



I hope that this document proves to be both informative and of interest to readers. It is important to try to improve the quality and suitability of information provided and feedback is welcomed.

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## 1. INTRODUCTION

This document presents the published accounts for Durham County Council for the year ended 31<sup>st</sup> March 2009 - the 'Statement of Accounts'. It is an important element in demonstrating the County Council's stewardship of public money. It shows the resources available and how they have been used to deliver services in County Durham.

This Statement of Accounts for the financial year 2008/09 is prepared in accordance with the 'Accounts and Audit Regulations 2003', as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 and the 2008 'Code of Practice on Local Authority Accounting in the United Kingdom', as updated and published by the Chartered Institute of Public Finance and Accountancy (CIPFA). The County Council is legally required to follow this Code of Practice. Explanatory notes are included to assist in the interpretation of the accounts, which are unavoidably technical and complex.

In summary, the County Council's net operating expenditure to be met from Government grant and council taxpayers during the year was £422.579m and capital spending on tangible and intangible fixed assets was £87.159m.

Those reserves which are earmarked for specific purposes, and are not therefore available for general use, decreased from £79.723m to £62.709m and general reserves increased from £21.132m to £28.127m during 2008/09. The balance of general reserves remaining with the County Council represents 8.8% of the County Council's budget requirement for 2008/09.

The Statement also includes the 2008/09 accounts for the Durham County Council Pension Fund, for which Durham County Council is the administering authority.

## 2. INFORMATION AND FINANCIAL STATEMENTS

The purpose of this explanatory foreword is to provide a clear guide to the most significant matters reported in the accounts. It explains the purpose of the financial statements that follow and provides a summary of the Council's financial activities during 2008/09 together with its financial position at 31<sup>st</sup> March 2009.

The information and financial statements are as follows:

### **AUDITOR'S REPORT (Page 14)**

The Report of the Auditor on the County Council's Accounts and the Durham County Council Pension Fund Accounts for the year ended 31<sup>st</sup> March 2009.

### **STATEMENT OF ACCOUNTING POLICIES (Page 18)**

Showing the policies and procedures adopted in compiling the Accounts.

### **INCOME AND EXPENDITURE ACCOUNT (Page 26)**

Provides a summary of the resources generated and consumed by the County Council in the year.

### **STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE (Page 27)**

This reconciliation statement summarises how the balance of resources generated or consumed in the year links with the statutory requirement for raising council tax.

### **STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES (Page 28)**

This reconciliation brings together all the gains and losses of the Council for the year and shows the aggregate movement in the net worth in the Balance Sheet.

### **BALANCE SHEET (Page 29)**

Showing the financial position of the County Council at 31<sup>st</sup> March 2009 (excluding the Pension Fund and other Trust Funds).

### **CASH FLOW STATEMENT (Page 30)**

Summarising the inflows and outflows of cash arising from transactions with other parties for revenue and capital purposes.

**NOTES TO THE CORE FINANCIAL STATEMENTS (Page 33)**

**GROUP FINANCIAL STATEMENTS (Page 68)**

Presents the overall picture of the Council's financial activities and the resources employed. As Durham County Council chooses to conduct some of its activities through a variety of undertakings, full understanding of its financial activities requires group financial statements to be prepared.

**DURHAM COUNTY COUNCIL PENSION FUND ACCOUNTS (Page 80)**

Showing the operation and membership of the Fund, the expenditure and income during the year and its financial position at 31<sup>st</sup> March 2009. Following the Accounts are notes providing further information.

**STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS (Page 92)**

Setting out the responsibilities of the Council and the Corporate Director - Resources.

**ANNUAL GOVERNANCE STATEMENT (Page 93)**

Gives assurance that appropriate mechanisms are in place for the maintenance of good governance across the activities of the County Council.

**GLOSSARY OF TERMS (Page 103)**

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

**3. A REVIEW OF 2008/09 - REVENUE**

The analysis below summarises the information shown in the Income and Expenditure Account which appears on page 25.

Where the money comes from:

	<b>2007/08</b>	<b>2008/09</b>
	<b>£000</b>	<b>£000</b>
Specific Government Grants	410,606	395,756
Income from Fees and Charges	111,261	117,697
<b>Net Cost of Services</b>	<b>521,867</b>	<b>513,453</b>
Income from Fees and Charges	5,539	8,149
Gain on disposal of fixed assets	-	2,845
Interest and Dividends	7,824	7,426
Contribution to debt charges	-	258
<b>Net Operating Expenditure</b>	<b>13,363</b>	<b>18,678</b>
Revenue Support Grant	20,207	19,736
Area Based Grant	-	30,111
LABGI Grant	1,427	411
NNDR	120,410	141,771
Precepts	152,515	159,069
<b>General sources of income</b>	<b>294,559</b>	<b>351,098</b>
<b>Total income for year</b>	<b>829,789</b>	<b>883,229</b>

How it was spent:

	2007/08 £000	2008/09 £000
Children's and Education Services	517,200	561,127
Adult Social Care and Supporting People	198,556	223,641
Highways and Transportation	45,472	51,742
Cultural and Related Services	14,999	16,214
Environmental Services	22,641	21,425
Other Services	39,540	43,903
<b>Net Cost of Services</b>	<b>838,408</b>	<b>918,052</b>
Precepts and levies	290	413
Other operating expenditure (Trading accounts)	2,915	8,230
FRS17 pension cost adjustment	3,270	19,990
Interest payable	8,068	8,025
Loss on disposal of fixed assets	8,348	-
<b>Net Operating Expenditure</b>	<b>22,891</b>	<b>36,658</b>
<b>Total expenditure for year</b>	<b>861,299</b>	<b>954,710</b>
<b>(-) Surplus / deficit for year</b>	<b>31,510</b>	<b>71,481</b>

What it was spent on:

	2007/08 £000	2008/09 £000
Employees	467,605	491,073
Running expenses	377,278	455,612
Interest payable	8,068	8,025
Loss on disposal of fixed assets	8,348	-
	<b>861,299</b>	<b>954,710</b>

The County Council's net revenue budget for 2008/09 was £372.906m which, after a contribution from reserves of £22.219m and Area Based Grant of £30.111m, left £320.576m to be financed from Formula Grant and Council Tax.

Formula Grant, comprising Revenue Support Grant and redistributed National Non Domestic Rates funded 50% of the budget requirement, the balance of 50% coming from council tax.

The 2008/09 Band D council tax was £1,024.38 and this helped to provide services to deliver our priorities, which were:

For Healthier Communities:

- Maintained 2,157 miles of footpaths, bridleways and byways and 68 miles of railway paths
- Safeguarded and promoted the welfare of children and young people
- Supported families and prevented family breakdown

For Safer Communities:

- Helped over 20,000 vulnerable people to live in their own homes
- Cared for more than 3,500 people in residential and nursing care
- Provided more than 2.5 million hours of home care each year
- Protected vulnerable children, young people and adults from abuse and harm
- Maintained 79,235 streetlights, 5,749 lit signs, 575 road bridges and 479 footbridges
- Promoted safer communities through partnership working.

## Explanatory Foreword

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To help people enjoy, achieve and make a positive contribution:

- Received around 3.5 million visits to libraries and attractions
- Improved opportunities for children and young people
- Educated 68,000 pupils in 287 schools
- Provided learning opportunities from three years old
- Improved test and exam results

For Economic Wellbeing

- Helped businesses create new jobs
- Promoted economic development and managed funding programmes
- Promoted a safe and fair trading environment

For an Improved Environment

- Handled 260,000 tonnes of household waste annually, of which 30% was recycled or composted.
- Maintained 2,306 miles of roads, improved the transport network and bus services

Under the harder test Comprehensive Performance Assessment (CPA), councils have received an overall performance category ranging from 0 to 4 stars, with 4 stars being the highest. There is also a 'Direction of Travel Statement' which gives an assessment of where each council's performance is heading, grading the direction of improvement as either 'improving strongly', 'improving well', 'improving adequately' or 'not improving adequately (or not improving)'. The Audit Commission issued their final assessments under the CPA harder test in February 2009.

Since 2004, we have been judged by the Audit Commission as a top performing Council and again in February 2009 we were judged to be a four star council which is 'improving well'. Although it is good to be one of the best authorities, CPA has helped to focus the County Council on areas for improvement, and to put into place plans to continue to enhance the quality of services provided.

One part of the CPA assessment, the annual Use of Resources (UoR) assessment, evaluates how well councils manage and use their financial resources. The assessment focuses on the importance of having sound and strategic financial management to ensure that resources are available to support the Council's priorities and improve services, covering five themes. The County Council scored 3 'Consistently above minimum requirements – performing well' for Use of Resources.



**COMPARISON TO ORIGINAL BUDGET**

**Extract from Income and Expenditure Account**

The following tables analyse the movement in reserves balances compared to original budget.

