improve the customer experience.
- Improved our customer complaints process to respond to complaints more quickly and efficiently.
- More self-serve facilities have been introduced which allow people to access services through our website on a 24/7 basis.
- Managed a successful Parliamentary election in May 2015.
- Received £1.4m from the Government's Transformation Challenge Award fund to help achieve the Durham Ask ambition. This is an exciting opportunity we are offering to local communities to take over the management and delivery of Council services and facilities by transferring assets to local community control.
- Secured £90,000 of 'Delivering Differently' funding to work with town and parish councils on clean and green services.

- Nearly 11,000 residents and businesses have registered to access and manage their council tax, business rates or housing benefits payment accounts online.
- Community Buildings Strategy, one of the biggest and most ambitious asset transfer programmes in the UK:
  - 97 centres have been maintained for community use through this initiative
  - Shortlisted for two 2016 LGC Awards
  - Local management groups have already accessed £639,000 external funding not available to the Council and have bid for a further £5.2m.

## **7. Significant Issues for 2016/17 and Beyond**

### **Economic climate**

Since 2010 Durham County Council has faced significant financial challenges due to reductions in funding from central government along with cost pressures within services and greater volatility in financing. This austerity programme is on-going and will last until at least 2019/20. The Council will need to review its position in light of Government policy announcements and take account of the impact of the European Referendum result as it feeds through into Government spending plans. In November 2015 the Autumn Statement set out the strategic direction for public expenditure. This outlined a number of significant changes to the local government funding regime which will have a significant impact on the Council's finances over time. These included:

- Providing local authorities with the power to levy a 2% increase on Council Tax to fund adult social care. For Durham, this equates to an additional £3.574m of revenue;
- By the end of the Parliament local government will retain 100% of business rate revenues to fund local services. In addition the Uniform Business Rate will be abolished and any local area will be able to cut business rates at their discretion. The earliest these reforms are likely to be implemented is 2020;
- Greater flexibility for local authorities to use capital receipts to fund the revenue costs of business transformation projects;
- The government announced real-terms public health savings of 3.9% over the next 5 years and the Autumn Statement indicated that social care funds of £1.5bn would be made available by 2019/20 (beginning from 2017/18) for local government, to be included in an improved Better Care Fund; and
- A National Funding Formula for Schools will be introduced in 2017/18.

Government figures highlight significant challenges ahead for councils who will have to make savings, despite receiving a flat-cash settlement over the next four years, sufficient

to compensate for any additional cost pressures they face. These include those arising from 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 national insurance, the National Living Wage and pension contributions.

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.

## **Devolution**

The North East Combined Authority and seven north east authorities have been in discussions with the Government regarding the devolution of a number of powers and the election of a regional mayor. At a meeting held on 11 May 2016 Cabinet agreed to move to the next stage of the devolution process - to create a mayoral combined authority for the North East.

The decision is subject to a number of conditions, including that County Durham is not left worse off by the Government's proposals on transport and highways funding; that conditions are met in relation to mayoral powers and governance; and the commitment that ongoing discussions with Government will deliver fair funding.

In March 2016 Cabinet members deferred their decision in relation to the devolution proposals so that further clarification and commitment could be sought from Government in relation to a number of outstanding issues.

The report to Cabinet in May 2016 sets out the progress made in addressing the outstanding issues raised in March, as well as the potential consequences of agreeing or not agreeing to be part of a mayoral combined authority area.

## **Pensions**

The next triennial review of the Local Government Pension Scheme (LGPS) will be as at 31 March 2016, and will impact from 2017/18. Given historic trends, the valuation is likely to result in additional cost pressures. Increased pension deficit payments have been included in the Council's MTFP.

## **EU Referendum**

While unclear what the actual local implications may be at this stage, the impact of the vote to leave the European Union is expected to lead to increased instability and uncertainty in respect of the financial context for councils and regions. The Council will continue to update its MTFP projections as appropriate.

## **8. Corporate Risks**

The Council has an embedded process to manage 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 Statement of Accounts.

The Council's key strategic risks are:

- If there was to be slippage in the delivery of the agreed MTFP savings projects, this will require further savings to be made from other areas, which may result in further service reductions and job losses;
- Ongoing Government funding cuts which now extend to at least 2019/20 will continue to have an increasing major impact on all Council services; and
- If the Council were to fail to comply with Central Government's Public Services Network Code of Connection and PPCI criteria for our computer applications, this would put some of the core business processes at risk, such as Revenues and Benefits, which rely on secure transfer of personal data.

## **9. Summary Position**

It is clear that the Council's financial and non-financial performance in 2015/16 continues to be good. The revenue outturn with a £20.092m underspend is in line with expectations and quarter three projections, 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 2016/17 and future years.

In 2015/16, the Council has faced and dealt successfully with significant change. This trend will continue and indeed accelerate as the devolution agenda takes shape and the outcome of European Referendum result becomes clear but the Council is well placed to adapt to the challenges and to 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 2016/17.

## **10. Receipt of Further Information**

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

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## 11. Explanation of Accounting Statements

### **Movement in Reserves Statement**

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

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

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

### **Balance Sheet**

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

### **Cash Flow Statement**

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and

grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

### **Notes to the Accounts**

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

### **The Housing Revenue Account (HRA)**

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

### **Collection Fund**

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

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

Shows the operation and membership of the Fund, the expenditure and income during the year and its financial position at 31 March 2016. Following the Accounts are notes providing further information.

### **Annual Governance Statement**

This Statement gives assurance that the Council has conducted a review of the effectiveness of its systems of internal control and that the appropriate mechanisms are in place for the maintenance of good governance across the activities of the Council.

### **Glossary of Terms**

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

## **The Council's Responsibilities**

The Council is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. For the Council that officer is the Corporate Director Resources.
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- approve the Statement of Accounts.

## **The Corporate Director Resources' Responsibilities**

The Corporate Director Resources is responsible for the preparation of the Council's Statement of Accounts which is in accordance with proper practices as set out in the Chartered Institute of Public Finance and Accountancy (CIPFA) and Local Authority (Scotland) Accounts Advisory Committee (LASAAC) Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts, the Corporate Director Resources has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the local authority Code.

The Corporate Director Resources has also:

- kept proper accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

## **Certificate of the Interim Corporate Director Resources**

I certify that the Statement of Accounts presents a true and fair view of the financial position of the Council as at 31 March 2016 and its expenditure and income for the year ended 31 March 2016.

Paul Darby  
Interim Corporate Director Resources  
30 June 2016

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







2015/16:

	General Fund Balance £000	Earmarked General Fund Reserves £000	Housing Revenue Account £000	Earmarked HRA Reserves £000	Capital Receipts Reserve £000	Capital Grants unapplied Account £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
<b>Balance at 1 April 2015 brought forward</b>	28,897	214,557	26,078	-	219	609	<b>270,360</b>	196,187	<b>466,547</b>
<b>Movement in Reserves during 2015-16</b>									
Surplus or deficit on provision of services	-67,444	-	111,180	-	-	-	<b>43,736</b>	-	<b>43,736</b>
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	-	57,845	<b>57,845</b>
<b>Total Comprehensive Income and Expenditure</b>	<b>-67,444</b>	<b>-</b>	<b>111,180</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>43,736</b>	<b>57,845</b>	<b>101,581</b>
Adjustments between accounting basis and funding basis under regulations (Note 7)	71,577	-	-114,101	-	143	-85	<b>-42,466</b>	42,466	-
<b>Net Increase/Decrease before Transfers to Earmarked Reserves</b>	<b>4,133</b>	<b>-</b>	<b>-2,921</b>	<b>-</b>	<b>143</b>	<b>-85</b>	<b>1,270</b>	<b>100,311</b>	<b>101,581</b>
Transfers to/from Earmarked Reserves (Note 8)	-3,929	27,086	-23,157	-	-	-	-	-	-
<b>Increase/Decrease in Year</b>	<b>204</b>	<b>27,086</b>	<b>-26,078</b>	<b>-</b>	<b>143</b>	<b>-85</b>	<b>1,270</b>	<b>100,311</b>	<b>101,581</b>
<b>Balance at 31 March 2016 carried forward</b>	<b>29,101</b>	<b>241,643</b>	<b>-</b>	<b>-</b>	<b>362</b>	<b>524</b>	<b>271,630</b>	<b>296,498</b>	<b>568,128</b>

Movement in Reserves Statement

2014/15:

	General Fund Balance £000	Earmarked General Fund Reserves £000	Housing Revenue Account £000	Earmarked HRA Reserves £000	Capital Receipts Reserve £000	Capital Grants unapplied Account £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
<b>Balance at 1 April 2014 brought forward</b>	28,135	165,952	7,155	1,043	219	722	<b>203,226</b>	479,547	<b>682,773</b>
<b>Movement in Reserves during 2014-15</b>									
Surplus or deficit on provision of services	59,989	-	-324,391	-	-	-	<b>-264,402</b>	-	<b>-264,402</b>
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	-	48,176	<b>48,176</b>
<b>Total Comprehensive Income and Expenditure</b>	<b>59,989</b>	<b>-</b>	<b>-324,391</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-264,402</b>	<b>48,176</b>	<b>-216,226</b>
Adjustments between accounting basis and funding basis under regulations (Note 7)	-10,622	-	342,271	-	-	-113	<b>331,536</b>	-331,536	-
<b>Net Increase/Decrease before Transfers to Earmarked Reserves</b>	<b>49,367</b>	<b>-</b>	<b>17,880</b>	<b>-</b>	<b>-</b>	<b>-113</b>	<b>67,134</b>	<b>-283,360</b>	<b>-216,226</b>
Transfers to/from Earmarked Reserves (Note 8)	-48,605	48,605	1,043	-1,043	-	-	-	-	-
<b>Increase/Decrease in Year</b>	<b>762</b>	<b>48,605</b>	<b>18,923</b>	<b>-1,043</b>	<b>-</b>	<b>-113</b>	<b>67,134</b>	<b>-283,360</b>	<b>-216,226</b>
<b>Balance at 31 March 2015 carried forward</b>	<b>28,897</b>	<b>214,557</b>	<b>26,078</b>	<b>-</b>	<b>219</b>	<b>609</b>	<b>270,360</b>	<b>196,187</b>	<b>466,547</b>

2014-15 (restated)			Note	2015-16		
Gross Expenditure £000	Gross Income £000	Net Expenditure £000		Gross Expenditure £000	Gross Income £000	Net Expenditure £000
437,685	-365,421	72,264	Children's and Education Services	469,667	-370,104	99,563
208,821	-82,152	126,669	Adult Social Care	237,508	-111,495	126,013
71,142	-19,757	51,385	Highways and Transport Services	85,678	-42,376	43,302
48,242	-19,214	29,028	Planning Services	47,529	-22,234	25,295
45,283	-16,149	29,134	Cultural and Related Services*	54,827	-14,280	40,547
54,354	-9,852	44,502	Environmental and Regulatory Services*	59,397	-6,794	52,603
406,762	-72,641	334,121	Local Authority Housing (HRA)	4,721	-2,141	2,580
215,783	-196,393	19,390	Other Housing Services (including Supporting People)	201,223	-187,490	13,733
45,394	-46,763	-1,369	Public Health	49,155	-48,627	528
11,832	-3,545	8,287	Corporate and Democratic Core	11,825	-3,231	8,594
24,467	-15,553	8,914	Central Services to the Public	20,673	-11,218	9,455
6,485	-433	6,052	Non Distributed Costs	4,579	-417	4,162
<b>1,576,250</b>	<b>-847,873</b>	<b>728,377</b>	<b>Cost of Services</b>	<b>1,246,782</b>	<b>-820,407</b>	<b>426,375</b>
22,618	-13,938	8,680	Other Operating Expenditure*	9 213,330	-128,015	85,315
149,426	-104,901	44,525	Financing and Investment Income and Expenditure	10 199,671	-89,435	110,236
-	-517,181	-517,181	Taxation and Non Specific Grant Income	11 -	-665,662	-665,662
		<b>264,401</b>	<b>Surplus or Deficit on Provision of Services</b>			<b>-43,736</b>
			<b>Items that will not be reclassified to Surplus or Deficit on Provision of Services</b>			
		-165,529	Surplus or deficit on revaluation of PPE / Heritage assets	12,13		-14,342
		2,964	Impairment losses on non-current assets charged to revaluation reserve	12,13		10,588
		114,380	Re-measurements of the defined benefit liability	24		-54,480
		8	Difference between actuary's estimate and actual employer's pension contributions	24		389
		<b>-48,177</b>	<b>Other Comprehensive Income and Expenditure</b>			<b>-57,845</b>
		<u><b>216,224</b></u>	<u><b>Total Comprehensive Income and Expenditure</b></u>			<u><b>-101,581</b></u>

\* 2014/15 comparative figures have been restated as follows:

- To reallocate some expenditure and income from Environmental and Regulatory Services to Cultural and Related Services in respect of open spaces. There is no net impact on the Cost of Services.

- In Other Operating Expenditure: to split the net gain or loss on disposal of non-current assets between expenditure (net book value and costs) and income (capital receipts). There is no impact on Net Expenditure.

<b>31 March 2015</b>		<b>31 March 2016</b>	
<b>£000</b>	<b>Notes</b>	<b>£000</b>	
1,746,421	Property, Plant & Equipment	12	1,578,946
15,459	Heritage Assets	13, 48	15,445
3,743	Investment Property	14	2,267
1,757	Intangible Assets		1,177
30,577	Long Term Investments	15	12,327
19,372	Long Term Debtors	15	21,682
<b>1,817,329 Long Term Assets</b>			<b>1,631,844</b>
83,443	Short Term Investments	15	156,631
3,231	Assets Held for Sale	20	6,660
3,567	Inventories	17	5,066
64,349	Short Term Debtors	18	57,402
79,198	Cash and Cash Equivalents	19	39,426
<b>233,788 Current Assets</b>			<b>265,185</b>
-6,010	Cash and Cash Equivalents	19	-436
-4,442	Short Term Borrowing	15	-13,080
-114,269	Short Term Creditors	21	-107,449
-4,498	Provisions	22	-3,397
-6,629	Capital Grants Receipts in Advance	37	-4,334
<b>-135,848 Current Liabilities</b>			<b>-128,696</b>
-9,291	Provisions	22	-14,157
-457,752	Long Term Borrowing	15	-236,221
-981,276	Other Long Term Liabilities	40, 41, 45	-949,826
-403	Capital Grants Receipts in Advance	37	0
<b>-1,448,722 Long Term Liabilities</b>			<b>-1,200,204</b>
<b>466,547 Net Assets</b>			<b>568,129</b>
270,360	Usable Reserves	23	271,630
196,187	Unusable Reserves	24	296,499
<b>466,547 Total Reserves</b>			<b>568,129</b>

<b>2014-15</b> <b>£000</b>	<b>2015-16</b> <b>£000</b>
264,401 Net surplus (-) or deficit on the provision of services	-43,736
-374,227 Adjustments to net surplus or deficit on the provisions of services for non-cash movements (Note 25)	85,456
13,207 Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities (Note 26)	124,027
-96,619 Net Cash flows from Operating Activities (Note 27)	165,747
105,109 Investing Activities (Note 28)	-212,770
-30,869 Financing Activities (Note 29)	81,221
-22,379 Net increase (-) or decrease in cash and cash equivalents	34,198
50,809 Cash and cash equivalents at 1 April	73,188
<b>73,188 Cash and cash equivalents at 31 March</b>	<b>38,990</b>

## Notes to the Core Financial Statements

### Notes to the Core Financial Statements

	<b>Page</b>	
Note 1	Accounting Policies	33
Note 2	Accounting Standards that have been Issued but have not yet been Adopted	58
Note 3	Critical Judgements in Applying Accounting Policies	59
Note 4	Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty	61
Note 5	Material Items of Income and Expense	64
Note 6	Events After the Balance Sheet Date	65
Note 7	Adjustments Between Accounting Basis and Funding Basis Under Regulations	65
Note 8	Transfers to/from Earmarked Reserves	68
Note 9	Other Operating Expenditure	70
Note 10	Financing and Investment Income and Expenditure	70
Note 11	Taxation and Non-Specific Grant Income	70
Note 12	Property, Plant and Equipment	71
Note 13	Heritage Assets	74
Note 14	Investment Properties	75
Note 15	Financial Instruments	76
Note 16	Nature and Extent of Risks Arising from Financial Instruments	81
Note 17	Inventories	87
Note 18	Short Term Debtors	88
Note 19	Cash and Cash Equivalents	88
Note 20	Assets Held For Sale (Current)	88
Note 21	Short Term Creditors	88
Note 22	Provisions	89
Note 23	Usable Reserves	90
Note 24	Unusable Reserves	91
Note 25	Cash Flow Statement - Non-Cash Movements	95
Note 26	Cash Flow Statement - Items Included in Investing Activities	96
Note 27	Cash Flow Statement - Operating Activities	96
Note 28	Cash Flow Statement - Investing Activities	96
Note 29	Cash Flow Statement - Financing Activities	96
Note 30	Amounts Reported for Resource Allocation Decisions	97
Note 31	Trading Operations	100
Note 32	Agency Services	102
Note 33	Members' Allowances	102
Note 34	Officers' Remuneration	103
Note 35	External Audit Costs	105
Note 36	Dedicated Schools Grant	105
Note 37	Grant Income	107
Note 38	Related Parties	110
Note 39	Capital Expenditure and Capital Financing	115
Note 40	Leases	116
Note 41	Private Finance Initiatives and Similar Contracts	118
Note 42	Impairment and Revaluation Losses	121
Note 43	Termination Benefits	121
Note 44	Pension Schemes Accounted for as Defined Contribution Schemes	121
Note 45	Defined Benefit Pension Schemes	122
Note 46	Contingent Liabilities	129
Note 47	Contingent Assets	131
Note 48	Heritage Assets: Further Information on the Council's Collection	132
Note 49	Exceptional Items	133
Note 50	Pooled Budget - Better Care Fund	135
Note 51	Prior Period Adjustments (PPAs)	136

**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.**



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## Accounting Policies

### 1. General Principles

The Statement of Accounts summarises the Council's transactions for the 2015/16 financial year and its position at the year-end of 31 March 2016. The Council is required by the Accounts and Audit (England) Regulations 2011 to prepare an annual Statement of Accounts. In line with the Regulations, the Statement of Accounts is prepared in accordance with proper accounting practices.

Those practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 (the Code) and the Service Reporting Code of Practice 2015/16 (SeRCOP), supported by International Financial Reporting Standards (IFRS).

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

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

### 2. Accruals of Income and Expenditure

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

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Supplies are recorded as expenditure when they are consumed - where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received, rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument, rather than the cash flows fixed or determined by the contract.

- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected. The County Council has a policy of not accruing for manual sundry creditor or sundry debtor provisions for less than £1,000 other than in exceptional circumstances.

### **3. Business Improvement District Schemes**

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

### **4. Cash and Cash Equivalents**

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value. In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

### **5. Exceptional Items**

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

### **6. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors**

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless otherwise stated) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

## **7. Charges to Revenue for Non-Current Assets**

Services, support services and trading accounts are debited with the following amounts to record the cost of holding 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 towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance.

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

## **8. Employee Benefits**

### **Benefits Payable During Employment**

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees. 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 Non Distributed Costs line in 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 a 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's and Education Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year. The Public Health line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to the NHS Pension scheme in the year.

## **The Local Government Pension Scheme**

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

- The liabilities of the Durham County Council Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates,

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employee turnover rates, etc., and projections of projected earnings for current employees.

- Liabilities are discounted to their value at current prices, using a discount rate of 3.4% (based on the indicative rate of return on high quality corporate bonds, Aon Hewitt GBP Select AA Curve).
- The assets of Durham County Council Pension Fund attributable to the Council are included in the Balance Sheet at their fair value:
  1. Quoted securities – current bid price.
  2. Unquoted securities – professional estimate.
  3. Unitised securities – current bid price.
  4. Property – market value

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

- 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 Non Distributed 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 Non Distributed 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.

## **9. Events After the Reporting Period**

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period - the Statement of Accounts is adjusted to reflect such events.
- Those that are indicative of conditions that arose after the reporting period - the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

## **10. Financial Instruments**

### **Financial Liabilities**

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan. The write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

### **Financial Assets**

Financial assets are classified into two types:

- Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market.

- Available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

### **Loans and Receivables**

Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

However, the Council has made a number of loans to voluntary organisations at less than market rates (soft loans). When soft loans are made, and amounts are material, a loss is recorded in the Comprehensive Income and Expenditure Statement (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement at a marginally higher effective rate of interest than the rate receivable from the voluntary organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.



## Available-for-Sale Assets

Available-for-sale assets are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:

- Instruments with quoted market prices – the market price.
- Other instruments with fixed and determinable payments – discounted cash flow analysis.
- Equity shares with no quoted market prices – independent appraisal of company valuations.

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.

Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/loss is recognised in the Surplus or Deficit on Revaluation of Available-for-Sale Financial Assets. The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available-for-Sale Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of

the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

## **11. Foreign Currency Translation**

Where the Council has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts in foreign currency are outstanding at the year-end, they are reconverted at the spot exchange rate at 31 March. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

## **12. Government Grants and Contributions**

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

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

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

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

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in

Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

### **13. Heritage Assets**

#### **Tangible and Intangible Heritage Assets**

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

An intangible heritage asset is defined as an intangible asset with cultural, environmental, or historical significance. Examples of intangible heritage assets include recordings of significant historical events. At present, the Council have no assets of this nature to be disclosed in the Balance Sheet.

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

#### **Recognition and measurement**

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

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

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

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

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

### **Museum Collections and Artefacts**

This includes museum exhibits and items such as books of remembrance and miners banners. Some items in this collection are reported in the Balance Sheet at insurance value, others at the amount at which they have been valued by professional valuers.

### **Artwork, including Public Art and Sculptures**

This includes paintings, sculptures and outdoor public art installations around the county. Some items in this collection are reported at insurance value, others at cost and some at the amount at which they have been valued by professional valuers. There are a number for which no value is available so they are not reported on the Balance Sheet.

The distinction between sculptures, monuments and statues can be subjective. However for the purposes of classification, the Council has determined that sculptures are generally modern, commissioned pieces of art, monuments can be modern or historic and are usually dedicated to people or events and statues are usually historical structures. Monuments and statues are included under the heading "Monuments, Statues and Historic Buildings" below.

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

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

### **Civic Regalia and Silverware**

This includes civic chains, badges of office and silverware used for civic purposes, and are recorded at insurance value, or the amount at which they have been valued by professional valuers.

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**Geophysical / Archaeological**

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

**Depreciation**

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

**Impairment**

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

**Disposal**

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

**14. Intangible Assets**

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

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Council will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised). Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council's goods or services.

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

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

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

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

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

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

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

#### **17. Investment Property**

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

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

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

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

## **18. Joint Operations**

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

## **19. Leases**

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

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

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

## **The County Council as Lessee**

### **Finance Leases**

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

applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

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

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

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

### **Operating Leases**

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

### **The County Council as Lessor**

#### **Finance Leases**

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



Lease rentals receivable are apportioned between:

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

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

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

### **Operating Leases**

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

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

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2015/16 (SeRCOP). The total absorption costing principle is used - the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core - costs relating to the Council's status as a multifunctional, democratic organisation.

- Non Distributed Costs - the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

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

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

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

### **Recognition**

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

### **Measurement**

Assets are initially measured at cost, comprising:

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

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

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

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets

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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), except for a few offices that are situated close to the council's housing properties, where there is no market for office accommodation, and that are measured at depreciated replacement cost (instant build) as an estimate of current value
- 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 fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair 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 fair value.

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

Where decreases in value are identified, they are accounted for as follows:

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

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

All valuations have been undertaken by or under the supervision of a fully qualified Chartered Surveyor (MRICS – Member of the Royal Institution of Chartered Surveyors). The effective date for valuations is 1 April of the financial year and assets are revalued on a five-year rolling programme. Council dwellings are reviewed annually. All valuations undertaken in 2015/16 were carried out by Council staff. In addition to this rolling programme, assets which have been subject to potentially material change as a result of transactions in any given year will be revalued as and when such changes occur.

### **Impairment**

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

Where impairment losses are identified, they are accounted for as follows:

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

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

### **Depreciation**

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

Depreciation is calculated on the following bases:

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

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

## **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.

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

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

Non-current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council. The amounts payable to the PFI operators each year are analysed into five elements:

- Fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement.
- Finance cost – an interest charge of 10.15% on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- Contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

- Payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease).
- Lifecycle replacement costs – proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out.

### **23. Provisions**

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

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

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

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

### **24. Carbon Reduction Commitment Allowances**

The Council is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. This scheme is currently in the initial year of its second phase, which ends on 31 March 2019. The Council is required to purchase allowances, either prospectively or retrospectively, and surrender them on the basis of emissions, i.e. carbon dioxide produced as energy is used. As carbon dioxide is emitted (i.e. as energy is used), a liability and an expense are recognised. The liability will be discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the Council is recognised and reported in the costs of the Council's services and is apportioned to services on the basis of energy consumption.

## **25. Contingent Liabilities**

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

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

## **26. Contingent Assets**

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

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

## **27. Reserves**

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

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

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

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

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

## **30. Schools**

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

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

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

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

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

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

## **31. 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. This applies to the adoption of the following new or amended standards within the 2016/17 Code:

- IAS 1 Presentation of Financial Statements. This standard provides guidance on the form of the financial statements. The 'Telling the Story' review of the presentation of the Local Authority financial statements as well as the December 2014 changes to IAS 1 under International Accounting Standards Board Disclosure Initiative will result in changes to the format of the accounts in 2016/17. The format of the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement will change and introduce a new Expenditure and Funding Analysis.
- The adoption of the measurement requirements of the Code of Practice on Highways Network Assets in the 2016/17 Code require Highways Network Assets to be recognised as a separate class of Property, Plant and Equipment and measured at depreciated replacement cost for the first time in the 2016/17 financial statements. This will have a material impact on the Statement of Accounts in 2016/17 although there is no need to restate prior year comparators.
- Other minor changes are not expected to have a material effect on the Council's Statement of Accounts.

The Code requires implementation from 1 April 2016 and there is therefore no impact on the 2015/16 Statement of Accounts.

### 3. Critical Judgements in Applying Accounting Policies

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

- Funding of Local Government - There is a high degree of uncertainty about future levels of funding for local government. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.
- Academy and Foundation Trust Schools - three schools transferred to academy and foundation trust status in 2015/16. 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 Account at the completion of the statutory process.
- PFI - In 2009/10, the Council signed a Private Finance Initiative contract for the provision of three sets of new school buildings; Sedgefield Community College, Shotton Hall School (now The Academy at Shotton Hall) and Shotton Hall Primary School. The accounting policies for PFI schemes and similar contracts have been applied to the arrangement and the assets are recognised in the balance sheet as they are deemed to fall within the scope of the International Financial Reporting Interpretations Committee (IFRIC) 12. The total net value of land and buildings for these schools is £20.110m. Further details can be found in Note 41.
- Accounting for Schools – Balance Sheet Recognition – The Council recognises the land and buildings used by schools in line with the provisions of the Code of Practice. It states that property used by local authority maintained schools should be recognised in accordance with the asset recognition tests relevant to the arrangements that prevail for the property. The Council recognises the schools land and buildings on its Balance Sheet where it directly owns the assets, the school or school Governing Body own the assets or rights to use the assets have been transferred from another entity.

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

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

	Type of School	Nursery Schools	Primary Schools	Secondary Schools	Special Schools	Total
a)	Community	12	142	13	9	176
b)	Voluntary Controlled (VC)	-	16	-	-	16
b)	Voluntary Aided (VA)	-	47	2	-	49
c)	Foundation	-	-	2	-	2
d)	Pupil Referral Unit	-	-	1	-	1
d)	Endowed Parochial	-	1	-	-	1
	<b>Maintained Schools</b>	<b>12</b>	<b>206</b>	<b>18</b>	<b>9</b>	<b>245</b>
e)	Academies	-	12	14	1	27
	<b>Total</b>	<b>12</b>	<b>218</b>	<b>32</b>	<b>10</b>	<b>272</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 VC and VA school land and buildings usually rests with a charity, normally a religious body. VC schools are owned by the Diocese who has granted a licence to the school to use the land and buildings. Under this licence arrangement, the rights of use of the land and buildings have not transferred to the school and thus are not included on the Council's Balance Sheet.
- c) Foundation schools were created to give greater freedom to the Governing Body responsible for school staff appointments and who also set the admission criteria. For a Foundation school, as the school Governing Body has legal ownership of the land and buildings they have been included on the Council's Balance Sheet in line with the Council's judgement.
- d) The Pupil Referral Unit and Endowed Parochial School are owned by the Council and the land and buildings used are included on the Council's Balance Sheet.
- e) Academies are not considered to be maintained schools in the Council's control. Thus the land and building assets are not owned by the Council and not included on the Council's Balance Sheet.
- Group Accounts – The Council has financial relationships with other related companies, joint ventures and joint arrangements, details of which can be found in Note 38. There are a number of criteria by which the Council must determine whether its interest in such bodies is significant enough to be included in the Council's consolidated accounts. After consideration of these criteria, the Council has determined that the consolidation of related companies would have no material effect on the Council's financial position and therefore it is not necessary to produce Group Accounts for 2015/16.
  - Municipal Mutual Insurance – The Council considers that the orderly run down of all existing and prospective claims may result in a liability to be met from the insurance reserve. The Scheme Administrator suggests that there are possible future levies that

may be imposed on Scheme Creditors such as the Council. The Council's Insurance Adviser 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. As the provision is not for the total amount of the potential liability and there is the possibility of future claims, the Council considers there to be a contingent liability as it has no certainty about the timing or the amount of any future liability.

- Closed Landfill Sites – the Council considers that there is likely to be a liability in respect of restoration works and after care costs for a number of closed landfill sites. A full review of the liability has been undertaken, and a final report was received in May 2014. This report recommended proposals for the management of the retained sites, and work is on-going to determine the financial liabilities associated with these proposals. The Environment Agency, the regulatory body for permitted closed landfill sites is working closely with the Council recommending priority order for works to sites. As the full value and timing of this liability remains uncertain, it has been included in the accounts as a contingent liability.

#### **4. Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty**

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

The items in the Council's Balance Sheet at 31 March 2016 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Property, plant and equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets.	<p>The impact of a change in valuation or useful life would be to affect the carrying value of the asset in the balance sheet and the charge for depreciation or impairment in the CI&amp;E.</p> <p>These changes do not have an impact on the Council's General Fund position as the Council is not required to fund such non-cash charges from council tax receipts.</p>
Property, plant and equipment	Property, plant and equipment (with the exception of infrastructure, community assets, assets under construction and small value items of vehicles, plant and equipment) are revalued on a periodic basis and tested annually for indicators of impairment. Judgements are required to make an assessment as to whether there is an indication of impairment. 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>
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements such as the discount rate, future salary increases, mortality expectations, future inflation, and the expected rate of return on the Pension Fund's investments. The Pension Fund engages a firm of specialist actuaries to provide the Council with expert advice about the	<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 £43.1m.</p> <p>In order to understand the magnitude of the possible volatility in the balance sheet position and to understand which assumptions are most important in determining the size of the liabilities, it is helpful</p>

Item	Uncertainties	Effect if actual results differ from assumptions
	assumptions to be applied.	to understand how sensitive the results are to key assumptions. IAS19 now requires entities to disclose information about the sensitivity of the defined benefit obligation to changes in key assumptions. The results from the sensitivity analysis are disclosed in note 45 and indicate how the figures are sensitive to the assumptions used.
Equal Pay	<p>Provision has been made for the likely payments in respect of Equal Pay settlements in respect of Schools only. These are provided for in short term provisions and have been included at current prices.</p> <p>There are a number of potential claims in respect of individuals who were identified as potentially being eligible for an Equal Pay settlement but have not yet approached the Council. Due to the uncertainty an amount has been set aside in earmarked reserves rather than in provisions.</p>	<p>Payments are likely to be made within 12 months; the provision will be reviewed annually and adjusted accordingly.</p> <p>The residual settlements made in future years will be reviewed to ensure the adequacy of the balance set aside in earmarked reserves.</p>
Insurance Provision	The value of provisions that will be used in 2016/17 is uncertain. Based on previous experience, an amount of £3.259m has been classified as short term to reflect the likely use of this provision in 2016/17.	If the short term provision is not used during 2016/17, the annual review of the insurance provision will ensure that an appropriate amount is included in the 2016/17 accounts.

Item	Uncertainties	Effect if actual results differ from assumptions
Arrears	At 31 March 2016, the Authority had a balance of debtors of £80.09m. A review of significant balances suggested that an impairment of doubtful debts of 32.21% (£25.80m) 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 £25.80m to be set aside as an allowance.

## 5. Material Items of Income and Expense

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

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

The transfer price for the dwellings and associated assets is largely determined by a prescribed formula set by Government and reflects the current value of the future income and expenditure streams of the assets over the next 30 years and is known as the Tenanted Market Value (TMV). The transfer price agreed with CDHG was £114.4m and this was used to repay part of the outstanding HRA debt in 2015/16.

In 2015/16 the Council received an Overhanging Debt Grant of £207.035m from the government to repay its remaining housing attributable debt of £129.6m and premia of £77.435m associated with the premature repayment. These figures are shown in the Comprehensive Income and Expenditure Statement in Taxation and Non Specific Grant Income and Other Operating Expenditure respectively and included in Notes 11 and 9.

During 2011/12, Consett Community Sports College and Moorside Community College combined and transferred to Academy status, becoming Consett Academy. No loss on disposal of the school buildings was recorded at the time, as new buildings were being constructed by the Council, which were recognised as assets under construction on the Council's balance sheet. The old school buildings remain the property of the Council, and were leased on a short-term basis to the Academy until completion of the new buildings in



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2015/16. On completion, the new buildings transferred to the Academy and were written out of the Council's balance sheet, resulting in a loss on disposal of £28.836m in 2015/16.

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

The Statement of Accounts was authorised for issue by the Interim Corporate Director Resources on 30 June 2016. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2016, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

### **Academy Schools**

Four local authority schools are due to convert to Academy status during 2016/17 which was a non-adjusting event in 2015/16. This change in status will lead to the removal of this school from the Balance Sheet in 2016/17 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 £20.494m.

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

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

The presentation of this note has been amended to reflect new Code requirements to aggregate or disaggregate disclosures so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have different characteristics. The 2014/15 comparator has been restated accordingly. There is no impact on the Total Adjustments line.