	<b>Original Budget £000</b>	<b>Actuals £000</b>	<b>Variance £000</b>
Children's and Education Services	96,753	140,913	-44,160
Adult Social Care	148,879	159,261	-10,382
Highways and Transportation	34,098	36,476	-2,378
Cultural and Related Services	10,827	12,352	-1,525
Environmental Services	20,282	19,521	761
Other Services	51,147	36,076	15,071
<b>NET COST OF SERVICES</b>	<b>361,986</b>	<b>404,599</b>	<b>-42,613</b>
Precepts	281	413	-132
Surplus or deficit on trading activities not included in Net Cost of Services	-2,546	1,296	-3,842
Insurance uncertain liabilities	-	-1,215	1,215
Interest payable and similar charges	7,955	8,025	-70
Contribution to debt charges	-	-258	258
Gain/Loss on disposal of fixed assets	-	-2,845	2,845
Interest and investment income	-3,842	-7,426	3,584
Pension interest costs and expected return on pension assets	19,990	19,990	-
<b>NET OPERATING EXPENDITURE</b>	<b>383,824</b>	<b>422,579</b>	<b>-38,755</b>
Demand on the Collection Fund	-159,069	-159,069	-
General government grants	-47,116	-50,258	3,142
Non-domestic rates redistribution	-141,771	-141,771	-
<b>SURPLUS (-) / DEFICIT FOR THE YEAR</b>	<b>35,868</b>	<b>71,481</b>	<b>-35,613</b>
<b>Reconciling transaction</b>	<b>-36,364</b>	<b>-78,476</b>	<b>42,112</b>
<b>Net change on General Fund Balance</b>	<b>-496</b>	<b>-6,995</b>	<b>6,499</b>

Extract from Note on Reconciling Items for the Statement of Movement on General Fund Balance

	Original Budget £000	2008/09 £000	Variance £000
<b>Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the General Fund Balance for the year</b>			
Gain/loss on sale of fixed assets	-	2,845	-2,845
Amortisation of intangible fixed assets	-59	-176	117
Depreciation and impairment of fixed assets	-21,406	-81,453	60,047
Government Grants deferred amortisation	4,224	14,155	-9,931
Revenue Expenditure Funded from Capital under Statute	-	-4,509	4,509
Revenue Grants and Contributions relating to REFCUS	-	2,323	-2,323
Net charges made for retirement benefits in accordance with FRS17	-47,650	-47,650	-
	-64,891	-114,465	49,574
<b>Amounts not included in the Income and Expenditure Account but required to be included by statute when determining the Movement on the General Fund Balance for the year</b>			
Minimum revenue provision for capital financing	11,766	9,426	2,340
Capital Expenditure charged in year to the General Fund	1,547	5,647	-4,100
Employers contributions payable to the Durham County Council Pension Fund and retirement benefits payable direct to Pensioners	37,929	37,929	-
	51,242	53,002	-1,760
<b>Transfers to or from the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund balance for the year</b>			
Net transfer to or from earmarked reserves	-22,715	-17,013	-5,702
	-22,715	-17,013	-5,702
<b>Net additional amount required to be (-) credited or debited to the General Fund balance for the year</b>	-36,364	-78,476	42,112

During 2008/09 the national and international economic climate worsened dramatically. Short-term interest rates effectively collapsed as financial institutions came under significant pressure and the level of economic activity slowed. The immediate impact on the County Council was the reduced returns on short-term lending. This was partially offset by higher returns earlier in the year.

For 2009/10, the budget reflects the assessment, in February 2009, of the effect of the economic climate for the new unitary County Council. On-going low levels of interest meant that a potential shortfall in income of over £10m had to be addressed as part of the budget for 2009/10. Levels of reserves were deemed to be appropriate as the budget for 2009/10 was prepared and it has proved possible to add to the General Reserve at the end of 2008/09.

The County Council spent £422.579m during 2008/09. At Net Cost of Service level there is an over spending in the County Council's services of £42.613m compared to original budget.

Payments have been made in settlement of Equal Pay claims, and provision has been made for amounts which are due, but to be paid in 2009/10. The amount across services is £28.989m, which is shown as an over spending but is met from an earmarked reserve. An amount of

£3.502m remains in an earmarked reserve to meet the costs associated with job evaluation for non-schools' employees and £4.892m has been earmarked in schools' reserves.

CIPFA's Statement of Recommended Practice (SORP) requires that losses in value that assets have suffered during the year are charged to services' revenue expenditure. The values of the County Council's assets have been re-assessed in 2008/09 in light of the downturn in the property market. The Valuer has determined that there has been a decrease in the total valuation sum due to a fall in residual land values. The impairment of assets totals £90.930m. Where the asset has no revaluation reserve impairment, this has an impact on the Income and Expenditure account. This impact is £40.744m.

After removing the effects of Equal Pay settlements and impairment of fixed assets, the major variances from original budgets within services are as follows:

Children's and Education Services have under spent within the LEA part of Dedicated Schools Grant (DSG). This will be needed in future years as the costs of BSF are incurred. Outside of DSG, additional planning costs have been incurred for BSF and on agency placements for Looked After and Children in Need.

Adult Social Care and Supporting People under spent due to the change in timing of the recognition of income receivable, reduced nursing care costs, vacant posts due to a service restructure and the run up to LGR and delays in investing growth allocated in 2008/09 budget.

Highways and Transportation over spent due to increased energy costs for street lighting, increased fuel costs particularly in Subsidised Public Service contracts and increased winter maintenance costs due to pre-salting. These were partially offset due to lower public liability insurance charges and staff vacancies in the transitional LGR period.

Within other Services, Corporate Services were over spent due to additional costs associated with Democratic Representation due to LGR, as well as the LGR Programme Office. The Chief Executives Office was under spent due to vacant posts leading up to LGR. Finance and Other Services over spent due to additional costs associated with LGR and the DRIVE project.

The overspend at 'Net Operating Expenditure' level decreases due to higher than anticipated interest and investment income of £3.531m, as well as the gain on a sale of a fixed asset, although this is partially offset by the deficit on the trading activities.

Finally, grants from government exceeded the original budget by £3.142m, as the amount received in Area Based Grants exceeded that allocated to the County Council, at the time the budget was set, by £2.731m, and the Council had not budgeted for Local Authority Business Growth Initiatives grant of £0.411m. This gives an overall net over spend of £35.613m before the reconciling transaction from the Statement of Movement in the General Fund Balance is added.

The reconciling transaction of £42.112m is analysed in the extract from the 'Note on reconciling items for the Statement of Movement on the General Fund Balance'. It is made up of a transfer from earmarked reserves of £17.013m, compared to an original budget of £22.715m use of reserves; and the net effect of the reversal of capital charges to ensure that these items have no impact on the amount required from Council Tax payers. This note also shows that capital financing charges are £1.760m more than anticipated due to additional items of capital expenditure identified in 2008/09 being financed directly from revenue.

The transfer of £17.013m from earmarked reserves is, in the main, to fund the Equal Pay settlement payments that have been made in 2008/09. An earmarked reserve had been established for this purpose in previous years. The general reserve has increased by £6.995m during 2008/09. The schools' balances, which are retained at the discretion of governing bodies, have decreased by £7.689m from £25.490m as at 31<sup>st</sup> March 2008 to £17.801m as at 31<sup>st</sup> March 2009, due to schools using reserves for the settlement of Equal Pay claims.

Although these charges are significant and were not included in the original budget, they are reversed out through the note on reconciling items as part of the capital charges and have no effect.

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The impact of these and the other entries in the note on reconciling items leads to an under spend of £6.995m which is transferred to the General Reserve.

Under the 2008 SORP, the County Council has adopted the amendment to FRS17, Retirement Benefits. See Note 20 Changes in Accounting Policies on page 23 for details of the effect of this.

### 4. REVIEW OF 2008/09 – CAPITAL

The table below shows the capital expenditure, by service, in 2008/09. Capital expenditure for 2008/09 was £87.2m; £16.4m less than original budget. £45.7m was invested in Children's and Education Services, £22.1m in Highways and Transportation, £12m in Planning and Development, £2.1m in Adult Social Care and £5.3m in other services.

The table below provides a summary of original budget and actual expenditure:

Service	Original Budget	Outturn	Variance - Outturn v Original Budget
	£000	£000	£000
Children's and Education Services	58,579	45,651	-12,928
Adult Social Care	6,521	2,055	-4,466
Highways and Transportation	19,747	22,145	2,398
Planning and Development	9,263	11,989	2,726
Culture and Related Services	578	593	15
Environmental Services	1,238	897	-341
Central Services to the Public	-	20	20
Other Services	6,564	3,373	-3,191
Service Direct	750	436	-314
Unallocated	351	-	-351
<b>TOTAL</b>	<b>103,591</b>	<b>87,159</b>	<b>-16,432</b>

Explanations for differences between original budget and actual:

	£000
Original Budget	103,591
Add	
Slippage from previous years	23,783
Less	
Slippage to/from future years	-39,662
Revisions in year	-553
	<u>87,159</u>

The major sources of financing of the capital programme are £22.6m from external borrowing, £44.8m from capital grants and contributions, capital receipts of £14.2m and £1.2m of direct revenue funding and the use of reserves. The Dedicated Schools Grant (DSG) has been used to finance £4.4m of capital expenditure in schools.

## 5. MATERIAL ASSETS ACQUIRED, LIABILITIES INCURRED AND BORROWING

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

	Expenditure in 2008/09 £000
Children's Centres	3,443
Seascope Primary, Peterlee – new school	4,062
Seaham Trinity Primary - new school	2,931
Schools - other modernisation schemes	1,686
Durham Johnston - replacement school	15,366
Schools - structural maintenance of buildings	3,154
Schools - schemes funded from capital budgets delegated to schools (including revenue expenditure funded from capital under statute of £363k)	8,940
Other schools schemes	2,514
 Travellers Sites	 1,019
 A688 Wheatley Hill to Bowburn	 4,845
A167 Capitalised Maintenance	2,273
Other Highways & Transportation schemes	14,645
Environment Improvement schemes	2,639
Hardwick Hall Country Park	1,169
 Netpark	 4,620
Stainton Grove Industrial Estate	1,041
 Replacement Enterprise Resource Planning system	 1,027
Structural maintenance of buildings (non schools)	1,149
Vehicles, plant, furniture & equipment	4,588
 Revenue expenditure funded from capital under statute (other than schools' delegated)	 4,161

The total borrowing at 31<sup>st</sup> March 2009 was £172.8m. £1.1m of the total is due to be repaid by Durham Police Authority. An analysis of loans outstanding is shown in Note 23.

## 6. PENSIONS COSTS

The pensions liability disclosed in the Balance Sheet, which shows the underlying commitment that the County Council has to pay future retirement benefits, has a substantial impact on the net worth of the County Council as reported in the Balance Sheet. However, statutory arrangements mean that the deficit on the Pension Fund will be made good by, amongst other things, increased contributions over the working life of employees, as assessed by the Fund actuary.

## 7. CHANGES IN STATUTORY FUNCTIONS

There were no major changes in statutory functions during the year.

## 8. PLANNED FUTURE DEVELOPMENTS IN SERVICE DELIVERY

The Council intends to continue its policy of making appropriate revenue and capital investments to respond to statutory requirements and identified needs for the maintenance and development of the delivery of services, taking into account the resources available to it.

Building Schools for the Future is a government initiative which aims to transform secondary education through the renewal and refurbishment of schools over the next 10 to 15 years. In

## **Explanatory Foreword**

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2008/09 the County Council was engaged in the preparatory stages and the first schools are expected to be completed in 2010/11.

In 2009/10 the new unitary Durham County Council will establish Area Action Partnerships (AAP) aimed at identifying and tackling issues in local communities. There are 14 partnerships, each with a Board made up of elected members from organisations such as the county council, town and parish councils, and health, police and fire brigade, community and voluntary groups, and the public.

Each AAP has a budget of £150,000 for local projects and investments, as well as an administration budget for staffing. This will be in addition to the £33,000 per county councillor that will be used for local initiatives, which will be informed by the AAPs.

### **9. SOURCES OF FUNDS TO MEET CAPITAL EXPENDITURE AND OTHER PLANS**

Funding for expenditure on capital assets comes from a number of sources. Some of this expenditure is financed by loans, mainly provided by the Public Works Loans Board. Other sources of finance include grants and contributions from central government and other public bodies and the income received when surplus capital assets are sold. Capital expenditure can also be financed by contributions made directly from revenue.

Local authorities have the power to decide for themselves how much to borrow to finance capital expenditure. This power was given to local authorities on 1st April 2004, prior to which authorities could only borrow with the approval of central government, which then provided revenue support to fund the cost of repaying this borrowing and associated interest payments. Central government still provides revenue support in this way and borrowing, for which such funding has been provided, is known as supported borrowing. Local authorities can also choose to undertake additional borrowing, known as unsupported borrowing, for which there is no government support. In deciding whether it can afford to undertake such borrowing, local authorities must follow the requirements of the Prudential Code for Capital Finance in Local Authorities, issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

At 31<sup>st</sup> March 2009, usable capital receipts of £11.2m and unapplied capital grants and contributions of £9.2m (included in Receipts in Advance) were held. These sums, together with other capital resources such as future supported borrowing, will be used to finance the Council's approved capital programme, which is subject to rolling review.

Reserves and provisions of a revenue nature, totalling £106.2m, were also held as at 31<sup>st</sup> March 2009. These are detailed in note 26 and 27 to the Core Financial Statements.

### **10. LOCAL GOVERNMENT REORGANISATION**

The introduction of the Local Government White Paper - Strong and Prosperous Communities - in October 2006 enabled Durham County Council to prepare a successful bid submission to propose a Unitary Authority for County Durham.

On 25th February 2008, it was agreed by Parliament that a single unitary council for County Durham would replace the existing County and District Councils in County Durham with effect from 1st April 2009. All rights and obligations of the existing council will vest in the new council.

On 1st May 2008, elections were held to elect new Members to the County Council and these Members formed the new Unitary Council for Durham on 1st April 2009.

The Local Government Re-organisation (LGR) Programme was launched early in 2008 to bring together the services of the former Durham County Council and the District authorities within County Durham.

The LGR Programme in 2008/09 was to amalgamate the individual service functions to become Durham County Council Unitary authority through a series of business critical projects by 1st April 2009. This has required incurring initial (transition) costs, which were to be met from reserves. The bid submission anticipated that savings should be realised over the next three years that would repay sums used from reserves.

The County Council has incurred items of expenditure due to LGR which are exceptional in nature and for which no budget was established in 2008/09. These items are not part of the services' expenditure and are identified separately on the face of the Income and Expenditure Account. This expenditure amounts to £1.348m.

**11. SUBSEQUENT EVENTS**

The Statement of Accounts is signed by the Corporate Director - Resources and approved by the County Council on 30<sup>th</sup> September 2009. As at this date, there have been no circumstances or events subsequent to the period end which require adjustment to the financial statements or in the notes thereto.

**Independent auditor's report to the Members of Durham County Council**

***Opinion on the financial statements***

I have audited the Authority and Group accounting statements and related notes of Durham County Council for the year ended 31 March 2009 under the Audit Commission Act 1998. The Authority and Group accounting statements comprise the Authority and Group Income and Expenditure Account, the Authority Statement of the Movement on the General Fund Balance, the Authority and Group Balance Sheet, the Authority and Group Statement of Total Recognised Gains and Losses, the Authority and Group Cash Flow Statement and the related notes. The Authority and Group accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Durham County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

**Respective responsibilities of the Corporate Director- Resources and auditor**

The Corporate Director – Resources' responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the Authority and Group accounting statements and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the Authority and Group accounting statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008:

- the financial position of the Authority and its income and expenditure for the year; and
- the financial position of the Group and its income and expenditure for the year.

I review whether the governance statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

I read other information published with the Authority and Group accounting statements and related notes and consider whether it is consistent with the audited Authority and Group accounting statements. This other information comprises the Explanatory Foreword<sup>i</sup>. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the Authority and Group accounting statements and related notes. My responsibilities do not extend to any other information.

**Basis of audit opinion**

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Authority and Group accounting statements and related notes. It also includes an assessment of the significant



estimates and judgments made by the Authority in the preparation of the Authority and Group accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the Authority and Group accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the Authority and Group accounting statements and related notes.

## **Opinion**

In my opinion:

- The Authority financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Authority as at 31 March 2009 and its income and expenditure for the year then ended; and
- The Group financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Group as at 31 March 2009 and its income and expenditure for the year then ended.

### ***Opinion on the pension fund accounts***

I have audited the pension fund accounts for the year ended 31 March 2009 under the Audit Commission Act 1998. The pension fund accounts comprise the Fund Account, the Net Assets Statement and the related notes. The pension fund accounts have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Durham County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

### **Respective responsibilities of the Corporate Director - Resources and auditor**

The Corporate Director – Resources' responsibilities for preparing the pension fund accounts, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the pension fund accounts and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the pension fund accounts present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial transactions of the pension fund during the year and the amount and disposition of the fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.

I read other information published with the pension fund accounts and related notes and consider whether it is consistent with the audited pension fund accounts. This other information comprises the Explanatory Foreword published in the financial statements. I consider the implications for my report if I become aware of any apparent misstatements or

material inconsistencies with the pension fund accounts and related notes. My responsibilities do not extend to any other information.

### **Basis of audit opinion**

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the pension fund accounts and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the pension fund accounts and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the pension fund accounts and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the pension fund accounts and related notes.

### **Opinion**

In my opinion the pension fund accounts and related notes present fairly, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial transactions of the Pension Fund during the year ended 31 March 2009, and the amount and disposition of the fund's assets and liabilities as at 31 March 2009, other than liabilities to pay pensions and other benefits after the end of the scheme year.