2015/16:

	Usable Reserves					
	General Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Capital Grants Unapplied £000	Movement in Unusable Reserves £000
<b>Adjustments 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)	-22,075	-	-	-	-	22,075
• Financial Instruments (transferred to the Financial Instruments Adjustment Account)	79	-	-	-	-	-79
• Council Tax and NDR (transfers to or from Collection Fund)	1,220	-	-	-	-	-1,220
• Holiday pay (transferred to the Accumulated Absences Reserve)	1,802	-	-	-	-	-1,802
• 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	-55,755	-	-	-	-	55,755
o Revaluation and impairment losses on non-current assets, and movements in the fair value of Investment Properties	-17,066	-	-	-	-	17,066
o Amounts of non-current assets written off on disposal or sale	-55,268	-130,534	-	-	-	185,802
o Revenue expenditure funded from capital under statute	-29,868	-	-	-	-	29,868
o Capital grants and contributions credited to the CI&E Statement	52,087	129,600	-	-	-	-181,687
<b>Total Adjustments to Revenue Resources</b>	<b>-124,844</b>	<b>-934</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>125,778</b>
<b>Adjustments between Revenue and Capital Resources</b>						
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	12,962	115,035	-124,028	-	-	-3,969
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)	-34	-	34	-	-	-
Posting of HRA resources from revenue to the Major Repairs Reserve	-	-	-	-	-	-
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	16,569	-	-	-	-	-16,569
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	23,770	-	-	-	-	-23,770
<b>Total Adjustments between Revenue and Capital</b>	<b>53,267</b>	<b>115,035</b>	<b>-123,994</b>	<b>-</b>	<b>-</b>	<b>-44,308</b>
<b>Adjustments to Capital Resources</b>						
Use of the Capital Receipts Reserve to finance capital expenditure	-	-	124,584	-	-	-124,584
Use of the Major Repairs Reserve to finance capital expenditure	-	-	-	-	-	-
Application of capital grants unapplied to finance capital expenditure	-	-	-	-	85	-85
Cash payments in relation to deferred capital receipts	-	-	-733	-	-	733
<b>Total Adjustments to Capital Resources</b>	<b>-</b>	<b>-</b>	<b>123,851</b>	<b>-</b>	<b>85</b>	<b>-123,936</b>
<b>Total Adjustments</b>	<b>-71,577</b>	<b>114,101</b>	<b>-143</b>	<b>-</b>	<b>85</b>	<b>-42,466</b>

2014/15 (restated):

	Usable Reserves					Movement in Unusable Reserves £000
	General Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Capital Grants Unapplied £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)	-19,671	480	-	-	-	19,191
• Financial Instruments (transferred to the Financial Instruments Adjustment Account)	79	-	-	-	-	-79
• Council Tax and NDR (transfers to or from Collection Fund)	2,759	-	-	-	-	-2,759
• Holiday pay (transferred to the Accumulated Absences Reserve)	-2,220	-1	-	-	-	2,221
• 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	-51,930	-7,500	-	-	-	59,430
◦ Revaluation and impairment losses on non-current assets, and movements in the fair value of Investment Properties	7,223	-366,231	-	-	-	359,008
◦ Amounts of non-current assets written off on disposal or sale	-8,037	-2,239	-	-	-	10,276
◦ Revenue expenditure funded from capital under statute	-16,873	-62	-	-	-	16,935
◦ Capital grants and contributions credited to the CI&E Statement	56,594	18,682	-	-	-	-75,276
<b>Total Adjustments to Revenue Resources</b>	<b>-32,076</b>	<b>-356,871</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>388,947</b>
<b>Adjustments between Revenue and Capital Resources</b>						
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	10,619	3,314	-13,208	-	-	-725
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)	-1,414	-	1,414	-	-	-
Posting of HRA resources from revenue to the Major Repairs Reserve	-	7,468	-	-7,468	-	-
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	15,730	-	-	-	-	-15,730
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	17,763	3,818	-	-	-	-21,581
<b>Total Adjustments between Revenue and Capital Adjustments to Capital Resources</b>	<b>42,698</b>	<b>14,600</b>	<b>-11,794</b>	<b>-7,468</b>	<b>-</b>	<b>-38,036</b>
Use of the Capital Receipts Reserve to finance capital expenditure	-	-	12,976	-	-	-12,976
Use of the Major Repairs Reserve to finance capital expenditure	-	-	-	7,468	-	-7,468
Application of capital grants unapplied to finance capital expenditure	-	-	-	-	113	-113
Cash payments in relation to deferred capital receipts	-	-	-1,182	-	-	1,182
<b>Total Adjustments to Capital Resources</b>	<b>-</b>	<b>-</b>	<b>11,794</b>	<b>7,468</b>	<b>113</b>	<b>-19,375</b>
<b>Total Adjustments</b>	<b>10,622</b>	<b>-342,271</b>	<b>-</b>	<b>-</b>	<b>113</b>	<b>331,536</b>

## 8. Transfers to/from Earmarked Reserves

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

	Balance at 1 April 2014 £000	Transfers out 2014-15 £000	Transfers in 2014-15 £000	Balance at 31 March 2015 £000	Transfers out 2015-16 £000	Transfers in 2015-16 £000	Balance at 31 March 2016 £000
<b>General Fund:</b>							
Balances held by schools under a scheme of delegation	24,684	-438	-	24,246	-163	-	24,083
AAP / Members Reserve	3,277	-5	427	3,699	-498	406	3,607
AAP Reserve - Neighbourhoods	38	-	2	40	-	8	48
Assistant Chief Executive - Grant Reserve	230	-39	3	194	-	1,218	1,412
Assistant Chief Executive - Operational Reserve	132	-8	-	124	-8	631	747
Aycliffe Young Peoples Centre Reserve	1,387	-185	-	1,202	-998	-	204
Budget Support Reserve	-	-	-	-	-	30,000	30,000
Business Growth Fund Reserve	-	-	913	913	-97	-	816
Cabinet Reserve	220	-220	-	-	-	-	-
Capital Expenditure Reserve	2,797	-	5	2,802	-3,802	1,000	-
Cash Limit Reserve	22,384	-7,481	7,462	22,365	-15,107	15,044	22,302
Community Safety Reserve	6	-6	-	-	-	-	-
Continuing Professional Development Reserve	993	-	42	1,035	-	167	1,202
Corporate Reserve	2,219	-1,604	369	984	-59	-	925
Customer Services Reserve	387	-14	-	373	-140	-	233
Dedicated Schools Grant and Education Reserve	7,354	-	5,452	12,806	-352	1,978	14,432
Direct Services Reserve	3,675	-1,242	610	3,043	-725	673	2,991
DWP Grant Reserve	699	-50	589	1,238	-56	205	1,387
Economic Development Reserve	900	-194	339	1,045	-77	166	1,134
Elections Reserve	1,036	-136	136	1,036	-26	-	1,010
Employability and Training Reserve	644	-186	-	458	-229	1,478	1,707
Environmental Health and Consumer Protection Reserve	516	-97	581	1,000	-86	33	947
Equal Pay Reserve	17,405	-3,683	394	14,116	-4,798	210	9,528
Funding and Programmes Management Reserve	132	-	8	140	-	14	154
Health Promotion Access Catalogue (HPAC)	-	-	259	259	-259	-	-
Housing Benefit Subsidy Reserve	2,198	-1,453	-	745	-245	-	500
Housing Solutions Reserve	1,079	-228	16	867	-19	295	1,143
Housing Stock Transfer Reserve	-	-	-	-	-	1,000	1,000
Human Resources Reserve	-	-	65	65	-	-	65
Insurance Reserve	13,058	-75	2,620	15,603	-7,000	1,626	10,229
Land Search Fees Reserve	1,000	-	-	1,000	-556	-	444
Legal Reserves	200	-	-	200	-	154	354
LSVT Reserve	100	-100	-	-	-	-	-
MTFP Redundancy and Early Retirement Reserve	16,255	-6,204	830	10,881	-7,023	10,000	13,858
North Pennines Partnership Reserve	638	-309	-	329	-124	-	205
Office Accommodation Reserve	1,000	-	7	1,007	-310	-	697
Office Accommodation Capital Reserve	-	-	8,000	8,000	-	34,481	42,481
Other Childrens Services Reserve	-	-	-	-	-	1,010	1,010
Pension Deficit Reserve	-	-	-	-	-	10,000	10,000
Performance Reward Grant Reserve	1,308	-264	-	1,044	-358	-	686
Planned Delivery Programme (PDP) Reserve	-	-	20,000	20,000	-20,000	-	-
Planning Reserve	1,173	-	250	1,423	-174	80	1,329
Public Health Reserve	4,992	-44	35	4,983	-3,734	3,705	4,954
Regeneration Reserve	1,689	-713	778	1,754	-162	740	2,332
Restructure Reserve	729	-66	-	663	-475	-	188
Revenue and Benefit Reserve	-	-	-	-	-	200	200
School Condition Survey Reserve	-	-	-	-	-	1,409	1,409
Single Fraud Incentive Scheme Reserve	-	-	-	-	-	257	257
Social Care Reserve	19,365	-4,561	22,132	36,936	-25,482	1,910	13,364
Special Projects Reserve	60	-23	-	37	-37	-	-
Sport and Leisure Reserve	1,963	-387	1,618	3,194	-753	673	3,114
Strategic Waste Reserve	425	-177	1,548	1,796	-1,660	-	136
System Development Reserve	2,021	-451	141	1,711	-245	1,134	2,600
Tackling Troubled Families Reserve	1,558	-613	1,082	2,027	-330	-	1,697
Technical Services Reserve	1,619	-300	1,603	2,922	-443	1,873	4,352
Transformation Reserve	-	-	1,483	1,483	-	1,441	2,924
Transport Asset Management Programme Reserve	318	-	-	318	-158	-	160
Transport Reserve	329	-42	-	287	-36	-	251
Welfare Reserve	1,760	-94	498	2,164	-1,477	148	835
<b>Total</b>	<b>165,952</b>	<b>-31,692</b>	<b>80,297</b>	<b>214,557</b>	<b>-98,281</b>	<b>125,367</b>	<b>241,643</b>

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The significant earmarked reserves at 31 March 2016, together with a brief explanation of their purpose, were as follows:

**Schools' Revenue Balances**

Surplus or deficit balances of locally managed schools, which are committed to be spent on the education service. The net surplus at 31 March 2016 comprised individual school balances totalling £24.083m, net of loans outstanding of £0.191m.

**AAP / Members Reserve**

To ensure the projects can be funded in 2016/17 where an agreed spending plan exists.

**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.

**Capital Expenditure Reserve**

To provide resources to fund capital expenditure items in 2016/17 and beyond.

**Cash Limit Reserve**

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

**Dedicated Schools Grant and Education Reserve**

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

**Direct Services Reserve**

To hold contingency sums for issues such as building services defects liabilities, building repairs and maintenance dilapidations, flooding and street cleansing.

**Equal Pay Reserve**

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

**Insurance Reserve**

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

**MTFP Redundancy and Early Retirement Reserve**

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

**Office Accommodation Capital Reserve**

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

**Pension Deficit Reserve**

To provide a resource to reduce future liabilities and MTFP pressures associated with pension deficit payments.

**Public Health Reserve**

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

**Social Care Reserve**

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

**Sport and Leisure Reserve**

To provide resources to meet the costs associated with various Sport and Leisure activities in 2016/17 and beyond.

**Technical Services Reserve**

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

**Transformation Reserve**

To provide a resource to support a major transformation of the Children's Services delivery model on the provision of social work services and early help services to improve the service.

**9. Other Operating Expenditure**

2014-15 £000		2015-16 £000
10,450	Parish council precepts	10,921
472	Levies	16,555
1,414	Payments to the Government Housing Capital Receipts Pool	34
-3,656	Gains/losses on the disposal of non-current assets	57,805
8,680	<b>Total</b>	85,315

**10. Financing and Investment Income and Expenditure**

2014-15 £000		2015-16 £000
24,449	Interest payable and similar charges	15,110
-	- Premium payable on repayment of debt (Housing Stock Transfer)	77,435
33,160	Pensions net interest on the net defined benefit liability	28,920
-2,395	Interest receivable and similar income	-4,894
270	Impairment of Financial Investments	-
-267	Movement in fair value of investment properties	-406
-10,692	Other investment income	-5,929
44,525	<b>Total</b>	110,236

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

2014-15 £000		2015-16 £000
-179,705	Council tax income *	-190,752
-54,725	Non domestic rates	-50,836
-217,149	Non-ringfenced government grants	-180,607
-65,602	Capital grants and contributions	-36,432
-	- Government grant in respect of Housing Stock Transfer	-207,035
-517,181	<b>Total</b>	-665,662

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

## 12. Property, Plant and Equipment

Movement on Balance 2015/16:

	Operational						Non-Operational		Total £000
	Council Dwellings £000	Land & Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000		
<b>Cost or valuation</b>									
At 1 April 2015	114,353	1,121,819	125,990	488,709	2,864	81,377	29,880	1,964,991	
Additions	-	32,852	12,510	30,885	2,176	1	10,042	88,466	
Revaluation increases/(decreases)	-	-4,738	7	-	-	-3,952	-	-8,682	
Derecognition - disposals	-114,282	-73,077	-5,739	-	-	-7,197	-	-200,294	
Assets reclassified (to)/from Held for Sale	-	-	-	-	-	-8,079	-	-8,079	
Other reclassifications	-71	47,195	-	-	2	-8,118	-38,655	353	
Other movements in cost or valuation	-	-	-	-27	-	-	-	-27	
<b>At 31 March 2016</b>	-	1,124,050	132,769	519,567	5,042	54,033	1,267	1,836,727	
<b>Accumulated Depreciation</b>									
At 1 April 2015	-	-19,223	-89,336	-109,323	-88	-601	-	-218,571	
Depreciation charge	-	-31,108	-10,849	-12,650	-	-302	-	-54,908	
Depreciation written out on revaluation	-	8,368	-	-	-	423	-	8,790	
Impairment losses/(reversals)	-	-13,405	-	-	-	-34	-	-13,439	
Derecognition - disposals	-	14,669	5,383	-	-	208	-	20,260	
Other reclassifications	-	-70	-	-	-	86	-	16	
Other movements in cost or valuation	-	-	-	-	-	70	-	70	
<b>At 31 March 2016</b>	-	-40,769	-94,802	-121,973	-88	-150	-	-257,782	
<b>Net Book Value</b>									
At 31 March 2016	-	1,083,282	37,967	397,594	4,953	53,883	1,267	1,578,945	
At 31 March 2015	114,353	1,102,596	36,654	379,386	2,775	80,776	29,880	1,746,420	
The Revaluations / Impairments above:									
Revaluation	-	-4,738	7	-	-	-3,952	-	-8,682	
Depreciation written out	-	8,368	-	-	-	423	-	8,790	
Impairment losses/(reversals)	-	-13,405	-	-	-	-34	-	-13,439	
	-	<b>-9,775</b>	<b>7</b>	-	-	<b>-3,564</b>	-	<b>-13,331</b>	
Are recognised as follows:									
In the Revaluation Reserve	-	-6,468	-	-31	-	2,747	-	-3,752	
In the Surplus/Deficit on the Provision of Services	-	-3,307	7	31	-	-6,311	-	-9,579	
	-	<b>-9,775</b>	<b>7</b>	-	-	<b>-3,564</b>	-	<b>-13,331</b>	

## Comparative Movements in 2014/15:

	Operational					Non-Operational		Total £000
	Council Dwellings £000	Land & Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	
<b>Cost or valuation</b>								
At 1 April 2014	455,286	997,382	127,148	455,141	2,660	64,385	12,418	2,114,419
Additions	42,757	36,966	7,654	33,689	162	751	20,703	142,682
Revaluation increases/(decreases)	-381,584	127,038	-	-48	16	-4,921	-	-259,497
Derecognition - disposals	-2,167	-13,634	-8,685	-	-1	-4,026	-	-28,512
Derecognition - other	-	-	-	-	-	-	-	-
Assets reclassified (to)/from Held for Sale	-	-2,973	-	-	-	-260	-	-3,234
Other reclassifications	62	-22,291	-128	-	26	25,449	-3,241	-123
Other movements in cost or valuation	-2	-670	-	-73	-	-	-	-744
<b>At 31 March 2015</b>	<b>114,353</b>	<b>1,121,819</b>	<b>125,990</b>	<b>488,709</b>	<b>2,864</b>	<b>81,377</b>	<b>29,880</b>	<b>1,964,991</b>
<b>Accumulated Depreciation</b>								
At 1 April 2014	-6,657	-51,092	-84,835	-97,482	-88	-2,426	-	-242,580
Depreciation charge	-6,799	-27,522	-11,684	-11,844	-	-439	-	-58,288
Depreciation written out on revaluation	13,441	51,518	-	-	-	2,978	-	67,938
Impairment losses/(reversals)	-114	-4,371	-	-	-	-358	-	-4,842
Derecognition - disposals	132	11,049	7,176	-	-	835	-	19,192
Derecognition - other	-	-	-	-	-	-	-	-
Assets reclassified (to)/from Held for Sale	-	-	-	-	-	-	-	-
Assets reclassified (to)/from Held for Sale	-	-	-	-	-	-	-	-
Assets reclassified (to)/from Intangible	-	-	-	-	-	-	-	-
Other reclassifications	-4	1,194	6	-	-	-1,191	-	6
Other movements in cost or valuation	-	-	-	3	-	-	-	3
<b>At 31 March 2015</b>	<b>0</b>	<b>-19,223</b>	<b>-89,336</b>	<b>-109,323</b>	<b>-88</b>	<b>-601</b>	<b>-</b>	<b>-218,571</b>
<b>Net Book Value</b>								
At 31 March 2015	114,353	1,102,596	36,654	379,386	2,775	80,776	29,880	1,746,420
At 31 March 2014	448,629	946,290	42,313	357,659	2,572	61,959	12,418	1,871,839
The Revaluations / Impairments								
Revaluation increases/(decreases)	-381,584	127,038	-	-48	16	-4,921	-	-259,497
Depreciation written out	13,441	51,518	-	-	-	2,978	-	67,938
Impairment losses/(reversals)	-114	-4,371	-	-	-	-358	-	-4,842
	<b>-368,256</b>	<b>174,186</b>	<b>-</b>	<b>-48</b>	<b>16</b>	<b>-2,300</b>	<b>-</b>	<b>-196,401</b>
Are recognised as follows:								
In the Revaluation Reserve	-2,024	161,112	-	-	16	3,640	-	162,743
In the Surplus/Deficit on the Provision of Services	-366,231	13,074	-	-48	-	-5,940	-	-359,145
	<b>-368,256</b>	<b>174,186</b>	<b>-</b>	<b>-48</b>	<b>16</b>	<b>-2,300</b>	<b>-</b>	<b>-196,401</b>



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## Depreciation

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

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

## Capital Commitments

At 31 March 2016 the Council had entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2016/17 and future years budgeted to cost £20.224m. Similar commitments at 31 March 2015 were £35.651m. The commitments are:

• Building Schools for the Future	£2.964m
• School Projects	£2.306m
• Wharton Park	£0.805m
• Thornley Waste Transfer Station	£5.078m
• Digital Durham	£7.703m
• Forrest Park	£1.234m
• Villa Real	£0.134m

### 13. Heritage Assets

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

	Museum Collection and Artefacts £000	Artwork, Public Art and Sculptures £000	Monuments, Statues and Historic Buildings £000	Civic Regalia and Silverware £000	Total Assets £000
<b>Cost or valuation</b>					
At 1 April 2014	9,494	987	4,501	654	15,636
Additions	-	-	-	-	-
Disposals	-	-	-	-	-
Revaluations	-433	37	27	192	-177
Impairment Losses/(reversals) recognised in the Revaluation Reserve	-	-	-	-	-
Impairment Losses/(reversals) recognised in Surplus or Deficit on the Provision of Services	-	-	-	-	-
Depreciation	-	-	-	-	-
Assets reclassified (to)/from Property Plant and Equipment	-	-	-	-	-
<b>At 31 March 2015</b>	<b>9,061</b>	<b>1,024</b>	<b>4,528</b>	<b>846</b>	<b>15,459</b>
<b>Cost or valuation</b>					
At 1 April 2015	9,061	1,024	4,528	846	15,459
Additions	-	-	-	-	-
Disposals	-	-	-	-	-
Revaluations	-	-1	1	-	-
Impairment Losses/(reversals) recognised in the Revaluation Reserve	-	-	-	-	-
Impairment Losses/(reversals) recognised in Surplus or Deficit on the Provision of Services	-	-	-	-	-
Depreciation	-	-	-	-	-
Assets reclassified (to)/from Property Plant and Equipment	-	-	-15	-	-15
Other reclassifications	-108	-204	-	312	-
<b>At 31 March 2016</b>	<b>8,953</b>	<b>819</b>	<b>4,514</b>	<b>1,158</b>	<b>15,444</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.

## 14. Investment Properties

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

2014-15 £000	2015-16 £000
3,481 Balance at start of the year	3,743
Additions:	
- Enhancements	-
- Disposals	-1,575
267 Net gains/losses from fair value adjustments	437
Transfers:	
-5 To/from Property, Plant and Equipment	-339
<b>3,743 Balance at end of the year</b>	<b>2,266</b>

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

## 15. Financial Instruments

### Categories of Financial Instruments

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

2014-15			2015-16	
Long-term £000	Current £000		Long-term £000	Current £000
<b>Investments</b>				
20,019	83,444	Loans and receivables	19	156,631
10,558	-	Available-for-sale financial assets	10,558	-
-	-	Unquoted equity investment at cost	1,750	-
<b>30,577</b>	<b>83,444</b>	<b>Total Investments</b>	<b>12,327</b>	<b>156,631</b>
<b>Debtors:</b>				
19,372	45,032	Loans and receivables	21,682	44,604
<b>19,372</b>	<b>45,032</b>	<b>Total Debtors</b>	<b>21,682</b>	<b>44,604</b>
<b>Borrowings:</b>				
-457,752	-4,442	Financial Liabilities at amortised cost	236,221	13,081
<b>-457,752</b>	<b>-4,442</b>	<b>Total Borrowings</b>	<b>236,221</b>	<b>13,081</b>
<b>Other Long term Liabilities:</b>				
-44,975	-3,190	PFI and finance lease liabilities	-45,541	-3,762
<b>-44,975</b>	<b>-3,190</b>	<b>Total other long term liabilities:</b>	<b>-45,541</b>	<b>-3,762</b>
<b>Creditors:</b>				
-	-94,343	Financial liabilities at amortised cost	-	-98,616
<b>-</b>	<b>-94,343</b>	<b>Total Creditors</b>	<b>-</b>	<b>-98,616</b>

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

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

### Soft Loans

The Council will sometimes make loans at less than market rates, where a service objective justifies making a concession. The Code requires the discounted interest rate to be recognised as a reduction in the fair value of the asset when measured for the first

time. This treatment reflects the economic substance of the transaction, i.e. the Council is locking itself into an arrangement where it will incur an effective loss on interest receivable over the life of the instrument.

### **Loans to Voluntary Organisations**

The Council has made a number of loans to voluntary organisations at less than market rates (soft loans). The value of soft loans issued by the Council at 31 March 2016 was £0.061m (31 March 2015 £0.063m). They are not considered to be material.

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

### **Employee Car Loans**

The Council made loans for car purchase to 72 employees. These employees are in posts that require them to drive regularly on the Council's business. Interest is charged on the loans based on the emissions of the vehicle. At the current level of interest rates, the Council assesses that the rate for such loans are no longer less than market rates. The scheme is no longer available to employees.

The value of soft loans issued by the Council at 31 March 2016 was £0.023m (31 March 2015 £0.102m).

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

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

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

At 31 March 2016, the value of soft loans received by the Council was nil (31 March 2015, nil).

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

### **Reclassifications**

There have been no reclassifications for the financial year 2015/16.

## 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:

2014-15					2015-16					
Financial Liabilities measured at amortised cost	Financial Assets: Loans and receivables	Financial Assets: Available for sale	Assets and Liabilities at Fair Value through Profit and Loss	Total		Financial Liabilities measured at amortised cost	Financial Assets: Loans and receivables	Financial Assets: Available for sale	Assets and Liabilities at Fair Value through Profit and Loss	Total
£000	£000	£000	£000	£000		£000	£000	£000	£000	£000
24,449	-	-	-	24,449	Interest expense	92,545	-	-	-	92,545
-	270	-	-	270	Impairment losses	-	-	-	-	-
24,449	270	-	-	24,719	<b>Total expense in Surplus or Deficit on the Provision of Services</b>	92,545	-	-	-	92,545
-	-2,393	-	-	-2,393	Interest income	-	-4,894	-	-	-4,894
-	-2	-	-	-2	Interest income accrued on impaired financial assets	-	-	-	-	-
-	-2,395	-	-	-2,395	<b>Total income in Surplus or Deficit on the Provision of Services</b>	-	-4,894	-	-	-4,894
24,449	-2,125	-	-	22,324	<b>Net gain/(loss) for the year</b>	92,545	-4,894	-	-	87,651

## Fair Values of Assets and Liabilities

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

- For loans from the PWLB and other loans payable, premature repayment rates from the PWLB have been applied to provide the fair value under PWLB debt redemption procedures;
- For loans receivable, prevailing benchmark market rates have been used to provide the fair value;

- No early repayment or impairment is recognised;
- Where an instrument has a maturity of less than 12 months, or is a trade or other receivable, the fair value is taken to be the carrying amount or the billed amount;
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values calculated are as follows:

<u>31 March 2015</u>			<u>31 March 2016</u>		
Carrying Amount £000	Fair Value £000		Carrying Amount £000	Fair Value £000	
-405,501	-533,892	PWLB debt	-193,984	-224,988	
-51,651	-62,189	Non-PWLB debt	-51,639	-63,398	
-223	-223	Short term borrowing	-10,002	-10,002	
-114,269	-114,269	Short term creditors	-107,449	-107,449	
-2,389	-2,389	Short term finance lease liability	-2,839	-2,839	
-	-	Long-term creditors	-	-	
-3,916	-3,916	Long-term finance lease liability	-5,405	-5,405	
<b>-577,949</b>	<b>-716,878</b>	<b>Total Liabilities</b>	<b>-371,318</b>	<b>-414,081</b>	

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

This shows a notional future loss (based on economic conditions at 31 March 2016) arising from a commitment to pay interest to lenders above current market rates.

The fair value of Public Works Loan Board (PWLB) loans of £224.988m measures the economic effect of the terms agreed with the PWLB compared with estimates of the terms that would be offered for market transactions undertaken at the Balance Sheet date. The difference between the carrying amount and the fair value measures the additional interest that the authority will pay over the remaining terms of the loans under the agreements with the PWLB, against what would be paid if the loans were at prevailing market rates.

However, the authority has a continuing ability to borrow at concessionary rates from the PWLB rather than from the markets. A supplementary measure of the additional interest that the authority will pay as a result of its PWLB commitments for fixed rate loans is to compare the terms of these loans with the new borrowing rates available from the PWLB. If a value is calculated on this basis, the carrying amount of £193.984m would be valued at £224.988m. But, if the authority 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 £243.058m.

31 March 2015			31 March 2016		
Carrying Amount £000	Fair Value £000		Carrying Amount £000	Fair Value £000	
83,444	83,444	Short term investments	156,631	156,631	
20,000	20,111	Long term investments	-	-	
45,031	45,031	Short term debtors	44,605	44,605	
19,372	19,372	Long-term debtors	21,682	21,682	
<b>167,847</b>	<b>167,958</b>	<b>Total Assets</b>	<b>222,918</b>	<b>222,918</b>	

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

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

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

Some of the authority's financial assets are measured at fair value on a recurring basis and are described in the following table, including the valuation techniques used to measure them.

Financial assets measured at fair value					
Recurring fair value measurements	Input level in fair value hierarchy	Valuation technique used to measure fair value	As at 31	As at 31	
			March 2016 £000	March 2015 £000	
Equity shareholding in Newcastle International Airport Ltd.	Level 3	Valued at cost	10,558	10,558	
Equity shareholding in Durham Tees Valley Ltd.	Level 3	Valued at cost	-	-	
Equity shareholding in Chapter Homes.	Level 3	Valued at cost	450	-	
Equity shareholding in Polyphotonix.	Level 3	Valued at cost	300	-	
Equity shareholding in Forrest Park (Newton Aycliffe).	Level 3	Valued at cost	1,000	-	
<b>Total</b>			<b>12,308</b>	<b>10,558</b>	

## Equity Shareholdings

The Authority's equity shareholdings are shown in the table above– the shares in these companies are not traded in an active market and fair value of £12.308m has been based on valuation techniques that are not based on observable current market transactions or available market data. The valuation has been made at cost as there is no intention to sell.



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## Transfers between Levels of the Fair Value Hierarchy

There were no transfers between input levels 1 and 2 during the year.

## Changes in the Valuation Technique

There has been no change in the valuation technique used during the year for the financial instruments.

## 16. Nature and Extent of Risks Arising from Financial Instruments

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

- Credit risk – the possibility that other parties might fail to pay amounts due to the Council
- Liquidity risk – the possibility that the Council might not have funds available to meet its commitments to make payments
- Re-financing risk – the possibility that the Council might be required to renew a financial instrument on maturity at disadvantageous interest rates or terms.
- Market risk – the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates and stock market movements.

## Overall Procedures for Managing Risk

The Council's overall risk management procedures focus on the unpredictability of financial markets, and are structured to implement suitable controls to minimise these risks and potential adverse effects on resources available to fund services. The procedures for risk management are set out through a legal framework based on the Local Government Act 2003 and associated regulations and are carried out by the Council's Treasury Management team.

These regulations require the Council to comply with the CIPFA Prudential Code, the CIPFA Code of Practice on Treasury Management in the Public Services and investment guidance issued through the Act.

Overall, these procedures require the Council to manage risk in the following ways:

- by formally adopting the requirements of the CIPFA Treasury Management Code of Practice;
- by the adoption of a Treasury Policy Statement and treasury management clauses within its financial regulations/standing orders/constitution;
- by approving annually in advance prudential and treasury indicators for the following three years limiting:
  - The Council's overall borrowing;

- Its maximum and minimum exposures to fixed and variable rates;
  - Its maximum and minimum exposures to the maturity structure of its debt;
  - Its maximum annual exposures to investments maturing beyond a year.
- 
- by approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investment counterparties in compliance with Government guidance.

These procedures are required to be reported and approved at or before the Council's annual Council Tax setting budget meeting or before the start of the year to which they relate. These items are reported with the Treasury Management Strategy which outlines the detailed approach to managing risk in relation to the Council's financial instrument exposure. Actual performance is also reported after each year, as is a mid-year update.

The annual Treasury Management Strategy which incorporates the prudential indicators was approved by Council on 25 February 2015 and updated on 24 February 2016 and is available on the Council's website.

The key issues within the strategy were:

- The Authorised Limit for 2015/16 was set at £561m. This is the maximum limit of external borrowings or other long term liabilities.
- The Operational Boundary was set at £508m. This is the expected level of debt and other long term liabilities during the year.
- The maximum amounts of fixed and variable interest rate exposure were set at 100% and 30% based on the Council's net debt.

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

### **Credit Risk**

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

This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, in accordance with the Fitch, Moody's and Standard and Poor's Credit Ratings Services. The Annual Investment Strategy also considers maximum amounts and time limits in respect of each financial institution. Deposits are not made with banks and

financial institutions unless they meet the minimum requirements of the investment criteria outlined above. Additional selection criteria are also applied after these initial criteria are applied. Details of the Investment Strategy can be found on the Council's website.

The Council uses the creditworthiness service provided by Capita. This service uses a sophisticated modelling approach with credit ratings from all three rating agencies - Fitch, Moody's and Standard and Poor's, forming the core element. However, it does not rely solely on the current credit ratings of counterparties but also uses the following as overlays:

- Credit ratings of Short Term of F1, Long Term A, Support BB and Individual 3 (Fitch or equivalent rating), with the lowest available rating being applied to the criteria.
- UK institutions provided with support from the UK Government;
- Building Societies which meet the ratings for banks outlined above.

The Council's maximum exposure to credit risk in relation to its investments in banks and building societies of £195.444m cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk that deposits may be irrecoverable applies to all of the Council's deposits, but there was no evidence at the 31 March 2016 that this was likely to be the case.

No breaches of the Council's counterparty criteria occurred during the reporting period and the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits and bonds.

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

The Council does not generally allow credit for customers, although £18.647m of the £55.755m balance is past its due date for payment. The amount past its due date for payment can be analysed by age as follows:

<b>31 March 2015</b>		<b>31 March 2016</b>
<b>£000</b>		<b>£000</b>
11,002	Less than three months	13,527
1,080	Between three and six months	873
1,142	Between six months and one year	1,457
2,474	More than one year	2,790
<u>15,698</u>	<b>Total</b>	<u>18,647</u>

The Council initiates a legal charge on property where, for instance, clients require the assistance of social services but cannot afford to pay immediately. The total collateral at 31 March 2016 was £3.362m.

### **Credit Risk – Icelandic Investments Disclosure**

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

The only outstanding balance as at 31 March 2016 is in relation to the investment with Kaupthing Singer and Friedlander Ltd (KSF). All monies with KSF are currently subject to the respective administration and receivership processes. The Council's recovery position at 31 March 2016 is that 82.5% of the outstanding balance has been repaid. 85.5%-86.5% recovery is anticipated in the long run.

### **Liquidity Risk**

The Council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through a comprehensive cash flow management system, as required by the CIPFA Code of Practice. This seeks to ensure that cash is available when needed.

The Council has ready access to borrowings from the money markets to cover any day to day cash flow need, and the PWLB and money markets for access to longer term funds. The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

There are sums owing of £213.650m, all of which is due to be paid in less than one year.

### **Refinancing and Maturity Risk**

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

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

within the approved parameters. This includes:

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

The maturity analysis of financial liabilities is as follows, (as approved by Council in the Treasury Management Strategy):

<b>31 March 2015</b>		<b>31 March 2016</b>
<b>£000</b>		<b>£000</b>
223	Less than one year	10,002
15,234	Between one and two years	2
41,650	Between two and five years	32,008
99,490	Between five and ten years	62,621
80,124	Between ten and fifteen years	89,895
82,173	Between fifteen and twenty years	4,004
55,818	Between twenty and twenty five years	-
82,663	More than twenty five years	47,090
<b>457,375</b>	<b>Total</b>	<b>245,622</b>

## Market Risk

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

- borrowings at variable rates – the interest expense charged to the Comprehensive Income and Expenditure Statement will rise.
- borrowings at fixed rates – the fair value of the liabilities borrowings will fall (no impact on revenue balances);
- investments at variable rates – the interest income credited to the Surplus or Deficit on the Provision of Services will rise
- investments at fixed rates – the fair value of the assets will fall (no impact on revenue balances).

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund Balance. Movements

in the fair value of fixed rate investments that have a quoted market price will be reflected in Other Comprehensive Income and Expenditure.

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together the Council's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. From this Strategy, a treasury indicator is set which provides maximum limits for fixed and variable interest rate exposure. The Treasury Management team monitors the market and forecasts interest rates within the year to adjust exposures appropriately. For instance, during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns, similarly the drawing of longer term fixed rate borrowing would be postponed.

The Treasury Management team has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and which is used to update the budget quarterly during the year. This allows any adverse changes to be accommodated. The analysis will also advise whether new borrowing taken out is fixed or variable.

According to this assessment strategy, at 31 March 2016, if interest rates had been 1% higher with all other variables held constant, the financial effect would be a decrease of £26.380m in the fair value of fixed rate borrowings, although this would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure.

The approximate impact of a 1% fall in interest rates would be as above but with the movements being reversed. These assumptions are based on the same methodology as used in the note – Fair Value of Assets and Liabilities carried at Amortised Cost.

### **Price Risk**

The Council, excluding the Pension Fund, does not generally invest in equity shares or marketable bonds.

However, the Council does have shareholdings to the value of £12.308m (£10.558m in 2014/15) in organisations that are not listed on the stock exchange. The Council is therefore not exposed to losses arising from the movement in the price of shares, but is exposed to loss from revaluations of these shares.

The Council also has a shareholding in Durham Tees Valley Airport which is not listed on the stock exchange. They are held at nil value.

## Reconciliation of Fair Value Measurements for Financial Assets Carried at Fair Value Categorised within Level 3 of the Fair Value Hierarchy for Financial Assets:

31 March 2015				31 March 2016			
Unquoted Shares £000	Other £000	Total £000		Unquoted Shares £000	Other £000	Total £000	
10,558	-	10,558	Opening balance	10,558	-	10,558	
-	-	-	Transfers into Level 3	-	-	-	
-	-	-	Total gains and losses for the period	-	-	-	
-	-	-	Included in Surplus or Deficit on the Provision of Services	-	-	-	
-	-	-	Included in Other Comprehensive Income and Expenditure	-	-	-	
-	-	-	Additions	1,750	-	1,750	
-	-	-	Disposals	-	-	-	
<b>10,558</b>	<b>-</b>	<b>10,558</b>	<b>Closing Balance</b>	<b>12,308</b>	<b>-</b>	<b>12,308</b>	

## 17. Inventories

	Balance outstanding at start of year £000	Purchases £000	Recognised as an expense in the year £000	Adjustment for internal inventories £000	Reversals of write-offs in previous years £000	Balance outstanding at year-end £000
<b>Year to 31 March 2016</b>						
Consumable Stores	2,918	10,567	-9,607	-	-	3,878
Maintenance Materials	428	915	-923	-	-	420
Client Services Work in Progress	-44	631	-269	-	-	318
Rechargeable Works	265	459	-274	-	-	450
<b>Total</b>	<b>3,567</b>	<b>12,572</b>	<b>-11,073</b>	<b>-</b>	<b>-</b>	<b>5,066</b>
<b>Year to 31 March 2015</b>						
Consumable Stores	2,329	10,755	-10,166	-	-	2,918
Maintenance Materials	479	3,866	-3,917	-	-	428
Client Services Work in Progress	212	73	-329	-	-	-44
Rechargeable Works	107	363	-205	-	-	265
<b>Total</b>	<b>3,127</b>	<b>15,057</b>	<b>-14,617</b>	<b>-</b>	<b>-</b>	<b>3,567</b>

**18. Short Term Debtors**

<b>2014-15</b>	<b>2015-16</b>
<b>£000</b>	<b>£000</b>
20,850 Central government bodies	10,923
2,597 Other local authorities	11,379
1,650 NHS bodies	2,037
- Public corporations and trading funds	-
63,347 Other entities and individuals	55,755
-27,688 Less: Impairment Allowance	-25,802
60,756	54,292
3,593 Payments in advance	3,110
<b>64,349 Total</b>	<b>57,402</b>

**19. Cash and Cash Equivalents**

<b>2014-15</b>	<b>2015-16</b>
<b>£000</b>	<b>£000</b>
585 Cash at bank	613
-6,010 Overdraft	-436
58,737 Cash held on demand (call accounts)	37,901
19,876 Deposits held for liquidity purposes	912
<b>73,188 Cash and Cash Equivalents balance</b>	<b>38,990</b>

**20. Assets Held For Sale (Current)**

<b>2014-15</b>	<b>2015-16</b>
<b>£000</b>	<b>£000</b>
940 <b>Balance outstanding at start of year</b>	3,231
Assets newly classified as held for sale:	
3,234 Property, Plant and Equipment	8,005
- Revaluations	-368
Assets declassified as Held for Sale:	
- Property, Plant and Equipment	-
-943 Assets sold	-4,208
<b>3,231 Balance outstanding at year-end</b>	<b>6,660</b>

**21. Short Term Creditors**

<b>2014-15</b>	<b>2015-16</b>
<b>£000</b>	<b>£000</b>
-19,141 Central government bodies	-25,205
-740 Other local authorities	-1,516
-2,143 NHS bodies	-2,211
-19 Public corporations and trading funds	-
-88,136 Other entities and individuals	-70,711
-110,179	-99,644
-4,091 Receipts in Advance	-7,805
<b>-114,269 Total creditors</b>	<b>-107,449</b>



## 22. Provisions

The provisions at 31 March 2016 were as follows:

### Insurance Provision

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

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

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

### Equal Pay

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

### NDR Appeals

The provision represents the Council's share of the provision held for successful appeals against business rates.

### Other

This includes a general purpose provision of £0.064m for commuted sums.