### ***Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources***

#### **Authority's Responsibilities**

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance and regularly to review the adequacy and effectiveness of these arrangements.

#### **Auditor's Responsibilities**

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

#### **Qualified Conclusion**

I have undertaken my audit in accordance with the Code of Audit Practice. In so doing, I was unable to obtain sufficient appropriate evidence that Durham County Council produced relevant, timely and reliable financial monitoring and forecasting information or had a sound system of internal control, including internal audit, in operation throughout the year.

Having regard to relevant criteria specified by the Audit Commission for principal local authorities, published by the Audit Commission in May 2008 and updated in February 2009, and the supporting guidance, I am satisfied that, in all significant respects, Durham County

Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009 except that it did not put in place adequate arrangements for:

- timely and reliable financial reporting that meets the needs of internal users, stakeholders and local people; and
- managing risks and maintaining a sound system of internal control.

***Certificate***

**I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.**

Cameron Waddell  
Officer of the Audit Commission  
Audit Commission  
Nickalls House  
GATESHEAD  
NE11 9NH

30 September 2009

## **Statement of Accounting Policies**

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### **1. GENERAL PRINCIPLES**

The general principles adopted in compiling the Accounts follow the 'Code of Practice on Local Authority Accounting in the United Kingdom 2008: A Statement of Recommended Practice' (SORP) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

The accounting policies and estimation techniques applied have been selected and exercised having regard to the accounting principles and concepts set out in FRS18. In particular:

- The qualitative characteristics of financial information:
  - Relevance
  - Reliability
  - Comparability
  - Understandability
- Materiality
- Pervasive accounting concepts
  - Primacy of legislative requirements
  - Accruals
  - Going concern

### **2. BEST VALUE**

The Statement of Accounts has been compiled in accordance with the Best Value Accounting Code of Practice (BVACOP) 2008 published by CIPFA.

### **3. TANGIBLE FIXED ASSETS**

Expenditure on fixed assets is capitalised if the asset provides a benefit to the Council for a period of more than one year.

Assets are initially measured at cost, comprising all expenditure that is directly attributable to bringing the asset into working condition for its intended use. This is also in accordance with the Statements of Asset Valuation Principles and Guidance Notes issued by the Royal Institute of Chartered Surveyors. These assets are classified into one of the following categories and recorded in the Balance Sheet as follows:

#### Operational assets

- Operational land and buildings  
At the lower of net current replacement cost or net realisable value in existing use
- Infrastructure assets (e.g. roads)  
At historical cost, net of depreciation
- Vehicles, plant, furniture and equipment  
At depreciated historic cost, as a proxy for current value

#### Non-operational assets

- Assets under construction  
Historical cost of major new assets or additions to existing assets
- Surplus assets, held for disposal  
At open-market value where applicable. When assets are declared surplus they are revalued to their market value at the beginning of the financial year.

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<sup>st</sup> April of the financial year and assets are revalued on a five-year rolling programme. All valuations undertaken in 2008/09 were carried out by County Council staff. In addition to the regular five-year programme of revaluations referred to above, assets which have been subject to a material change as a result of transactions, such as acquisitions, disposals, appropriations, capital expenditure and/or shifts in market conditions, are revalued as and when such changes occur.

Balance Sheet asset values are increased by the historical cost of capital expenditure in respect of expenditure on major new assets or additions to existing assets. Upon completion of these capital projects, the asset is revalued to its current value. Balance Sheet values are also increased by expenditure on infrastructure, which is carried in the Balance Sheet at historical cost. Expenditure on Tangible Fixed Assets, which falls below the de minimis level for inclusion on the Balance Sheet, is added to the Balance Sheet then depreciated in full in the year of expenditure.

The value at which each category of assets is included in the Balance Sheet is reviewed at the end of each reporting period and, where there is reason to believe that its value has changed materially in the period, the valuation is adjusted accordingly. Examples of events and changes in circumstances, that indicate a reduction in value may have occurred, include a significant decline in a fixed asset's market value, evidence of obsolescence or physical damage to the fixed asset, a significant adverse change in the statutory or other regulatory environment in which the authority operates, or a commitment by the authority to undertake a significant reorganisation. When assets are impaired, the value of the asset on the Balance Sheet will be reduced and the impairment amount will be charged to:

- If due to consumption - the Income and Expenditure
- If due to a general fall in value - the revaluation reserve, if there are any previous revaluation gains, and thereafter, the Income and Expenditure.

In accordance with Financial Reporting Standards 10 and 15, all Tangible Fixed Assets, other than non-depreciated land and non-operational assets under construction, are depreciated over the useful life of the asset on a straight-line basis. Life expectancies of buildings vary according to their age and condition.

Depreciation of Tangible Assets and impairment losses attributable to the consumption of economic benefit, where appropriate, are charged to Service revenue accounts to show the true costs of using assets in providing services. In order to avoid any impact on the level of council tax these charges are credited to the General Fund Balance (see Statement of Movement on General Fund Balance)

#### **4. INTANGIBLE FIXED ASSETS**

Intangible assets are assets that continue to provide an economic benefit to the Council, but which do not have a physical form; principally software licences and maintenance agreements.

These assets are valued at historical cost and are amortised to the Income and Expenditure Account on a straight-line basis, taking account of their expected residual value, if any.

#### **5. REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE**

Previously known as deferred charges, revenue expenditure funded from capital under statute are payments of a capital nature where no fixed asset is created for the Council, but which may be properly financed over a period of years. Examples include grants and financial assistance to others and expenditure on assets not owned by the County Council (e.g. voluntary aided schools). The expenditure is charged to the relevant service revenue account in the year and, where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer to the Capital Adjustment Account reverses out the amounts charged in the Statement of Movement on the General Fund Balance so there is no impact on the level of council tax.

#### **6. FOREIGN CURRENCIES**

Stocks of foreign currency held at 31<sup>st</sup> March are expressed in sterling at the rates ruling at that date. Income and expenditure arising from a transaction in a foreign currency are translated into sterling at the exchange rate in operation on the day the transaction occurred.

#### **7. CAPITAL RECEIPTS**

Capital receipts arising from the sale of fixed assets are included in the Balance Sheet to be applied to finance capital expenditure as required. When an asset is disposed of or decommissioned, the value of the asset in the Balance Sheet is written off to the Income and Expenditure Account as part of the gain or loss on disposal. Receipts from disposals are credited

## **Statement of Accounting Policies**

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to the Income and Expenditure Account as part of the gain or loss on disposal (i.e. netted off against the carrying value of asset at the time of disposal). The capital receipt is required to be credited to the Usable 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 Statement of Movement on the General Fund Balance. The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangement for capital financing. Amounts are appropriated to the Capital Adjustment Account from the Statement of Movement on the General Fund Balance.

### **8. BASIS ON WHICH DEBTORS AND CREDITORS ARE INCLUDED IN THE ACCOUNTS**

Revenue and capital transactions are recorded during the year on a system of receipts and payments. At the end of the year, expenditure is calculated by taking the payments and adding creditors for goods or services received by 31<sup>st</sup> March for which no payment has been made by this date and deducting payments made within the year relating to the previous year's outstanding creditors.

The basis for creditors is either payments made since 31<sup>st</sup> March or estimated amounts for goods and services received.

Debtors appearing on the Balance Sheet represent sums due to the Council, which have not been received by 31<sup>st</sup> March.

### **9. INTERNAL INTEREST**

Interest is credited (or charged) to school balances carried forward.

### **10. GOVERNMENT AND OTHER SPECIFIC GRANTS**

Government grants and other contributions are accounted for on an accruals basis and recognised in the accounting statements when the conditions for their receipt have been met and there is reasonable assurance that the grant or contribution will be received.

### **11. BASIS OF VALUATION OF STOCKS AND WORK IN PROGRESS**

The present basis of showing stocks and work-in-progress does not comply with SSAP9, which requires them to be shown at the lower of cost and net realisable value, as the SORP notes that much of the detailed content of SSAP9 is irrelevant to local authorities. Stocks are held at average cost. Work in progress is based on valuations at 31<sup>st</sup> March 2009 less payments on account already included in the Income and Expenditure Account. Profit/loss has been allowed for where the outcome can reasonably be foreseen.

### **12. BASIS OF ALLOCATION OF COSTS OF SUPPORT SERVICES**

The costs of management and administration are fully allocated on the basis of time spent on each Service, including 'corporate management'. The costs of administrative buildings are similarly fully allocated on a user basis.

### **13. PROVISIONS AND RESERVES**

Provisions have been created for liabilities or losses which are likely to be incurred, or will be incurred, but where the amounts or the dates on which they will arise are uncertain. The Council has a number of provisions, which are defined in accordance with financial reporting standard FRS12.

A provision counts as expenditure in the Income and Expenditure Account in the year in which the earmarking takes place.

Further details of provisions and reserves are shown in Notes 26 and 27 to the Core Financial Statements.

A reserve is created by appropriation from the General Fund after the surplus or deficit for the year has been calculated. This appropriation is debited to the General Fund Balance in the Statement of Movement in the General Fund Balance. When expenditure is incurred for which the reserve was created, the expenditure is charged to the Net Cost of Services and the reserve is released creating a credit in the Statement of Movement on the General Fund Balance.

#### **14. BASIS OF PROVISIONS FOR PENSIONS**

The County Council participates in two different pension schemes which meet the needs of particular groups of employees. All the schemes provide members with defined benefits related to pay and service.

The schemes are:

**Teachers -**

An unfunded scheme administered by Capita Teachers' Pensions.

**Other Employees -**

Other employees, subject to certain qualifying criteria, are eligible to join the Local Government Pension Scheme. The contributions are set by the Pension Fund's Actuary to meet the overall liabilities of the Fund.

Further costs arise for certain pensions paid to retired employees on an unfunded basis.

The Financial Reporting Standard FRS17 – Retirement Benefits requires the recognition of the Council's share of the Pension Fund assets and liabilities in the accounts, as well as requiring recognition in the Council's Income and Expenditure Account of the full costs of providing for future retirement benefits.

#### **15. ACCOUNTING FOR LEASES**

**Finance Leases**

The Council accounts for leases as finance leases when substantially all the risks and rewards relating to the leased property transfer to the Council. Rentals payable are apportioned between:

- a charge for the acquisition of the interest in the property (recognised as a liability in the Balance Sheet at the start of the lease, matched with a Tangible Fixed Asset – the liability is written down as the rent becomes payable), and
- a finance charge (debited to Net Operating Expenditure in the Income and Expenditure Account as the rent becomes payable).

Fixed Assets recognised under finance leases are accounted for using the policies applied generally to Tangible Fixed Assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life.

Where the Council acts as lessor (for example, the Home Computer Initiative where a finance lease in of computer equipment is matched by a finance lease out to employees), the lease (net of financing costs) is classed as a Debtor, matched by a credit to Fixed Assets.

**Operating Leases**

Leases that do not meet the definition of finance leases are accounted for as operating leases. Rentals payable or receivable are charged or credited to the relevant service revenue account on a straight-line basis over the term of the lease, generally meaning that rentals are charged when they become due.

#### **16. REDEMPTION OF DEBT**

The Council is required to meet a minimum level of repayment of its outstanding borrowing each year, known as the minimum revenue provision (MRP). The Local Authorities Capital Finance and Accounting (England) (Amendment) Regulations 2008 introduced changes to the capital finance system, including changes to MRP. CLG issued guidance to support these changes and gave four options for authorities to consider.

## **Statement of Accounting Policies**

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The County Council approved the methodology for calculating the Minimum Revenue Provision in June 2008, choosing two options for 2008/09:

Option 1 (the Regulatory Method – 4% of Capital Financing Requirement) applied in relation to all capital expenditure before 1st April 2008, but only for capital expenditure financed by supported borrowing after April 2008. The capital financing requirement represents the Council's underlying need to borrow to finance capital expenditure. The underlying need to borrow is not necessarily the same as the total of outstanding loans, because authorities can also use their cash reserves to finance capital expenditure. Consequently, the capital financing requirement at the start of the year is the total of outstanding loans used to finance capital expenditure in previous years, plus the amount of capital expenditure financed by cash at the end of the previous financial year:

Option 3 (Asset Life Method – based on the life of the asset for which the borrowing is financing) provides for separate treatment for supported and unsupported (prudential) borrowing. For supported borrowing, MRP can be calculated as at present (4% of the CFR net of Adjustment A). For unsupported borrowing the debt would be written down over the estimated asset life for which the borrowing has been undertaken.

### **17. INTERESTS IN COMPANIES AND OTHER ENTITIES**

The County Council has financial relationships with a number of related companies. Details of the Council's interest in these organisations and the nature of the relationship are disclosed in note 22 to the Core Financial Statements. The value of shares held in relevant related companies is included in the accounts at fair value and is disclosed in note 23 to the Core Financial Statements.

The 2008 SORP requires local authorities to prepare Group Accounts where they have an interest in subsidiary or associate companies or joint ventures with other organisations. The County Council has followed the prescribed process contained in the 2008 SORP to assess the relationship between itself and the various organisations used to deliver local services.

The exercise identified the following interests which have been consolidated within the Group Accounts:

- The County Durham Development Company, which is wholly owned by the County Council.
- The County Council owns the majority shareholding in the Durham County Waste Management Company.
- NewCo is a Local Authority Trading Company which began trading in 2007/08. It is wholly owned by the County Council.

The review also revealed the following relationships which have not been consolidated within the Group Accounts:

- The County Council has minority shareholdings in Newcastle International and Durham Tees Valley airports.
- Durham Dales Centre Ltd is jointly owned by the County Council and Wear Valley District Council.
- DurhamNet is a strategic partnership between Durham County Council and Derwentside District Council, with the objective to deliver broadband services throughout the County.
- The County Council is a member of The County Durham e-Government Partnership. The aim of the partnership is to use the latest technology to maximise access to services for all local taxpayers.

### **18. FINANCIAL INSTRUMENTS**

#### **Financial Liabilities**

Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Income and Expenditure Account for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the



outstanding principal repayable, and interest charged to the Income and Expenditure Account is the amount payable for the year in the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to Net Operating Expenditure in the Income and Expenditure Account in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Income and Expenditure Account 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 Income and Expenditure Account, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain/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 Income and Expenditure Account 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 Statement of Movement on the General Fund Balance.

### **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 initially measured at fair value and carried at their amortised cost. Annual credits to the Income and Expenditure Account 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, and interest credited to the Income and Expenditure Account is the amount receivable for the year in the loan agreement.

However, the Council makes a number of travel loans to employees at less than market rates (soft loans). When soft loans are made, the SORP requires that:

- a loss is recorded in the Income and Expenditure Account 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 at a marginally higher effective rate of interest than the rate receivable from the debtor, with the difference serving to increase the amortised cost of the loan in the Balance Sheet.
- in accordance with statutory provisions, 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 Income and Expenditure Account 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 Statement of Movement on the General Fund Balance.

It has been determined that the value of the soft loans made and the balances carried on the Balance Sheet are not material. Therefore, no loss is charged to the Income and Expenditure Account.

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 Income and Expenditure Account.

Any gains and losses that arise on the derecognition of the asset are credited/debited to the Income and Expenditure Account.

### Available-for-sale Assets

Available-for-sale assets are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Income and Expenditure Account 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 Income and Expenditure Account when it becomes receivable by the Council.

The fair values of available-for-sale assets 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.

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

Changes in fair value are balanced by an entry in the Available-for-sale Reserve and the gain/loss is recognised in the Statement of Total Recognised Gains and Losses (STRGL). The exception is where impairment losses have been incurred – these are debited to the Income and Expenditure Account, along with any net gain/loss for the asset accumulated in the 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, the asset is written down and a charge made to the Income and Expenditure Account.

Any gains and losses that arise on the derecognition of the asset are credited/debited to the Income and Expenditure Account, along with any accumulated gains/losses previously recognised in the STRGL.

### 19. LANDFILL ALLOWANCES TRADING SCHEME (LATS)

The County Council receives allowances from Central Government that are used to meet its liability from landfilling waste. The landfill allowances are recognised as current assets, and are valued at the lower of cost or net realisable value. The allowances are also recognised as income during the year for which the allowances were allocated.

For the financial year 2008/09, the County Council's allowances were valued at a unit cost of zero, as it was felt that this represented their net realisable value due to prevailing market conditions.

### 20. CHANGES IN ACCOUNTING POLICIES

Following changes to the SORP, the Council has adopted the following new accounting policies in the 2008/09 Statement of Accounts:

- Revenue Expenditure Funded from Capital Under Statute – The 2008 SORP introduced the term Revenue Expenditure Funded from Capital Under Statute, replacing the concept of Deferred Charges, to refer to expenditure that legislation allows to be classified as capital for funding purposes but that does not result in the expenditure being shown in the Balance Sheet as a fixed asset. This is a change in accounting policy, which requires a prior period adjustment where appropriate. The main impact of this change on the 2007/08 comparative figures is to replace any reference to Deferred Charges with Revenue Expenditure Funded from Capital Under Statute.
- Stock – the basis of valuation of stocks is now on an average cost basis for all parts of the Council. In previous periods, stocks held by Service Direct were shown in the accounts at current value. The impact of this change on the accounts is not considered material.
- FRS17 Retirement Benefits – Under the 2008 SORP, the Council has adopted the amendment to FRS17 Retirement Benefits. As a result, quoted securities held as assets in

the defined benefit pension scheme are now valued at bid price rather than mid-market value. The effect of this change is that the value of scheme assets changed at 31<sup>st</sup> March 2008 from £680.37m to £678.81m; a decrease of £1.56m, resulting in an increase of the pension deficit of £1.56m. Current year asset valuations have only been carried out at bid price. This amendment has resulted in a prior period adjustment (see Note 1 on page 33)

- From 2008/09, the SORP permits presentation of the Cash Flow Statement by either the existing direct method, showing gross cash flows, or by the indirect method, whereby revenue cash flow is derived by adjusting the overall Income and Expenditure Account surplus or deficit to a cash basis.