	Insurance £000	Equal Pay £000	NDR Appeals £000	Other Provisions £000	Total £000
<b>Balance at 1 April 2015</b>	8,898	61	3,766	1,064	13,789
Additional provisions made in 2015-16	4,549	13	5,611	-	10,173
Amounts used in 2015-16	-2,532	-	-436	-1,000	-3,968
Unused amounts reversed in 2015-16	-2,440	-	-	-	-2,440
Unwinding of discounting in 2015-16	-	-	-	-	0
<b>Balance at 31 March 2016</b>	<b>8,475</b>	<b>74</b>	<b>8,941</b>	<b>64</b>	<b>17,554</b>
<b>As shown in Balance Sheet</b>					
Long Term Provisions	5,216	-	8,941	-	14,157
Short Term Provisions	3,259	74	-	64	3,397
<b>Balance at 31 March 2016</b>	<b>8,475</b>	<b>74</b>	<b>8,941</b>	<b>64</b>	<b>17,554</b>

## 23. Usable Reserves

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

<b>31 March 2015</b>	<b>31 March 2016</b>
<b>£000</b>	<b>£000</b>
219 Usable Capital Receipts Reserve	362
609 Capital Grants and Contributions Unapplied	524
26,078 Housing Revenue Account	-
28,897 General Fund Balance	29,101
214,557 Earmarked Reserves	241,643
<b>270,360 Total</b>	<b>271,630</b>

### Usable Capital Receipts Reserve

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

### Capital Grants and Contributions Unapplied

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

### Housing Revenue Account

Resources available to meet future running costs for council housing.

### General Fund Balance

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

### Earmarked Reserves

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

## 24. Unusable Reserves

31 March 2015 £000	31 March 2016 £000
539,632 Revaluation Reserve	504,364
597,603 Capital Adjustment Account	694,829
-2,040 Financial Instruments Adjustment Account	-1,960
888 Deferred Capital Receipt	4,125
-15,035 Short Term Accumulating Absences Account	-13,233
-936,301 Pensions Reserve	-904,286
10,280 Available for Sale Financial Instruments Reserve	10,280
1,160 Collection Fund	2,380
<b>196,187 Total</b>	<b>296,499</b>

### Revaluation Reserve

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

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

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

2014-15 £000	2015-16 £000
393,396 <b>Balance at 1 April</b>	539,632
210,688 Upward revaluation of assets	48,371
Downward revaluation of assets and impairment losses not charged to the	
-48,123 Surplus/Deficit on the Provision of Services	-44,618
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or	
162,565 Deficit on the Provision of Services	3,753
-12,264 Difference between fair value depreciation and historical cost depreciation	-16,438
-4,065 Accumulated gains on assets sold or scrapped	-22,583
-16,329 Amount written off to the Capital Adjustment Account	-39,021
<b>539,632 Balance at 31 March</b>	<b>504,364</b>

### **Capital Adjustment Account**

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or subsequent costs, because depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties

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

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

2014-15 £000 (restated)	2015-16 £000
893,779 <b>Balance at 1 April</b>	597,603
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
-64,436 - Charges for depreciation and impairment of non-current assets	-57,732
-352,770 - Revaluation losses on Property, Plant and Equipment	-14,648
-1,141 - Amortisation of intangible assets	-846
-16,935 - Revenue expenditure funded from capital under statute	-29,868
-10,276 - 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	-185,802
-445,558	-288,896
16,329 Adjusting amounts written out of the Revaluation Reserve	39,022
-429,229 Net written out amount of the cost of non-current assets consumed in the year Capital financing applied in the year:	-249,874
12,976 - Use of Capital Receipts Reserve to finance new capital expenditure	10,183
	114,400
7,468 - Use of the Major Repairs Reserve to finance new capital expenditure	-
75,276 - Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	52,087
- Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement to repay debt - Housing Stock Transfer	129,600
113 Application of grants and contributions to capital financing from the Capital Grants Unapplied account	85
15,730 - Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	16,569
21,581 - Capital expenditure charged against the General Fund and HRA balances	23,770
133,144	346,694
-91 Movements in the fair value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	406
597,603 <b>Balance at 31 March</b>	694,829

The 2014/15 comparator has been restated to show revenue expenditure funded from capital under statute (REFCUS) on a gross rather than net basis.

### 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.

2014-15 £000	2015-16 £000
1,345 <b>Balance at 1 April</b>	888
725 Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	3,970
-1,182 Transfer to the Capital Receipts Reserve upon receipt of cash	-733
888 <b>Balance at 31 March</b>	4,125

## 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.

2014-15 £000		2015-16 £000
-12,814	<b>Balance at 1 April</b>	-15,035
12,814	Settlement or cancellation of accrual made at the end of the preceding year	15,035
-15,035	Amounts accrued at the end of the current year	-13,233
-2,221	Amount by which office remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	1,802
<u>-15,035</u>	<b>Balance at 31 March</b>	<u>-13,233</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 45.

2014-15 £000		2015-16 £000
-802,722	<b>Balance at 1 April</b>	-936,301
-114,380	Remeasurements of the net defined benefit liability	54,480
-8	Difference between Actuary's estimate and Actual Employers' Pension Contributions	-389
-80,230	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	-83,850
61,039	Employer's pensions contributions and direct payments to pensioners payable in the year	61,775
<u>-936,301</u>	<b>Balance at 31 March</b>	<u>-904,285</u>

## Available for Sale Financial Instruments Reserve

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

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

2014-15 £000	2015-16 £000
10,280 <b>Balance at 1 April</b>	10,280
- Transfer of historic Available for Sale balance to Available for Sale Reserve	-
- Upward revaluation of investments	-
- Downward revaluation of investments not charged to the Surplus/Deficit on the Provision of Services	-
10,280	10,280
- Accumulated gains on assets sold and maturing assets written out to the Comprehensive Income and Expenditure Statement as part of Other Investment Income	-
10,280 <b>Balance at 31 March</b>	10,280

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

2014-15 £'000	2015-16 £'000
-58,288 Depreciation	-54,908
-359,144 Impairment and downward revaluation	-17,472
-1,141 Amortisations	-846
-270 Impairment of Icelandic assets	0
2,221 Transfer to/from Accumulated Absences account	-1,802
421 Increase/decrease in the provision for bad debts	-2,469
-1,778 Increase/decrease in creditors	-5,018
-4,281 Increase/decrease in debtors	-4,478
440 Increase/decrease in inventory	1,499
-19,191 Pension liability	-22,075
-10,276 Carrying amount of non-current assets sold	-71,520
77,060 Other non-cash items	264,545
-374,227	85,456

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

2014-15 £000		2015-16 £000
13,207	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	124,027
<u>13,207</u>	<b>Net cash flows from investing activities</b>	<u>124,027</u>

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

The cash flows for operating activities include the following items:

2014-15 £000		2015-16 £000
19,436	Interest paid	20,381
-1,076	Interest received	-3,523
-	Dividends received	-
<u>18,360</u>	<b>Net cash flows from operating activities</b>	<u>16,858</u>

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

2014-15 £000		2015-16 £000
136,406	Purchase of property, plant and equipment, investment property and intangible assets	90,925
312,260	Purchase of short-term (not considered to be cash equivalents) and long-term investments	547,463
-	Other payments for investing activities	-
-13,207	Proceeds from the sale of property, plant and equipment, non-current assets held for sale, investment property and intangible assets	-124,027
-266,618	Proceeds from short-term (not considered to be cash equivalents) and long-term investments	-494,275
-63,732	Other receipts from investing activities	-232,856
<u>105,109</u>	<b>Net cash flows from investing activities</b>	<u>-212,770</u>

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

2014-15 £000		2015-16 £000
-25,000	Cash receipts of short-term and long-term borrowing	-
-12,466	Other receipts from financing activities	-8,969
2,139	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	8,038
4,458	Repayments of short-term and long-term borrowing	82,152
-	Other payments for financing activities	-
<u>-30,869</u>	<b>Net cash flows from financing activities</b>	<u>81,221</u>



### 30. Amounts Reported for Resource Allocation Decisions

The tables below are a reconciliation of the 2015/16 internal management reports (monitoring and outturn) used by the Council's Cabinet to make decisions and the 2015/16 Comprehensive Income and Expenditure Statement (CIES).

The income and expenditure of the Council's principal Services recorded in the internal management reports for the year is as follows:

2015/16:

Subjective Analysis	Childrens and Adults Services £000	Neighbourhood Services £000	Regeneration and Economic Development £000	Corporate Resources £000	Assistant Chief Executive £000	Total £000
Fees, charges and other service income	-193,959	-140,665	-46,424	-64,044	-3,168	-448,260
Government grants	-377,015	-1,061	-8,170	-182,172	-1,466	-569,884
<b>Total Income</b>	<b>-570,974</b>	<b>-141,726</b>	<b>-54,594</b>	<b>-246,216</b>	<b>-4,634</b>	<b>-1,018,144</b>
Employee Expenses	355,705	80,639	28,050	42,222	6,720	513,336
Other operating expenses	409,473	142,298	45,900	207,208	7,096	811,975
Support recharges	43,880	22,784	5,656	12,209	1,018	85,547
<b>Total Operating Expenses</b>	<b>809,058</b>	<b>245,721</b>	<b>79,606</b>	<b>261,639</b>	<b>14,834</b>	<b>1,410,858</b>
<b>Net Cost of Services</b>	<b>238,084</b>	<b>103,995</b>	<b>25,012</b>	<b>15,423</b>	<b>10,200</b>	<b>392,714</b>

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

£000

Net cost of services in service analysis	392,714
Services not included in the main analysis	-6,951
Amounts not reported to management	6,445
Amounts not included in the CIES	34,167

#### Cost of Services in CIES

426,375

Notes to the Accounts

Reconciliation to Subjective Analysis	Service Analysis £000	Services not in Analysis £000	Not reported to Mngmt £000	Not Included in CI+E £000	Cost of Services £000	Corporate Amounts £000	Total £000
Fees, charges and other service income	-448,260	-	-	-	-448,260	-	-448,260
Interest and investment income	-	-	-	111	111	-4,893	-4,782
Income from Council Tax	-	-	-	-	-	-190,752	-190,752
Government Grants and Contributions	-569,884	-	-	35,201	-534,683	-474,910	-1,009,593
<b>Total Income</b>	<b>-1,018,144</b>	<b>-</b>	<b>-</b>	<b>35,312</b>	<b>-982,832</b>	<b>-670,555</b>	<b>-1,653,387</b>
Employee Expenses	513,336	-	-	-	513,336	-	513,336
Other service expenses	811,975	-	-	-4,302	807,673	-	807,673
Support Service recharges	85,547	-	-	-	85,547	-	85,547
Contribution to Housing Capital Receipts Pool	-	-	-	-	-	34	34
Interest Payable	-	-	-	-	-	92,545	92,545
Impairment of Financial Investments	-	-	-	-	-	-	-
Net Trading	-	-	-	5,929	5,929	-5,929	-
Precepts and Levies	-	-	-	-	-	27,475	27,475
HRA	-	-	2,580	-	2,580	-	2,580
Gain or Loss on the disposal of non-current assets	-	-	-	-	-	57,805	57,805
Direct Revenue Financing	-	-	-	-3,197	-3,197	-	-3,197
Movement in Fair Value of Investment Properties	-	-	-	406	406	-406	-
Other Adjustments	-	-	3,865	19	3,884	-	3,884
IAS19	-	-6,951	-	-	-6,951	28,920	21,969
Total Operating Expenses	1,410,858	-6,951	6,445	-1,145	1,409,207	200,444	1,609,651
<b>Surplus or deficit on provision of services</b>	<b>392,714</b>	<b>-6,951</b>	<b>6,445</b>	<b>34,167</b>	<b>426,375</b>	<b>-470,111</b>	<b>-43,736</b>

The tables below are a reconciliation of the 2014/15 internal management reports (monitoring and outturn) used by the Council's Cabinet to make decisions and the 2014/15 Comprehensive Income and Expenditure Statement (CIES).

2014/15:

Subjective Analysis	Childrens and Adults Services £000	Neighbourhood Services £000	Regeneration and Economic Development £000	Corporate Resources £000	Assistant Chief Executive £000	Total £000
Fees, charges and other service income	-151,766	-160,408	-29,643	-64,791	-2,967	-409,575
Government grants	-384,026	-886	-5,981	-195,336	-36	-586,265
<b>Total Income</b>	<b>-535,792</b>	<b>-161,294</b>	<b>-35,624</b>	<b>-260,127</b>	<b>-3,003</b>	<b>-995,840</b>
Employee Expenses	349,482	86,474	28,867	40,224	6,718	511,765
Other operating expenses	355,432	132,659	51,784	224,021	6,949	770,845
Support recharges	39,988	20,197	5,259	9,479	1,148	76,071
<b>Total Operating Expenses</b>	<b>744,902</b>	<b>239,330</b>	<b>85,910</b>	<b>273,724</b>	<b>14,815</b>	<b>1,358,681</b>
<b>Net Cost of Services</b>	<b>209,110</b>	<b>78,036</b>	<b>50,286</b>	<b>13,597</b>	<b>11,812</b>	<b>362,841</b>

**Reconciliation to cost of services in the CIES****£000**

Net cost of services in service analysis	362,841
Services not included in the main analysis	-13,267
Amounts not reported to management	337,204
Amounts not included in the CIES	41,599

**Cost of Services in CIES****728,377**

<b>Reconciliation to Subjective Analysis</b>	<b>Service Analysis £000</b>	<b>Services not in Analysis £000</b>	<b>Not reported to Mngmt £000</b>	<b>Not Included in CI+E £000</b>	<b>Cost of Services £000</b>	<b>Corporate Amounts £000</b>	<b>Total £000</b>
Fees, charges and other service income	-409,575	-	-	-	-409,575	-	-409,575
Interest and investment income	-	-	-	-	-	-2,395	-2,395
Income from Council Tax	-	-	-	-	-	-179,705	-179,705
Government Grants and Contributions	-586,265	-	-	45,372	-540,893	-337,476	-878,369
<b>Total Income</b>	<b>-995,840</b>	<b>-</b>	<b>-</b>	<b>45,372</b>	<b>-950,468</b>	<b>-519,576</b>	<b>-1,470,044</b>
Employee Expenses	511,765	-	-	-	511,765	-	511,765
Other service expenses	770,845	-	-	-4,379	766,466	-	766,466
Support Service recharges	76,071	-	-	-	76,071	-	76,071
Contribution to Housing Capital Receipts Pool	-	-	-	-	-	1,414	1,414
Interest Payable	-	-	-	-	-	24,449	24,449
Impairment of Financial Investments	-	-	-	-	-	270	270
Net Trading	-	-	-	10,550	10,550	-10,692	-142
Precepts and Levies	-	-	-	-472	-472	10,922	10,450
HRA	-	-	334,121	-	334,121	-	334,121
Gain or Loss on the disposal of non-current assets	-	-	-	-	-	-3,656	-3,656
Direct Revenue Financing	-	-	-	-9,413	-9,413	-	-9,413
Movement in Fair Value of Investment Properties	-	-	-	-91	-91	-267	-358
Other Adjustments	-	-	3,083	32	3,115	-	3,115
IAS19	-	-13,267	-	-	-13,267	33,160	19,893
Total Operating Expenses	1,358,681	-13,267	337,204	-3,773	1,678,845	55,600	1,734,445
<b>Surplus or deficit on provision of services</b>	<b>362,841</b>	<b>-13,267</b>	<b>337,204</b>	<b>41,599</b>	<b>728,377</b>	<b>-463,976</b>	<b>264,401</b>

### 31. Trading Operations

The surplus for the year on trading operations relating to Direct Services and Technical Design Services is charged as Financing and Investment Income and Expenditure - Other investment income (see Note 10). The summary revenue account for these services is shown below.

	2013-14	2014-15	2015-16
	£000	£000	£000

#### Highways Operations

The Council runs a Highways Services trading operation which maintains the network of roads, footpaths and street lighting throughout the County. The service also undertakes major road works and the maintenance of transport and bridge structures, as well as carrying out various infrastructure works for external bodies. The design and build elements of transport related schemes is included in the trading area. The trading objective of the team is to meet the net cash limit target as set. The cumulative surplus over the last three financial years: £20.875m

Turnover	-38,581	-46,581	-40,958
Expenditure	32,545	38,199	34,501
Surplus(-)/Deficit	<u>-6,036</u>	<u>-8,382</u>	<u>-6,457</u>

#### Fleet

The Council operates an in house Fleet Management Service which has the direct responsibility for the management and safeguarding of the Council's Operators Licence along with the responsibility of the safe and cost effective maintenance and procurement of the Council's circa 1,000 vehicles. Whilst the objective of the service is to only recover the actual the capital cost and maintenance of the fleet, the service also undertakes taxi vehicle examinations along with maintenance work for external bodies through Service level agreements. The cumulative deficit over the last three financial years: £0.526m

Turnover	-17,914	-16,532	-14,806
Expenditure	17,301	17,153	15,324
Surplus(-)/Deficit	<u>-613</u>	<u>621</u>	<u>518</u>

#### Depots

The Council operates from five main strategic depots and two satellite depots covering the County of Durham. The depots along with possessing vehicle maintenance facilities provide operational bases to front line services for the Authority . The service also lets depot accommodation to external bodies. The trading objective is to meet the net cash limit target as set. The cumulative deficit over the last three financial years : £1.189m

Turnover	-2,088	-2,261	-2,161
Expenditure	2,438	1,882	3,379
Surplus(-)/Deficit	<u>350</u>	<u>-379</u>	<u>1,218</u>

	2013-14	2014-15	2015-16
	£000	£000	£000

**Buildings Repairs & Maintenance and Construction**

The Council runs a 'Building Services' team which procures, maintains buildings and constructs major and minor projects on behalf of all Five Directorates within Durham County Council as well as a wide range of other service users. 'Building Services' also complete and carry out work for external bodies both private and public. The in-house team demonstrates Value for Money by delivering services on time, within cost and to the required standard using a combination of directly employed staff and supply chain partners. The costs of services is benchmarked with other Local Authorities and as the 'Building Services' organisation continues to improve its outputs, the hourly rates for tradesmen have fallen from the levels previously. The trading objective of the team is to meet the net cash limit target as set. The cumulative surplus over the last three financial years: £3.965m

Turnover	-17,811	-24,527	-23,387
Expenditure	16,682	22,853	22,225
Surplus(-)/Deficit	<u>-1,129</u>	<u>-1,674</u>	<u>-1,162</u>

**Housing Maintenance**

The Council provided a housing repairs and maintenance service on behalf of Durham City Homes until 13 April 2015 when the housing stock was transferred to County Durham Housing Group. The Durham Housing Maintenance Team procured services, maintained tenant's homes and carried out decent homes' improvements to approximately 6,100 homes. The trading objective of the team was to meet the net cash limit target as set. The cumulative surplus over the last three financial years: £1.080m

Turnover	-10,754	-9,707	-60
Expenditure	9,652	9,570	219
Surplus(-)/Deficit	<u>-1,102</u>	<u>-137</u>	<u>159</u>

**Cleaning Services**

The Council runs a Building Cleaning Service which procures services and maintains buildings, working across the entire portfolio of Durham County Council's buildings. The Building Cleaning Services also undertake works on behalf of a number of service users both internal and external to Durham County Council. The costs of services are benchmarked with other Local Authority providers from across the UK. The trading objective of the team is to meet the net cash limit target set. The cumulative deficit over the last three financial years £0.691m

Turnover	-2,934	-2,820	-2,126
Expenditure	2,587	2,589	2,013
Surplus(-)/Deficit	<u>-347</u>	<u>-231</u>	<u>-113</u>

**Catering Services**

The Council runs a Catering Service which procures goods and services, and provides both canteen services and an event catering service. These services are available to both internal and external bodies. The in-house team demonstrates Value for Money having been awarded the catering for Durham County Council following a competitive tender. Services are provided using a combination of directly employed staff and Agency Workers. The trading objective of the team is to meet the net cash limit target as set. The cumulative deficit over the last three financial years £0.500m

Turnover	-655	-547	-623
Expenditure	940	681	704
Surplus(-)/Deficit	<u>285</u>	<u>134</u>	<u>81</u>

Trading operations are incorporated into the Comprehensive Income and Expenditure Statement. Some are an integral part of one of the Council's services to the public (e.g. highways), whilst others are support services to the Council's services to the public (e.g. schools catering). The expenditure of these operations is allocated or recharged to headings in the Net Operating Expenditure or Continuing Operations. Only a residual amount of the net surplus on trading operations is charged as Financing and Investment Income and Expenditure (see Note 10).

### 32. Agency Services

The County Council provides a range of services to other bodies such as Durham Police Authority, County Durham and Darlington Fire and Rescue Authority, Academies, Surestart, Colleges, Arm's Length Management Organisations, Parish Councils, Registered Social Landlords, Primary Care Trusts and Ofsted. Charges for these services are made through a number of Service Level Agreements.

In 2015/16 £9.064m (£8.027m (restated) in 2014/15) was received for the following services, Finance, Information and Communications Technology, Human Resources, Legal Advice and Support, Inspections and Subject Reviews, Cleaning, Care Connect, Ground Maintenance and Crematorium Services.

The increase in Agency Services from 2014/15 to 2015/16 is mainly due to the increase in services provided to County Durham Housing Group.

The cost of providing the services is met by the income received.

### 33. Members' Allowances

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

2014-15 £000		2015-16 £000
1,665	Basic Allowance	1,667
282	Special Responsibility Allowance	284
7	Broadband Allowance	7
84	Expenses	79
2,038	<b>Total</b>	2,037

### 34. Officers' Remuneration

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

Name	Period	Salary, Fees and Allowances £	Bonuses £	Expenses Allowances £	Compensation for Loss of Office £	Pensions Contribution £	Total £
Chief Executive - George Garlick (to 31/1/2016)	2015-16 2014-15	168,590 200,000		142 172		- -	168,732 200,172
Chief Executive - Terry Collins (from 1/2/2016)	2015-16 2014-15	30,833 -		- -		4,255 -	35,088 -
Corporate Director - Resources	2015-16 2014-15 R	140,000 140,000		579 261		- -	140,579 140,261
Corporate Director - Children and Adults Services	2015-16 2014-15 R	140,000 140,000		3 49		19,320 19,320	159,323 159,369
Corporate Director - Neighbourhood Services	2015-16 2014-15	116,667 140,000		- 66		16,100 19,320	132,767 159,386
Interim Corporate Director - Neighbourhood Services	2015-16 2014-15	23,333 -		- -		3,220 -	26,553 -
Corporate Director - Regeneration and Economic	2015-16 2014-15	140,000 140,000		115 -		19,320 19,320	159,435 159,320
Assistant Chief Executive	2015-16 2014-15	120,000 120,000		- -		16,560 16,560	136,560 136,560
Head of Legal and Democratic Services (Monitoring Officer)	2015-16 2014-15	110,000 110,000		- 42		14,888 14,487	124,888 124,529

**R = Restated**

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

Remuneration band	2014-15 (restated) Number of Employees			2015-16 Number of Employees		
	School Staff	Other Staff	Total	School Staff	Other Staff	Total
£50,000 - £54,999	118	68	186	102	72	174
£55,000 - £59,999	95	36	131	117	27	144
£60,000 - £64,999	37	21	58	39	16	55
£65,000 - £69,999	18	2	20	24	11	35
£70,000 - £74,999	12	6	18	10	7	17
£75,000 - £79,999	4	8	12	2	10	12
£80,000 - £84,999	3	3	6	4	6	10
£85,000 - £89,999	4	2	6	4	6	10
£90,000 - £94,999	3	-	3	2	2	4
£95,000 - £99,999	2	7	9	5	7	12
£100,000 - £104,999	1	1	2	1	1	2
£105,000 - £109,999	-	3	3	-	3	3
£110,000 - £114,999	1	4	5	-	6	6
£115,000 - £119,999	-	2	2	-	1	1
£120,000 - £124,999	-	-	-	-	1	1
£135,000 - £139,999	-	-	-	-	1	1
£145,000 - £149,999	-	1	1	-	-	-
	<b>298</b>	<b>164</b>	<b>462</b>	<b>310</b>	<b>177</b>	<b>487</b>

The costs of Exit Packages comprise two elements: redundancy costs payable to the employee and early access costs, where the employee is also taking early retirement. The latter element is payable to the Pension Fund and is charged to the General Fund in the year of Retirement.

In 2014/15 the costs of Exit Packages reflect a change in policy. The additional costs of early retirement are included for a period of up to five years. Prior to 2014/15, a maximum of one year's costs were included.

This has resulted in a higher cost being shown for some employees. However, in 2014/15, a higher proportion of redundancies in the lowest band were not eligible for early retirement, leading to lower average costs for that band.

The numbers of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the table below:



(a) Exit package cost band (including special payments)	(b) Number of compulsory redundancies		(c) Number of other departures agreed		(d) Total number of exit packages by cost band [(b) + (c)]		(e) Total cost of exit packages in each band	
	2014-15	2015-16	2014-15	2015-16	2014-15	2015-16	2014-15 £000	2015-16 £000
£0 - £20,000	158	30	50	80	208	110	1,490	978
£20,001 - £40,000	16	3	38	40	54	43	1,516	1,275
£40,001 - £60,000	2	1	13	20	15	21	685	1,000
£60,001 - £80,000	-	1	5	11	5	12	335	874
£80,001 - £100,000	-	-	3	10	3	10	266	910
£100,001 - £150,000	1	1	1	15	2	16	216	1,928
£150,001 - £250,000	-	-	1	4	1	4	159	799
<b>Total</b>	<b>177</b>	<b>36</b>	<b>111</b>	<b>180</b>	<b>288</b>	<b>216</b>	<b>4,667</b>	<b>7,764</b>

### 35. External Audit Costs

The Council has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections and to non-audit services provided by the Council's external auditors. The appointed auditor for 2014/15 and 2015/16 is Mazars LLP.

2014-15 £000	2015-16 £000
333 Fees payable with regard to external audit services carried out by the appointed auditor for the year	251
31 Fees payable in the year for the certification of grant claims and returns by the appointed auditor	20
<b>364 Total</b>	<b>271</b>

### 36. Dedicated Schools Grant

The Council's expenditure on schools is funded primarily by grant monies provided by the Department for Education; the Dedicated Schools Grant (DSG). An element of DSG is recouped by the Department to fund academy schools in the Council's area. DSG is ringfenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2011. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget (ISB), which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2015/16 are as follows:

	<b>Central Expenditure £000</b>	<b>ISB £000</b>	<b>Total £000</b>
A Final DSG for 2015/16 before Academy Recoupment			356,636
B Academy figure recouped for 2015/16			<u>74,623</u>
C Total DSG after Academy Recoupment for 2015/16			282,013
Plus			
D Brought forward from 2014/15			10,557
Less			
E Carry forward to 2016/17 agreed in advance			<u>10,557</u>
F Agreed initial budgeted distribution in 2015/16	35,573	246,440	282,013
G In year adjustments	-14,035	14,035	-
H Final budgeted distribution for 2015/16	<u>21,538</u>	<u>260,475</u>	282,013
Less			
I Actual central expenditure	21,070		21,070
Less			
J Actual ISB deployed to schools		259,315	259,315
Plus			
K Local authority contribution for 2015/16	-	-	-
L Carry forward to 2016/17	<u>468</u>	<u>1,160</u>	<u>12,185</u> *

\* Total carry-forward (£12.185m) is the carry forward on central expenditure (L) (£0.468m) plus carry forward on ISB (L) (£1.160m) plus carry forward 2016/17 already agreed (E) (£10.557m).

A: Final DSG figure before any amount has been recouped from the Council excluding the January 2016 early years block adjustment.

B: Figure recouped from the Council in 2015/16 by the DfE for the conversion of maintained schools into Academies.

C: Total figure after EFA Academy recoupment for 2015/16.

D: Figure brought forward from 2014/15 as agreed with the Department.

E: Any amount which the Council decided after consultation with the Schools Forum to carry forward to 2016/17 rather than distribute in 2015/16 – this may be the difference between estimated and final DSG for 2015/16, or a figure (positive or negative) brought forward from 2014/15 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 2015/16.

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 2015/16 which will have the effect of substituting for DSG in funding the Schools Budget.

L: Carry forward to 2016/17:

- 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 2016/17 already agreed (E).

£0.279m of the DSG has been used to fund capital expenditure in schools. This expenditure is not included in the net cost of Children's and Education Services as it is not a proper charge to the Comprehensive Income and Expenditure Statement. The expenditure forms part of the Movement in Reserves Statement.

### 37. Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2015/16:

2014-15 £000		2015-16 £000
<b>Credited to Taxation and Non Specific Grant Income:</b>		
Non Ring-fenced Government Grants:		
-138,710	- Revenue Support Grant	-100,240
-59,357	- Top Up Grant	-60,491
-4,386	- Section 31 Grants	-5,173
-7,531	- Education Funding Agency Grant	-6,006
-6,783	- New Homes Bonus Scheme Grant	-8,323
-381	- New Homes Bonus Scheme Topslice Reimbursement	-374
-65,602	Capital Grants and Contributions	-36,432
	- Government Grant in respect of Housing Stock Transfer	-207,035
-282,750		-424,074

## Grant and Contribution Income Credited to Services

2014-15 £000		2015-16 £000
	<b>Credited to Services:</b>	
-435	Adoption Reform Grant	-
-568	Arts Council Eng - NE	-550
-33	Arts Projects	-170
-51	Asylum Seekers Grant	-43
-	Clinical Commissioning Groups-Better Care Fund	-39,193
-359	Darlington Borough Council	-379
-2,544	DCSF Grant	-2,605
-281,273	Dedicated Schools Grant (DSG)	-282,206
-306	DEFRA Grant	-309
-250	Department of Health Grant	-897
-2,973	Department for Transport Grant	-5,508
-1,096	Discretionary Housing Payment Grant	-982
-512	Durham Police and Crime Commissioner	-514
-	Early Years Single Funding Formula Grant	-773
-276	Education Authorities-other	-321
-9,525	Education Funding Agency	-9,681
-445	Educational Visits	-534
-48	ERDF Grant	-32
-	Growth Fund Grant	-1,971
-1,197	Heritage Lottery Fund Grant	-1,095
-3,211	Housing Benefit - Admin Grant	-2,900
-148,136	Housing Benefit Grant - Rent Allowance	-175,072
-41,479	Housing Benefit Grant - Rent Rebate	-575
-880	LCTSS - Administration Grant	-874
-156	Natural England	-137
-18,616	NHS - Care Costs	-6,573
-610	NHS - Integrated Services	-417
-5,890	NHS - Joint Arrangements	-2,155
-600	NNDR Cost of Collection Allowance	-601
-	North East Combined Authority	-16,076
-813	Other Local Authorities	-756
-190	PCT's	-
-5,261	PFI Grants	-5,519
-46	Probation Service	-48
-45,780	Public Health Grant	-47,538
-21,595	Pupil Premium Grant	-911
-2,527	Skills Funding Agency	-2,672
-72	Sports Council Grant	-79
-390	Supporting People 18 to 21	-
-	Transformation Challenge Award Grant	-1,400
-2	TSI	-
-1,900	Welfare Assistance Programme Funding	-
-33	Youth Justice Grant	-
-7	Youth Music Grant	-9
-815	Youth Offending Teams Grant	-691
-22,628	Other Grants and Contributions	-27,667
<u>-623,528</u>		<u>-640,433</u>

## Capital Grants and Contributions Receipt in Advance

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

<u>2014-15</u>			<u>2015-16</u>	
Long Term Liabilities £000	Short Term Liabilities £000		Long Term Liabilities £000	Short Term Liabilities £000
<b>Capital Grants and Contributions Receipts in Advance</b>				
-	-6	Broadband Delivery UK	-	-91
-	-133	CLG - Disabled Facilities Grant	-	-
-	-418	CLG - Empty Homes Cluster	-	-
-	-196	CLG - Netpark	-	-
-	-724	Department for Transport - Highways	-	-408
-	-402	Department for Transport - Integrated Transport	-	-
-	-3,152	Education Funding Agency	-	-146
-	-4	English Heritage	-	-
-	-706	Environment Agency	-	-90
-	-256	Five Lamps Organisation	-	-
-	-	Heritage Lottery Fund Grant - Wharton Park	-	-55
-	-25	Living Streets	-	-25
-	-	North East Combined Authority	-	-498
-	-200	Public Health England	-	-200
-	-	Sunderland City Council	-	-126
-202	-176	Sustrans	-	-307
-201	-231	Other	-	-2,388
<u>-403</u>	<u>-6,629</u>	<b>Total Capital Grants and Contributions Receipts in Advance</b>	<u>-</u>	<u>-4,334</u>

### **38. Related Parties**

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

#### **Central Government**

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

#### **Members**

Members of the County Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2015/16 is shown in Note 33.

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

The local environmental projects, youth groups and community associations, in which members are involved, received grant funding to the value of £0.318m in 2015/16 (£0.306m in 2014/15). In all instances, the grants were made with proper consideration of declarations of interest. The relevant members did not take part in any discussion or decision relating to the grants. Members are also involved in:

- the Citizen Advice Bureau (CAB) delivering advice services across the county, which received financial support to the value of £0.725m in 2015/16 (£0.749m in 2014/15 – Restated)
- VISIT County Durham, the tourism management board for County Durham for which there were transactions to the value of £0.027m in 2015/16 (£0.059m in 2014/15) with the Council.
- County Durham Community Foundation provides grants that make a genuine difference to the lives of local people, received £0.024m in 2015/16 (£0.128m in 2014/15).

- Groundwork North East, carrying out environmental works for which there were transactions of £0.339m in 2015/16 (£0.287m in 2014/15).
- Durham Community Action, formerly Durham Rural Community Council, providing support to communities throughout County Durham £0.353m in 2015/16 (£0.299m in 2014/15)
- Consett YMCA for work done with various schools including the Pupil Referral Unit £0.113m in 2015/16 (£0.108m in 2014/15)
- The Bowes Museum for services to schools £0.311m in 2015/16 (£0.329m in 2014/15)
- Leisureworks £1.927m in 2015/16 (£2.294m in 2014/15)
- Glebe Centre £0.029m in 2015/16 (£0.034m in 2014/15 - Restated)

During 2015/16, works and services to the value of £0.041m (£0.045m in 2014/15) 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
Chief Executive	Director of Durham Regatta
Corporate Director - Regeneration and Economic Development	Director of North East Enterprise Company Limited Director of VISIT County Durham Director of Durham Villages Regeneration Limited
Assistant Chief Executive	County Durham Community Foundation - Trustee

No further declarations were identified.

### Entities Controlled or Significantly Influenced by the Council

The Council has financial relationships with a number of related companies, those considered significant, for example due to the level of investment, are detailed below.

#### Dale and Valley Homes Limited

Dale and Valley Homes Limited was established as an Arm's Length Management Organisation by Wear Valley District Council on 1 April 2006 to carry out the management and maintenance of council houses. As from 13 April 2015, Dale and Valley Homes Limited became part of County Durham Housing Group Limited.

#### East Durham Homes Limited

East Durham Homes Limited was created as an Arm's Length Management Organisation in April 2004 to carry out the housing management and maintenance functions on behalf of

Easington District Council. As from 13 April 2015, East Durham Homes Limited became part of County Durham Housing Group Limited.

### **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. Construction work commenced in January 2016 on the first pilot site at Newton Aycliffe for the development of up to 125 homes. The statement of accounts for the period ending 31 March 2016 are currently being prepared.

### **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 and its first statement of accounts are due for the period ending 31 March 2017.

### **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 2016 are £3.161m (31 March 2015: £3.207m). Durham County Council is the administrative body and employing authority for the crematorium.

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

### **Mountsett Crematorium**

The Mountsett Crematorium was built in 1964 and is overseen by the Mountsett Crematorium Joint Committee, comprising Durham County Council and Gateshead Council. The net assets of the crematorium at 31 March 2016 are £1.243m (31 March 2015: £0.962m). Durham County Council is the administrative body and employing authority for the crematorium.

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



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**Service Direct NewCo Limited**

Service Direct NewCo Limited is a Local Authority Trading Company established to provide services to non local authority customers initially focused around building maintenance, civil engineering, grounds maintenance, vehicle fleet services and domestic services. Durham County Council owns 100% of NewCo, which began trading in 2007/08.

**NIAL Holdings Limited**

Under the Airport Act 1986, Newcastle International Airport Limited (NIAL) was formed and seven local authorities were allocated shares in consideration for all the property, rights and liabilities that were transferred into the new company. On 4<sup>th</sup> May 2001, the seven local authority shareholders of NIAL (the "LA7") created NIAL Holdings Limited, which is 51% owned by LA7 and 49% owned by AMP Capital Investors Limited following their purchase on 16<sup>th</sup> 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 £10.558m. The shares are not held for trading outside of the LA7.

The valuation of the holding is reviewed each year to consider whether any events have occurred which would materially change the valuation. The last valuation is based on the sale of shares to AMP Capital Investors Limited in 2012. As no such events have occurred during 2015/16 the valuation has remained unchanged.

Through its shares in NALAHCL the Council has an effective shareholding of 6.20% in NIAL (and the group companies of NIAL Group Limited and NIAL Holdings Limited). The principal activity of NIAL (registered number 2077766) is the provision of landing services for both commercial and freight operators. No dividend was received for the year ended 31 December 2015 (nil for the year ended 31 December 2014).

Members of the LA7 entered into a loan agreement with NIAL Group Limited in 2012/13, issuing £67.665m shareholder loan notes. The loan notes will be repayable in 2032 with interest being received up to that date on a 6 monthly basis. Otherwise there are no outstanding balances owed to or from NIAL at the end of the year.