## Income and Expenditure Account

This account summarises the resources that have been generated and consumed in providing services and managing the Council during the last year. It includes all day-to-day expenses and related income on an accruals basis, as well as transactions measuring the value of fixed assets actually consumed and the real projected value of retirement benefits earned by employees in the year.

2007/08 Net Expenditure £000		2008/09		
		Gross Expenditure £000	Gross Income £000	Net Expenditure £000
	Continuing Operations:			
103,426	Children's and Education Services	561,127	420,214	140,913
124,961	Adult Social Care	209,647	50,386	159,261
9	Supporting People	13,994	14,023	-29
29,890	Highways and Transportation	51,742	15,266	36,476
8,597	Planning and Development	19,726	3,131	16,595
11,626	Cultural and Related Services	16,214	3,862	12,352
20,257	Environmental Services	21,425	1,904	19,521
735	Courts and Probation	912	152	760
	Central Services			
5,533	Corporate and Democratic Core	7,858	13	7,845
656	Central Services to the Public	2,135	610	1,525
10,960	Non Distributed Costs	8,659	43	8,616
-110	Other Services	3,265	3,849	-584
-	Exceptional Costs of Local Government Review	1,348	-	1,348
<b>316,540</b>	<b>NET COST OF SERVICES</b>	<b>918,052</b>	<b>513,453</b>	<b>404,599</b>
290	Precepts and levies			413
	Surplus(-)/loss on trading activities not included in Net			
-1,490	Cost of Services			1,296
-1,133	Insurance - uncertain liabilities			-1,215
8,068	Interest payable and similar charges			8,025
-7,824	Interest and investment income			-7,426
-	Contribution to debt charges			-258
	Pensions interest cost and expected return on pensions			
3,270	assets			19,990
8,348	Gain(-)/Loss on disposal of fixed assets			-2,845
<b>326,069</b>	<b>NET OPERATING EXPENDITURE</b>			<b>422,579</b>
-21,634	General Government Grants			-50,258
-120,410	Non-domestic rates redistribution			-141,771
-152,515	Precepts upon District Council Collection Funds			-159,069
<b>31,510</b>	<b>SURPLUS (-) / DEFICIT FOR THE YEAR</b>			<b>71,481</b>

The above analysis of Net Cost of Services is in accordance with BVACOP 2008. Connexions, which was previously shown as a separate service, is now funded through Area Based Grant and is reported within Children's and Education Services.

**Planning & Development** includes Building and Development Control, Planning Policy, environmental initiatives and Economic and Community Development.

**Cultural and Related Services** covers Libraries, Museums, Parks & Open Spaces and Tourism.

**Environmental Services** comprises Environmental Health, Agriculture, flood defence and land drainage, Consumer Protection and Waste Disposal.

**Central Services to the Public** includes Registration of Births, Deaths and Marriages, elections and Emergency Planning.

**Non Distributed Costs** relates to enhanced benefits provided to former employees on retirement or any discretionary benefits granted and the costs of holding unused assets.

## Statement of Movement on the General Fund Balance

The Income and Expenditure Account shows the Council's actual financial performance for the year, measured in terms of the resources consumed and generated over the last twelve months. However, the Authority is required to raise council tax on a different accounting basis, the main difference being:

- Capital investment is accounted for as it is financed, rather than when the fixed assets are consumed
- Retirement benefits are charged as amounts become payable to pension funds and pensioners, rather than as earned.

The General Fund Balance compares the Council's spending against council tax that it raised for the year, taking into account the use of reserves built up in the past and contributions to reserves earmarked for future expenditure.

This reconciliation statement summarises the difference between the surplus / deficit on the Income and Expenditure Account and the General Fund Balance.

2007/08 £000	2008/09 £000
31,510 Surplus (-) / deficit for the year on the Income & Expenditure Account	71,481
Net additional amount required by statute and non statutory proper practices to be debited or credited to the General Fund Balance for the year	-78,476
<b>-9,318 (-) Increase / Decrease in General Fund Balance for the year</b>	<b>-6,995</b>
-11,814 General Fund Balance brought forward	-21,132
<b>-21,132 General Fund Balance carried forward</b>	<b>-28,127</b>
Balances held by governors under schemes to finance schools - held as earmarked reserves	-17,801
<b>-25,490</b>	<b>-17,801</b>

The General Fund Balance represents the amount generally available for new expenditure and excludes schools balances. School Balances include amounts set aside to meet equal pay claims.

Detailed analysis of the "amount required by statute and non statutory proper practices to be debited or credited to the General Fund Balance" is given in Note 13 to the Core Financial Statements.

## Statement of Total Recognised Gains and Losses

This statement brings together all the gains and losses of the Council for the year and shows the aggregate increase in its net worth. In addition to the surplus generated on the Income and Expenditure Account, it includes gains and losses relating to the revaluation of fixed assets and re-measurement of the net liability to cover the cost of retirement benefit.

2007/08 £000	2008/09 £000
31,510 (-) Surplus/Deficit for the year on the Income and Expenditure account	71,481
-419,081 (-) Gain/Loss arising on revaluation of assets	50,199
-70,695 Actuarial (-) gains/losses on pension fund assets and liabilities	142,592
- (-) Surplus/deficit arising on revaluation of available-for-sale financial assets	7,337
- Other gains/losses required to be included in the STRGL:	
- Transfer from Capital Adjustment Account to Government Grants Deferred	1,677
<b>-458,266 Total recognised (-) gains / losses for the year</b>	<b>273,286</b>

The total recognised gain in 2007/08 of £458.266m reconciles to the movement in net worth from 2006/07 to 2007/08 (restated), taking into account the prior period adjustments detailed in Note 1 to the Core Financial Statements.

## Balance Sheet

The Balance Sheet shows the assets and liabilities of the Council, accrued in its business with the outside world. The assets and liabilities are balanced by an attribution of the net worth of the Council between:

- The revenue and capital resources available to meet future expenditure
- Unrealised gains and losses
- Adjustment accounts that absorb the effects of differences between UK GAAP and statutory accounting requirements

As at 31 March 2008				As at 31 March 2009	
£000	£000	Notes	£000	£000	
					<b>FIXED ASSETS</b>
921			1,841		<b>Intangible Fixed Assets</b>
		18			<b>Tangible Fixed Assets -</b>
		15			Operational Assets -
895,458			830,589		Land & Buildings
12,532			12,990		Vehicles, Plant, Furniture & Equipment
259,179			272,897		Infrastructure Assets
					Non-operational Assets -
32,383			26,982		Assets under construction
27,063			30,942		Surplus assets held for disposal
	1,227,536				<b>Total Fixed Assets</b>
	10,126	23		2,789	<b>Long-term Investments</b>
	5,264	23		4,679	<b>Long-term Debtors</b>
	1,242,926			1,183,709	<b>Total Long-term Assets</b>
					<b>CURRENT ASSETS</b>
3,006			3,132		Stocks & Work in Progress
45,923		23, 24	52,953		Debtors
141,953		23	118,988		Short Term Investments
904			1,049		Cash and Bank
	191,786			176,122	<b>Total Current Assets</b>
	1,434,712			1,359,831	<b>TOTAL ASSETS</b>
					<b>CURRENT LIABILITIES</b>
-4,318		23	-1,338		Short-term borrowing
-120,007		23, 25	-132,983		Creditors
-5,894			-3,778		Bank overdraft
	-130,219			-138,099	<b>Total Current Liabilities</b>
	1,304,493			1,221,732	<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>
					<b>LONG-TERM LIABILITIES</b>
-172,774		23	-171,436		Long-term Borrowings
-5,634		26	-15,403		Provisions
-160,809			-190,846		Government grants deferred
-427		21	-172		Deferred liabilities
-255,138		32	-407,450		Liability related to defined benefit pension schemes
	709,711			436,425	<b>TOTAL ASSETS LESS LIABILITIES</b>
					<b>FINANCED BY:</b>
399,651		27	334,458		<b>Revaluation Reserve</b>
433,622		27	404,464		<b>Capital Adjustment Account</b>
1,554			1,243		<b>Deferred Capital Receipt</b>
20,199		27	11,242		<b>Usable Capital Receipts Reserve</b>
-255,138		32	-407,450		<b>FRS17 Pension Reserve</b>
21,132			28,127		<b>General Fund Balance</b>
8,968			1,632		<b>Available for sale Reserve</b>
79,723		27	62,709		<b>Earmarked Reserves</b>
	709,711			436,425	<b>TOTAL NET WORTH</b>

## Cash Flow Statement

This consolidated statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes. Cash is defined as cash in hand and deposits repayable on demand less overdrafts repayable on demand.