NIAL Group Limited made a profit before tax of £2.300m and a profit after tax of £4.556m for the year ended 31<sup>st</sup> December 2015. In the previous year, the Group made a profit before tax of £0.496m and a profit after tax of £0.277m.

**Durham Tees Valley Airport Limited**

The former Teesside Airport Limited became a limited company under the Airports Act 1986. In consideration of the transfer of the property, rights, liabilities and functions, the former constituent authorities received share allocations. The Council received £7.600m (40%) of the issued share capital. With effect from 1 April 2003, 75% of the total

shareholding in the now renamed Durham Tees Valley Airport Limited was acquired by Peel Airports Limited. The Council now holds 1.45% of the total shareholding in Peel Airports Limited. For the year ended 31 March 2015, Durham Tees Valley Airport Limited made an operating loss of £2.104m (loss of £4.075m for year ended 31 March 2014) and a loss of £1.262m after taxation (loss of £3.900m for year ended 31 March 2014). The Company accounts for 2015/16 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

### **Beamish Museum Companies**

The Joint Committee was responsible for the assets of the Museum and made all decisions on capital schemes and procuring grants for capital development. However, the Joint Committee was dissolved with effect from 1 April 2014, in accordance with the agreed recommendations made by the Joint Committee at its final meeting held on 28th March 2014. The main impact from this saw the Joint Committee's net assets transfer to Beamish Museum (BM) on 1 April 2014. Beamish Museum was established in 1970 and the Council has been a constituent member Authority of Beamish North of England Open Air Museum since its inception. The Council made a contribution of £18,000 towards the running costs of the Museum in 2015/16 (£18,000 in 2014/15).

Beamish Museum (BM) is a charitable company limited by guarantee and is responsible for capital development and the management and operation of the Museum. Beamish Museum Trading Limited (BMTL), a subsidiary of BM, manages all of the retailing and catering operations of the Museum. In the draft accounts for 2015/16, the BM and BMTL group made an operating loss of £0.438m. The restated figures for 2014/15 showed an operating profit of £23.524m (£0.664m profit excluding £22.860m of assets transfer). The group had net assets of £21.906m (2014/15 restated net assets of £21.837m). The Council receives no income or contributions from the above reported arrangements.

Copies of the BM Group Accounts can be obtained from the Museum Director, Regional Resource Centre, Beamish Museum, County Durham, DH9 0RG

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

Durham County Council administers the Durham County Council Pension Fund on behalf of 116 bodies, including borough, parish and town councils, colleges, academy schools, statutory bodies and admitted bodies. During 2015/16, the Pension Fund had an average balance of £51.288m (£35.929m in 2014/15) of surplus cash deposited with the Council. In 2015/16 the Council paid the fund a total of £0.223m (£0.155m in 2014/15) in interest on these deposits.

### 39. Capital Expenditure and Capital Financing

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

2014-15 £000		2015-16 £000
607,260	<b>Opening Capital Financing Requirement</b>	636,459
	Capital investment:	
140,510	Property, Plant and Equipment	83,179
2,172	Property, Plant and Equipment - Finance Leases	5,298
536	Intangible Assets	274
-	- Investment Properties	-
-	- Acquisition of share capital	1,750
18,993	Revenue Expenditure Funded from Capital under Statute	30,218
	Sources of finance:	
-12,976	Capital receipts	-10,260
-	- Capital receipts to repay debt (stock transfer)	-114,400
-	- Overhanging debt grant (stock transfer)	-129,600
-75,389	Government grants and other contributions	-52,172
-7,468	Major Repairs Allowance	-
	Sums set aside from revenue:	
-21,581	- Direct revenue financing	-23,770
-15,730	- Minimum Revenue Provision	-16,569
	Adjustment to Capital Financing Requirement:	
132	Housing Revenue Account non-dwelling revaluation/impairment losses	-
636,459	<b>Closing Capital Financing Requirement</b>	410,407
	<b>Explanation of movements in year</b>	
-10,220	Increase/(decrease) in underlying need to borrow (supported by government financial assistance)	-9,812
37,247	Increase/(decrease) in underlying need to borrow (unsupported by government financial assistance)	-221,538
2,172	Assets acquired under finance leases	5,298
29,199	<b>Increase/(decrease) in Capital Financing Requirement</b>	-226,052

## 40. Leases

### Council as Lessee

#### Finance leases

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

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

31 March 2015 £000		31 March 2016 £000
	- Other Land and Buildings	-
8,308	Vehicles, Plant, Furniture and Equipment	10,926
<u>8,308</u>		<u>10,926</u>

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

The minimum lease payments are made up of the following amounts:

31 March 2015 £000		31 March 2016 £000
	Finance lease liabilities (net present value of minimum lease payments):	
2,389	Current	2,833
3,916	Non-Current	5,411
458	Finance costs payable in future years	618
<u>6,763</u>	<b>Minimum lease payments</b>	<u>8,862</u>

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

31 March 2015			31 March 2016	
Minimum Lease Payments £000	Finance Lease Liabilities £000		Minimum Lease Payments £000	Finance Lease Liabilities £000
2,624	2,389	Not later than one year	3,091	2,833
4,087	3,850	Later than one year and not later than five years	5,586	5,232
52	66	Later than five years	185	179
<u>6,763</u>	<u>6,305</u>		<u>8,862</u>	<u>8,244</u>

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

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

### *Operating Leases*

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

<b>31 March 2015</b> <b>£000</b>	<b>31 March 2016</b> <b>£000</b>
653 Not later than one year	998
2,298 Later than one year and not later than five years	2,693
4,097 Later than five years	3,723
7,048	7,414

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

<b>31 March 2015</b> <b>£000</b>	<b>31 March 2016</b> <b>£000</b>
154 Minimum lease payments	1,806
-630 Sublease payments receivable	-2,406
-476	-600

### **Council as Lessor**

#### *Finance Leases*

There are no finance leases in respect of property, plant and equipment where the Council is the lessor.

#### *Operating leases*

The Council leases out property and equipment under operating leases for the following purposes:

- for the provision of community services, such as child care and community centres
- for economic development purposes to provide suitable affordable accommodation for local businesses.

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

<b>31 March 2015</b>		<b>31 March 2016</b>
<b>£000</b>		<b>£000</b>
2,851	Not later than one year	2,813
4,137	Later than one year and not later than five years	4,738
6,523	Later than five years	7,414
<u>13,511</u>		<u>14,965</u>

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

In 2015/16 no rents were received by the authority in respect of contingent rents (2014/15 Nil).

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

##### **Schools**

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

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

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

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

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

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

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

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

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

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

The Council's Balance Sheet includes both assets and liabilities arising from the contract.

### Value of Assets

31 March 2015 £000 (restated)		31 March 2016 £000
14,451	Net book value at 1 April	18,516
471	Additions	-
-426	Depreciation	-404
4,020	Revaluations	-
<u>18,516</u>	Net book value at 31 March	<u>18,112</u>

In addition to the net book value of £18.112m in respect of the PFI assets, the balance sheet also includes the value of the land on which the schools are built. The value of the land is £1.998m and the total net value of land and buildings for these schools carried forward is £20.110m.

## 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 2015/16 are summarised below:

31 March 2015 £000		31 March 2016 £000
42,604	<b>Balance outstanding at start of year</b>	41,860
-744	Payments during the year	-800
<u>41,860</u>	<b>Balance outstanding at year-end</b>	<u>41,060</u>

## Estimates of Future Payments Due

	Payments for Services £000	Reimbursement of Capital Expenditure £000	Interest £000	Total £000
Payable in 2016-17	2,225	929	4,166	7,320
Payable within two to five years	10,215	4,018	15,690	29,923
Payable within six to ten years	14,360	7,724	16,900	38,984
Payable within eleven to fifteen years	17,290	11,452	12,214	40,956
Payable within sixteen to twenty years	18,749	16,936	5,379	41,064
<b>Total</b>	<u>62,839</u>	<u>41,059</u>	<u>54,349</u>	<u>158,247</u>

Contract payments are partially linked to inflation as measured by the RPIX index (all items excluding Mortgage Interest Payments). These estimates assume that after 2015/16 RPIX increases at 2.5% a year for the remainder of the contract.

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

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



## 42. Impairment and Revaluation Losses

The value of the Council's assets has been reduced by £67.416m in 2015/16, charged partly to services in the Comprehensive Income and Expenditure Statement (CIES) and partly to the Revaluation Reserve. This reduction includes both the consumption of economic benefits and also revaluation losses due to the downturn in the economy as well as the on-going review of the Council's asset base since Local Government Reorganisation in 2009/10.

## 43. Termination Benefits

The authority terminated the contracts of a number of employees in 2015/16. The value of the redundancy payments charged to services in 2015/16 was £4.349m and in 2014/15 was £4.571m. The table below analyses the payments made in the relevant financial years. The majority of the payments made in 2015/16 were due to the rationalisation of services within the Authority.

2014-15 £000		2015-16 £000
1,110	Children's and Education Services	1,007
1,543	Adult Social Care	1,359
237	Highways and Transport Services	146
123	Planning Services	160
271	Cultural and Related Services	484
218	Environmental and Regulatory Services	70
381	Other Housing Services (including Supporting People)	41
60	Public Health	-
53	Corporate and Democratic Core	-
481	Central Services to the Public	1,071
94	Financing and Investment Income and Expenditure (Trading)	11
4,571	<b>Total</b>	4,349

In addition to the above redundancy payments, the pension enhancement value in 2015/16 was £3.953m and in 2014/15 was £1.153m.

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

### Teachers' Pension Scheme

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

The Scheme is technically a defined benefit scheme. However, the Scheme is unfunded and the Department for Education uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. The Council is not able to identify its share of the underlying financial position and performance of the Scheme with sufficient

reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2015/16, the Council paid £18.408m to Teachers' Pensions in respect of teachers' retirement benefits, representing 14.1% of pensionable pay from 1 April to 31 August 2015 and 16.48% of pensionable pay from 1 September 2015 (£16.858m and 14.1% in 2014/15). There were no contributions remaining payable at the year-end.

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

### **NHS Pension Scheme**

NHS Staff who transferred to the Council in 2013/14 have maintained their membership in the NHS Pension Scheme, administered by the NHS Business Services Authority. The Scheme provides these staff with specified benefits upon their retirement and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The Scheme is an unfunded defined benefit scheme. However, the Council is not able to identify its share of the underlying financial position and performance of the Scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2015/16, the Council paid £0.148m to the NHS Pension Scheme in respect of former NHS staff retirement benefits, representing 14.3% of pensionable pay (£0.171m and 14.0% in 2014/15). There were no contributions remaining payable at the year end.

## **45. Defined Benefit Pension Schemes**

### **Participation in Pension Schemes**

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

The Council participates in two post-employment schemes:

- The Local Government Pension Scheme (LGPS), administered locally by Durham County Council – this is a funded defined benefit final salary scheme, meaning that the

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Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

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

The Durham County Council Pension Fund is operated under the regulatory framework for the LGPS and responsibility for the Pension Fund has been delegated from Durham County Council to the Pension Fund Committee. The Corporate Director Resources has a statutory duty to ensure the Pension Fund remains solvent and is administered effectively, adhering to the LGPS regulations in order to meet any current and future liabilities. The Pension Fund has seven investment managers who are appointed by the committee to invest the Fund's assets in compliance with constraints imposed by the Fund's Statement of Investment Principles and in compliance with applicable legislation. Further information on Durham County Council's Pension Fund can be found in the Pension Fund Accounts later in this document.

The principal risks to the authority of the scheme are the longevity assumptions, statutory changes to the scheme, structural changes to the scheme (i.e. large-scale withdrawals from the scheme), changes to inflation, bond yields and the performance of the equity investments held by the scheme. These are mitigated to a certain extent by the statutory requirements to charge to the General Fund and Housing Revenue Account the amounts required by statute as described in the accounting policies note.

### **Discretionary Post-retirement Benefits**

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

### **Transactions Relating to Post-employment Benefits**

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

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

2014-15			2015-16		
Local Government Pension Scheme £000	Discretionary Benefits Arrangements £000		Local Government Pension Scheme £000	Discretionary Benefits Arrangements £000	
		Cost of services:			
		Service cost comprising:			
41,310	-	- Current service cost	48,706	-	
3,140	10	- Past service cost (including curtailments)	3,810	-	
		Financing and Investment Income and Expenditure:			
2,610	-	- Current service cost	2,414	-	
30,090	3,070	- Net interest on net defined benefit liability	26,650	2,270	
77,150	3,080	Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	81,580	2,270	
		Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement:			
		Remeasurement of the net defined benefit liability comprising:			
-93,820	-	- Return on plan assets (excluding the amount included in the net interest expense)	60,960	-	
218,830	4,810	- Actuarial gains and losses due to changes in financial assumptions	-90,200	-1,760	
-13,390	-2,050	- Actuarial gains and losses due to liability experience	-22,200	-1,280	
188,770	5,840	Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	30,140	-770	
		<b>Movement in Reserves Statement</b>			
-77,150	-3,080	Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post employment benefits in accordance with the Code	-81,580	-2,270	
		Actual amount charged against the General Fund Balance for pensions in the year:			
55,163	-	- Employer's contributions payable to the scheme	56,096	-	
-	5,876	- Direct retirement benefits payable to pensioners	-	5,679	

## 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:

2014-15			2015-16		
Funded Liabilities: Local Government Pension Scheme £000	Unfunded Liabilities: Discretionary Benefits Arrangements £000		Funded Liabilities: Local Government Pension Scheme £000	Unfunded Liabilities: Discretionary Benefits Arrangements £000	
-2,455,280	-75,970	Present value of the defined benefit obligation	-2,402,560	-69,590	
1,594,560	-	Fair value of plan assets	1,568,010	-	
-860,720	-75,970	<b>Net liability arising from defined benefit obligation</b>	-834,550	-69,590	
233	156	Difference between actuaries' figures and actual contributions	-215	69	
<b>-860,487</b>	<b>-75,814</b>	<b>Adjusted Total *</b>	<b>-834,765</b>	<b>-69,521</b>	

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

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

2014-15			2015-16		
Funded Liabilities: Local Government Pension Scheme £000	Unfunded Liabilities: Discretionary Benefits Arrangements £000		Funded Liabilities: Local Government Pension Scheme £000	Unfunded Liabilities: Discretionary Benefits Arrangements £000	
1,452,460	-	<b>Opening fair value of scheme assets</b>	1,594,560	-	
62,180	-	Interest Income	50,780	-	
93,820	-	Remeasurement gain/loss (-)	-60,960	-	
54,930	5,720	Contributions from employer	56,310	5,610	
14,090	-	Contributions from employees into the scheme	14,050	-	
-82,920	-5,720	Benefits paid	-86,730	-5,610	
<b>1,594,560</b>	<b>-</b>	<b>Closing fair value of scheme assets</b>	<b>1,568,010</b>	<b>-</b>	

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

2014-15			2015-16		
Funded Liabilities: Local Government Pension Scheme £000	Unfunded Liabilities: Discretionary Benefits Arrangements £000		Funded Liabilities: Local Government Pension Scheme £000	Unfunded Liabilities: Discretionary Benefits Arrangements £000	
2,179,340	75,850	<b>Opening balance at 1 April</b>	2,455,280	75,970	
43,920	-	Current service cost	51,120	-	
92,270	3,070	Interest cost	77,430	2,270	
14,090	-	Contributions by scheme participants	14,050	-	
		Remeasurement gains (-) and losses:			
218,830	4,810	Actuarial gains and losses due to changes in financial assumptions	-90,200	-1,760	
-13,390	-2,050	Actuarial gains and losses due to liability	-22,200	-1,280	
3,140	10	Past service cost (including curtailments)	3,810	-	
-82,920	-5,720	Benefits paid	-86,730	-5,610	
<u>2,455,280</u>	<u>75,970</u>	<b>Closing balance at 31 March</b>	<u>2,402,560</u>	<u>69,590</u>	

### Local Government Pension Scheme Assets comprised:

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

31 March 2015			31 March 2016			
Fair Value of scheme assets £000 (restated)			Fair Value of scheme assets £000			
Quoted	Unquoted	Total	Quoted	Unquoted	Total	
696,823	-	696,823	Equity investments	639,748	-	639,748
22,324	74,944	97,268	Property	20,384	105,057	125,441
405,018	94,079	499,097	Government bonds	407,683	94,081	501,764
-	148,294	148,294	Corporate bonds	-	141,121	141,121
153,078	-	153,078	Cash	159,937	-	159,937
<u>1,277,243</u>	<u>317,317</u>	<u>1,594,560</u>	<b>Total</b>	<u>1,227,752</u>	<u>340,259</u>	<u>1,568,011</u>

The 2014/15 comparators have been restated to reflect that equity investments were 100% quoted.

### Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Both the Local Government Pension Scheme and Discretionary Benefits liabilities have been assessed by Aon Hewitt Limited, an independent firm of actuaries; estimates for the County Council Fund being based on the latest full valuation of the scheme as at 31 March 2013.

The principal assumptions used by the actuary have been:

2014-15		2015-16	
Local Government Pension Scheme	Discretionary Benefits Arrangements	Local Government Pension Scheme	Discretionary Benefits Arrangements
<b>Mortality assumptions:</b>			
Longevity at 65 for current pensioners:			
22.6	22.6 - Men	22.7	22.7
25.1	25.1 - Women	25.2	25.2
Longevity at 65 for future pensioners:			
24.8	n/a - Men	24.9	n/a
27.4	n/a - Women	27.5	n/a
<b>Principal financial assumptions (% per annum)</b>			
2.9	2.9 - Rate of inflation (RPI)	2.9	2.9
1.8	1.8 - Rate of inflation (CPI)	1.8	1.8
3.3	n/a - Rate of increase in salaries	3.3	n/a
1.8	1.8 - Rate of increase in pensions	1.8	1.8
3.2	3.1 - Rate for discounting scheme liabilities	3.4	3.4

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below based on reasonably possible changes to the assumptions occurring at the end of the reporting period and 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 2014/15.

The approximate impact of changing the key assumptions on the present value of the funded defined benefit obligation as at 31 March 2016 and the projected service cost for the year ending 31 March 2017 is set out below:

**Discount rate assumption**

Adjustment to discount rate	+ 0.1% per annum	Base Figure	- 0.1% per annum
Present value of total obligation (£000)	2,359,490	2,402,560	2,446,420
Change in present value of total obligation	-1.8%		1.8%
Projected service cost (£000)	48,100	49,710	51,360
Approximate change in projected service cost	-3.2%		3.3%

**Rate of general increase in salaries**

Adjustment to salary increase rate	+ 0.1% per annum	Base Figure	- 0.1% per annum
Present value of total obligation (£000)	2,413,990	2,402,560	2,391,260
Change in present value of total obligation	0.5%		-0.5%
Projected service cost (£000)	49,710	49,710	49,710
Approximate change in projected service cost	0.0%		0.0%

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

Adjustment to pension increase rate	+ 0.1% per annum	Base Figure	- 0.1% per annum
Present value of total obligation (£000)	2,434,900	2,402,560	2,370,690
Change in present value of total obligation	1.3%		-1.3%
Projected service cost (£000)	51,360	49,710	48,100
Approximate change in projected service cost	3.3%		-3.2%

**Post retirement mortality assumption**

Adjustment to mortality age rating assumption *	- 1 year	Base Figure	+ 1 year
Present value of total obligation (£000)	2,464,790	2,402,560	2,340,330
Change in present value of total obligation	2.6%		-2.6%
Projected service cost (£000)	51,390	49,710	48,030
Approximate change in projected service cost	3.4%		-3.4%

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

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

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The Council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over 18 years from 1 April 2014. Funding levels are monitored on an annual basis. The next triennial valuation will be based on the position at 31 March 2016 and will take effect from the 1 April 2017.

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 £54.780m contributions to the scheme in 2016/17 (£53.710m in 2015/16).

The weighted average duration of the defined benefit obligation for scheme members is 18.1 years at 31 March 2016 (18.1 years at 31 March 2015).

## **46. Contingent Liabilities**

### **a) Job Evaluation**

A contingent liability has been disclosed in respect of the implementation of a second phase of job evaluation, the costs and scope of which have yet to be fully determined.

### **b) Pension Contributions on Equal Pay Payments**

Equal pay settlements were not originally deemed to be pensionable however, this has now changed and an element of choice has been introduced. Individuals can choose to have their settlements considered to be pensionable, which would lead to a liability for the Council to make employer contributions to the Pension Fund. This provision has now been added to agreements that individuals with pending Equal Pay Settlements will sign up to. There is no certainty that an individual will decide to pay pension contributions on their Equal Pay settlement. The agreements signed by individuals are 'open-ended' in that an individual's ability to determine their settlement as 'pensionable' is not time limited, so the timing of any liability to pay contributions are not certain.

### **c) Equal Value Claims**

Solicitors representing a number of individuals have lodged claims under the Equality Act 2010 in relation to "work of equal value". These types of cases are complex and so far only partial information has been supplied by the claimants' solicitors. Currently the claims are split into two groups. A small group of claims are more advanced and may have to be settled. The much larger group is less advanced and it is not clear whether the Council will have to make settlement payments or in what amount if payments are required.

### **d) 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 £6.0m.

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. 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.

**e) Closed Landfill Sites**

The Council continues to own a number of closed landfill sites, with various degrees of restoration. The Council is responsible for restoration maintenance works and after care costs, which include site maintenance, gas management, environmental monitoring and leachate (liquid waste) management. Much of this work was contracted to Premier Waste until 31 May 2013, when responsibility transferred to the Council. The Council considers that there is likely to be a liability in respect of restoration works and after care costs for a number of closed landfill sites. A full review of the liability has been undertaken, and a final report was received in May 2014. This report recommends proposals for the management of the retained sites and work is on-going to determine the financial liabilities associated with these proposals. The Environment Agency, the regulatory body for permitted closed landfill sites is working closely with the Council recommending priority order for works to sites. As the full value and timing of this liability remains uncertain, it has been included in the accounts as a contingent liability.

**f) Joint Stocks Phase 1 and Phase 2 Landfill Site**

The Environment Agency is the regulator of the Landfill site as described in the Environmental Permitting (England and Wales) Regulations 2010. Under these regulations a Permit to operate this landfill site was transferred to the Council following the liquidation of Premier Waste on 31 May 2013. The Council became responsible for managing the site's Environmental Permit from 1 June 2013 and has allocated resources within its MTFP to restore and maintain the facility, which is no longer operational. Capping and restoration works to Phase 2 were completed to the Environment Agency's satisfaction in May 2015. Soil importation is progressing as part of the final Phase 1 works. It is anticipated Phase 1 works will be split into two parts, the first commencing in March 2017/18 subject to successful procurement. A performance deed has been established to ensure that the Environment Agency has the resources to meet the legal obligations associated with the site in the event that the Council fails to do so. The amount secured by this deed is £4.25m for the first year which is reviewable annually and subject to RPIJ (Jevons) increases. The first review by the Environment Agency actually took place in June 2015 resulting in a small increase of the provision to £4.34m. This provision will stabilise and gradually diminish over the next 60 years as the liability reduces. The

Council has no immediate financial liability as a payment under the performance deed would only be required if the Council failed to meet its legal requirements. At the current time it is considered unlikely that the Council will fail to meet its obligations in the future therefore it has been included in the accounts as a contingent liability.

**g) Tribunal and Court Claims**

The Council is currently involved in a number of tribunal and court claims where potentially damages may be awarded against the Council. There is no certainty of the outcome of these cases, or of amounts involved; therefore a contingent liability has been included in the accounts.

**h) Warranties in relation to LSVT of Housing Stock**

The Council has given CDHG certain warranties in relation to staff transferring, property and environmental pollution. These warranties to both CDHG and its Funders are for a maximum period of 30 years. The potential liability to the Council is unquantifiable. However, the risks are considered low and not expected to have a material impact on the accounts. Insurance cover for environmental risks has been purchased to protect the Council.

**i) Claims by NHS Trusts and Foundation Trusts for Non-Domestic Rating Relief**

The Council has received requests for mandatory relief from Business Rates from a number of NHS Trusts and Foundation Trusts. Under s.43 of the Local Government Finance Act 1988, the central issue is whether a NHS Trust or Foundation Trust is an institution or other organisation established for charitable purposes only, and if so, it will be entitled to 80% mandatory relief. To date these applications have been dismissed in line with the stance taken by many other Councils. The Council is currently working with the Local Government Association and taking appropriate legal advice. If the Council had to implement this and award mandatory relief an estimate of the cost of the refund has been estimated to be £12.9m for the period 2010/11 to 2015/16. Of this amount £6.3m relates to Durham County Council and the annual impact to the Council going forward is likely to be £1.3m. However, there is no certainty of the outcome of these applications; therefore a contingent liability has been included in the accounts.

## **47. Contingent Assets**

**a) LSVT - VAT Shelter**

The Council and CDHG have entered into a VAT shelter arrangement to enable CDHG to reclaim VAT on future improvement works to the transferred stock. This scheme has been devised and implemented in nearly all stock transfers since 2003 and has approval from HMRC and the Government. Based on development works of £319m and adjusting for VAT on disabled adaptations works, the Council is entitled to a 50% share of VAT recovered by CDHG from this VAT shelter arrangement. The estimated proceeds are £29.25m for the Council over a 15 year period.

**b) VAT claims**

There are a number of potential VAT claims for which the Council may be entitled to a repayment of VAT paid to Her Majesty's Custom and Revenues (HMRC). The likelihood and extent of a repayment and the timing of it remains uncertain, it therefore is included in the accounts as a contingent asset.

**48. Heritage Assets: Further Information on the Council's Collection  
Museum Collections and Artefacts**

This includes:

- Museum exhibits owned by or on long-term loan to the Council at 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 April to September. The pit wheel sites are publicly accessible. Various archaeological items found around the county are on deposit at Bowes Museum, Barnard Castle. They are not recognised as heritage assets by the Council as they are held by the museum.

### **Preservation and Management**

Since the Local Government Reorganisation in 2009 the Council has developed a strategy in order to rationalise office accommodation throughout the county. The office accommodation project team has produced procedural guidelines to set out the agreed approach to dealing with heritage assets during office accommodation moves and/or refurbishments, including working with other local museums, services and specialists where needed, to assess the feasibility, and make suggestions for re-homing of other items.

Options for re-homing items that need to be relocated include:

- adding to the museums service collection
- temporary removal then reinstating in the refurbished building (where possible and suitable security measures can be made)
- relocation to another civic or community building
- gifting the item to a local museum
- disposal (in line with the Council disposal procedure)

Some items are currently in safe storage until they can be returned for display at a suitable location.

## **49. Exceptional Items**

### **Large Scale Voluntary Transfer (LSVT)**

The Council transferred its housing stock to County Durham Housing Group (CDHG) on 13 April 2015. This has had a significant impact on the Council's accounts and this note

explains the main issues and implications for the accounts in 2014/15, 2015/16 and beyond.

- **Assets transferred and retained** - the Council transferred 18,428 dwellings, various small land holdings within housing estates which did not have any future development potential, various operational properties and 3,103 garages. In addition, a total of 194 staff transferred to the housing association. In respect of un-adopted roads and paths, a mutually beneficial agreement has been reached and accommodated in the Transfer Agreement. Across the transferred estates, 101 sites contain roads and footways which are not formally adopted but are, nonetheless, the liability of the County Council. A significant number of them require repair or improvement to restore amenity and mitigate risk and liability. They are not all immediate priorities for attention using the Council's own resources, although they would require attention in due course. However, as part of the wider transfer negotiations, CDHG has agreed to pay the Council up to £1.8m to repair and improve these roads and footways over the next seven years. The work will be agreed between the parties annually and, where practicable, will be integrated with CDHG's investment work in respective neighbourhoods. Accordingly the Council will adopt the roads and footpaths in question by the end of the year after their improvement.
- **Transfer price and associated costs** - the transfer price for the dwellings and associated assets is largely determined by a prescribed formula set by Government and reflects the current value of the future income and expenditure streams of the assets over the next 30 years and is known as the Tenanted Market Value (TMV). The transfer price agreed with CDHG was £114.4m. This valuation of housing stock, which is applied for stock transfer, is significantly different to the valuation of dwellings in the Balance Sheet based on the Existing Use of the stock as Social Housing with secure tenancies. The Balance Sheet as at 31 March 2015 reflected the value of Council Dwellings based on the TMV and this led to a revaluation loss of £331.08m, of which £329.79m was charged to the HRA Cost of Services with the balance of £1.29m being charged to the Revaluation Reserve. Whilst the £329.79m resulted in an exceptional charge to the HRA Cost of Services in 2014/15, it was offset by being reversed out of the HRA via the Movement in the Housing Revenue Account Statement. The transfer price agreed with CDHG (£114.4m) was used to repay part of the outstanding HRA debt in 2015/16. In 2015/16 the Council received an Overhanging Debt Grant of £207.03m from the government to repay its remaining housing attributable debt of £129.6m and premia of £77.43m associated with the premature repayment.
- **VAT Shelter arrangements** - in normal circumstances, housing associations are not able to reclaim VAT on improvement works to dwellings. The VAT Shelter is an arrangement, used in every transfer since 2002, with Her Majesty's Revenues and Customs (HMRC) agreement, whereby CDHG can reclaim VAT on future improvement works to the transferred stock. The Council has agreed a 50% share of the reclaimed VAT with CDHG over a 15 year period. The value of the development agreement for catch-up works on the transferred stock is £319m and the associated VAT at 20% is

£58.5m (after adjusting for disabled adaptations works). The Council will therefore receive 50% of the VAT reclaimed resulting in £29.25m of receipts over the 15 year period.

- **Pension Deficit** - the pension deficit in respect of the staff transferring to CDHG has been transferred to the group of registered providers. This will be paid to the pension fund in accordance with existing arrangements for all pension fund employers. The financial provision for this has been built into the business plan of CDHG.
- **Service Level Agreements (SLA's)** - agreements were negotiated with CDHG to provide them with a range of services post transfer. The main SLA's include grounds maintenance and ICT.
- **Rent Arrears** - the Council transferred to CDHG the rent arrears due from existing tenants and former tenants. The amount paid to the Council for these arrears was based on a percentage of their value and reflected the value of the arrears to the Council and the cost to CDHG of pursuing them.
- **Contingent Liabilities** - as is usual in stock transfers, the Council gave CDHG certain warranties in relation to staff transferring, property and environmental pollution. The potential liability to the Council is unquantifiable. Although, the risks are considered to be low and not expected to have a material impact on the accounts, and insurance cover has been purchased to protect the Council.
- **Disposals Clawback Agreement** – The Council negotiated a clawback from the future sale / disposal of any transferred land and buildings. CDHG have agreed to pay the Council a proportion of any gain as set out in Schedule 14 of the Transfer Agreement.
- **Closure of the HRA** - the Council obtained secretary of state approval to close the HRA and the HRA was closed during 2015/16, and all reserves held were transferred to the General Fund (£23.156m).

## 50. 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 will support the BCF vision of improving the health and wellbeing of the people of County Durham and reducing health inequalities.

The Pooled Budget partners consist of Durham County Council (Local Authority), North Durham Clinical Commissioning Group and Durham Dales, Easington and Sedgfield Clinical Commissioning Group (CCGs).

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

	31 March 2015 £000	31 March 2016 £000
<b>Funding Provided to BCF</b>		
Local Authority (Capital)	0	4,542
CCGs	0	39,193
	<b>0</b>	<b>43,735</b>
<b>Expenditure met from BCF</b>		
Local Authority (Capital)	0	28,304
CCGs	0	15,431
	<b>0</b>	<b>43,735</b>
<b>Net surplus on pooled budget</b>	<b>0</b>	<b>0</b>
<b>Authority share of the net surplus arising from pooled budget</b>	<b>0</b>	<b>0</b>

## 51. Prior Period Adjustments (PPAs)

There are no Prior Period Adjustments.



The Housing Revenue Account (HRA) is a record of revenue income and expenditure relating to the Council's housing stock. Its primary purpose is to ensure that expenditure on managing tenancies and maintaining dwellings is funded by rents charged to tenants. Consequently the HRA is a statutory account, ring-fenced from the rest of the General Fund, so that rents cannot be subsidised from Council Tax. The statement has two parts:

1. HRA Income and Expenditure Statement, and
2. Movement on the HRA Statement.

Notes to the HRA follow these two statements.

On 13 April 2015 the Council's housing stock was transferred to County Durham Housing Group.

### HRA Income and Expenditure Statement

2014-15 £000		Notes	2015-16 £000
	Income		
-64,834	Dwelling Rents (Net of voids)	6	-1,304
-1,075	Non Dwelling Rents (Net of voids)		-17
-193	Charges for Services and Facilities		-53
-3,161	Contributions towards Expenditure		-541
-69,263	Total Income		-1,915
	Expenditure		
12,957	Repairs and Maintenance	8	3,813
13,915	Supervision and Management	8	682
422	Rent, Rates, Taxes and Other Charges	9	-
175	Debt Management Costs		-
373,958	Depreciation and Impairment of Non-Current Assets	10 & 11	-
423	Movement in the Allowance for Bad Debts	7	-
62	Sums directed by the Secretary of State that are expenditure in accordance with the Code		-
401,912	Total Expenditure		4,495
332,649	Net Expenditure of HRA Services as included in the whole authority Comprehensive Income and Expenditure Statement		2,580
1,085	HRA Services Share of Corporate and Democratic Core		-
386	HRA share of other amounts included in the whole authority net expenditure of continuing operations but not allocated to specific services		-
334,120	Net Expenditure for HRA Services		2,580
-1,075	Gain (-) or Loss on Sale of HRA Non-Current Assets		15,499
10,501	Interest Payable and Similar Charges		420
-	Premium payable on repayment of debt (Housing Stock Transfer)		77,435
-473	Interest and Investment Income		-78
-18,682	Capital Grants & Contributions Receivable		-
-	Government Grant in respect of Housing Stock Transfer		-207,035
324,391	Deficit / Surplus (-) for the Year on HRA Services		-111,179

## Movement on the HRA Statement

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

2014-15 £000		2015-16 £000	£000
7,155	Balance on the HRA at the end of the previous year		26,078
-324,391	Deficit (-) / Surplus for the year on the HRA Income and Expenditure Statement	111,179	
342,271	Adjustments between accounting basis and funding basis under statute	-114,101	
17,880	Net Increase or decrease (-) before transfer to or from reserves	-2,922	
1,043	Transfers to (-) or from reserves	-23,156	
18,923	Increase or decrease (-) in the year on the HRA		-26,078
26,078	<b>Balance on the HRA at the end of the current year</b>		<b>-</b>

## Note to the Movement on the HRA Statement

### 1. Analysis of Movement of the HRA Statement

This note further analyses the Movement on the HRA Statement and shows the adjustments between accounting basis and funding basis under regulations.

2014-15 £000		2015-16 £000
7,468	Transfer to/from the Major Repairs Reserve	-
-355,112	Transfer to/from the Capital Adjustment Account	129,600
1,075	Gain or loss (-) on sale of HRA Non-Current Assets	-15,499
480	HRA Share of Contributions to or from the Pension Reserve	-
3,818	Capital expenditure funded by the HRA	-
-342,271	<b>Adjustments between accounting basis and funding basis under statute</b>	<b>114,101</b>

## Notes to HRA Income and Expenditure Account

### 1. Exceptional Item – Housing Stock Transfer

On 13 April 2015 the Council's housing stock was transferred to County Durham Housing Group. In 2015/16 there were a small number of transactions up to the date of transfer, as well as transactions to account for the transfer and write off remaining balances. Further details can be found in Note 49 of the Core Financial Statements.

### 1. Housing Stock

The following table shows the movements in stock numbers at the beginning and end of the year, and shows that the Council held no housing units following stock transfer:-

<b>Movements in the Year</b>	<b>Houses</b>	<b>Flats</b>	<b>Bungalows</b>	<b>Total</b>
Stock at 1 April 2015	11,156	1,827	5,445	18,428
Less:				
Sales	1	-	-	1
Stock Transfer	11,155	1,827	5,445	18,427
Stock at 31 March 2016	-	-	-	-

## 2. Housing Assets Valuation

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

<b>Valuation at 1 April 2015 £000</b>	<b>Asset Type</b>	<b>Valuation at 31 March 2016 £000</b>
	Operational Assets	
114,353	Dwellings	-
7,598	Garages	-
121,951	Total Dwellings including Garages	-
6,900	Other Land and Buildings	-
18	Vehicles, Plant & Equipment	-
7,760	Non-Operational Assets	-
136,629	<b>Balance Sheet Valuation</b>	-

No housing assets were held at 31 March 2016 reflecting the transfer of assets out of the Housing Revenue Account as a consequence of stock transfer.

## 4. Capital Expenditure and Financing

The Council spent £0.000m during 2015/16 (£42.826m in 2014/15) on its HRA Assets:

<b>2014-15 £000</b>	<b>Expenditure</b>	<b>2015-16 £000</b>
42,826	Improvements to Council Housing Assets	-
42,826	<b>Total Expenditure</b>	-

This expenditure was financed as follows:

<b>2014-15 £000</b>	<b>Financing</b>	<b>2015-16 £000</b>
7,468	Majors Repairs Reserve	-
1,346	Capital Receipts	-
11,512	Prudential Borrowing (Housing Improvements)	-
18,682	Capital Grants	-
3,818	Revenue Contributions	-
42,826	<b>Total Financing</b>	-

## 5. Capital Receipts

During 2015/16 the Council generated £0.642m gross capital receipts from the sale of its Housing assets as shown in the following table:

2014-15 £000	Source of Receipt	2015-16 £000
2,590	Council House Sales (RTB Legislation)	30
572	Qualifying Council House Disposals	604
16	Council House Mortgage Repayments	8
154	Housing Land & Other Sales	-
<u>3,332</u>	<b>Total Capital Receipts</b>	<u>642</u>

Under the Capital Receipts Pooling Arrangements the Council had to pay over to the Government £0.034m of the above sale proceeds in 2015/16. This is shown in the following table:

Source of Receipt	Capital Receipt £000	Usable Element £000	Poolable Element £000
Council House Sales (RTB Legislation)	30	2	28
Qualifying Council House Disposals	604	604	-
Council House Mortgage Repayments	8	2	6
Housing Land & Other Sales	-	-	-
<b>Total</b>	<u>642</u>	<u>608</u>	<u>34</u>

## 6. Dwelling Rents

This sum represents the gross rental income due for one week of the year in 2015/16 (the full year in 2014/15) after allowance is made for empty properties.

## 7. Rent Arrears and Provision for Bad and Doubtful Debts

The amount of rent arrears at 31 March 2016 was £0.000m (£3.356m at 31 March 2015). The aggregate balance sheet provision in respect of uncollectable debts at 31 March 2016 is £0.000m (£2.772m at 31 March 2015). The actual charge to the HRA in respect of bad debts provision and debts written off in 2015/16 was £0.000m (£0.457m in 2014/15).

All rent arrears were transferred to County Durham Housing Group as part of stock transfer and consequently no amounts were retained by the Council at 31 March 2016.

## 8. Repairs and Maintenance, and Supervision and Management

There were minimal repairs and management costs during 2015/16, reflecting one week's costs. The most significant element of spend was a sum of £3.300m in respect of repairs in the Easington area.

## 9. Rent, Rates, Taxes and Other

This includes all items which the Council is liable to pay in respect of HRA property, including Council Tax on empty properties, lease rental on properties, rates and water charges payable on non-dwellings and landlord insurance costs. There were no transactions during the short period the stock was held during 2015/16.

## 10. Depreciation of Property, Plant and Equipment

Authorities are required to charge depreciation on all HRA properties calculated in accordance with proper practices, including non-dwelling properties. There was no charge for depreciation in 2015/16 (£7.499m in 2014/15):

2014-15 £000	Asset type	2015-16 £000
6,799	Operational Assets: Dwellings	-
674	Operational Assets: Other Buildings e.g. Garages	-
26	Operational Assets: Vehicles, Plant & Equipment	-
<u>7,499</u>	<b>Total Depreciation Charge</b>	<u>-</u>

## 11. Impairment and Revaluation Losses on Property, Plant and Equipment

There was no charge to the Housing Revenue Account for impairment and revaluation losses in 2015/16 (£372.260m in 2014/15) for losses where there had either been a general fall in the value of the assets or where the Council had incurred expenditure on assets for which there had not been an equivalent increase in the value of the asset.

## 12. Movement on Major Repairs Reserve (MRR)

Prior to stock transfer, the Council was required to maintain a Major Repairs Reserve (MRR). The items to be credited to the reserve were an amount equal to HRA dwelling depreciation for the year, and transfers from the HRA required by statutory provision. There were no movements in the Major Repairs Reserve during 2015/16, which started with a nil balance.

2014-15 £000	Movement on Reserve	2015-16 £000
-	<b>Balance as at 1st April</b>	-
-7,468	Depreciation on HRA Assets	-
7,468	HRA Capital Expenditure funded from MRR	-
<u>-</u>	<b>Balance as at 31st March</b>	<u>-</u>

This account reflects a statutory requirement to maintain a separate Collection Fund. It shows the transactions relating to Council Tax and Non-Domestic Rates (Business Rates) and illustrates the way these have been distributed to Central Government, Durham Police and Crime Commissioner, County Durham and Darlington Fire and Rescue Authority and to Durham County Council General Fund. Notes to the statements follow.

### Income and Expenditure Account

2014-15		2015-16		
£000		Council Tax £000	NNDR £000	Total £000
<b>Income</b>				
-219,895	Council Tax due from Taxpayers	-227,357		-227,357
-116,565	Income from Business Ratepayers		-116,611	-116,611
-446	Deferred Rates 2012/13			
	Recovery of Previous Year's Estimated Deficit			
-336,906	Total Income	-227,357	-116,611	-343,968
<b>Expenditure</b>				
<b>Precepts and Demands</b>				
168,845	Durham County Council	174,134		174,134
10,450	113 Towns and Parishes and 1 Charter Trust	10,921		10,921
20,592	Durham Police and Crime Commissioner	21,235		21,235
11,893	County Durham & Darlington Fire & Rescue Authority	12,261		12,261
<b>Recovery of Previous Year's Deficit (-) / Payment of Previous Year's Surplus</b>				
-1,624	Central Government		510	510
-1,591	Durham County Council		500	500
-32	County Durham & Darlington Fire & Rescue Authority		10	10
<b>Business Rates</b>				
55,051	Payment to Central Government		55,916	55,916
1,101	Payment to County Durham and Darlington Fire & Rescue Authority		1,118	1,118
53,968	Payment to Durham County Council, including Renewable Energy		54,810	54,810
600	Costs of Collection - Business Rates		601	601
<b>Bad &amp; Doubtful Debts</b>				
7,526	Write Offs	1,403	1,722	3,125
2,346	Change in Provision for Bad Debts	613	34	647
2,493	Provision for Appeals		10,563	10,563
331,618	Total Expenditure	220,567	125,784	346,351
-5,288	Movement on Fund Balance	-6,790	9,173	2,383
3,273	Surplus(-) /Deficit on Fund Brought Forward	-491	-1,524	-2,015
-2,015	<b>Fund Balance Carried Forward</b>	-7,281	7,649	368
<b>Allocated to :</b>				
-1,158	Durham County Council	-6,106	3,769	-2,337
-50	Durham Police and Crime Commissioner	-744	3,845	3,101
-44	County Durham and Darlington Fire & Rescue Authority	-431	77	-354
-762	Central Government			-
-1	Durham County Council - Renewable Energy		-42	-42
-2,015		-7,281	7,649	368

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## Notes to the Collection Fund Accounts

### i. The Collection Fund Income and Expenditure Account

This statement represents the transactions of the Collection Fund, a statutory fund separate from the General Fund of the Council. The Collection Fund accounts independently for income relating to Council Tax and Non Domestic Rates on behalf of those bodies (including the Council's own General Fund) for which the income has been raised. The costs of administering the Collection Fund are accounted for in the General Fund.

### ii. Council Tax

Council Tax was introduced by the Government to replace the Community Charge with effect from 1 April 1993. It is a tax based on property values, which are grouped into eight bands ranging from A to H.

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

Based on information on the Valuation Lists, the properties in each area are classified into Bands A to H. Adjustments are made to the number of properties in each Band by taking into account those occupied by a single Council Taxpayer (25% discount), long-term empty (50% premium) and other discounts and exemptions. A factor is then applied to each band to convert the properties into Band D equivalents and finally an allowance for non-collection to give the Tax Base.

The Council Tax Base is then divided into the County Council Demand and the Precepts requested by Durham Police and Crime Commissioner, County Durham and Darlington Fire and Rescue Authority and, where applicable, Town and Parish Councils to calculate the standard Band D Council Tax. The other bands' liabilities are calculated by reference to the same proportion used to convert to band D:

Collection Fund

Property Value	Council Band	Number of Properties in	Proportion of Band 'D'	Band 'D' Equivalent
Up to £ 40,000	Band A	143,377	6/9ths	95,585
Over £ 40,000 up to £ 52,000	Band B	30,272	7/9ths	23,545
Over £ 52,000 up to £ 68,000	Band C	28,936	8/9ths	25,721
Over £ 68,000 up to £ 88,000	Band D	19,894	9/9ths	19,894
Over £ 88,000 up to £120,000	Band E	9,727	11/9ths	11,889
Over £120,000 up to £160,000	Band F	3,739	13/9ths	5,401
Over £160,000 up to £320,000	Band G	2,051	15/9ths	3,418
Over £320,000	Band H	260	18/9ths	520
		238,256		185,973
Net effect of discounts, reliefs, exemptions and premiums				55,480.00
<b>Chargeable Properties (Taxbase) 2015/16:</b>				<b>130,493.0</b>

The Council Tax Base for 2014/15 was 129,047.4

In 2015/16, the Band D charge was £1,591.12 (£1,591.12 2014/15) made up of Durham County Council £1,334.43 (£1,308.39 2014/15), Durham Police Authority £162.73 (£159.57 2014/15) and County Durham and Darlington Fire and Rescue Authority £93.96 (£92.16 2014/15). In addition, Band D Town and Parish precepts between £0 and £297.88 (£0 and £276.32 2014/15) are chargeable and there are some areas with no Town or Parish Council.

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

The Collection Fund - Council Tax estimated a £7.031m surplus for 2015/16, which will be distributed to major preceptors during 2016/17. At 31 March 2016, the actual outturn was a surplus of £7.281m (surplus of £0.491m at 31 March 2015).

### 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 2016 have been analysed by age of debt and stage of recovery action being taken. These have been put into three broad categories:

- Category 1 No reminder yet sent;
- Category 2 First, second or final reminder; and,
- Category 3 Summons (including liability orders, bailiff and bankruptcy)



A percentage has been applied to the total arrears in various groupings as below:

At 31 March 2016, the calculated provision of £19.177m covered 78% of arrears (£18.563m, 78% at 31 March 2015).

### Collection Fund – Council Tax Balance

The Collection Fund - Council Tax balance at 31 March 2016 amounted to a surplus of £7.281m (surplus of £0.491m at 31 March 2015).

Durham County Council and the major preceptors, Durham Police and Crime Commissioner and County Durham and Darlington Fire and Rescue, each account for a share of the Collection Fund balance in proportion to their Precept or Demand on the fund.

This also applies to the balances for arrears and prepayments on the Council Taxpayers account and the Provision for Doubtful Debts for Council Tax.

The following table shows how the Council Tax balances have been allocated between Durham County Council and the major precepting authorities:

Authority	Year end Surplus/Deficit on Collection Fund - Council Tax £000	Provision for Bad Debts - Council Tax £000	Council Tax Arrears £000	Council Tax Overpayments and Prepayments £000
Durham County Council	-6,106	-16,134	20,575	-3,103
Durham Police and Crime Commissioner	-744	-1,930	2,460	-371
County Durham & Darlington Fire & Rescue Authority	-431	-1,113	1,420	-214
<b>Total Allocated</b>	<b>-7,281</b>	<b>-19,177</b>	<b>24,455</b>	<b>-3,688</b>

### iii. Business Rates (National Non Domestic Rates)

Business Rates are determined on a national basis by Central Government, which sets an annual non-domestic multiplier each year. This multiplier is applied to the rateable value of the property to give, subject to various reliefs and exemptions, the rates payable for the year.

In 2015/16, the general multiplier was £0.493 (£0.482 in 2014/15) and the small business multiplier was £0.480 (£0.471 in 2014/15). The total non-domestic rateable value for Durham County Council at 31 March 2016 was £307.581m (VOA schedule dated 30 March 2016) (£302.522m at 31 March 2015)

From 1 April 2013, the Business Rates Retention Scheme was introduced. Instead of paying into a central pool, the business rates income for the Durham County Council administrative area is shared between Central Government (50%), Durham County Council (49%) and County Durham and Darlington Fire and Rescue Authority (1%). Any income from certain business areas, e.g. Renewable Energy, accrues only to Durham County Council. This scheme aims to give Authorities a greater incentive to grow businesses but also increases the financial risk due to volatility and non-collection of rates.

The business rates due to be paid over during 2015/16 were estimated before the start of the year on the NNDR1, a statutory document submitted in January 2015. In addition, during 2015/16, the estimated surplus for 2014/15 was paid to shareholders as shown on the Income and Expenditure Account.

The estimated outturn for 2015/16 was included on the NNDR1 for 2016/17, submitted in January 2016. This predicted a deficit of £6.692m (surplus £1.021m estimated for 2014/15) of which Durham County Council's share would be £3.279m (surplus of £0.500m for 2014/15). Any estimated surplus or deficit is either paid to or recovered from each shareholder in the following financial year. The difference between the estimated outturn and the actual at 31 March is carried forward and taken into account in a future financial year. At 31 March 2016, the actual outturn was a deficit of £7.691m (surplus of £1.524m in 2014/15). In addition, income from Renewable Energy amounted to £0.042m (£0.011m in 2014/15).

### **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 2016 have been analysed by age of debt and stage of recovery action being taken. These have been put into three broad categories:

- Category 1 No reminder yet sent
- Category 2 First, second and final reminder
- Category 3 Summons (including liability orders, bailiff and bankruptcy)

A percentage has been applied to the total arrears in various groupings as below:

Category of Arrears	Year	Percentage provision applied
Category 1- No reminders yet sent	2015/16	20%
	2014/15	50%
	2013/14 and older	100%
Category 2- First, second or final reminder	2015/16	
	2014/15	40%
	2013/14 and older	65%
Category 3- Summons etc	2015/16	
	2014/15	55%
	2013/14 and older	90%

At 31 March 2016, the calculated provision of £5.057m covered 73% of arrears (£5.024m, 70% at 31 March 2015).

### Provision for Appeals

Business Ratepayers are entitled to appeal to the Valuation Office against the rateable Value applied to their property at any time during the validity of the Rating List. Such appeals, if successful, may be back dated to 1 April 2010. Prior to 1 April 2013, the cost of all such appeals would have been borne by Central Government. However, under BRRS, the cost is also shared by Durham County Council and County Durham and Darlington Fire and Rescue Authority. In an attempt to stabilise the expected income from Business Rates, a provision against successful appeal has been introduced. Based on previous success of appeals, an estimate of the expected future repayment of reduction of bills already raised is made and charged to the Collection Fund - Business Rates.

At 31 March 2016, the provision for Appeals was estimated at £18.247m (£7.685m at 31 March 2015).

### Collection Fund Balance - Business Rates

The Collection Fund – Business Rates balance at 31 March 2016 amounted to a deficit of £7.691m (surplus of £1.524m at 31 March 2015).

Durham County Council, Central Government and County Durham and Darlington Fire and Rescue Authority each account for a share of the Collection Fund - Business Rates in proportion to their allocated share of Business Rates income under BRRS. This also applies to the balances for arrears and prepayments on the Business Ratepayers accounts, the provision for bad debts and the provision for appeals.

The following table shows how Business Rates balances have been allocated at 31 March 2016.

Collection Fund

<b>Authority</b>	<b>Year-end Surplus/Deficit on Collection Fund - NNDR £000</b>	<b>Provision for Bad Debts - NNDR £000</b>	<b>Business Rates Arrears £000</b>	<b>Business Rates Overpayments and Prepayments £000</b>	<b>Provision for Appeals £000</b>
Durham County Council	3,768	-2,478	3,395	-926	-8,941
Central Government	3,845	-2,529	3,465	-944	-9,124
County Durham & Darlington Fire & Rescue Authority	77	-51	69	-19	-182
<b>Total Allocated</b>	<b>7,690</b>	<b>-5,058</b>	<b>6,929</b>	<b>-1,889</b>	<b>-18,247</b>

## Fund Account

2014-15				2015-16	
£000	£000		Notes	£000	£000
<b>DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED IN THE FUND</b>					
-98,848		Contributions receivable	7	-112,035	
-2,734		Transfers in from other pension funds	8	-3,680	
-5		Other income		-5	
	-101,587				-115,720
101,419		Benefits payable	9	110,422	
8,568		Payments to and on account of leavers	10	5,273	
	109,987				115,695
	<b>8,400</b>	<b>Net withdrawals/ -additions from dealings with members, employers and others</b>			<b>-25</b>
	6,869	<b>Management expenses</b>	11		11,490
<b>RETURN ON INVESTMENTS</b>					
-29,129		Investment income	12	-22,662	
-190,260		Profit and losses on disposal of investments and change in market value of investments	14	24,955	
	<b>-219,389</b>	<b>Net returns on investments</b>			<b>2,293</b>
	<b>-204,120</b>	<b>NET -INCREASE/ DECREASE IN THE NET ASSETS AVAILABLE FOR BENEFITS DURING THE YEAR</b>			<b>13,758</b>

**Net Assets Statement**

2014-15				2015-16	
£000	£000	Notes	£000	£000	
<b>INVESTMENT ASSETS</b>					
87,417		Fixed interest securities	14	31,708	
264,293		Equities	14	211,866	
477,348		Index linked securities	14	468,296	
<u>1,362,350</u>	2,191,408	Pooled investment vehicles	14	<u>1,506,789</u>	2,218,659
375		Loans	14	349	
Other cash deposits:					
111,133		Fund Managers	14	62,372	
54,269		Short term investments	14	17,217	
12,111	177,888	Derivative contracts	14	<u>57,351</u>	<u>137,289</u>
	<u>2,369,296</u>				<u>2,355,948</u>
<b>Other Investment Assets</b>					
1,815		Dividend accruals	14,17	1,925	
276		Tax recovery	14,17	368	
<u>12,060</u>	<u>14,151</u>	Other investment balances	14,17	<u>13,388</u>	<u>15,681</u>
<b>2,383,447</b>		<b>Total Investment Assets</b>			<b>2,371,629</b>
<b>INVESTMENT LIABILITIES</b>					
-12,886		Derivative contracts	14	-45,144	
<u>-37,354</u>		Other investment balances	18	-9,734	
<b>-50,240</b>		<b>Total Investment Liabilities</b>			<b>-54,878</b>
<b>2,333,207</b>		<b>NET INVESTMENT ASSETS</b>			<b>2,316,751</b>
	1,042	<b>Long Term Assets</b>	17		833
<b>Current assets</b>					
9,275		Contributions due from employers	17	8,563	
<u>864</u>		Other current assets	17	<u>1,185</u>	
	10,139				9,748
<b>Current liabilities</b>					
<u>-9,413</u>		Current liabilities	18	<u>-6,115</u>	
	-9,413				-6,115
<b>2,334,975</b>		<b>NET ASSETS OF THE FUND AVAILABLE TO PAY BENEFITS AT 31 MARCH</b>			<b>2,321,217</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 23.

These accounts should therefore be read in conjunction with the information contained within this note.

## **1. Fund Operation and Membership**

Durham County Council Pension Fund (the Fund) is part of the Local Government Pension Scheme (LGPS) which is administered by Durham County Council. The Council is the reporting entity for the Fund. The LGPS is a statutory scheme governed by the following legislation:

- Public Services Pensions Act 2013
- LGPS Regulations 2013 (as amended)
- LGPS (Management and Investment of Funds) Regulations 2009 (as amended)
- LGPS (Transitional Provisions, Savings and Amendments) Regulations 2014 (as amended)

The Pension Fund Committee has responsibility delegated from Durham County Council to discharge the powers and duties arising from Section 7 of the Superannuation Act 1972 and Regulations made thereunder to ensure the effective stewardship of the Pension Fund's affairs. The delegation is wide ranging and covers the management of all of the Fund's activities, including the administration and investment of funds. The Committee meets at least quarterly to assess performance and annually to consider wider matters.

The Corporate Director Resources is responsible for the administration of the Pension Fund. He is assisted by the Pensions Administration and 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 pensions benefits for pensionable employees of participating bodies. On retirement contributors receive annual pensions and where applicable lump sum payments. Entitlement to these benefits arises mainly on the grounds of reaching retirement age and retirement through early retirement schemes or being made redundant. Contributors who leave and who are not immediately entitled to these benefits may have their pension rights transferred or preserved until reaching retirement age.

The following table provides a summary of contributing members, pensioners in payment and deferred pensioners over the last five years.

	2011/12	2012/13	2013/14	2014/15	2015/16
Contributing Members	17,235	16,837	17,454	18,011	18,530
Pensioners in Payment	16,049	16,386	16,700	17,193	17,715
Pensioners Deferred	11,573	12,211	13,040	13,165	14,451

In comparison to the figures reported at 31 March 2015, the number of pensionable employees in the Fund at 31 March 2016 has increased by 519, the number of pensioners has increased by 522 and deferred pensioners have increased by 1,286.

Contributions represent the total amounts receivable from:

- employing authorities (of which there were 116 at 31 March 2016), 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

2014-15			2015-16	
Benefits	Contributions		Benefits	Contributions
£000	£000		£000	£000
80,645	-68,386	Administering Authority	83,286	-70,340
17,922	-26,704	Scheduled Bodies	20,567	-34,000
2,852	-3,758	Admitted Bodies	6,569	-7,695
<b>101,419</b>	<b>-98,848</b>		<b>110,422</b>	<b>-112,035</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 2015/16 (the Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), which is based upon International Financial Reporting Standards (IFRS) as amended for the UK public sector.

The accounts have been prepared on an accruals and going concern basis.

The financial statements summarise the transactions and the net assets of the Pension Fund available. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial valuations of the Fund,



which do take account of such obligations, are carried out every three years. The Actuary completed a valuation during 2013/14, the results of which determined the contribution rates effective from 1 April 2014 to 31 March 2017. Details of the latest valuation are included in Note 22.

### **3. Accounting Policies**

#### **Significant Accounting Policies**

The accounting policies set out below have been applied consistently to all periods presented in these accounts. The accounts have been prepared on the normal accruals basis of accounting (except individual transfer values to and from the scheme, which are accounted for on a cash basis).

#### ***Fund Account***

#### **Contributions receivable**

Contribution income is categorised and recognised as follows:

- Normal contributions, from both members and employers, are accounted for on an accruals basis;
- Employer's augmentation contributions are accounted for in the year in which they become due;
- Employer's deficit funding contributions are accounted for in the year in which they become due in accordance with the Rates and Adjustment Certificate set by the actuary or on receipt, if earlier than the due date.

#### **Transfers to and from other schemes**

Transfer values represent amounts paid to or received from other local and public authorities, private, occupational or personal pension schemes in respect of pension rights already accumulated by employees transferring from or to the participating authorities.

Individual transfer values paid and received are accounted for on a cash basis as the amount payable or receivable is not determined until payment is made and accepted by the recipient. Bulk (Group) transfers out and in are accounted for 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 charged to the Pension Fund as administrative expenses.

Fees of the external Investment Managers are agreed in the respective mandates governing their appointments. Where an Investment Manager's fee note has not been received by the balance sheet date, an estimate based upon the market value of their mandate as at the end of the financial year is used for inclusion in the Fund Account.

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

## **Investment income**

Investment income is accounted for as follows:

- income from equities is recognised in the fund account on the date stocks are quoted ex-dividend;
- income from fixed interest and index-linked securities, cash and short-term deposits is accounted for on an accruals basis;
- interest income is recognised in the fund account as it accrues;
- income from other investments is accounted for on an accruals basis;
- income from overseas investments is recorded net of any withholding tax where this cannot be recovered;
- foreign income has been translated into sterling at the date of the transactions, when received during the year, or at the exchange rates applicable on the last working day in March, where amounts were still outstanding at the year end;
- changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/ losses during the year.

## **Taxation**

The Fund is a registered public service scheme under Section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax would normally be accounted for as a fund expense as it arises, however when Investment Managers are not able to supply the necessary information, no taxation is separately disclosed in the Fund Account.

## **Net Assets Statement**

### **Valuation of Investments**

Investments are included in the accounts at their fair value as at the reporting date. Fair value is the price 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.

Market value is the bid price quoted in an active market for securities and unitised investments.

All prices in foreign currency are translated into sterling at the prevailing rate on the last working day of March.

An investment asset is recognised in the Net Assets Statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes to the fair value of the asset are recognised by the Fund.

The values of investments as shown in the Net Assets Statement have been determined as follows:

- Quoted equity securities which are traded on an exchange are accounted for on a bid market price basis, where Investment Managers provide valuations in this manner;
- Fixed interest securities that are traded on an exchange are accounted for at bid market price where Investment Managers provide valuations in this manner;
- Index linked securities are valued at bid market value where Investment Managers provide valuations in this manner;
- Unitised securities are valued at the closing bid price if bid and offer prices are reported by the relevant exchange and in the Investment Manager's valuation report. Single priced unitised securities are valued at the reported price;
- Unquoted equity investments are included based on an estimated price of the investments held. Investment Managers use valuation techniques to establish a price at the year end date based on an arm's length exchange given normal business considerations;
- Derivative contracts outstanding at the year end are included in the Net Assets Statement at fair value (as provided by Investment Managers) and gains and losses arising are recognised in the Fund Account as at 31 March. The value of foreign currency contracts is based on market forward exchange rates at the reporting date. The value of all other derivative contracts is determined using exchange prices at the reporting date.

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

### **Cash and Cash Equivalents**

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

### **Contingent Assets**

A contingent asset arises where an event has taken place that gives a possible asset which will only be confirmed by the occurrence of uncertain future events not wholly within the control of the Pension Fund. Contingent assets are not recognised in the Net Assets Statement however details are disclosed in Note 21.

### **Investment transactions**

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

### **Acquisition costs of investments**

Acquisition costs of investments are added to book cost at the time of purchase.

### **Financial liabilities**

The Fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the Net Assets Statement on the date the Fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

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

The actual present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards. As permitted under IAS 26 the Pension Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the accounts (Note 23).

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

The Fund provides an additional voluntary contribution (AVC) scheme for its members, the assets of which are invested separately from those of the Fund. In accordance with LGPS Regulations, AVCs are not recognised as income or assets in the Pension Fund Accounts, however a summary of the scheme and transactions are disclosed in Note 19 to these accounts.

If, however, AVCs are used to purchase extra years' service from the Pension Fund, this is recognised as contribution income in the Fund's accounts on an accruals basis. Amounts received in this way can be found in Note 7 as additional contributions from members.

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

The preparation of the statements in conformity with IFRS requires management to make judgements, estimates and assumptions which affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. In applying the policies, the Pension Fund has to make certain judgements about complex transactions, or those involving uncertainty. Those with most significant effect are:

- the fair value of unquoted private equities is highly subjective and based upon forward looking estimates and judgements involving many factors. Investment Managers provide the values to be recognised in the Net Assets Statement.
- the pension fund liability is calculated every three years by the appointed actuary. Assumptions underpinning the valuations are agreed with the actuary; the estimate is subject to significant variances based on changes to the underlying assumptions.

#### **5. Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty**

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

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

Item	Uncertainties	Effect if actual differs from assumptions
Actuarial Valuation	Estimation of the net liability to pay pensions depends on a number of complex judgements including the discount rate used, the salary increase projections, expected changes in retirement ages, mortality rates and returns on pension fund assets. A firm of actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied. Note 22 summarises the results of the actuarial valuation.	The Actuary calculated the funding ratio to be 84% as at 31 March 2013 (the last triennial valuation). If the following figures were to differ from the assumptions used in the calculation, there would be a reduction in the funding ratio to: <ul style="list-style-type: none"> <li>- 79% if life expectancy increases by 3 years</li> <li>- 70% if discount rate falls by 1%</li> <li>- 70% if inflation increases by 1%</li> <li>- 73% if equities fall by 25%</li> <li>- 80% if pensionable pay increases by 1%</li> </ul>
Fair Value of Investments	The Accounts are as at 31 March 2016 and all the investments held by the fund are valued as at that date using the best estimate possible of 'fair value', as detailed in 'Significant Accounting Policies - Valuation of Investments'.	The use of estimates for investment values is greatest for those assets classified at Level 3 which means there is a risk that these investments may be over/ under-stated in the accounts. The total value of Level 3 investments (explained in Note 15) is £154.1m at 31/3/16 (£105.2m at 31/3/15). Every 1% increase/ decrease in fair value would result in an increase/ decrease in the value of the Fund by £1.541m (£1.052m at 31/3/15).

## 6. Post Net Assets Statement (Balance Sheet) Event

There have been no events after 31 March 2016 which require any adjustments to be made to these accounts.

## 7. Contributions Receivable

2014-15 £000		2015-16 £000
	<b>Employer contributions:</b>	
-47,702	Normal	-49,770
-3,354	Augmentation	-6,400
-25,313	Deficit funding	-32,827
	<b>Member contributions:</b>	
-22,363	Normal	-22,929
-116	Additional contributions	-109
<b>-98,848</b>		<b>-112,035</b>
-68,386	Administering Authority	-70,340
-26,704	Scheduled Bodies	-34,000
-3,758	Admitted Bodies	-7,695
<b>-98,848</b>		<b>-112,035</b>

## 8. Transfers in From Other Pension Funds

2014-15		2015-16
£000		£000
-2,734	Individual Transfers	-3,680
<u>-2,734</u>		<u>-3,680</u>

## 9. Benefits Payable

2014-15		2015-16
£000		£000
87,994	Pensions	90,708
16,822	Commutations and lump sum retirement benefits	22,514
1,531	Lump sum death benefits	2,035
-4,928	Recharged benefits	-4,835
<u>101,419</u>		<u>110,422</u>
80,645	Administering Authority	83,286
17,922	Scheduled Bodies	20,567
2,852	Admitted Bodies	6,569
<u>101,419</u>		<u>110,422</u>

## 10. Payments To and On Account of Leavers

2014-15		2015-16
£000		£000
65	Refunds to members leaving service	153
16	Payments for members joining state scheme	61
4,479	Individual transfers to other schemes	5,059
4,008	Group transfers to other schemes	-
<u>8,568</u>		<u>5,273</u>

The Group Transfer figure in 2014/15 of £4.008m was a provision for the transfer value which was paid to South Tyneside Pension Fund during 2015/16. This relates to the group transfer of staff from the former Wear Valley District Council who are now employed by Gentoo and who transferred out of the DCC Pension Fund on 31 March 2008.

## 11. 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 pension fund 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; 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.

<b>2014-15</b>		<b>2015-16</b>
<b>£000</b>		<b>£000</b>
(restated)		
939	Administration expenses	854
5,234	Investment Management expenses	9,962
696	Oversight and Governance costs	674
<b>6,869</b>		<b>11,490</b>

Included within oversight and governance costs is the external audit fee payable to Mazars in 2015/16 of £0.026m (£0.026m in 2014/15).

## 12. Investment Income

<b>2014-15</b>		<b>2015-16</b>
<b>£000</b>		<b>£000</b>
-1,887	Interest from fixed interest securities	-1,720
-3,732	Income from index-linked securities	-3,369
-12,330	Dividends from equities	-6,860
-283	Interest on cash deposits	-102
-10,897	Income from pooled investment vehicles	-10,611
<b>-29,129</b>		<b>-22,662</b>

## 13. Taxation

The Pensions Statement of Recommended Practice (SORP) requires that any withholding tax that is irrecoverable should be disclosed in the Fund Account as a tax charge, however as Investment Managers have not been able to supply information for the full year, no amount of irrecoverable withholding tax has been disclosed.

- ### United Kingdom Income Tax

The Fund is an exempt approved Fund under Section 1(1) Schedule 36 of the Finance Act 2004, and is therefore not liable to UK income tax on interest, dividends and property income, or to capital gains tax.



- **Value Added Tax**

As Durham County Council is the administering authority for the Fund, VAT input tax is recoverable on most fund activities.

- **Foreign Withholding Tax**

Income earned from investments in stocks and securities in the United States, Australia and Belgium is exempt from tax. In all other countries dividends are taxed at source and, where the tax paid at source is greater than the rate of tax under the 'Double Taxation Agreement', the excess tax is reclaimable except in the case of Malaysia.

## 14. Investments

### Analysis by Investment Manager

The following Investment Managers were employed during 2015/16 to manage the Pension Fund's assets:

- Aberdeen Asset Management Limited (Aberdeen)
- AllianceBernstein Limited (AllianceBernstein)
- Bank of New York Mellon Investment Management EMEA Limited (BNYM)
- BlackRock Investment Management UK Limited (BlackRock)
- CB Richard Ellis Collective Investors Limited (CBRE)
- Mondrian Investment Partners Limited (Mondrian)
- Royal London Asset Management (RLAM)

The long-term strategic allocation as at 31 March was as follows:

31 March 2015	Investment Manager	Asset Class	31 March 2016
%			%
15	Aberdeen	Global equities	15
15	AllianceBernstein	Global Bonds	15
15	BNYM	Global equities	15
20	Blackrock	Dynamic Asset Allocation	20
8	CBRE	Global property	8
7	Mondrian	Emerging Market Equities	7
20	Royal London	Investment grade sterling bonds	20
<b>100</b>			<b>100</b>

The actual market values of investments held by each Investment Manager as at 31 March were as follows (the actual allocations vary slightly from the long-term strategic allocations due to market movements):

31 March 2015			31 March 2016		
£000	%	Investment Manager	£000	%	
343,880	14.95	Aberdeen	339,124	14.79	
330,169	14.34	AllianceBernstein	341,874	14.91	
355,519	15.45	BNYM	364,837	15.91	
15,251	0.66	Barings	198	0.01	
467,036	20.29	Blackrock	437,983	19.10	
150,641	6.54	CBRE	187,755	8.18	
157,684	6.85	Mondrian	152,726	6.66	
28	0.00	Other - NEL	28	0.00	
481,558	20.92	RLAM	468,712	20.44	
<b>2,301,766</b>	<b>100.00</b>		<b>2,293,237</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 2016 excludes loans of £0.349m, cash invested by the administering authority of £17.217m, other investment assets of £15.681m and other investment liabilities of £9.734m (£0.375m, £54.269m, £14.151m and £37.354m respectively as at 31 March 2015).

Of the total value of net investment assets reported in the Net Assets Statement as at 31 March 2016, £2.293m (98.99%) is invested through Investment Managers (£2.302m or 98.65% at 31 March 2015).

### Reconciliation of Movements in Investments 2015/16

Investment category	Value at 31 March 2015	Purchases at cost	Sales proceeds	Change in Asset Classification	Change in market value	Value at 31 March 2016
	£000	£000	£000	£000	£000	£000
Fixed interest securities	87,417	163,548	-187,356	22,142	-54,043	31,708
Equities	264,293	107,977	-109,440	-28,958	-22,006	211,866
Index linked securities	477,348	1,845,108	-1,862,768	-	8,608	468,296
Pooled investment vehicles	1,362,350	241,681	-166,237	6,816	62,179	1,506,789
	2,191,408	2,358,314	-2,325,801	-	-5,262	2,218,659
Derivative contracts:						
Futures, margins & options	3,102	31,977	-14,810		-3,848	16,421
Forward foreign currency	-3,877				-337	-4,214
	<b>2,190,633</b>	<b>2,390,291</b>	<b>-2,340,611</b>	<b>-</b>	<b>-9,447</b>	<b>2,230,866</b>
Other investment balances:						
Loans	375					349
Other cash deposits	165,402				-15,508	79,589
Dividend accruals	1,815					1,925
Tax recovery	276					368
Other investment balances	-25,294					3,654
<b>Net Investment Assets</b>	<b>2,333,207</b>			<b>-</b>	<b>-24,955</b>	<b>2,316,751</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 2014/15

Investment category	Value at 31 March 2014	Purchases at cost	Sales proceeds	Change in Asset Classification	Change in market value	Value at 31 March 2015
	£000	£000	£000	£000	£000	£000
Fixed interest securities	62,934	339,632	-348,653		33,504	87,417
Equities	500,898	2,437,883	-2,709,504		35,016	264,293
Index linked securities	384,175	1,727,246	-1,704,313		70,240	477,348
Pooled investment vehicles	1,128,807	2,261,603	-2,079,377		51,317	1,362,350
	2,076,814	6,766,364	-6,841,847	-	190,077	2,191,408
Derivative contracts:						
Futures, margins & options	4,716	9,040	-5,589		-5,065	3,102
Forward foreign currency	1,553				-5,430	-3,877
	<b>2,083,083</b>	<b>6,775,404</b>	<b>-6,847,436</b>	<b>-</b>	<b>179,582</b>	<b>2,190,633</b>
Other investment balances:						
Loans	390					375
Other cash deposits	76,091				10,678	165,402
Dividend accruals	4,813					1,815
Tax recovery	378					276
Other investment balances	-9,456					-25,294
<b>Net Investment Assets</b>	<b>2,155,299</b>			<b>-</b>	<b>190,260</b>	<b>2,333,207</b>

**Analysis of Investments**

2014-15			2015-16	
£000	£000		£000	£000
<b>ASSETS INVESTED THROUGH FUND MANAGERS</b>				
<b>Fixed interest securities</b>				
16,907		UK - Public sector - quoted	-	
70,510		Overseas - Public sector - quoted	31,708	
	87,417			31,708
<b>Equities</b>				
35,502		UK quoted	41,520	
28		UK unquoted	28	
228,763		Overseas quoted	170,318	
	264,293			211,866
<b>Index linked securities</b>				
459,206		UK quoted - Public sector	466,549	
-		UK quoted - Corporate	-	
18,142		Overseas quoted -Public sector	1,747	
-		Overseas quoted -Corporate		
	477,348			468,296
<b>Pooled Investment Vehicles</b>				
68,683		Managed funds - non property - UK quoted	2,661	
828,248		Managed funds - non property - overseas quoted	976,525	
330,169		Managed funds - non property - overseas unquoted	341,874	
3,059		Unit Trusts - property - UK quoted	1,815	
24,631		Unit Trusts - property - UK unquoted	32,729	
27,038		Unit Trusts - property - Overseas quoted	29,804	
80,522		Unit Trusts - property - Overseas unquoted	121,381	
	1,362,350			1,506,789
<b>Derivative Contracts</b>				
12,111		Assets	57,351	
-12,886		Liabilities	-45,144	
	-775			12,207
111,133	111,133	<b>Fund Managers' cash</b>	62,372	62,372
<b>2,301,766</b>		<b>NET ASSETS INVESTED THROUGH FUND MANAGERS</b>		<b>2,293,238</b>
<b>OTHER INVESTMENT BALANCES</b>				
54,269		Short term investments (via DCC Treasury Management)		17,217
375		Loans		349
14,151		Other investment assets		15,681
-37,354		Other investment liabilities		-9,734
<b>2,333,207</b>		<b>NET INVESTMENT ASSETS</b>		<b>2,316,751</b>

**Analysis of Derivatives****Objectives and policies for holding derivatives**

Derivatives are financial instruments that derive their value from the price or rate of some underlying item. Underlying items include equities, bonds, commodities, interest rates, exchange rates and stock market indices.