2007/08			2008/09	
£000	£000		£000	£000
	60,550	<b>NET CASH INFLOW /(-OUTFLOW) - REVENUE ACTIVITIES</b>		17,677
		<b>RETURNS ON INVESTMENTS AND SERVICING OF FINANCE -</b>		
		<b>Cash inflows -</b>		
-		Dividend received	-	
7,535		Interest received	7,206	
	7,535			7,206
		<b>Cash outflows -</b>		
-8,128		Interest paid	-5,549	
-21		Interest element of finance lease rental payments	-20	
	-8,149			-5,569
	<u>-614</u>	<b>NET CASH INFLOW /(-OUTFLOW) - SERVICING OF FINANCE</b>		<u>1,637</u>
		<b>CAPITAL ACTIVITIES -</b>		
		<b>Cash inflows -</b>		
20,176		Sale of fixed assets	4,945	
32,814		Government and EU capital grants received	41,328	
911		Other capital cash receipts	2,100	
	53,901			48,373
		<b>Cash outflows -</b>		
-78,334		Purchase of fixed assets		-85,545
	<u>-24,433</u>	<b>NET CASH INFLOW /(-OUTFLOW) - CAPITAL ACTIVITIES</b>		<u>-37,172</u>
	<u><b>35,503</b></u>	<b>NET CASH INFLOW /(-OUTFLOW) BEFORE FINANCING</b>		<u><b>-17,858</b></u>
		<b>MANAGEMENT OF LIQUID RESOURCES -</b>		
	<u>-29,923</u>	Net increase(-)/decrease in short term deposits		<u>22,965</u>
		<b>FINANCING -</b>		
		<b>Cash inflows -</b>		
-		New loans raised	-	
265		Repayment of amounts	608	
	265			608
		<b>Cash outflows -</b>		
-2,131		Repayments of amounts borrowed	-3,128	
-954		Capital element of finance lease rental payments	-326	
	-3,085			-3,454
	<u>-2,820</u>	<b>NET CASH INFLOW /(-OUTFLOW) - FINANCING</b>		<u>-2,846</u>
	<u><b>2,760</b></u>	<b>INCREASE/DECREASE(-) IN CASH</b>		<u><b>2,261</b></u>



## RECONCILIATION OF INCOME AND EXPENDITURE ACCOUNT TO CASH FLOW

	£000	£000
<b>Deficit on Income &amp; Expenditure Account for the year</b>		-71,481
<b>Surplus/deficit (-) for the year</b>		
<b>Non-cash transactions</b>		
Amounts included in Income & Expenditure Account but required by statute to be excluded when determining the movement on the General Fund Balance	114,465	
Amounts not included in Income & Expenditure Account but required to be included by statute when determining the movement on the General Fund Balance	-53,003	
Movements on provisions	9,572	
Internal capital financing transactions	<u>14,835</u>	85,869
<b>Repayment of finance leases principal</b>		
Increase in debtors, payments in advance, stocks and work in progress	-8,144	
Decrease in creditors and receipts in advance	<u>13,090</u>	4,946
<b>Items classified elsewhere in the Cash Flow Statement -</b>		
Investment & Dividend income	-7,206	
Interest paid	<u>5,549</u>	-1,657
<b>NET CASH FLOW FROM REVENUE ACTIVITIES</b>		<u><u>17,677</u></u>

## RECONCILIATION OF MOVEMENT IN CASH TO MOVEMENT IN NET DEBT

	£000	£000
<b>Increase in Cash as per Cash Flow Statement</b>		2,261
<b>Less -</b>		
Net cash flow from Revenue Activities	-17,677	
Net cash flow from Capital Activities	37,172	
Net cash flow from Servicing of Financing	<u>-1,637</u>	17,858
		<u><u>20,119</u></u>
<b>Movement in Net Debt</b>		
Decrease in short term deposits		22,965
Repayment of amounts borrowed		-3,128
Repayment of finance leases principal		-326
Repayment of long term investments		608
		<u><u>20,119</u></u>

## Cash Flow Statement

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### Definition of Liquid Resources

Liquid resources have been defined as the short term investments that are disclosed on the face of the Balance Sheet.

### MOVEMENT IN CASH AND SHORT TERM DEPOSITS

	Balance at 1st April £000	Movement in year £000	Balance at 31st March £000
Cash in hand and at bank	904	145	1,049
Bank overdraft	-5,894	2,116	-3,778
<b>INCREASE IN CASH</b>	<b>-4,990</b>	<b>2,261</b>	<b>-2,729</b>
<b>Short term deposits</b>	<b>141,953</b>	<b>-22,965</b>	<b>118,988</b>

### ANALYSIS OF OTHER GOVERNMENT AND EU REVENUE GRANTS

2007/08 £000		2008/09 £000
267,453	Dedicated Schools Grant	274,436
36,008	Standards Fund	35,400
23,587	Learning and Skills Council	23,513
15,252	Sure Start	18,016
16,075	School Standards	16,227
13,536	Supporting People Programme	14,588
2,589	Teacher Development Agency	2,205
39,478	Total other grants	7,061
3,814	LAA	-
-	Area Based Grant	30,111
256	LABGI	411
<b>418,048</b>		<b>421,968</b>

These figures represent the cash received by the County Council and may differ from the amounts included in the Income and Expenditure Account, which is prepared on an accruals basis.

**1. PRIOR PERIOD AND EXCEPTIONAL / EXTRAORDINARY ITEMS**

As a result of the Council's adoption of the amendment to FRS17 Retirement Benefits, financial statements for 2007/08 have been amended, as quoted securities held as assets in the defined benefit pension scheme are now valued at bid price rather than mid market value. This results in the following changes:

- **Income and Expenditure Account and Statement of Movement on General Fund Balance**

A lower asset value under the new valuation method has led to a reduction in 'Expected return on assets in scheme' in the Income and Expenditure Account by £0.13m for the year to 31<sup>st</sup> March 2008. This change is reversed in the Statement of Movement on General Fund Balance and so has no effect on the General Fund balance.

- **Statement of Total Recognised Gains and Losses**

The lower asset value has altered the 'actuarial gains and losses on the Pension Fund assets and liabilities'. The effect of this is to increase the gain by £0.4m for the year to 31<sup>st</sup> March 2008.

- **Balance Sheet**

The 'Liability related to defined benefit pension schemes' and 'FRS17 Pension Reserve' now reflect the reduced asset value as a result of the change in valuation method. This has increased both the liability and reserve by £1.56m at 31<sup>st</sup> March 2008.

The impact of the above changes is detailed as follows:

	2007/08	Adjustment	2007/08
	£000	£000	As restated £000
<b>Income and Expenditure Account</b>			
Pensions interest cost and expected return on pensions assets	3,140	130	3,270
Surplus (-) / Deficit for the year	<b>31,380</b>	<b>130</b>	<b>31,510</b>
<b>Statement of Movement on the General Fund Balance</b>			
Net additional amount required by statute and non statutory proper practices to be debited or credited to the General Fund balance for the year	-40,698	-130	-40,828
<b>Statement of Total Recognised Gains and Losses</b>			
Actuarial (-)gains/losses for the year on pension fund assets and liabilities	-70,295	-400	-70,695
Total recognised (-)gains/losses for the year	<b>-457,997</b>	<b>-400</b>	<b>-458,397</b>
<b>Balance Sheet</b>			
Liability related to defined benefit pension schemes	-253,578	-1,560	-255,138
Total Assets Less Liabilities	<b>711,271</b>	<b>-1,560</b>	<b>709,711</b>
FRS 17 Pension reserve	-253,578	-1,560	-255,138
Total Net Worth	<b>711,271</b>	<b>-1,560</b>	<b>709,711</b>

There are no exceptional or extraordinary items included in the accounts.

2. TRADING OPERATIONS

There are no significant trading operations other than Service Direct (Direct Service Organisation). The Summary Revenue Account for Service Direct is shown separately below. The impact of FRS17 on Service Direct for 2008/09 is to reduce gross expenditure by £0.923m and therefore reduce the amount included in Trading Account deficit by the same figure.