The Fund uses derivatives to manage its exposure to specific risks arising from its investment activities. Derivatives may be used to gain exposure to an asset more efficiently than holding the underlying asset or hedge against the risk of adverse currency movement on the Fund's investments. The use of derivatives is managed in line with the investment management agreement agreed between the Pension Fund and its Investment Managers.

A summary of the derivative contracts held by the Pension Fund is provided in the following table:

2014-15		Derivative Contracts	2015-16	
£000	£000		£000	£000
		<b>Forward foreign currency</b>		
1,192		Assets	8,399	
<u>-5,069</u>		Liabilities	<u>-12,613</u>	
	-3,877	<b>Net Forward foreign currency</b>		-4,214
		<b>Futures</b>		
4,391		Assets	45,703	
<u>-4,281</u>		Liabilities	<u>-28,747</u>	
	110	<b>Net Futures</b>		16,956
		<b>Options</b>		
6,528		Assets	3,249	
<u>-3,536</u>		Liabilities	<u>-3,784</u>	
	2,992	<b>Net Options</b>		-535
	<u><u>-775</u></u>	<b>Net market value of derivative contracts</b>		<u><u>12,207</u></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 2016 and 31 March 2015.

Notes to Durham County Council Pension Fund Accounts

Settlement	Currency bought	Local Value	Currency sold	Local Value	Asset Value £000	Liability Value £000
0 to 1 mth	USD	6,570,000	BRL	-27,597,285		-842
0 to 1 mth	USD	1,625,000	BRL	-6,082,375		-62
0 to 1 mth	USD	1,625,000	BRL	-6,113,250		-68
0 to 1 mth	USD	1,565,000	BRL	-5,874,228		-63
0 to 1 mth	USD	1,435,000	BRL	-5,419,995		-65
0 to 1 mth	USD	3,410,000	BRL	-12,484,010		-76
0 to 1 mth	USD	800,000	BRL	-2,935,920		-19
0 to 1 mth	USD	800,000	BRL	-2,938,000		-20
0 to 1 mth	USD	1,190,000	BRL	-4,366,705		-29
0 to 1 mth	GBP	11,514,280	CAD	-23,200,000		-965
0 to 1 mth	CAD	19,007,137	USD	-13,480,000	845	
0 to 1 mth	GBP	2,208,084	CHF	-3,200,000		-117
0 to 1 mth	USD	12,960,000	CHF	-13,082,291		-489
0 to 1 mth	USD	6,400,000	CNH	-42,732,800		-151
1 to 3 mths	USD	3,690,000	CNH	-24,261,750		-37
1 to 3 mths	USD	2,460,000	CNH	-16,188,030		-26
1 to 3 mths	USD	2,460,000	CNH	-16,195,410		-27
1 to 3 mths	USD	1,230,000	CNH	-8,086,020		-12
1 to 3 mths	USD	2,460,000	CNH	-16,164,660		-24
1 to 3 mths	USD	6,200,000	CNH	-40,771,200		-63
0 to 1 mth	CZK	2,738,908	EUR	-101,354		0
0 to 1 mth	CZK	3,652,185	EUR	-135,139		0
0 to 1 mth	CZK	19,322,232	EUR	-715,000		-1
0 to 1 mth	CZK	19,454,429	EUR	-720,000		-1
0 to 1 mth	CZK	23,781,208	EUR	-880,000		-1
0 to 1 mth	CZK	34,317,940	EUR	-1,270,000		-1
0 to 1 mth	CZK	37,155,250	EUR	-1,375,000		-1
0 to 1 mth	CZK	14,956,854	EUR	-553,507		0
0 to 1 mth	GBP	35,896,878	EUR	-47,110,000		-1,457
0 to 1 mth	EUR	1,263,686	GBP	-983,375	19	
0 to 1 mth	EUR	718,330	GBP	-558,678	11	
0 to 1 mth	EUR	3,447,984	GBP	-2,678,287	56	
0 to 1 mth	PLN	1,283,346	EUR	-284,341	14	
0 to 1 mth	PLN	10,243,901	EUR	-2,271,318	114	
0 to 1 mth	PLN	1,283,203	EUR	-284,341	14	
0 to 1 mth	EUR	444,157	PLN	-1,995,053		-21
0 to 1 mth	EUR	465,803	PLN	-2,087,475		-21
0 to 1 mth	EUR	310,535	PLN	-1,392,207		-14
0 to 1 mth	EUR	660,000	PLN	-2,952,774		-29
0 to 1 mth	EUR	959,505	PLN	-4,295,190		-42
0 to 1 mth	EUR	405,368	PLN	-1,790,838		-13
0 to 1 mth	EUR	1,621,472	PLN	-7,165,448		-54
0 to 1 mth	EUR	1,690,349	PLN	-7,467,660		-56
0 to 1 mth	EUR	1,782,810	PLN	-7,874,719		-58
0 to 1 mth	USD	7,780,766	EUR	-7,118,116		-231
0 to 1 mth	USD	4,462,079	EUR	-4,081,884		-132
0 to 1 mth	EUR	12,680,000	USD	-13,866,975	406	
0 to 1 mth	EUR	11,539,165	USD	-12,610,000	376	
0 to 1 mth	USD	1,773,157	EUR	-1,614,764		-47
0 to 1 mth	USD	3,545,863	EUR	-3,229,527		-94
0 to 1 mth	USD	829,829	EUR	-755,709		-22
0 to 1 mth	JPY	7,232,000,000	GBP	-42,614,750	2,158	
0 to 1 mth	GBP	123,931,734	USD	-177,890,000	166	
0 to 1 mth	USD	10,500,000	GBP	-7,229,025	76	
0 to 1 mth	GBP	4,192,931	USD	-6,000,000	18	
0 to 1 mth	USD	5,227,126	GBP	-3,654,996		-18
0 to 1 mth	USD	7,019,027	GBP	-4,905,004		-22
0 to 1 mth	GBP	900,000	ZAR	-21,420,270		-113
0 to 1 mth	GBP	4,300,000	ZAR	-102,276,317		-535
0 to 1 mth	ZAR	39,954,031	GBP	-1,785,157	104	

Settlement	Currency bought	Local Value	Currency sold	Local Value	Asset Value £000	Liability Value £000
0 to 1 mth	ZAR	39,353,824	GBP	-1,759,095	101	
0 to 1 mth	ZAR	20,855,035	GBP	-931,404	55	
0 to 1 mth	ZAR	16,097,274	GBP	-724,344	37	
0 to 1 mth	INR	207,552,500	USD	-3,050,000	58	
0 to 1 mth	INR	83,057,600	USD	-1,220,000	24	
0 to 1 mth	INR	83,057,600	USD	-1,220,000	24	
0 to 1 mth	INR	16,053,953	USD	-235,983	4	
0 to 1 mth	INR	21,364,431	USD	-314,017	6	
0 to 1 mth	INR	128,707,431	USD	-1,890,000	37	
0 to 1 mth	INR	41,482,440	USD	-610,000	11	
0 to 1 mth	INR	124,513,200	USD	-1,830,000	35	
0 to 1 mth	INR	41,443,400	USD	-610,000	11	
0 to 1 mth	INR	20,730,850	USD	-305,000	6	
0 to 1 mth	INR	62,172,420	USD	-915,000	17	
0 to 1 mth	USD	55,640,000	JPY	-6,596,711,784		-2,128
0 to 1 mth	USD	6,843,881	JPY	-769,362,681		-1
0 to 1 mth	USD	4,856,119	JPY	-546,064,119		-2
0 to 1 mth	USD	4,090,000	JPY	-462,979,820		-21
0 to 1 mth	USD	8,310,000	JPY	-940,440,190		-41
0 to 1 mth	USD	6,200,000	JPY	-703,700,000		-43
0 to 1 mth	USD	10,035,779	KRW	-12,036,411,784		-357
0 to 1 mth	USD	3,330,000	KRW	-3,981,847,500		-111
0 to 1 mth	USD	1,150,000	KRW	-1,375,630,000		-39
0 to 1 mth	USD	1,150,000	KRW	-1,378,562,500		-41
0 to 1 mth	USD	770,000	KRW	-926,002,000		-29
0 to 1 mth	KRW	5,182,160,000	USD	-4,220,000	224	
0 to 1 mth	KRW	5,173,604,234	USD	-4,215,779	222	
0 to 1 mth	USD	7,800,000	KRW	-9,406,800,000		-309
0 to 1 mth	MXN	122,315,661	USD	-6,570,000	393	
0 to 1 mth	MXN	29,237,608	USD	-1,550,000	108	
0 to 1 mth	MXN	17,550,681	USD	-930,000	65	
0 to 1 mth	MXN	12,820,205	USD	-676,640	50	
0 to 1 mth	MXN	6,401,019	USD	-338,320	24	
0 to 1 mth	MXN	6,412,860	USD	-338,320	25	
0 to 1 mth	MXN	6,024,034	USD	-320,000	22	
0 to 1 mth	MXN	38,566,328	USD	-2,046,719	141	
0 to 1 mth	USD	1,550,000	MXN	-27,764,375		-48
0 to 1 mth	USD	1,550,000	MXN	-27,786,385		-49
0 to 1 mth	USD	166,177	MXN	-2,985,357		-6
0 to 1 mth	USD	2,185,585	MXN	-39,203,448		-70
0 to 1 mth	USD	336,244	MXN	-6,023,506		-10
0 to 1 mth	USD	411,994	MXN	-7,373,570		-13
0 to 1 mth	USD	1,550,000	MYR	-6,491,400		-83
0 to 1 mth	USD	930,000	MYR	-3,908,790		-52
0 to 1 mth	USD	1,240,000	MYR	-5,246,440		-76
0 to 1 mth	USD	310,000	MYR	-1,311,610		-19
0 to 1 mth	USD	310,000	MYR	-1,308,200		-18
0 to 1 mth	USD	1,860,000	MYR	-7,863,150		-113
0 to 1 mth	MYR	10,423,440	USD	-2,480,000	139	
0 to 1 mth	MYR	9,109,660	USD	-2,170,000	120	
0 to 1 mth	MYR	6,513,875	USD	-1,550,000	87	
0 to 1 mth	PHP	627,393,600	USD	-12,960,000	484	
0 to 1 mth	USD	3,293,288	PHP	-153,697,751		-36
0 to 1 mth	USD	3,186,712	PHP	-149,201,856		-42
0 to 1 mth	USD	3,240,000	PHP	-151,729,200		-43
0 to 1 mth	USD	3,240,000	PHP	-151,777,800		-44
0 to 1 mth	USD	2,800,000	SGD	-4,005,120		-121
0 to 1 mth	USD	6,900,000	SGD	-9,879,627		-304
0 to 1 mth	USD	1,500,000	TRY	-4,612,346		-94
0 to 1 mth	USD	1,500,000	TRY	-4,607,025		-93
0 to 1 mth	USD	6,600,000	TRY	-20,239,560		-400
0 to 1 mth	USD	6,200,000	TRY	-17,919,308		-106

Notes to Durham County Council Pension Fund Accounts

Settlement	Currency bought	Local Value	Currency sold	Local Value	Asset Value £000	Liability Value £000
0 to 1 mth	USD	1,680,000	TWD	-56,280,000		-48
0 to 1 mth	USD	13,520,000	TWD	-454,069,200		-413
0 to 1 mth	USD	3,390,000	TWD	-112,209,000		-68
0 to 1 mth	USD	1,345,000	TWD	-44,707,800		-31
0 to 1 mth	USD	1,665,000	TWD	-55,394,550		-39
0 to 1 mth	TWD	179,722,800	USD	-5,400,000	130	
0 to 1 mth	TWD	179,604,000	USD	-5,400,000	127	
0 to 1 mth	USD	3,410,000	TWD	-111,728,650		-44
0 to 1 mth	USD	1,650,000	TWD	-54,095,250		-22
0 to 1 mth	USD	2,090,000	TWD	-68,572,900		-29
0 to 1 mth	USD	3,850,000	TWD	-126,434,000		-55
0 to 1 mth	TWD	350,217,000	USD	-10,900,000		-10
0 to 1 mth	TWD	351,198,000	USD	-10,900,000	11	
1 to 3 mths	USD	10,900,000	TWD	-349,879,100		0
1 to 3 mths	USD	10,900,000	TWD	-351,034,500		-25
1 to 3 mths	AUD	10,869,651	GBP	5,717,559		-75
1 to 3 mths	EUR	40,824,558	GBP	32,071,773		-373
1 to 3 mths	USD	91,045,309	GBP	64,420,370	1,095	
1 to 3 mths	JPY	1,325,912,724	GBP	8,281,778	55	
1 to 3 mths	MYR	18,690,782	GBP	3,179,245		-177
1 to 3 mths	AUD	4,408,489	GBP	2,318,915		-30
1 to 3 mths	USD	572,793	GBP	405,288	7	
1 to 3 mths	JPY	604,551,839	GBP	3,776,089	25	
1 to 3 mths	CNY	11,948,588	GBP	1,287,772	7	
1 to 3 mths	EUR	6,423,145	GBP	5,046,023		-59
1 to 3 mths	GBP	2,924,865	AUD	-5,478,896	4	
1 to 3 mths	GBP	3,169,203	SEK	-36,991,710		-14
1 to 3 mths	SEK	36,190,874	GBP	-3,084,980	29	
1 to 3 mths	AUD	2,194,000	GBP	-1,167,386	2	
					<b>8,399</b>	<b>-12,613</b>
<b>Net forward foreign currency contracts at 31 March 2016</b>						<b>-4,214</b>



Settlement	Currency bought	Local Value	Currency sold	Local Value	Asset Value £000	Liability Value £000
0 to 1 mth	EUR	5,100,000.00	GBP	-3,732,129.00		-42
3 to 6 mths	NZD	17,200,000.00	AUD	-16,585,187.11	132	
1 to 3 mths	USD	2,557,275.54	BRL	-8,260,000.00	12	
3 to 6 mths	GBP	11,256,844.00	EUR	-15,500,000.00	29	
3 to 6 mths	GBP	11,259,448.00	EUR	-15,500,000.00	32	
1 to 3 mths	GBP	3,736,795.50	EUR	-5,100,000.00	42	
3 to 6 mths	GBP	4,162,669.31	JPY	-768,000,000.00		-157
1 to 3 mths	JPY	5,000,000,000.00	GBP	-28,061,902.99	59	
3 to 6 mths	GBP	56,446,618.88	USD	-87,050,000.00		-2,218
3 to 6 mths	GBP	56,436,847.78	USD	-87,050,000.00		-2,227
3 to 6 mths	USD	12,752,563.41	HUF	-3,460,000,000.00	252	
3 to 6 mths	USD	75,800,000.00	JPY	-9,066,134,800.00	94	
3 to 6 mths	EUR	27,078,254	GBP	19,927,681	302	
3 to 6 mths	USD	67,078,960	GBP	44,830,327		-383
3 to 6 mths	JPY	1,178,741,889	GBP	6,647,664	14	
3 to 6 mths	AUD	9,765,023	GBP	5,120,916	117	
3 to 6 mths	MYR	18,020,057	GBP	3,256,833	4	
3 to 6 mths	AUD	1,438,103	GBP	754,161	17	
3 to 6 mths	JPY	429,261,483	GBP	2,420,874	5	
3 to 6 mths	USD	582,557	GBP	389,336		-3
3 to 6 mths	CNY	3,252,057	GBP	350,607		-4
1 to 3 mths	GBP	7,756,376.19	USD	-11,529,000.00		-14
1 to 3 mths	GBP	1,290,150.73	CAD	-2,412,000.00	8	
1 to 3 mths	GBP	1,989,069.18	USD	-2,965,000.00		-9
1 to 3 mths	GBP	2,425,139.39	USD	-3,615,026.76		-12
1 to 3 mths	GBP	4,339,425.44	EUR	-5,887,000.00	73	
					<b>1,192</b>	<b>-5,069</b>
<b>Net forward foreign currency contracts at 31 March 2015</b>						<b>-3,877</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:

	Expires	Product Description	Currency	Market Value at 31 March 16	
				£000	£000
<b>Assets</b>					
Overseas fixed interest	1 to 3 mths	AUST 10YR BOND JUN 16 15/6/2016	AUD	20,325	
Overseas equity	1 to 3 mths	S&P500 EMINI JUN 16	USD	9,492	
Overseas equity	1 to 3 mths	E-MINI CONSUMER STAPLES JUN 16	USD	9,164	
Overseas fixed interest	1 to 3 mths	US ULTRA T-BOND JUN 16 21/6/2016	USD	6,722	
<b>Total assets</b>					45,703
<b>Liabilities</b>					
Overseas equity	1 to 3 mths	E-MINI UTILITIES SELECT SECTOR JUN	USD	-9,208	
Overseas equity	1 to 3 mths	STOXX 600 INDUS JUN 16	EUR	-19,539	
<b>Total liabilities</b>					-28,747
<b>Net Futures Contracts at 31 March 2016</b>					<u>16,956</u>

	Expires	Product Description	Currency	Market Value at 31 March 15	
				£000	£000
<b>Assets</b>					
Overseas equity	1 to 3 mths	FTSE CHINA A50 APR 15	USD	4,391	
<b>Total assets</b>					4,391
<b>Liabilities</b>					
Overseas equity	3 to 6 mths	STOXX 600 BAS JUN 15	EUR	-4,281	
<b>Total liabilities</b>					-4,281
<b>Net Futures Contracts at 31 March 2015</b>					<u>110</u>

**iii. Options**

In order to benefit from potentially greater returns available from investing in equities whilst minimising the risk of loss of value through adverse equity price movements, the Fund, 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.

Type	Expires	Product Description	Currency	Market Value at 31 March 16 £000
<b>Assets</b>				
Overseas equity	1 to 3 mths	EURO STOXX 50 INDEX 01-JAN-2050 17/6/2016 C @ 2925.000	EUR	930
Overseas equity	1 to 3 mths	EURO STOXX 50 INDEX 01-JAN-2050 17/6/2016 P @ 2925.000	EUR	518
Overseas equity	1 to 5 years	S&P 500 INDEX 15/12/2017 P @ 2000.000	USD	491
Overseas equity	1 to 3 mths	S&P 500 INDEX 17/6/2016 C @ 2075.000	USD	450
Overseas equity	1 to 3 mths	MSCI EMERGING MARKETS INDEX 23/5/2016 C @ 875.000	USD	351
UK equity	1 to 3 mths	FTSE 100 INDEX 20/5/2016 P @ 6000.000	GBP	204
Overseas equity	1 to 3 mths	SPX VOLATILITY INDEX UX 01-JAN-2050 18/5/2016 C @ 23.000	USD	183
Overseas equity	1 to 5 years	EURO STOXX 50 INDEX 01-JAN-2050 15/12/2017 C @ 4000.000	EUR	90
Overseas fixed interest	0 to 1 mth	APR16 EDM7 P @ 98.75	USD	13
Overseas fixed interest	1 to 3 mths	USD C SGD P @1.420000 EO	USD	9
Overseas fixed interest	3 to 6 months	EUR P CZK C @25.75000 EO	EUR	8
Overseas fixed interest	3 to 6 months	EUR P CZK C @25.75000 EO	EUR	2
<b>Total assets</b>				<b>3,249</b>
<b>Liabilities</b>				
Overseas fixed interest	1 to 3 mths	USD C SGD P @1.450000 EO	USD	-1
Overseas equity	0 to 1 mth	EURO STOXX 50 INDEX 01-JAN-2050 15/4/2016 C @ 3100.000	EUR	-35
UK equity	1 to 3 mths	FTSE 100 INDEX 20/5/2016 P @ 5750.000	GBP	-60
Overseas equity	1 to 3 mths	MSCI EMERGING MARKETS INDEX 23/5/2016 C @ 925.000	USD	-111
Overseas equity	1 to 3 mths	EURO STOXX UTILITIES (PRICE) INDEX 17/6/2016 P @ 235.000	EUR	-143
Overseas equity	1 to 3 mths	EURO STOXX 50 INDEX 01-JAN-2050 17/6/2016 C @ 3200.000	EUR	-153
Overseas equity	1 to 3 mths	SPX VOLATILITY INDEX UX 01-JAN-2050 18/5/2016 C @ 30.000	USD	-155
Overseas equity	1 to 3 mths	EURO STOXX 50 INDEX 01-JAN-2050 17/6/2016 P @ 2975.000	EUR	-207
Overseas equity	1 to 3 mths	EURO STOXX 50 INDEX 01-JAN-2050 17/6/2016 P @ 2800.000	EUR	-325
Overseas equity	1 to 5 years	S&P 500 INDEX 15/12/2017 P @ 1875.000	USD	-372
Overseas equity	1 to 3 mths	S&P 500 INDEX 17/6/2016 C @ 1875.000	USD	-2222
<b>Total liabilities</b>				<b>-3,784</b>
<b>Net Options at 31 March 2016</b>				<b>-535</b>

Type	Expires	Product Description	Currency	Market Value at 31 March 15 £000
<b>Assets</b>				
Overseas equity	less than 1 yr	SPX VOLATILITY INDEX APR P @ 14.5	USD	98
Overseas equity	less than 1 yr	S&P 500 JUN P @ 2000	USD	161
Overseas equity	3 to 6 mths	EURO STOXX 50 JUN P @ 3550	EUR	235
Overseas equity	less than 1 yr	EURO STOXX UTILITIES	EUR	272
Overseas equity	less than 1 yr	S&P 500 DEC P @ 2075	USD	330
UK equity	less than 1 yr	FTSE 100 INDEX MAY P @ 6800	GBP	532
Overseas equity	less than 1 yr	S&P 500 DEC P @ 2050	USD	615
Overseas equity	1 to 5 yrs	S&P 500 DEC P @ 2000	USD	634
Overseas equity	less than 1 yr	S&P 500 DEC P @ 2000	USD	789
Overseas equity	less than 1 yr	NIKKEI 225 JUN P @ 18500	JPY	821
Overseas equity	less than 1 yr	SPX VOLATILITY INDEX JUN C @ 20	USD	854
Overseas equity	less than 1 yr	EURO STOXX 50 DEC C @ 4000	EUR	1,187
<b>Total assets</b>				<b>6,528</b>
<b>Liabilities</b>				
Overseas equity	less than 1 yr	NIKKEI 225 JUN P @ 19500	JPY	-831
Overseas equity	1 to 5 yrs	S&P 500 DEC P @ 1875	USD	-510
Overseas equity	less than 1 yr	S&P 500 DEC P @ 1950	USD	-438
Overseas equity	less than 1 yr	S&P 500 DEC P @ 1875	USD	-343
Overseas equity	less than 1 yr	EURO STOXX UTILITIES	EUR	-319
Overseas equity	less than 1 yr	S&P 500 DEC P @ 1975	USD	-236
Overseas equity	3 to 6 mths	EURO STOXX 50 JUN P @ 3350	EUR	-233
Overseas equity	less than 1 yr	S&P 500 DEC P @ 1900	USD	-187
Overseas equity	less than 1 yr	S&P 500 JUN P @ 1900	USD	-166
UK equity	less than 1 yr	FTSE 100 INDEX MAY P @ 6400	GBP	-155
UK equity	less than 1 yr	FTSE 100 INDEX MAY C @ 7000	GBP	-118
<b>Total liabilities</b>				<b>-3,536</b>
<b>Net Options at 31 March 2015</b>				<b>2,992</b>

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

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:

Name of Fund	Investment Manager	At 31 March 2016		At 31 March 2015	
		£m	%	£m	%
BNYM Long Term Global Equity	BNY Mellon	364.8	15.91	355.5	15.23
AAM L and P World Equity	Aberdeen	339.1	14.79	343.9	14.73
Diversified Yield Plus	AllianceBernstein	341.9	14.91	330.2	14.14

Single investments with a market value exceeding 5% of their type of asset are listed as follows:

**At 31 March 2016**

Holding	Investment Manager	£000	%
<b>Fixed Interest Securities</b>			
TREASURY (CPI) NOTE 0.375 15/7/2025	BlackRock	19,969	62.98
TREASURY (CPI) NOTE 0.625 15/1/2026	BlackRock	6,376	20.11
PORTUGAL (REPUBLIC OF) 3.875 15/2/2030	BlackRock	2,420	7.63
PORTUGAL (REPUBLIC OF) 2.875 21/7/2026	BlackRock	1,606	5.06
<b>Equities</b>			
ISHARES GOLD TRUST	BlackRock	17,363	8.20
<b>Index Linked Securities</b>			
UK Treasury 0.625% IL 22/11/2042	Royal London	37,989	8.11
UK Treasury 1.25% IL 22/11/2032	Royal London	35,829	7.65
UK Treasury 0.5% IL Gilt 22/03/2050	Royal London	35,727	7.63
UK Treasury 2.5% IL 17/07/24	Royal London	32,874	7.02
UK Treasury 0.625% IL 22/03/2040	Royal London	30,223	6.45
UK Treasury 0.25% IL 22/03/2052	Royal London	25,532	5.45
UK Treasury 0.375% IL 22/03/2062	Royal London	24,807	5.30
UK Treasury 1.25% IL Gilt 22/11/2055	Royal London	24,665	5.27
UK Treasury 0.125% IL 22/03/2068	Royal London	24,051	5.14
UK Treasury 1.25% IL Gilt 22/11/2027	Royal London	23,971	5.12
<b>Pooled Investment Vehicles</b>			
BNYM Long Term Global Equity	BNYM	364,837	24.21
Diversified Yield Plus	AllianceBernstein	341,874	22.69
AAM L and P World Equity	Aberdeen	339,124	22.51
BGF GLOBAL CORP BND X4RF GBP HDG	BlackRock	108,805	7.22
ICS INS GBP LIQ AGENCY DIS	BlackRock	77,739	5.16

**At 31 March 2015**

<b>Holding</b>	<b>Investment Manager</b>	<b>£000</b>	<b>%</b>
<b>Fixed Interest Securities</b>			
UK Treasury Stock 2% 26/01/35	Royal London	18,578	21.25
Italy 4.5% 01/03/2024	BlackRock	12,451	14.24
Brazil 6% 15/08/22	BlackRock	9,515	10.88
Treasury Bd 15/11/44	BlackRock	7,390	8.45
Spain 5.150%	BlackRock	4,620	5.29
<b>Equities</b>			
<b>Index Linked Securities</b>			
UK Treasury 1.875% IL 2022	Royal London	52,680	11.04
UK Treasury 0.75% IL 22/03/2034	Royal London	46,731	9.79
UK Treasury 0.50% IL 22/03/2050	Royal London	39,000	8.17
UK Treasury 2.5% I.L. 17/07/24	Royal London	35,161	7.37
UK Treasury 0.125% I.L. 22/03/44	Royal London	28,668	6.01
UK Treasury 0.375% I.L. 22/03/62	Royal London	26,413	5.53
UK Treasury 0.25% I.L. 22/03/52	Royal London	25,175	5.27
<b>Pooled Investment Vehicles</b>			
BNYM Long Term Global Equity	BNY Mellon	355,519	26.10
AAM L and P World Equity	Aberdeen	343,880	25.24
Diversified Yield Plus	AllianceBernstein	330,169	24.24
BGF Global Corp	BlackRock	89,911	6.60

## 15. Financial Instruments

### Classification of Financial Instruments

Accounting policies describe how different asset classes of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities by category and Net Assets Statement heading:

2014-15			2015-16		
Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost	Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost
£000	£000	£000	£000	£000	£000
<b>Financial assets</b>					
87,417			31,708		
264,293			211,866		
477,348			468,296		
1,362,350			1,506,789		
12,111			57,351		
	375			349	
	111,133			62,372	
	54,269			17,217	
14,151			15,681		
	11,181			10,581	
2,217,670	176,958	-	2,291,691	90,519	-
<b>Financial liabilities</b>					
-12,886			-45,144		
-37,354		-9,413	-9,734		-6,115
-50,240	-	-9,413	-54,878	-	-6,115
<b>2,167,430</b>	<b>176,958</b>	<b>-9,413</b>	<b>2,236,813</b>	<b>90,519</b>	<b>-6,115</b>
	<b>2,334,975</b>				<b>2,321,217</b>
		<b>Net Assets at 31 March</b>			

### Net Gains and Losses on Financial Instruments

31 March 2015		31 March 2016
£000		£000
<b>Financial Assets</b>		
179,582	Fair Value through profit and loss	-9,447
10,678	Loans and receivables	-15,508
<b>Financial Liabilities</b>		
-	Fair Value through profit and loss	-
-	Loans and receivables	-
-	Financial liabilities measured at amortised cost	-
<b>190,260</b>	<b>Total</b>	<b>-24,955</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 and unit trusts. Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

### **LEVEL 2**

Financial instruments at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

### **LEVEL 3**

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include unquoted equity investments and hedge fund of funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions. The values of the investment in private equity are based upon valuations provided by the general partners to the private equity in which the Fund has invested. These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS and US GAAP. Valuations are usually undertaken annually.

The following tables provide analyses of the financial assets and liabilities of the Fund as at 31 March 2016 and 31 March 2015, grouped into Levels 1, 2 and 3, based on the level at which the fair value is observable.



	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2016	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
<b>Financial Assets</b>				
Financial Assets at fair value through profit and loss	1,738,328	399,253	154,110	2,291,691
Loans and receivables	90,519	-	-	90,519
<b>Total Financial Assets</b>	<b>1,828,847</b>	<b>399,253</b>	<b>154,110</b>	<b>2,382,210</b>
<b>Financial Liabilities</b>				
Financial Liabilities at fair value through profit and loss	-9,734	-45,144	-	-54,878
Financial Liabilities at amortised cost	-6,115	-	-	-6,115
<b>Total Financial Liabilities</b>	<b>-15,849</b>	<b>-45,144</b>	<b>-</b>	<b>-60,993</b>
<b>Net Financial Assets</b>	<b>1,812,998</b>	<b>354,109</b>	<b>154,110</b>	<b>2,321,217</b>

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2015	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
<b>Financial Assets</b>				
Financial Assets at fair value through profit and loss	1,770,208	342,309	105,153	2,217,670
Loans and receivables	176,958	-	-	176,958
<b>Total Financial Assets</b>	<b>1,947,166</b>	<b>342,309</b>	<b>105,153</b>	<b>2,394,628</b>
<b>Financial Liabilities</b>				
Financial Liabilities at fair value through profit and loss	-37,354	-12,886	-	-50,240
Financial Liabilities at amortised cost	-9,413	-	-	-9,413
<b>Total Financial Liabilities</b>	<b>-46,767</b>	<b>-12,886</b>	<b>-</b>	<b>-59,653</b>
<b>Net Financial Assets</b>	<b>1,900,399</b>	<b>329,423</b>	<b>105,153</b>	<b>2,334,975</b>

## 16. Nature and Extent of Risk Arising From Financial Instruments

### Risk and Risk Management

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

- i. **MARKET RISK** - the possibility that financial loss may arise for the Fund as a result of changes in, for example, interest rates movements;
- ii. **CREDIT RISK** - the possibility that other parties may fail to pay amounts due to the Fund;

**iii. LIQUIDITY RISK** - the possibility that the Fund might not have funds available to meet its commitments to make payments.

The Fund's primary long-term risk is that its assets will fall short of its liabilities (i.e. promised benefits payable to members). The aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and maximise the opportunity for gains across the whole fund portfolio. This is achieved through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The administering body manages these investment risks as part of its overall Pension Fund risk management programme.

The Fund's assets are managed by a number of Investment Managers, as disclosed in Note 14. By dividing the management of the assets between 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.

The Fund also employs a specialised service as an independent check to ensure that all dividends receivable are compared against those collected by the Custodian and that they were received on the due date; any discrepancies are investigated. In line with its Treasury Management Policy, Durham County Council as administering authority, invests the short term cash balances on behalf of the Pension Fund. Interest is paid over to the Fund on a quarterly basis.

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

**i. MARKET RISK**

Market risk is the risk of loss from fluctuations in market prices, interest and foreign exchange rates. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix. The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Fund and its investment advisers undertake appropriate monitoring of market conditions and benchmark analysis. These risks are managed in two ways:

- the exposure of the fund to market risk is monitored through a factor risk analysis to ensure that risk remains within tolerable levels;
- specific risk exposure is limited by applying risk-weighted maximum exposures to individual investments.

**Other Price Risk**

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The Fund is exposed to share and derivative price risk. This arises from investments held by the fund for which the future price is uncertain. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses, from shares sold short, is unlimited.

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

**Other Price Risk – Sensitivity Analysis**

In consultation with the Fund's investment advisers, an analysis of historical volatility 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 2015/16 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 at 31 March 2016 £000	Potential market movements %	Value on increase £000	Value on decrease £000
Aberdeen	Global equity	339,124	18.8%	402,879	275,369
Alliance Bernstein	Broad Bonds	341,874	8.0%	369,224	314,524
BNYM	Global equity	364,837	18.8%	433,426	296,248
BlackRock	DAA	371,476	8.6%	403,423	339,529
CBRE	Unlisted property	154,110	14.1%	175,840	132,380
CBRE	Listed property	31,619	20.0%	37,943	25,295
Mondrian	Emerging market equity	147,296	29.9%	191,338	103,254
RLAM	UK Index Linked Gilts	468,295	8.8%	509,505	427,085
Other	UK Equity	28	17.1%	33	23
	Loans	349	0.0%	349	349
	Cash	79,589	0.0%	79,589	79,589
	Net derivative assets	12,207	0.0%	12,207	12,207
	Net investment balances	5,947	0.0%	5,947	5,947
<b>Total change in net investment assets available</b>		<b>2,316,751</b>		<b>2,621,703</b>	<b>2,011,799</b>

Manager	Asset type	Asset value at 31 March 2015 £000	Potential market movements %	Value on increase £000	Value on decrease £000
Aberdeen	Global equity	343,880	15%	395,462	292,298
Alliance Bernstein	Broad Bonds	330,169	6%	349,979	310,359
Barings	DAA	371	8%	401	341
BNYM	Global equity	355,519	15%	408,847	302,191
BlackRock	DAA	395,918	8%	427,591	364,245
CBRE	Unlisted property	105,153	12%	117,771	92,535
CBRE	Listed property	30,097	21%	36,417	23,777
Mondrian	Emerging market equity	152,799	23%	187,943	117,655
RLAM	UK Index Linked Gilts	477,474	10%	525,221	429,727
Other	UK Equity	28	23%	34	22
	Loans	375	0%	375	375
	Cash	165,402	0%	165,402	165,402
	Net derivative liabilities	-775	0%	-775	-775
	Net investment balances	-23,203	0%	-23,203	-23,203
<b>Total change in net investment assets available</b>		<b>2,333,207</b>		<b>2,591,465</b>	<b>2,074,949</b>

### Interest Rate Risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's interest rate risk is routinely monitored by the administering authority (as part of its Treasury Management Service for investment of surplus cash), its managers, custodian and investment advisers in accordance with the Fund's risk management strategy. This includes monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks. During periods of falling interest rates and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns.

### Interest Rate Risk - Sensitivity Analysis

The Fund recognises that interest rates can vary and can affect income to the fund and the value of the net assets available to pay benefits. The following table shows the fund's asset values having direct exposure to interest rate movements as at 31 March 2016 and the effect of a +/- 50 BPS change in interest rates on the net assets available to pay benefits (assuming that all other variables, in particular exchange rates, remain constant). The prior year comparator is also provided:

Asset type	Asset Values at 31 March 2016  £000	Change in year in the net assets available to pay benefits	
		+50 BPS	-50 BPS
		£000	£000
Cash and cash equivalents	79,589	398	-398
Fixed interest securities	31,708	159	-159
<b>Total change in net investment assets available</b>	<b>111,297</b>	<b>557</b>	<b>-557</b>

Asset type	Asset Values at 31 March 2015  £000	Change in year in the net assets available to pay benefits	
		+50 BPS	-50 BPS
		£000	£000
Cash and cash equivalents	165,402	827	-827
Fixed interest securities	87,417	437	-437
<b>Total change in net investment assets available</b>	<b>252,819</b>	<b>1,264</b>	<b>-1,264</b>

### Currency Risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than GBP (the functional currency of the Fund). The Fund holds both monetary and non-monetary assets denominated in currencies other than GBP. The Fund's currency rate risk is routinely monitored by the Fund and its investment advisers in accordance with the

fund's risk management strategy, including monitoring the range of exposure to currency fluctuations.

### Currency Risk - Sensitivity Analysis

Having consulted with the Fund's independent investment advisers, the 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 16	Value on increase	Value on decrease
				£000	£000	£000
Aberdeen	Global Equity	100%	15%	339,124	389,993	288,255
Alliance Bernstein	Broad Bonds	0%	0%	341,874	341,874	341,874
BlackRock	DAA	100%	10%	364,837	401,321	328,353
BNYM	Global Equity	100%	15%	371,476	427,197	315,755
CBRE	Global Property	100%	10%	185,729	204,302	167,156
Mondrian	Emerging market equity	100%	15%	147,296	169,390	125,202
RLAM	UK Index Linked Gilts	0%	0%	468,295	468,295	468,295
Other	UK Equity	0%	0%	28	28	28
	Loans	0%	0%	349	349	349
	Cash	0%	0%	79,589	79,589	79,589
	Net derivative assets	0%	0%	12,207	12,207	12,207
	Net investment balances	0%	0%	5,947	5,947	5,947
<b>Total change in net investment assets available</b>				<b>2,316,751</b>	<b>2,500,492</b>	<b>2,133,010</b>

Manager	Currency exposure by asset type	Level of unhedged exposure	Total Volatility	Asset value at 31 March 15	Value on increase	Value on decrease
				£000	£000	£000
Aberdeen	Global Equity	94%	13%	343,880	388,584	299,176
Alliance Bernstein	Broad Bonds	0%	0%	330,169	330,169	330,169
Barings	DAA	2%	1%	371	375	367
BlackRock	DAA	5%	1%	355,519	359,074	351,964
BNYM	Global Equity	94%	13%	395,918	447,387	344,449
CBRE	Global Property	15%	2%	135,250	137,955	132,545
Mondrian	Emerging market equity	100%	19%	152,799	181,831	123,767
RLAM	UK Index Linked Gilts	0%	0%	477,474	477,474	477,474
Other	UK Equity	0%	0%	28	28	28
	Loans	0%	0%	375	375	375
	Cash	0%	0%	165,402	165,402	165,402
	Net derivative assets	0%	0%	-775	-775	-775
	Net investment balances	0%	0%	-23,203	-23,203	-23,203
<b>Total change in net investment assets available</b>				<b>2,333,207</b>	<b>2,464,676</b>	<b>2,201,738</b>

## ii. CREDIT RISK

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities. The Fund's entire investment portfolio (except derivatives) is exposed to some form of credit risk. The Fund minimises credit risk by undertaking transactions with a large number of high quality counterparties, brokers and institutions.

Investment Managers adopt procedures to reduce credit risk related to its dealings with counterparties on behalf of its clients. Before transacting with any counterparty, the Investment Manager evaluates both credit worthiness and reputation by conducting a credit analysis of the party, their business and reputation. The credit risk of approved counterparties is then monitored on an ongoing basis, including periodic reviews of financial statements and interim financial reports as required.

The Fund has sole responsibility for the initial and ongoing appointment of custodians. Uninvested cash held with the Custodian is a direct exposure to the balance sheet of the Custodian. Arrangements for investments held by the Custodian vary from market to market but the assets of the Fund are held in a segregated client account. As at 31 March 2016, this level of exposure to the Custodian is only 2.7% of the total value of the portfolio. Surplus cash is invested by Durham County Council only with financial institutions which meet identified minimum credit criteria, in accordance with the Fitch, Moody's and Standard & Poors' Credit Ratings Services. The Council's Investment Strategy sets out the maximum amounts and time limits in respect of deposits placed with each financial

institution; deposits are not made unless they meet the minimum requirements of the investment criteria.

The Fund believes it has managed its exposure to credit risk. No credit limits were exceeded during the reporting period and the Fund does not expect any losses from non-performance by any of its counterparties in relation to deposits.

The cash holding under its treasury management arrangements was £17.217m as at 31 March 2016 (£54.269m at 31 March 2015). This was held with the following institutions:

	Rating	Balances	Rating	Balances
	as at 31 March 2016	as at 31 March 2016	as at 31 March 2015	as at 31 March 2015
		£000		£000
<b>Bank Deposit Accounts</b>				
Handelsbanken	F1+	62	F1+	1,079
Barclays	F1	1,209	F1	7,991
Santander UK Plc	F1	94	F1	7,991
<b>Fixed Term Deposits</b>				
Royal Bank of Scotland		-	F1	4,566
Barclays	F1	1,612	F1	-
Bank of Scotland	F1	4,836	F1	13,698
Nationwide Building Society	F1	2,014	F1	5,708
Goldman Sachs	F1	2,820	F1	6,849
Natwest Bank	F2	1,612		-
UK Local Authorities	N/A	898		-
<b>Income Bond</b>				
National Savings & Investments	N/A	81	N/A	228
<b>Other</b>				
Money Market Funds	N/A	1,979	N/A	6,159
<b>Total</b>		<b>17,217</b>		<b>54,269</b>

### iii. LIQUIDITY RISK

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

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



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

Regulation 5 of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, gives Durham County Council a limited power to borrow on behalf of the Pension Fund for up to 90 days. The Council has ready access to borrowings from the money markets to cover any day to day cash flow need. This facility is only used to meet timing differences on pension payments and as they are of a short-term nature, exposure to credit risk is considered negligible.

## 17. Analysis of Debtors

2014-15 £000		2015-16 £000
1,467	Central government bodies	1,292
8,173	Other local authorities	6,930
15,692	Other entities and individuals	18,040
<u>25,332</u>	<b>Total debtors</b>	<u>26,262</u>
	<b>Included in the Net Assets Statement as:</b>	
1,042	Long Term Assets	833
14,151	Other Investment Assets	15,681
10,139	Current Assets	9,748
<u>25,332</u>		<u>26,262</u>

The long term assets relate to the portion of the transfer value in from the Ministry of Justice for Magistrates' Courts staff which are repayable more than 12 months after the year end.

## 18. Analysis of Creditors

2014-15 £000		2015-16 £000
-799	Central government bodies	-815
-5,378	Other local authorities	-1,388
-40,590	Other entities and individuals	-13,646
<u>-46,767</u>	<b>Total creditors</b>	<u>-15,849</u>
	<b>Included in the Net Assets Statement as:</b>	
-37,354	Investment Liabilities - Other balances	-9,734
-9,413	Current Liabilities	-6,115
<u>-46,767</u>		<u>-15,849</u>

Included in the amount due to other local authorities in 2014/15 was a provision of £4.008m for the transfer value paid to South Tyneside Pension Fund during 2015/16. This

related to the group transfer of staff from the former Wear Valley District Council who are now employed by Gentoo.

All of the £15.849m is expected to be paid by the Pension Fund within 12 months after the year end.

## 19. Additional Voluntary Contributions (AVCs)

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

- Purchase of additional pension, which is invested as an integral part of the Fund's assets;
- Money purchase scheme, managed separately by Equitable Life, Standard Life and Prudential. AVCs may be invested in a range of different funds.

The following table refers only to the money purchase AVCs:

	Value at 31 March 2015 £000	* Purchases £000	Sales £000	Change in Market Value £000	Value at 31 March 2016 £000
Equitable Life	2,174	49	152	32	2,103
Prudential	3,849	1,131	406	35	4,609
Standard Life	1,819	389	424	-18	1,766
<b>Total</b>	<b>7,842</b>	<b>1,569</b>	<b>982</b>	<b>49</b>	<b>8,478</b>

\* Purchases represent the amounts paid to AVC providers in 2015/16

The financial information relating to money purchase AVCs, as set out above, is not included in the Fund's Net Asset Statement or Fund Account in accordance with Regulation 5(2) c of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

## 20. Related Party Transactions

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

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

Related parties of the Pension Fund fall into three categories:

- a) Employer related
- b) Member related
- c) Key management personnel

**a) EMPLOYER RELATED**

There is a close relationship between an employer and the Pension Fund set up for its employees and therefore each participating employer is considered a related party. The following table details the nature of related party relationships.

Transaction	Description of the Financial Effect	Amount	
		2014/15	2015/16
Contributions receivable	Amounts receivable from employers in respect of contributions to the Pension Fund	£98.848m	£112.035m
Debtors	Amounts due in respect of employers and employee contributions	£10.317m	£9.396m
Creditors	Amounts due to the Administering Authority in respect of administration and investment management expenses	£1.370m	£1.388m
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	£1.370m	£1.388m
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 £0.258m	Loans outstanding £0.239m
Investment Income	Part of the Pension Fund's cash holding is invested in money markets by Durham County Council. The average surplus cash balance and interest earned were:	Balance = £35.929m Interest = £0.155m	Balance = £51.289m Interest = £0.233m

**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.

There are three Members of the Pension Fund Committee who are in receipt of pension benefits from Durham County Council Pension Fund; a further two Members are active members of the Pension Fund.

**c) KEY MANAGEMENT PERSONNEL**

Related parties in this category include:

- key management i.e. senior officers and their close families;
- companies and businesses controlled by the key management of the Pension Fund or their close families.

Disclosure requirements for officer remuneration and members allowances can be found in the main accounts of Durham County Council.

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

## **21. Contingent Assets**

**a) PENSION CONTRIBUTIONS ON EQUAL PAY PAYMENTS**

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

There is no certainty that an individual will pay pension contributions on their Equal Pay settlement. The agreements signed by individuals are 'open-ended' in that an individual's ability to determine their settlement as 'pensionable' is not time limited, so the timing of any liability to pay contributions are not certain. The level of contributions likely to be received by the Pension Fund, are unlikely to have a material effect on the Pension Fund Accounts.

**b) FOREIGN INCOME DIVIDENDS (FIDs)**

The Pension Fund is involved in claims for tax reclaims due to EC Legislation. The outcome of the Court cases will determine the reclaim of taxes, neither the amount of income nor the timing of the income is certain.

Up until 1 July 1997 UK Pension Funds were entitled, under UK tax law, to reclaim tax credits attaching to dividends received from UK resident companies. However, Pension Funds which received dividends designated by UK companies as FIDs, or dividends received from overseas companies, were not entitled to a refundable tax credit. Since UK

sourced dividends came with a 20 percent tax credit, the net investment income return from UK companies paying such dividends was significantly higher than UK companies paying FIDs or dividends from overseas companies, for which no credit was available. As a result there was a disincentive for Pension Funds to invest in such companies.

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

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

### **c) WITHHOLDING TAX (WHT) CLAIMS**

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

A test case in the Netherlands on behalf of a number of UK pension funds was successful and in January 2009 notification from the Dutch Tax Authorities was received that the claims brought by the test claimant for the recovery of withholding taxes going back to 2003 had been accepted and would be repaid in the near future. Following the ruling in the Netherlands which essentially states that the Dutch tax authorities should not have levied a "withholding tax" (WHT) on dividend payments to tax exempt bodies (such as UK pension funds) located within the European Union but outside the Netherlands, a similar process for reclaiming WHT in other EU Member States is now on-going.

As a result of a precedent for the change in WHT has been set by the Netherlands, other Member States have now reduced the level of WHT of non-residents; recovery is therefore probable, but the timing and amount of income is uncertain.

## **22. Funding Arrangements**

In line with the LGPS (Administration) Regulations 2008, the Fund's independent qualified actuary undertakes a funding valuation every 3 years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last full valuation took place as at 31 March 2013. The next valuation will take place as at 31 March 2016.

The key elements of the funding policy are to:

- ensure the long term solvency of the fund, i.e. that sufficient funds are available to meet all pension liabilities as they fall due for payment;
- ensure that employer contribution rates are as stable as possible;
- minimise the long term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return;
- reflect the different characteristics of employing bodies in determining contribution rates where the administering authority considers it reasonable to do so;
- use reasonable measures to reduce the risk to other employers and ultimately the taxpayer from an employer defaulting on its pension obligations.

At the 31 March 2013 actuarial valuation, the Fund was assessed as being 84% funded (80% at 31 March 2010). This corresponded to a deficit of £379.2m (£418.1m at 31 March 2010).

The aim is to achieve 100% solvency over a period of 18 years and to provide stability in employer contribution rates by spreading any increases in rates over a period of time. The required level of contributions to be paid into the Fund by participating bodies (in aggregate) with effect from 1 April 2014 is 13.7% of pensionable pay plus additional monetary amounts of £24.3m in 2014/15 and increasing by 3.9% p.a. thereafter. (In 2013/14 the aggregate employer contribution rate was 13.1% of pensionable pay plus an additional sum of £29.9m).

The key assumptions used by the actuary to calculate the past service liabilities and the cost of future benefit accrual are set out in the following table:

	Valuation as at 31 March 2013	Valuation as at 31 March 2010
<b>Financial Assumptions</b>		
Discount rate for periods in service	5.4% pa	6.8% pa
Discount rate for periods after leaving service	5.4% pa	6.8% pa
Rate of revaluation of pension accounts	2.4% pa	n/a
Rate of pension increases on:		
- non Guaranteed Minimum Pensions	2.4% pa	3.3% pa
- post 1988 Guaranteed Minimum Pensions	2.0% pa	2.7% pa
Pensionable pay increase	3.9% pa	5.3% pa
<b>Demographic Assumptions</b>		
Post-retirement mortality assumption (normal health) - base table	SAPS normal tables with scaling factors of 105% for men and women	SAPS normal tables with scaling factors of 105% for men and women
Post-retirement mortality assumption - future improvements	CMI 2012 core projections with long annual improvement rate of 1.5%	CMI 2012 core projections with long annual improvement rate of 1.25%
Retirement cash sum	Each member is assumed to surrender pension on retirement, so total cash received is 80% of the maximum amount permitted	Each member assumed to exchange 80% of their future service pension rights and 60% of their past service pension rights for additional lump sum of the maximum amount permitted

### 23. Actuarial Present Value of Promised Retirement Benefits

The CIPFA Code of Practice indicates that Pension Fund accounts should disclose the actuarial present value of promised retirement benefits as set out in the accounting standard IAS 26 and that the actuarial present value should be calculated on assumptions set in accordance with IAS 19 rather than on funding assumptions (set out in Note 22 to these accounts).

The Pension Fund Accounts do not take account of the liabilities to pay pensions and other benefits in the future. Instead, as permitted under IAS 26, the Pension Fund has opted to disclose the actuarial present value of promised retirement benefits by way of this note to the accounts. This requires the actuarial valuation of the liabilities on an IAS 19 basis to be prepared at triennial valuations only, the most recent being as at 31 March 2013.

The actuarial present value of promised retirement benefits has been calculated based on projected salaries and is included in the table below. The corresponding fair value of Fund Assets is also shown to indicate the level of deficit within the Fund when the liabilities are valued using IAS 19 assumptions. The figures for 2010 are provided for comparison purposes.

	Value as at 31 March 2013 £m	Value as at 31 March 2010 £m
Fair value of net assets	2,085	1,682
Actuarial present value of the promised retirement benefits	2,905	2,833
Surplus / -deficit in the Fund as measured for IAS26 purposes	-820	-1,151

As the liabilities above are calculated on an IAS 19 basis, they differ from those calculated for the triennial valuation because different assumptions are applied. The main IAS19 assumptions used are as follows:

	31 March 2013 (% p.a.)	31 March 2010 (% p.a.)
Discount rate	4.4	5.5
RPI Inflation	3.4	3.9
CPI Inflation	2.4	3.0
Rate of increase to pensions in payment *	2.4	3.9
Rate of increase to deferred pensions *	2.4	3.9
Rate of general increase in salaries **	3.9	5.4

\* In excess of Guaranteed Minimum Pension increases in payment where appropriate

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

## 24. Funding Strategy Statement

The Local Government Pension Scheme Regulations 2013 require administering authorities to prepare a Funding Strategy Statement. The Funding Strategy Statement has been adopted by the Pension Fund Committee and is published in the Durham County Council Pension Fund Annual Report, a copy of which is available on the County Council's website at [durham.gov.uk](http://durham.gov.uk). The Funding Strategy Statement has been reviewed and updated by the Pension Fund Committee during 2015/16.

The purpose of the Funding Strategy Statement is to:

- establish a clear and transparent fund specific strategy which will identify how employers' pension liabilities are best met going forward;
- support the regulatory requirement to maintain as nearly constant employer contribution rates as possible;
- take a prudent longer term view of funding the Fund's liabilities.

## 25. Statement of Investment Principles

In accordance with the Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2009, the Pension Fund has prepared and reviewed a written statement of its investment policy. This statement has been adopted by the Pension Fund Committee and is published in the Durham County Council Pension Fund Annual Report, a copy of which is available on the Council's website at [durham.gov.uk](http://durham.gov.uk). The Statement of Investment Principles sets out the principles for investing Fund monies. It was reviewed by the Pension Fund Committee during 2015/16.



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## Annual Governance Statement 2015/16

### SCOPE OF RESPONSIBILITY

1. 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.
2. The Accounts and Audit (England) Regulations 2015 require the Council to prepare an Annual Governance Statement, which must accompany the Statement of Accounts. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
3. 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.
4. In April 2016, 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”.
5. This statement explains how the Council has complied with the code and also 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.

### THE PURPOSE OF THE GOVERNANCE FRAMEWORK

6. The governance framework comprises of the systems and processes, and culture and values, by which the Council is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services for the people of County Durham.
7. The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve

policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

8. The governance framework has been in place at the Council for the year ended 31 March 2016 and up to the date of approval of the Statement of Accounts.

## **THE GOVERNANCE FRAMEWORK**

9. The key elements of the systems and processes that comprise the Council's governance arrangements are detailed in the Council's Local Code of Corporate Governance, which is documented in the Council's [Constitution](#). This sets out the key documents and processes that determine the way the Council is directed and controlled to meet the six core principles of the CIPFA/ SOLACE Framework.
10. 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 2015/16.

### **The Six Principles of Good Governance**

**Principle 1: Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area.**

11. The [Sustainable Community Strategy \(SCS\) 2014 – 2030](#) which has been produced by the Council in conjunction with its partners on the County Durham Partnership, demonstrates its shared long-term vision for the future of County Durham. This vision for County Durham, namely 'Altogether Better Durham' outlines two areas of focus – **Altogether Better Place** and **Altogether Better for People** and five priority themes, which represent the major issues identified by residents:
  - Altogether wealthier – focusing on creating a vibrant economy and putting regeneration and economic development at the heart of all our plans. This theme is supported by the [Regeneration Statement 2012 – 2022](#) and the [County Durham Plan](#);
  - Altogether better for children and young people – ensuring children and young people are kept safe from harm and that they can 'believe, achieve and

succeed'. This theme is supported by the [Children, Young People and Families Plan 2015 - 2018](#);

- Altogether healthier – improving health and wellbeing, supported by the [Joint Health and Wellbeing Strategy 2016 - 2019](#);
- Altogether greener – ensuring an attractive and 'liveable' local environment and contributing to tackling global environmental challenges. This theme is supported by the [County Durham Plan](#);
- Altogether safer – creating a safer and cohesive county, supported by the [Safe Durham Partnership Plan 2015 - 2018](#) and the [Police and Crime Plan 2015 - 2017](#).

12. The SCS was renewed and launched in November 2014 and identified six new areas of cross-thematic focus that will benefit from additional joined up working: Job Creation, Volunteering, Inequalities, Alcohol, Mental Wellbeing and Think Family. The 2014 version of the strategy reflects changes in local priorities and the need to deliver services with fewer resources. The strategy will undergo a substantial review during 2016/17.
13. The County Durham Partnership, which is the strategic partnership for the County, is made up of key public, private and voluntary sector partners, and is underpinned by thematic partnerships set around the five priority themes. Operationally, it is supported by the Delivery and Improvement Group, whose role is to monitor performance towards implementing the SCS, and consider strategically how plans align and where efficiencies and value can be maximised through integration, shared services and joint commissioning.
14. The [Council Plan 2016 - 2019](#) was approved in April 2016 and contains the Council's corporate priorities and the key actions to take in support of delivering the longer term goals in the SCS and the Council's own improvement agenda. The [Council Plan](#) is supported by a series of Service Plans at a Service Grouping level which detail the planned actions to deliver the Council's vision.
15. The [Medium Term Financial Plan 2016 - 2019 \(MTFP\)](#) was approved by the Council in February 2016. This provides a financial framework associated with the [Council Plan](#) that enables members and officers to ensure policy initiatives can be planned for delivery within available resources and can be aligned to priority outcomes. It also enables the continued provision of value for money (VFM). The key risk facing the Council continues to be the challenge of managing unprecedented budget reductions in the current period of economic austerity. To meet this challenge, a comprehensive schedule of savings targets has been programmed to achieve the necessary savings to enable us to deliver a balanced budget and [MTFP](#). Assurance over the delivery of this programme is gained by detailed and frequent monitoring undertaken by Corporate Management Team

(CMT) and, during the five years up to the end of March 2016, a sum of £153m of savings has been delivered. These arrangements will equip the Council well for dealing with further austerity measures announced as part of the latest central government spending review. The Council has maintained prudent levels of reserves enabling us to meet unanticipated expenditure as necessary whilst still achieving planned savings targets and meeting service level expectations.

16. Despite sustained, large-scale Government spending cuts and rising demand for services, the MTFP seeks to deliver some very positive outcomes for the people of County Durham. Significant capital investment in town centres and industrial estates will support regeneration, the Council's highest priority, in order to protect existing jobs and create new ones. The Council Tax Reduction Scheme provides continued support for low-income, working age households; and ongoing work with partners aims to maximise health and social care funds for the benefit of vulnerable people.
17. In April 2014, the Council submitted the County Durham Plan to the Government and this was followed by an examination in public. After the Planning Inspector's Report rejected the plan, the council challenged the report and it was subsequently quashed by the High Court. Following discussions with the Department for Communities and Local Government and the Planning Inspectorate, legal advice was sought and the Council decided to undertake a three stage process in preparation of a new local plan, which will also ensure meaningful engagement with the community and other stakeholders. In the meantime, members have endorsed a revised Policy Position Statement to clarify how development proposals will be handled to ensure that appropriate sustainable development is not delayed.
18. To manage and measure service improvement, the Council has a locally led performance management framework that links to the SCS and the [Council Plan](#) and ensures that attention is focused on Council priorities. Key target indicators are used in areas where improvements can be measured regularly and can be actively influenced by the Council and its partners. Where possible, performance is compared with that of other Councils using a recognised, online tool. A new indicator set and targets were developed for 2015/16 to ensure that our efforts continue to be focused on the right areas, and these were agreed by Cabinet in June 2015.
19. There are numerous examples of internally-driven improvements during 2015/16 that evidence the effectiveness of the Council's governance arrangements:-
  - Successful transfer of ownership of the Council's housing stock to the new County Durham Housing Group Ltd in April 2015, representing a significant opportunity to increase investment in homes, local neighbourhoods and housing services to further improve the lives of tenants;
  - Established localised, multi-disciplinary 'Families First' teams to help children, young people and their families achieve and maintain good progress;

- Increased self-serve facilities, allowing people to access more services through our website on a 24/7 basis;
- A new mobile-friendly website, Locate, provides an improved directory of vital care and support services, replacing the Durham Information Guide;
- Effectively managed the reductions in library opening hours, rather than closing them, in response to consultation with service users;
- Refurbishment of three waste transfer stations giving improved recycling facilities and more scope to recycle.

20. 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:-

- An inspection of children's services and review of the Local Safeguarding Children's Board by Ofsted under their single inspection framework. A Quality Improvement Board provides strategic oversight of the Ofsted implementation plan and quality assurance developments in Children's Services.
- An assessment of leisure centres against the QUEST quality standard.
- The Strategic Waste Team's management of seven former landfill sites and 11 closed landfill sites is regulated by the Environment Agency and Northumbrian Water;
- A programme of independent audits evaluates, for accreditation or certification, activities such as asset management, safety management and collaborative business relationships.

21. The Council continues to seek value for money (VFM) through its high level objective 'effective use of resources' under the Altogether Better Council theme. In this way, pursuit of VFM is built into all of the Council's plans and activities, and numerous reviews have been undertaken across the Council to provide assurance that VFM services are being provided. Senior Management Teams have used benchmarking data from statutory returns, such as budget statements collected by the Department for Education and the Personal Social Services Expenditure Return, to inform programmes of VFM reviews and savings options in various service areas. Where necessary, this has been supplemented by data from commercial benchmarking clubs, such as Chartered Institute of Public Finance and Accountancy (CIPFA), to facilitate meaningful comparisons with other organisations. The results of these benchmarking exercises demonstrate that the Council compares favourably against other Councils in the majority of cases. Nevertheless, in the context of continuous improvement, the Council assesses any weaknesses identified from these exercises where improvements in performance can be achieved. Independent assurance of our VFM was also gained from our External Auditor, who issued an unqualified VFM conclusion for our 2015/16 Accounts.

22. The Council's Cabinet is responsible for monitoring performance and ensures that effective arrangements are put in place to deal with any failures in service delivery. Assurance is gained through quarterly performance reporting to Cabinet and through performance clinics between the Chief Executive and individual Corporate Directors and the Assistant Chief Executive during the year. Members have robustly scrutinised the performance of the Council, demonstrated by a number of key scrutiny reviews of Council services during 2015/16, which are outlined in the [Overview and Scrutiny Annual Report](#).
23. The Annual Statement of Accounts was approved by the Audit Committee in September 2015, taking account of the views of the External Auditor, in line with the Accounts and Audit Regulations 2011. Further independent assurance of the Council's financial management was provided by the External Auditor in both their Audit Completion Report and Certification of Claims and Returns Annual Report. Governance reviews are also led by Services, such as the quality assurance team in Children and Adults Services, who carried out a number of audits during the year.
24. To enable better use of resources, the Council has made the following changes:
- A new banking service was implemented in December 2015, following the previous supplier's withdrawal from the local authority market in 2014;
  - Chapter Homes established as an arms-length private company to develop council-owned land for housing to be sold and rented at market values. This is in line with the overall aim to capitalise on our assets in order to improve our economic performance and the prospects of our people;
  - Ensuring all contracts contain clauses requiring providers to have appropriate procedures in place to prevent unlawful discrimination in employment.
25. A programme management approach for key corporate projects is embedded, supported by project management training across the Council. Examples which demonstrate that rigorous programme management has enabled effective delivery of major projects include the transfer of Community Buildings, the Housing Stock Transfer, the new banking contract and a two year, £3.4 million programme of repairs to Seaham North Pier. Assurance is gained by regular monitoring of the delivery of these projects by Corporate Management Team.
26. The Council's Corporate Asset Management Plan (CAMP) and Property Strategy were approved by Cabinet in July 2013. The CAMP sets out the Council's approach to ensuring that it makes best use of its assets in terms of service benefit, financial benefit and value for money. The Property Strategy sets out the main principles to ensure that opportunities to share the use of property are identified, and to make sure that assets are fit for purpose, cost effective and used to support regeneration and economic development. The Council is now a forerunner in asset transfer, having successfully assigned a number of leisure centres, a golf course and

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children's centres to community organisations. The recently completed community buildings programme was one of six national winners in the Carnegie Trust's Enabling State Awards and was described as ground-breaking and innovative. A key element of the programme is to work with local communities and our partners to consider alternative ways of continuing to provide front line services.

27. Service Asset Management Plans are also in place and these include any heritage assets of the holding service

**Principle 2: Members and Officers working together to achieve a common purpose with clearly defined functions and roles**

28. The key governance documents supporting this principle are contained in the [Constitution](#). These arrangements are further strengthened by a number of formal member and officer working groups.
29. The [Constitution](#) sets out how the Executive is made up and how appointments to this committee are made. The roles and responsibilities allocated by the Leader under the terms of the [Constitution](#), to individual members and the committee as a whole, are set out in detail in the [Constitution](#) as well as the Scheme of Delegation for Senior Officers. The [Constitution](#) allows joint arrangements to be established for specific purposes such as the provision and maintenance of crematoria, and sets out details of existing joint arrangements, including purpose, parties and effective dates.
30. The Constitution Working Group, which consists of the lead members of each political party, and is chaired by the Leader of the Council, proposed amendments to the [Constitution](#) during the year which were approved by the Council. Changes following the annual review of the [Constitution](#) were approved by the Council in May 2016.
31. The arrangements and rules of procedure for the Overview and Scrutiny function, including the membership, functions and scope of the Overview and Scrutiny Board and each Committee is set out in detail in the [Constitution](#). Terms of Reference for the Board and Committees are set within the context of the [Council Plan](#) and the [Sustainable Community Strategy](#).
32. Under the terms of the [Constitution](#), the Council elected a Leader and made appointments to a number of committees with various regulatory and scrutiny responsibilities. The Leader has nominated nine other councillors, including a Deputy Leader, with specific responsibilities to form the Cabinet.

33. The Health and Wellbeing Board, a Committee of the Council, was established as a consequence of the Health and Social Care Act 2012. Public Health responsibilities also transferred to the Council from the NHS with effect from April 2013. Its functions include:
- Developing and agreeing the Joint Strategic Needs Assessment and Joint Health and Wellbeing Strategy;
  - Promoting integrated working between commissioners of health services, public health and social care services, for the purpose of advancing the health and wellbeing of people in its area; and
  - Developing a Pharmaceutical Needs Assessment.
34. An example of members and officers working together is the Member Officer Working Group (MOWG) assessing capital bids in the development of the MTFP. Bid submissions were considered taking key factors account, such as the Service Grouping's assessment of priority, availability of capital financing and whether schemes could be self-financing. MOWG also recognised the need for caution in committing to high levels of prudential borrowing at this stage for future years.
35. A new Chief Executive was appointed following the retirement of the previous post-holder. The process was overseen by the Chief Officer Appointments Committee, which is made up of 11 Members of the Council including the Leader and Deputy Leader who are Chair and Vice-Chair respectively. The decision was approved in October 2015 by full council, in line with the Council's Constitution.
36. The Council has appointed the Corporate Director Resources as Chief Financial Officer and Section 151 Officer to fulfil the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010). The Chief Financial Officer, who is a member of the CMT and reports directly to the Chief Executive, has been involved in all CMT discussions, and has reviewed all reports to Cabinet which have financial implications. The Chief Financial Officer has also provided an opinion under section 25 of the Local Government Act 2003 on the reserves for the Council, which Members considered when setting the budget.
37. The Children Act 2004 requires every top tier local authority to appoint a Director of Children's Services with professional responsibility for the leadership, strategy and effectiveness of local authority children's services. The Council completed a Local Test of Assurance (LTA) in accordance with statutory guidance, and this was reported to Audit Committee in September 2015. The purpose of the LTA is to ensure that the focus on outcomes for children and young people is not weakened or diluted as a result of combining this statutory role with other functions.



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38. The new Chief Executive progressed plans to implement, during 2016, a revised chief officer structure to reflect the challenges faced by the Council whilst building on existing organisational strengths.
  39. Members and Officers work together on the work programme of the Cabinet which is managed through a system of Cabinet pre-agenda meetings. To support this, Corporate Directors have held regular briefing sessions with Cabinet Portfolio Members and their support Members.
  40. Members' remuneration is overseen by an independent panel, and their report was approved by Council in October 2015.

**Principle 3: Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour**

41. The key governance documents supporting this principle are the [Constitution](#), the [Council Plan](#) and the Register of Gifts and Hospitality.
42. The Standards Committee has the key governance role of promoting and monitoring high standards of conduct by elected Members, independent Members and co-opted Members. The Localism Act 2011 introduced a new duty to promote and maintain high standards of conduct and an ethical framework was adopted accordingly.
43. In terms of disclosure of gifts, hospitality and interests, assurance is gained over Member declarations and registrations by the Monitoring Officer maintaining and monitoring the Register of Gifts, Interests and Hospitality for Members, which is available online. Staff declarations are maintained and monitored by their Head of Service. An Internal Audit report recommending improved arrangements for maintaining registers was approved by Corporate Management Team in March 2015.
44. A climate of openness has been encouraged by the Council Leader who holds regular Cabinet meetings at various locations throughout County Durham. The key elements of the Council's approach to communicating and embedding the expected standards of behaviour for Members and staff are also detailed in the Council [Constitution](#). The Council's Codes of Conduct included in the [Constitution](#) also apply to its partnership working, and the revised Code of Conduct for Employees was approved by Corporate Management Team in September 2014. The [Constitution](#) also sets out a protocol for the Chairman and Vice-Chairman of the Council that includes an expectation of political neutrality and acting as the conscience of the Council.

45. The values of the Council are further promoted in the [Equality Policy](#), which was approved in January 2014 and includes 'protected characteristics' covered by the Equality Act. Supporting this scheme is an impact assessment process, which ensures that the impact on equality is considered in the Council's decision making. For example, the proposals in the 2016/17 MTFP strategy have been shaped by residents' and stakeholders' views with high level analysis of the equalities impact. A schedule of impact assessments is monitored through the Equality, Diversity and Cohesion Working Group. The implementation of the Access Strategy is monitored by the Equality, Diversity and Cohesion Working Group and a programme is in place for making access improvements to identified priority buildings.
46. During 2014/15, a new CCTV Policy and Code of Practice were implemented to improve the way the Council uses its powers under the Regulation of Investigatory Powers Act 2000 (RIPA).

**Principle 4: Taking informed and transparent decisions which are subject to effective scrutiny and managing risk**

47. The key governance documents supporting this principle are the [Constitution](#); the [Corporate Complaints Policy and Procedure](#); the Risk Management Strategy and Policy; the [Counter Fraud and Corruption Strategy](#); and the [Confidential Reporting Code \(Whistleblowing policy\)](#).
48. The Council's [Constitution](#) sets out how the Council operates, how decisions are made and the procedures followed to ensure that these are effective, transparent and accountable to local people. Amendments made to the Constitution during the year include updated officer scheme of delegations, the inclusion of a civic handbook and an update to the Members' Allowance Scheme.
49. All major decisions as identified in the officer delegations scheme are documented, with the reports and decisions made for those that are in the public domain being available on the website. All Cabinet reports must state that legal advice on proposals has been sought, as well as the source of the advice, and Chief Officers and Heads of Service were briefed on this by way of a refresher in February 2014 by the Head of Legal and Democratic Services.
50. The following improvements to governance arrangements in this area were implemented during the year:-
- The complaints process was modified to resolve issues more quickly and informally with service groupings taking the lead in resolving matters, allowing the corporate complaints unit to focus on investigating cases where people are not satisfied with the handling of their complaint;

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- An internal audit of the Officer Scheme of Delegations concluded that there is a sound system of control with only minor risk to achieving system objectives; and
  - As a positive response to the Local Government Transparency Code, a transparency and accountability web page was set up.
51. A notice of key decisions covering a rolling period of four months is published on the Council's website. Decisions made by the Executive are published on the Council's website within two days of the respective meeting.
52. The key mechanism provided for employees, and contractors and suppliers providing services for the Council, to raise concerns about potential breaches of conduct in decision-making is the [Confidential Reporting Code \(Whistleblowing policy\)](#), which is part of the Council's [Constitution](#), and is monitored by the Audit Committee. The policy is referenced in the Scheme of Financing of Schools, and the School Financial Value Standard requires schools to have appropriate whistleblowing procedures. A revised [Confidential Reporting Code](#) was approved by Audit Committee in May 2014. An updated [Counter Fraud & Corruption Strategy and Fraud Response Plan](#) were approved by Audit Committee in February 2016. In June 2015, the Council established the Corporate Fraud Team to further strengthen its robust counter fraud arrangements, demonstrated by examples such as the development of proactive processes to identify and tackle suspicious insurance claims have been implemented during the year.
53. Overview and Scrutiny, which consists of an Overview and Scrutiny Management Board and six committees, has the key role to make decision-making processes transparent, accountable and inclusive and to improve services for people by being responsive to their needs. Where appropriate, Members have scrutinised the decisions of the Council, demonstrated by a number of key reviews which are outlined in the [Overview and Scrutiny Annual Report](#). They also contributed to a number of consultations and policy development areas, such as:
- Joint Health and Wellbeing Strategy;
  - Joint Strategic Needs Assessment;
  - Housing Strategy; and
  - Flood Risk Management Authorities flood mitigation plans for County Durham.
54. A number of key in-depth evidence based reviews have also been carried out by Overview and Scrutiny Committees including:
- Attendance Management;
  - CRM system development and implementation; and
  - Alcohol and the demand upon Emergency services.

55. The Council has been shortlisted in the Excellence in Governance and Scrutiny category of the 2016 Municipal Journal Achievement Awards for its approach to scrutiny, community engagement and consultation on governance and council planning.
56. As part of the annual review of the [Constitution](#), the Terms of Reference of the Overview and Scrutiny Management Board and Committees were updated to reflect the refresh of the co-optee appointments. This demonstrates that the work of Overview and Scrutiny contributes to the strategic priorities of the Council and its partners, and reflects the legislative requirements placed on the Council in respect of scrutiny arrangements.
57. With regard to the Overview and Scrutiny Committees, key points to note include:
- The Adults Wellbeing and Health Overview and Scrutiny Committee has been conferred with the Council's powers of review and scrutiny in respect of NHS Service changes in accordance with the Health and Social Care Act 2012;
  - Cross party representation on all Overview and Scrutiny Committees serves to promote an independent, non-partisan approach in their activities;
  - A Joint Health Scrutiny Committee with Hartlepool and Stockton Borough Councils formally engages and responds to proposals to reconfigure emergency medical and critical care services at North Tees and Hartlepool NHS Foundation Trust.
58. The Police and Crime Panel, which includes councillors from Durham County Council and from Darlington Borough Council, scrutinises the annual report, decisions and actions of the Police and Crime Commissioner (PCC). In March 2015, the Panel approved the refreshed Police and Crime Plan 2015 – 2017. An update on activity from the Panel is presented to each meeting of the Council's Safer and Stronger Communities Overview and Scrutiny Committee.
59. The Council's Monitoring Officer oversees the arrangements for conflicts of interest, gifts and hospitality. Members are required to review their declarations of gifts and hospitality annually. Officers and members are required to declare annually any conflicts of interest.
60. The Council's decision-making processes are also supported by:
- A risk management strategy and policy;
  - An Audit Committee with responsibility for monitoring and reviewing the risk, control and governance processes and associated assurance processes; and
  - The Council ensuring that it complies with legal requirements in its decision making by ensuring that all reports requiring a decision include the legal

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implications, report authors confirming that they have obtained legal advice on proposals contained in reports, and the source of that legal advice.

61. An Audit Charter, which was approved in line with Public Sector Internal Audit Standards (PIAS), is in place. The Council's self-assessment against both the principles of the CIPFA Statement on the Role of Head of Internal Audit and the PIAS, which were presented to Audit Committee in June 2014, illustrates a high degree of compliance.
62. A Corporate Complaints policy is in place for non-statutory complaints, and details of complaints, and of investigations by the Commissioner for Local Administration, have been reported to Corporate Issues Overview and Scrutiny Committee.
63. A Freedom of Information (FOI) Policy and Publication Scheme are in place, and details of how to make a FOI request for information can be found on the Council's website.
64. To strengthen the Council's arrangements for maintaining good-quality information, a number of further improvements to governance in this area have been implemented in 2015/16. For example:
  - The Assistant Chief Executive was designated Senior Information Risk Officer and holds regular meetings with the Head of Planning and Performance, Head of ICT Services and the Council's designated Caldicott Guardian;
  - An online Data Protection Act training module was developed, which the majority of officers had completed by April 2015;
  - Data protection arrangements regarding data sharing were improved through standardised subject access requests, improved use of privacy impact assessments and a rolling programme of audits. A privacy impact assessment process was agreed and successfully piloted in September 2015.

**Principle 5: Developing the capacity and capability of Members and Officers to be effective**

65. The key governance documents supporting this principle are the Constitution; the Member Learning and Development Strategy; Organisational Development Strategy; Health, Safety and Wellbeing Strategy; and the Recruitment and Selection Policy.
66. The Council is committed to continually reviewing the development needs of Members and Officers.

67. Our approach to Member development is outlined in the Member Learning and Development Strategy, and the Member Learning and Development Policy, both of which were revised in October 2014. Induction training was provided for new Members elected during 2015/16 and individual training and development plans exist for all Members.
68. The Council continues to be a member of the North East Public Service Academy, which promotes excellence in learning across the public sector. Improvements to further develop the capacity and capability of officers during the year include:
- Numerous developments aimed at helping employees to meet the challenges of sustained reductions in finance and the consequent widespread changes in policy and service delivery;
  - The “The Durham Manager” programme continues to be evaluated, developed and promoted to support managers in meeting the changing needs of the organisation. Recent training courses include project; management, ‘succeeding through change’ and ‘difficult conversations’;
  - Resources Management Team agreed a three-year e-learning strategy in December 2015 following evaluation of the current process. This enables more training to be delivered on-line, ranging from corporate induction to recognising and managing stress in the workplace;
  - The processes for undertaking appraisals after a restructure were reinforced, including the rollout of the Business Intelligence module;
  - Training and development is promoted regularly in the Buzz magazine, through employee updates and via the intranet.
69. A revised corporate Health and Safety policy was launched in May 2014, and a revised Health and Safety and Wellbeing strategy was issued in June 2014. Independent assurance over the effectiveness of the Council’s Occupational Health Service was demonstrated when it was awarded Safe, Effective, Quality Occupational Health Service (SEQOHS) accreditation, which is the formal recognition that it has demonstrated the competence to deliver against the measures in the SEQOHS Standards developed by the Faculty of Occupational Medicine. The Council also continues to support employees through the change process with, for example, Jobcentre Plus information sessions and confidential counselling services through the Employee Assistance Programme.
70. The Council continued to drive improvements in employee attendance with support for both employees and management through targeted health and wellbeing initiatives, training and changes to processes. The Corporate Issues Overview and Scrutiny Panel undertook a review of attendance management, which was reported to Cabinet in December 2015. The new Attendance Management Policy focuses on rehabilitation to support attendance at work and the main changes include early intervention with assistance from Occupational Health and a revised procedure for managing short-term absences.

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71. The Council has taken steps, in consultation with various organisations, including the Royal Society for the Prevention of Accidents, to improve arrangements around managing water safety. A new Open Water Safety Policy was implemented following consultation with the Council's Water Safety Group and the Health, Safety and Wellbeing Strategic Group.

**Principle 6: Engaging with local people and other stakeholders to ensure robust public accountability**

72. The key governance documents supporting this principle are the [Constitution](#); the [Consultation and Engagement Strategy](#); and the County Durham Partnership Community Engagement and Empowerment Framework.
73. As the strategic partnership for the County, the County Durham Partnership (CDP) is the lead umbrella partnership for most other partnerships in County Durham, and the Leader of the Council is the chair of the CDP. The Council's relationships with partners are managed through the Partnership Governance Framework. There are several examples of effective partnership working by the Council, including County Durham Economic Partnership (CDEP). The EU Investment Plan was created through the CDEP and used to inform the strategic approach developed through the Strategic Economic Plan and North East European Structural and Investment Fund (ESIF) Strategy for the effective use of funds to address Durham priorities. Clarity on relationships between the Council and these partners is provided through the County Durham Economic Partnership governance prospectus.
74. There were two significant developments around strategic partnership working in 2015/16. Firstly, the Durham Humanitarian Support Partnership was established to ensure that Durham's support for refugees placed in the county is joined up and will promote cross-service and agency working, as well as engagement with communities. The partnership is led by the Council and will also look to work with churches, the voluntary sector and other partners. Secondly, a newly-established Chief Officer Group provides support and oversight to chief officers across all statutory agencies of the safeguarding arrangements for children and adults services. The Group has an independent Chair and includes officers from the Council, NHS and the Police.
75. The Council's approach to engaging stakeholders is outlined in the [Consultation and Engagement Strategy](#). This is complemented by the County Durham Partnership Community Engagement and Empowerment framework, which has shaped and supported a common vision and approach for community engagement by partners in County Durham. The County Durham Compact provides a framework for partnership and engagement with the voluntary and community sector, and most partners within the County Durham Partnership are signatories. E-learning on the Compact has been delivered to partners and [VCS](#) organisations. Attendance by the

public at Council meetings and the protocols for asking questions are contained in the [Constitution](#).

76. Three examples of active consultation and engagement with the public follow. Firstly, the consultation process for refreshing the Joint Health and Wellbeing Strategy involved a range of stakeholders and included a 'Big Tent' engagement event, which was attended by over 260 people. Secondly, the Council continued to work with community groups to explore opportunities for the transfer of council assets so that they can be sustainable into the future through the 'Durham Ask' initiative. Thirdly, the Council took account of a poll of County Durham voters, to inform its approach to the proposed Devolution Agreement for the North East Combined Authority. Advertisements informing residents of the poll were placed in the local press and ran on local radio, generating a significant amount of interest with a turnout of 21.7%. The agreement, if signed, would devolve significant powers, funding and responsibilities around transport, investment, jobs, skills, housing and business support.
77. The Council has a strong commitment to working with partners to meet the needs of its communities. There are 14 [Area Action Partnerships \(AAPs\)](#) in place across the County, who are each governed by a board comprising members of the public, partner organisations and elected Councillors. These are multi-agency partnerships that are fully engaged with the community in identifying and addressing local priorities, and utilise locality budgets to drive improvements to the local area.
78. Through its partnership governance framework, the Council has gained assurance that:
- Members are clear about their roles and responsibilities both individually and collectively in relation to the partnership and to the authority;
  - there is clarity about the legal status of the partnership; and
  - representatives or organisations both understand and make clear to all other partners the extent of their authority to bind their organisation to partner decisions.
79. Customer service arrangements have improved significantly. The Council's Customer First Strategy, which aims to put people at the heart of everything the Council does, continues to transform the way in which our residents, visitors, businesses and partners access our services. A new Customer Relationship Management System was procured to support the delivery of the strategy and its implementation and benefits will be monitored by Cabinet. The new system will build on progress made with the launch of the new website in October 2014 to provide further automated transactions and enhanced service information, reducing unnecessary direct customer contact. Since October 2014, the average number of



visits to the site is over 290,000 per month with the most popular pages including traffic cameras, job vacancies and planning applications.

80. The Council continues to engage with employees with positive and productive outcomes. February's employee roadshows were attended by around 850 people, many of whom took the opportunity to raise issues directly with the new chief executive. Also, more than 2,000 employees took part in an internal communications survey at the end of 2015. Almost 75 per cent said they would 'always' or 'mostly' speak highly of the council, which is above the national average across all business sectors. The information collected is now being used to improve internal communications, with further work being done to give employees more opportunities to have a say on council issues. Finally, in response to a staff suggestion through the Open Doors scheme, opening hours at the council's main headquarters were temporarily extended to help employees avoid peak traffic times and, in this way, reduce the impact on commuters during repairs to Durham City's Milburngate Bridge.

## REVIEW OF EFFECTIVENESS

81. The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the senior managers within the Council who have responsibility for the development and maintenance of the governance environment, the annual report of the Chief Internal Auditor and Corporate Fraud Manager, and also by comments made by the external auditors and other review agencies and inspectorates.
82. 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.
83. The Council's Constitution sets out the governance roles and responsibilities of these functions. In addition:
- The Corporate Director Resources co-ordinates and oversees the Council's corporate assurance arrangements by:
  - Preparing and maintaining the Council's Code of Corporate Governance as a formal framework for the Council's governance arrangements;

- Reviewing the systems, processes and documentation to determine whether they meet the requirements of this Code, reporting any breaches and recommending improvements;
- Preparing an Annual Governance Statement to demonstrate how far the Council complies with the principles of good governance and recommending improvements.
- Internal and External Audit provide independent assurance on the effectiveness of the corporate governance framework.

84. The review was also informed by a statement provided by each Corporate Director and the Assistant Chief Executive commenting on the effectiveness of the Council’s governance arrangements generally and how they impacted on their service areas. These included consideration of the effectiveness of internal controls.

85. Based on the delivery of the internal audit plan, Internal Audit is able to provide a moderate overall assurance opinion on the adequacy and effectiveness of internal control operating across the Council in 2015/16. This opinion ranking provides assurance that, whilst there is basically a sound system of control, there are some weaknesses, which may put some of the system objectives at major risk. Given the extent of change across the Council and the overall reduction in resources during the year, the sustainment of this assurance opinion should be regarded as a positive outcome.

## SIGNIFICANT GOVERNANCE ISSUES

86. We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit Committee. The Council is fully committed to the principles of corporate governance, and has made further progress during the past twelve months in developing its arrangements.

### Update on improvements identified in the 2014/15 Annual Governance Statement

87. Following the production of the Annual Governance Statement for 2014/15, one improvement action was identified for 2015/16.

No.	Actions to be taken	Lead Officer
1	Production of County Durham Plan Strategy in response to interim report from Planning Inspector	Head Of Planning and Assets, Regeneration and Economic Development

In April 2014, the Council submitted the County Durham Plan to the Government and this was followed by an examination in public. After the Planning Inspector's Report rejected the plan, the council challenged the report and it was subsequently quashed by the High Court. Following discussions with the Department for Communities and Local Government and the Planning Inspectorate, legal advice was sought and the Council decided to undertake a three stage process in preparation of a new local plan, which will also ensure meaningful engagement with the community and stakeholders. In the meantime, members have endorsed a revised Policy Position Statement to clarify how development proposals will be handled to ensure that appropriate sustainable development is not delayed. An Issues and Options papers was presented to Cabinet on 15 June 2016 to start the consultation process on developing a new Local Plan.

## Conclusion

88. In conclusion, we are satisfied that the Council's corporate governance arrangements in place during 2015/16 were fit for purpose in accordance with the governance framework. As a result of the review of governance arrangements, and the work of both internal and external audit, we have identified two actions as being necessary to improve governance arrangements in 2016/17. This is shown in the table below.

### Proposed Governance Improvements required during 2016/17

No.	Actions to be taken	Lead Officer
1	Implement an action plan to enable approval of the County Durham Plan within statutory requirements	Head Of Planning and Assets, Regeneration and Economic Development
2	Implement a new chief officer structure to reflect the challenges faced by the Council whilst building on existing organisational strengths	Chief Executive Officer

**Signed:**

Simon Henig  
Leader of Durham County Council

Terry Collins  
Chief Executive

Paul Darby  
Interim Corporate Director, Resources

**Academy School**

Academy Schools are directly funded by Government and are independent of the Council's control.

**Accounting Period**

The period of time covered by the Statement of Accounts, normally a period of 12 months starting on 1 April. The end of the period is the balance sheet date.

**Accounting Policies**

The principles, conventions, rules and practices applied that specify how transactions and other events should be reflected in the financial statements.

**Accounting standards**

Accounting standards are authoritative statements of how particular types of transactions and other events should be reflected in financial statements and accordingly compliance with accounting standards will normally be necessary for financial statements to give a true and fair view.

**Accruals**

The concept that income, and expenditure are recognised as they are earned or incurred, not as money is received or paid.

**ACE**

Assistant Chief Executives Service

**Actuary**

An actuary is an expert on pension scheme assets and liabilities. Every three years, the Actuary for the Local Government Pension Scheme determines the rate of employer contributions due to be paid to the Pension Fund.

**Actuarial Basis**

The technique applied when estimating the liabilities to be recognised for defined benefit pension schemes in the financial statements.

**Actuarial Gains**

These may arise on a defined benefit pension scheme's liabilities and assets. A gain represents a positive difference between the actuarial assumptions and actual experience (e.g. liabilities during the period were lower than estimated).

**Actuarial Losses**

These may arise on a defined benefit pension scheme's liabilities and assets. A loss represents a negative difference between the actuarial assumptions and actual experience (e.g. liabilities during the period were higher than estimated).

**Added Years**

Additional years of service awarded discretionally to increase the benefits to employees taking early retirement.

**Admitted Bodies**

Organisations that take part in the Local Government Pension Scheme with the agreement of the Pension Fund. Examples of such bodies are housing associations and companies providing services that were once provided by local authorities in the Pension Fund.

### **Agency Services**

These are services that are performed by or for another Authority or public body, where the principal (the Authority responsible for the service) reimburses the agent (the Authority carrying out the work) for the costs of the work.

### **Annual Governance Statement**

The statement gives assurance that appropriate mechanisms are in place to direct and control the activities of the Council.

### **Amortisation**

Amortisation is the equivalent of depreciation for intangible assets.

### **Apportionment**

A way of sharing costs using an appropriate method, e.g. floor area for an accommodation-related service.

### **Appropriation**

The transfer of sums to and from reserves, provisions, and balances.

### **Assets**

An item having a monetary value to the Council, e.g. property, investments or cash.

### **Assets Held for Sale**

Long term assets that are surplus to the Council's operational needs that are being actively marketed for sale with the expectation that disposal will occur within a 12 month period.

### **Assets Under Construction**

Capital expenditure on assets, where the work is incomplete.

### **Associate**

An associate is an organisation over which the Council has significant influence, but not control. An associate cannot be a subsidiary or an interest in a joint venture.

### **Audit of Accounts**

An independent examination of the Council's financial affairs.

### **Authorised Limit**

This is the maximum limit of external borrowings or other long term liabilities.

### **Available for Sale Financial Instruments Reserve**

The reserve carries the valuation surplus on those investments with a quoted market price or otherwise do not have fixed or determinable payments, which under the Code, are classified as available for sale. The surplus is the amount by which fair value exceeds historical cost.

### **Balance Sheet**

This is a financial statement that shows the financial position of the Council at a point in time, the balance sheet date, which for the Council is 31 March. It shows the value of the fixed and net current assets and long term liabilities, as well as the reserves and balances.

**Bid Price**

In the context of stock trading on a stock exchange, the bid price is the highest price a buyer of a stock is willing to pay for a share of that given stock.

**Billing Authority**

Durham County Council is the billing authority responsible for the collection of Council tax and non-domestic rates. The Council tax includes amounts for precepting authorities.

**Bonds**

A type of investment in certificates of debt issued by the government of a company. These certificates represent loans which are repayable at a future specified date with interest.

**Borrowing**

Loans from the Public Works Loans Board, and the money markets, that finance the capital programme of the Council.

**Budget**

The Council's plans and policies for the period concerned, expressed in financial terms.

**Building Schools for the Future (BSF)**

Government investment programme with the aim of rebuilding or renewing every secondary school in England over a 10-15 year period.

**Business Improvement District (BID)**

BIDs are provided for under Part 4 of the Local Government Act 2003 whereby a levy is collected from Business ratepayers to provide agreed additional services.

**Capital Adjustment Account (CAA)**

This account accumulates the write down of the historical cost of non-current assets as they are consumed by depreciation and impairments or written off on disposal. It also accumulates the resources that have been set aside to finance capital expenditure. The balance on the account represents timing differences between the amount of the historical cost of non-current assets that has been consumed and the amount that has been financed in accordance with statutory requirements.

**Capital Charge**

Charges made to local authority services to reflect the 'cost' of using non-current assets in the provision of services. The charge comprises the annual provision for depreciation. To ensure that these notional charges do not impact on local taxation they are reversed out in the Movement in Reserves Statement.

**Capital Expenditure**

Expenditure on the acquisition or construction of non-current assets that have a value to the Council for more than one year, or expenditure which adds to and not merely maintains the value of existing non-current assets.

**Capital Financing Costs**

These are the revenue costs of financing the capital programme and include the repayment of loan principal, loan interest charges, loan fees and revenue funding for capital.

### **Capital Financing Requirement (CFR)**

This sum represents the authority's underlying need to borrow for capital purposes. It is calculated by summing all items on the Balance Sheet that relate to capital expenditure, e.g. non-current assets, financing leases, government grants deferred etc. The CFR will be different to the actual borrowing of the authority. This figure is then used in the calculation of the Council's Minimum Revenue Provision.

### **Capital Grants Unapplied Account**

Grants that have been recognised as income in the Comprehensive Income and Expenditure Account (CIES) but where expenditure has not yet been incurred

### **Capital Receipts**

The proceeds from the sale of capital assets such as land, and buildings. These sums can be used to finance capital expenditure.

### **Carbon Reduction Commitment (CRC)**

The Council has to account for its obligations in relation to the purchase and surrender of CRC allowances and for the eventual settlement of the liability.

### **Carrying Amount**

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

### **CAS**

Children and Adults Services

### **Cash Flow Statement**

This Statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.

### **Chartered Institute of Public Finance and Accountancy (CIPFA)**

The principal accountancy body dealing with local government finance.

### **CLG**

Department for Communities and Local Government

### **Code**

The Code of Practice on Local Authority Accounting. A publication produced by CIPFA constituting proper accounting practice for Local Authorities.

### **Collection Fund**

An account kept by the Council into which Council tax is paid and through which national non-domestic rates pass, and which pays out money to fund expenditure from the General Fund and the precept made by the Police and Fire Authority.

### **Community Assets**

Assets held that are planned to be held forever, that have no set useful life and may have restrictions on how they can be sold or otherwise disposed of. e.g. parks, historic buildings.

### **Componentisation**

The process by which assets are analysed into various components that have significantly different estimated lives. The Council's accounting policy is detailed in paragraph 20 of the Accounting Policies.



**Comprehensive Income and Expenditure Account (CIES)**

This statement reports the net cost of services for which the Council is responsible and demonstrates how that cost has been financed.

**Constitution**

The document that sets out how the County Council operates, how decisions are made and the procedures that are followed.

**Contingency**

This is money set aside in the budget to meet the cost of unforeseen items of expenditure, or shortfalls in income.

**Contingent Asset**

Potential benefits that the Council may reap in the future due to an event that has happened in the past.

**Contingent Liabilities**

Potential costs that the Council may incur in the future due to something that has happened in the past.

**Corporate Democratic Core**

The corporate and democratic management costs are the costs of activities that local authorities undertake specifically because they are elected multi-purpose authorities. They cover corporate policy making, representing local interests, services to elected members as local representatives and duties arising from public accountability.

**Corporate Governance**

The promotion of corporate fairness, transparency, and accountability. The structure specifies the responsibilities of all stakeholders involved and the rules and procedures for making decisions.

**Council Tax**

This is a tax which is levied on the broad capital value of domestic properties, and charged to the resident or owner of the property.

**Council Tax Requirement**

This is the estimated revenue expenditure on General Fund services that needed to be financed from the Council Tax after deducting income from fees and charges, certain specific grants and any funding from reserves.

**Creditors**

Persons or bodies to whom sums are owed by the Council.

**CSR**

Comprehensive Spending Review.

**Current Service Cost**

Current Service Cost is the increase in the present value of a defined benefit pension scheme's liabilities expected to arise from employee service in the current period, i.e. the ultimate pension benefits "earned" by employees in the current year's employment.

### **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 fixed asset to the lessee. The payments usually cover the full cost of the asset, together with a return for the cost of finance.

**Financial Instrument**

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

**Financial Instruments Adjustment Account (FIAA)**

This account is an unusable reserve which absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. Transfers are made to ensure that the General Fund records the amount required by the

applicable regulations or statutory guidance, the FIAA carries the excluded surplus or deficit.

### **Financial Regulations**

These are the written code of procedures approved by the Council, intended to provide a framework for proper financial management. Financial regulations usually set out rules on accounting, audit, administrative and budgeting procedures.

### **Fitch**

Fitch Ratings is a rating agency providing credit ratings research and risk analysis of financial institutions across the world. Credit ratings are used by investors as indications of the likelihood of receiving the money owed to them in accordance with the terms on which they invested.

### **Fixed Interest Securities**

Investments in mainly government, but also company stocks, which guarantee a fixed rate of interest. The securities represent loans that are repayable at a future date but which can be traded on a recognised stock exchange before the repayment date.

### **Formula Grant**

The general government grant paid to support the revenue expenditure of local authorities. It comprises Revenue Support Grant and redistributed National Non-Domestic Rates. It is distributed by formula through the Local Government Finance Settlement.

### **Foundation Schools**

Foundation Schools are run by their governing body and they employ the staff. Land and buildings are usually owned by the governing body or a charitable foundation.

### **Funding Strategy Statement**

The Funding Strategy Statement is a clear and transparent fund-specific strategy which identifies how employers' pension liabilities are best met going forward; supports the regulatory requirement to maintain as nearly constant employer contribution rates as possible; and takes a prudent longer-term view of funding the Fund's liabilities. The single strategy for all employers in the Fund is implemented and maintained by Administering Authority.

### **Futures**

A contract made to purchase, or sell an asset at an agreed price on a specified future date.

### **GAAP**

Generally Accepted Accounting Practice.

### **General Fund**

This is the main revenue fund of the Authority and includes the net cost of all services financed by local taxpayers and Government grants.

### **Going Concern**

The assumption that an organisation is financially viable, and will continue to operate for the foreseeable future.

**Government Grants**

Assistance by Government and inter-government agencies etc., whether local, national or international, in the form of cash or transfer of assets towards the activities of the Council.

**Group Accounts**

Many local authorities now provide services through partner organisations. Where an authority has material financial interests or a significant level of control over one or more entities it should prepare Group Accounts.

**Heritage Assets**

This is a separate class of asset (land, building, or artefact/exhibit) that is held principally for its contribution to knowledge or culture and meets the definition of a heritage asset.

**Highways Network Asset**

A grouping of interconnected components, expenditure on which is only recoverable by continued use of the asset created, i.e. there is no prospect of sale or alternative use. Components include carriageways, footways and cycletracks, structures, street lighting, street furniture, traffic management systems and land.

**Historical Cost**

The original purchase cost of an asset.

**Housing Benefit**

A system of financial assistance to individuals towards certain housing costs administered by Local Authorities and subsidised by central Government.

**Housing Revenue Account (HRA)**

This is a separate account to the General Fund, which includes the expenditure and income arising from the provision of housing accommodation by the Authority. The HRA is ring-fenced: no cross subsidy is allowed between the HRA and General Fund.

**IAS**

International Accounting Standard – regulations outlining the method of accounting for activities, currently being replaced by International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

**ICT**

Information and Communications Technology

**IFRIC**

Interpretations originated from the International Financial Reporting Interpretations Committee.

**IFRS**

International Financial Reporting Standards – issued and set by the International Accounting Standards Board (IASB). These are standards that companies and organisations follow when compiling their financial statements. They have been adapted to apply to local authorities and are consolidated in the Code of Practice on Local Authority Accounting (the Code). The Code applied to the Council's Statement of Accounts for the first time in 2010/11.

### **Impairment**

Impairment of an asset is caused either by a consumption of economic benefits e.g. physical damage (e.g. fire at a building) or deterioration in the quality of the service provided by the asset (e.g. a school closing and becoming a storage facility). A general fall in prices of a particular asset or type of asset is treated as a revaluation.

### **Index Linked Securities**

Investments in government stock that guarantee a rate of interest linked to the rate of inflation. These securities represent loans to government which can be traded on recognised stock exchanges.

### **Infrastructure Assets**

A fixed asset that cannot be taken away or transferred, and which can only continue to benefit from it being used. Infrastructure includes roads and bridges.

### **Intangible Assets**

Intangible assets do not have physical substance but are identifiable and controlled by the authority through custody or legal rights, for example software licences.

### **Intangible Heritage Asset**

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

### **Inventory**

Items of raw materials, work in progress or finished goods held at the financial year end, valued at the lower of cost or net realisable value.

### **Investment**

An asset which is purchased with a view to making money by providing income, capital appreciation, or both.

### **Investment Properties**

Interest in land and/or buildings in respect of which construction work and development have been completed and which are held for their investment potential rather than for operational purposes, any rental income being negotiated at arm's length.

### **IPSAS**

International Public Sector Accounting Standards Board.

### **Joint Venture**

An entity in which the reporting authority has an interest on a long term basis and is jointly controlled by the reporting authority and one or more entities under a contractual or other binding arrangement.

### **LAAP Bulletin**

CIPFA's Local Authority Accounting Panel (LAAP) periodically issues bulletins to local authority practitioners, providing guidance on topical issues and accounting developments and, when appropriate, clarification on the detailed accounting requirements.

### **Large Scale Voluntary Transfer (LSVT)**

A Large Scale Voluntary Transfer (LSVT) involves the council transferring ownership of its homes with the agreement of its tenants to a new or existing Registered Provider.

**Leasing**

A method of funding expenditure by payment over a defined period of time. An operating lease is similar to renting; the ownership of the asset remains with the lessor and the transaction does not fall within the capital system. A finance lease transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee and falls within the capital system.

**Levy**

A levy is a charge made by one statutory body to another in order to meet the net cost of its services, e.g. payments to the Environment Agency for flood defence and land drainage purposes.

**Liabilities**

An obligation to transfer economic benefits. Current liabilities are usually payable within one year.

**LGR**

Local Government Re-organisation.

**Long-Term Investments**

Investments intended to be held for use on a continuing basis in the activities of the Council where that intention can be clearly demonstrated or where there are restrictions on the ability to dispose of the investment.

**Major Repairs Allowance (MRA)**

The MRA was an element of housing subsidy, and represented the capital cost of keeping HRA dwellings stock in its current condition. It largely replaced credit approvals as a means of financing HRA capital expenditure.

**Managed Funds**

A type of investment where a number of investors pool their money into a fund, which is then invested by a fund manager.

**Materiality**

An expression of the relative significance of a particular issue in the context of the organisation as a whole.

**Market Value**

The monetary value of an asset as determined by current market conditions.

**Mid-Market Price**

The mid-point between the bid price and the offer price for a security based on quotations for transactions of normal market size by recognised market-makers or recognised trading exchanges.

**Minimum Revenue Provision (MRP)**

The minimum amount, which must be charged to revenue in the year, for the repayment of debt (credit liabilities and credit arrangements). The formula for calculating this amount is specified in legislation and requires authorities to make an annual provision of 4% of its underlying need to borrow. In addition, authorities can choose to make additional provision, known as a voluntary set-aside.

### **Minority Interest**

The interest in a subsidiary entity that is attributable to the share held by, or on behalf of persons other than the reporting authority.

### **Moody's**

Moody's Investor Service is a rating agency, providing credit ratings, research, and risk analysis of financial institutions across the world. Credit ratings are used by investors as indications of the likelihood of receiving the money owed to them in accordance with the terms on which they invested.

### **Movement in Reserves Statement**

This statement is a summary of the changes that have taken place in the bottom half of the balance sheet over the financial year. It shows the movement in reserves held by the Council analysed into 'usable' reserves and 'unusable' reserves.

### **MTFP**

Medium Term Financial Plan.

### **Myners' Principles**

A set of ten principles issued by Government which Pension Schemes are required to consider and to which they must publish their degree of compliance.

### **National Non-Domestic Rates (NNDR)**

The means by which local businesses contribute, to the cost of providing local authority services. The rates are paid into a central pool which is divided between all authorities as part of Formula Grant.

### **Net Book Value**

The amount at which non-current assets are included in the Balance Sheet. It represents historical cost or current value less the cumulative amounts provided for depreciation or impairment.

### **Net Cost of Service**

The actual cost of a service to the Council after taking account of all income charged for services provided. The net cost of service reflects capital charges and credits for government grants deferred made to services to reflect the cost of employing non-current assets.

### **Net Debt**

Net debt is the Council's borrowings less cash and liquid resources.

### **Net Expenditure**

The actual cost of a service to the Council after taking account of all income charged for services provided.

### **Net Realisable Value**

The expected sale price of stock, in the condition in which it is expected to be sold. This may be less than cost due to deterioration, obsolescence or changes in demand.

### **Non Current Assets**

Tangible or intangible assets that yield benefits to the authority and the services it provides for a period of more than one year. Tangible assets have physical substance, for example



land, buildings and vehicles. Intangible assets do not have physical substance but are identifiable and controlled by the authority through custody or legal rights, for example software licences.

**Non Distributed Costs**

These are overheads from which no service user benefits. They include the costs associated with unused assets and certain pension costs.

**Non-Operational Assets**

Non-operational assets are those held by an authority but not directly occupied, used or consumed in the delivery of services, or for the service or strategic objectives of the authority. Examples include; assets under construction, land awaiting development, commercial property, investment property, and surplus assets held for disposal.

**Operating Lease**

A lease where the asset concerned is returned to the lessor at the end of the period of the lease.

**Operational Assets**

Property, plant and equipment held and occupied, used or consumed by the authority in the direct delivery of those services for which it has either a statutory or discretionary responsibility.

**Operational Boundary**

This is the expected level of debt and other long term liabilities during the year.

**Outturn**

Actual expenditure within a particular year.

**Past Service Cost**

The increase in the present value of Pension Fund liabilities related to employees' service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits or other long-term employee benefits. Past service costs may be either positive, where benefits are introduced or improved) or negative (where existing benefits are reduced).

**Portfolio**

A number of different assets considered and managed as a whole by an investment manager, to an agreed performance specification.

**Precept**

An amount charged by another Authority to the Councils Collection Fund. There are two major preceptors in Durham County Councils collection fund: the Police and Fire Authorities.

**Precept Income**

County Councils obtain part of their income from precepts levied on the district councils in their area. Precepts, based on the council tax base of each district council, are levied on a collection fund, administered separately by each district council.

### **Prior Period Adjustment (PPA)**

Those material adjustments relating to prior years accounts, that are reported in subsequent years arising from changes in accounting policies or from the correction of fundamental errors. They do not include minor corrections or adjustments of accounting estimates made in prior years.

### **Private Finance Initiative (PFI)**

A government initiative that enables authorities to carry out capital projects, in partnership with the private sector, through the provision of financial support.

### **Property, Plant and Equipment (PPE)**

Property, Plant and Equipment covers all assets with physical substance (tangible assets) that are held for use in the production or supply of goods and services, for rental to others, or for administrative purposes, and expected to be used during more than one period.

### **Provisions**

Provisions represent sums set aside to meet any specific future liabilities or losses arising from contractual obligations or as a result of past events. These events are likely or certain to be incurred and a reliable estimate can be made of the amount of the obligation.

### **Prudential Code**

The Government removed capital controls on borrowing and credit arrangements with effect from 1st April 2004 and replaced them with a Prudential Code under which each local authority determines its own affordable level of borrowing. The Prudential Code requires authorities to set specific prudential indicators on an annual basis.

### **Public Works Loans Board (PWLB)**

A government agency providing long and short-term loans to local authorities at interest rates only slightly higher than those at which Government itself can borrow.

### **RED**

Regeneration and Economic Development Service.

### **Related Party**

A related party transaction is the transfer of assets or liabilities or the performance of services by, to or for a related party irrespective of whether a charge is made.

### **Remuneration**

Includes taxable salary payments to employees less employees' pension contributions, together with non-taxable payments when employment ends (including redundancy, pension enhancement payments, and pay in lieu of notice), taxable expense allowances and any other taxable benefits.

### **Reporting Standards**

The Code of Practice prescribes the accounting treatment and disclosures for all normal transactions of a Local Authority. It is based on International Financial Reporting Standards (IFRS), International Standards (IAS) and International Financial Reporting Interpretations Committee (IFRIC) plus UK Generally Accepted Accounting Practice (GAAP) and Financial Reporting Standards (FRS).

**Reserves**

Sums set aside to fund specific future purposes rather than to fund past events. There are two types of reserve, 'usable' reserves and 'unusable' reserves.

**Revaluation Reserve**

The Revaluation Reserve records the accumulated gains on the non-current assets held by the Council arising from increases in value, as a result of inflation or other factors (to the extent that these gains have not been consumed by subsequent downward movements in value). The overall balance on the Reserve represents the amount by which the current value of non-current assets carried in the Balance Sheet is greater because they are carried at revalued amounts rather than depreciated historical cost.

**Revenue Contributions**

See 'Direct Revenue Financing'

**Revenue Expenditure and Income**

Expenditure and income arising from the day-to-day operation of the Council's services, such as salaries, wages, utility costs, repairs, and maintenance.

**Revenue Expenditure Funded from Capital Under Statute (REFCUS)**

Expenditure that legislation allows to be classified as capital for funding purposes. However, it does not result in the expenditure being shown in the Balance Sheet as a fixed asset. This expenditure is charged to the relevant Service revenue account in the year.

Examples of this are grants and financial assistance to others, expenditure on assets not owned by the Council and amounts directed by the Government.

**Revenue Support Grant (RSG)**

A Government grant that can be used to finance expenditure on any service.

**RICS**

Royal Institution of Chartered Surveyors

**Section 151 Officer**

The officer designated under Section 151 of the Local Government Act 1972 to have overall responsibility for the administration of the financial affairs of the Council and the preparation of the Council's Statement of Accounts.

**Service Reporting Code of Practice (SeRCOP)**

The Code of Practice provides guidance to Local Authorities on financial reporting. It details standard definitions of services and total cost, which allows direct comparisons of financial information to be made with other local authorities.

**Specific Grant**

A revenue government grant distributed outside of the main Local Government Finance Settlement. Some specific grants are ring-fenced to control local authority spending. Others are unfenced and there are no restrictions as to how they are spent.

**Statement of Investment Principles (SIP)**

The Statement of Investment Principles details the policy which controls how a pension fund invests.

### **Subsidiary**

An entity is a subsidiary of a reporting entity if the authority is able to exercise control over the operating and financial policies of the entity and is able to gain benefits or be exposed to risk of potential losses from this control.

### **Supported Capital Expenditure (SCE)**

SCEs represent the amount of capital expenditure that the Government will support through the provision of revenue grant to cover the cost of borrowing, i.e. repayments of principal and interest.

### **Surplus**

Arises when income exceeds expenditure or when expenditure is less than available budget.

### **Surplus Properties**

Those properties that are not used in service delivery, but do not meet the classification of investment properties or assets held for sale.

### **Tangible Heritage Asset**

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

### **Tenanted Market Value**

The transfer price a Registered Provider will pay for the housing stock it acquires through a Large Scale Voluntary Transfer.

### **Transfer Agreement – Housing Stock Transfer**

The Transfer Agreement is the contract which sets out the rights, responsibilities, covenants and requirements of Durham County Council, and County Durham Housing Group (CDHG). It also contains all the necessary arrangements to enable CDHG to receive and manage the properties and the Council to enforce all the promises made to tenants during the consultation period. The Transfer Agreement takes the form of a contract for sale with numerous schedules and annexes containing supporting information.

### **Transfer Values**

Amounts paid to or received from other local and public authorities, private occupational or personal pension schemes in respect of pension rights already accumulated by employees transferring from or to the participating authorities.

### **Treasury Management Policy and Strategy**

A plan outlining the Council's approach to treasury management activities. This includes setting borrowing and investment limits to be followed for the following year and is published annually in the Medium Term Financial Plan document.

### **Trust Funds**

Funds established from donations or bequests usually for the purpose of providing educational prizes and scholarships.

**Unit Trusts**

A pooled fund in which small investors can buy, and sell units. The pooled Fund then purchases investments, the returns on which are passed on to the unit holders. It enables a broader spread of investments than investors could achieve individually.

**Unsupported (Prudential) Borrowing**

This is borrowing for which no financial support is provided by Central Government. The borrowing costs are to be met from current revenue budgets.

**Unusable Reserves**

Unusable reserves are reserves that the Council are not able to use to provide services, such as the revaluation reserve that arise from accounting requirements.

**Usable Capital Receipts Reserve**

Represents the resources held by the Council from the sale of non-current assets that are yet to be spent on other capital projects.

**Usable Reserves**

Usable reserves are reserves that the Council may use to provide services subject to the need to retain prudent levels of reserves and any statutory limitations to their use. Usable reserves include Earmarked Reserves and the General Reserve.

**Useful Life**

The period in which an asset is expected to be useful to the Council.

**Variance**

The difference between budgeted expenditure and actual outturn also referred to as an over or under spend.

**Work-in-Progress**

The value of rechargeable work that had not been recharged at the end of the financial year.