2007/08		2008/09
£000		£000
	<b>EXPENDITURE -</b>	
15,212	Direct Labour	15,549
11,136	Materials	11,057
7,862	Transport and Plant	9,009
8,671	Sub-contractors	8,181
10,796	Overheads	12,105
	Exceptional Items -	
37	Redundancy Costs	47
-	Equal Pay	2,443
	Changes during the year in -	
-229	Work in progress	847
-43	Provisions	-74
<b>53,442</b>	<b>Total Expenditure</b>	<b>59,164</b>
	<b>INCOME -</b>	
55,282	Charge to Services and other bodies	56,452
<b>55,282</b>	<b>Total Income</b>	<b>56,452</b>
<b>1,840</b>	<b>SURPLUS / DEFICIT(-) FOR THE YEAR</b>	<b>-2,712</b>

MOVEMENT IN RESERVES

2007/08		2008/09	
£000	£000	£000	£000
	<b>2,015 DSO Reserve at 1st April</b>		<b>1,865</b>
1,840	Add: Surplus / Deficit for the year - defined activities	-2,712	
-640	Less: Pension Fund contributions financed from reserves	-	
	<b>1,200 Contribution / Deficit to County Fund</b>		<b>-2,712</b>
	606 Add: Depreciation		599
	-607 Less: Capital expenditure financed from reserves		-388
	-30 Less: Contribution towards costs of early retirement		-314
	-698 Less: Transfer to Equal Pay Reserve		-
	- Add: Transfer from Equal Pay Reserve		2,443
	-621 Less: Transfer to General Reserve - loan charge		-621
	<b>1,865 DSO Reserve at 31st March</b>		<b>872</b>
	<b>61 Vehicle &amp; Plant Reserve at 1st April</b>		<b>61</b>
	- Add: Contribution from DSO surplus		-
	<b>61 Vehicle &amp; Plant Reserve at 31st March</b>		<b>61</b>
	<b>1,926 Total Reserves at 31st March</b>		<b>933</b>

**3. DISCRETIONARY EXPENDITURE**

Section 137 of the Local Government Act allowed a local authority to spend a limited amount on activities for which it has no specific power, but which the authority considers “will bring direct benefit to the area, or any part of it, or all or some of its inhabitants.” Most of this power was repealed and replaced with a ‘well-being’ power in the Local Government Act 2000.

Section 137 remains as a power only for contributions to charities and not-for-profit bodies. In 2008/09, spending under Section 137 amounted to £0.17m (£0.16m in 2007/08) on grants to various voluntary bodies.

**4. EXPENDITURE ON PUBLICITY**

Section 5 of the Local Government Act 1986 requires local authorities to keep separate account of expenditure on publicity.

The following table shows the type of spending on publicity by the County Council. The expenditure is all included under the appropriate headings in the Income and Expenditure Account.

<b>2007/08</b>		<b>2008/09</b>
<b>£000</b>		<b>£000</b>
	<b>Advertising</b>	
976	Staff	809
327	Other	524
	<b>Contributions and fees paid to other organisations which undertake promotional activities -</b>	
1,068	County Durham Development Company Ltd	839
11	Other bodies	14
71	<b>Local Government Reorganisation</b>	33
1,276	<b>Other Publicity</b>	1,394
<b>3,729</b>	<b>Total</b>	<b>3,613</b>

**5. SCHEMES UNDER THE TRANSPORT ACT 2000**

The Act empowers the County Council to impose charges in respect of the use of motor vehicles on roads. The Durham Road User Scheme, which was the first of its type in the Country, reduces traffic entering Durham’s historic peninsula by applying a charge to each vehicle. Whilst the scheme has been successful in achieving its aim to remove non essential traffic, it is also designed to exempt essential users. The revenue from the charge is used to subsidise the low floor easy access Cathedral bus service. The bus gives the opportunity for those who do not own a car and are unable to use a conventional bus or tackle the steep walk to the Cathedral to now access the area.

The relevant expenditure and income for the Scheme is summarised below:

<b>2007/08</b>		<b>2008/09</b>
<b>£000</b>		<b>£000</b>
	56 Expenditure (including capital charges)	44
	75 Income	54
<b>-19</b>		<b>-10</b>

**6. LOCAL AUTHORITY (GOODS AND SERVICES) ACT 1970**

The Act empowers the County Council to provide goods and services to other local authorities and public bodies. The relevant expenditure and income details are summarised below.

## Notes to the Core Financial Statements

The details are included under the appropriate headings in the Income and Expenditure Account.

<b>2007/08</b>		<b>2008/09</b>
<b>£000</b>		<b>£000</b>
	<b>Expenditure -</b>	
11,646	Other Local Authorities	10,026
6,569	Other Public Bodies	7,181
680	Police	883
327	Fire	338
27	Connexions	22
317	SureStart	348
117	Colleges	220
<b>19,683</b>		<b>19,018</b>
	<b>20,058 Income (Charges to Other Bodies)</b>	<b>18,934</b>
<b>-375</b>	<b>Net Expenditure</b>	<b>84</b>

Of the £19.0m of goods and services provided to other local authorities and public bodies, £7.8m relates to administrative, clerical and technical services and £11.2m to goods and materials.

### 7. HEALTH ACT 1999 POOLED FUNDS AND SIMILAR ARRANGEMENTS

Section 31 of the Health Act 1999 enables the establishment of joint working arrangements between National Health Service (NHS) Bodies and local authorities to improve and coordinate services.

The County Council is the lead body for the Learning Disabilities Services Pooled Budget within the County. This is administered by the Council on behalf of the partners: Durham County Council, North East Strategic Health Authority, Tees Esk and Wear Valley NHS Trust, Darlington PCT and County Durham PCT.

The aims and outcomes of the pooled budget are –

- To provide a framework which enables finance to be used in an efficient and effective manner to meet the social and health care needs of service users.
- To provide a clear structure to enable effective monitoring of the pooled budget.
- To assist in the development of flexible support packages to individuals with a learning disability.
- To develop learning disability services in line with the local strategy to provide a range of services to meet the needs of users.
- To develop a coordinated approach to the commissioning and provision of services.
- To enable flexible packages of care that are responsive to individual needs.
- To develop shared values of person centred services; equality of access; support to use services and social inclusion.
- To develop partnership and cooperation by all stakeholders and with service users and carers.
- To develop shared responsibility to provide healthy lifestyles and to avoid adverse experiences.
- To enable greater access to universal services – leisure, health promotion and screening.
- To support individuals to access primary and secondary health services as appropriate.

	2007/08	2008/09
	£000	£000
<b>Learning Disabilities</b>		
Gross Partnership Expenditure	17,935	18,887
Gross Partnership Income	18,210	19,390
<b>Net Expenditure</b>	<b>-275</b>	<b>-503</b>
<b>Contribution from Durham County Council</b>	<b>12,405</b>	<b>13,230</b>

The pooled budget underspend will not be carried forward to 2009/10 and the contribution from Durham County Council has been reduced to reflect this. The pooling arrangements formally ceased on 31<sup>st</sup> March 2009.

### 8. MEMBERS' ALLOWANCES

The total of allowances paid to elected members during 2008/09 was £1,686,953. Corresponding payments in 2007/08 were £992,664. The increase is due to the fact that the number of members has risen from 63 to 126 from May 2008, when they were elected to prepare for the establishment of the new unitary authority.

### 9. OFFICERS' EMOLUMENTS

The number of employees whose remuneration in 2008/09, excluding pension contributions, was £50,000 or greater is detailed in the table below:

2007/08				Remuneration Band (£)	2008/09			
School Staff	Other Staff	Total	Left in Year		School Staff	Other Staff	Total	Left in Year
158	69	227	3	50,000 to 59,999	199	80	279	3
32	26	58	-	60,000 to 69,999	35	17	52	1
13	14	27	1	70,000 to 79,999	22	17	39	-
7	2	9	-	80,000 to 89,999	7	10	17	1
3	1	4	-	90,000 to 99,999	4	1	5	1
-	1	1	-	100,000 to 109,999	-	4	4	1
-	3	3	-	110,000 to 119,999	-	-	-	-
-	1	1	-	120,000 to 129,999	-	4	4	1
-	1	1	-	130,000 to 139,999	-	1	1	-
-	-	-	-	140,000 to 149,999	-	-	-	-
-	-	-	-	150,000 to 159,999	-	-	-	-
-	-	-	-	160,000 to 169,999	-	-	-	-
-	1	1	1	170,000 to 179,999	-	-	-	-
-	-	-	-	180,000 to 189,999	-	-	-	-
-	-	-	-	190,000 to 199,999	-	-	-	-
-	-	-	-	200,000 to 209,999	-	-	-	-
-	-	-	-	210,000 to 219,999	-	1	1	1

'Remuneration' is measured as gross pay (before deduction of employees' pension contributions), plus compensation for loss of office and any other payments receivable on the termination of employment in line with SORP guidance.

## 10. GENERAL GRANTS

	2007/08 £000	2008/09 £000
Area Based Grant	-	30,111
Revenue Support Grant	20,207	19,736
LABGI Grant	1,427	411
<b>Total General Grants</b>	<b>21,634</b>	<b>50,258</b>

From 2008/09, Area Based Grant has replaced Local Area Agreement Grant. Area Based Grant is a non-ringfenced general grant, and no conditions on its use are imposed. The Local Area Agreement was a partnership with other public bodies, involving the pooling of government grants to finance work towards jointly agreed objectives for local public services.

Where a County Council Service received a specific grant under the Local Area Agreement Grant in previous years, equivalent funding has been allocated from the Area Based Grant to that Service for 2008/09.

£6.1m of Area Based Grant has been transferred to District Councils and other organisations within County Durham. This is to continue to achieve targets previously funded through the Local Area Agreement Grant, in relation to Stronger, Safer Communities and Local Enterprise Grant Initiative.

## 11. 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** 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. Central Government grants are received from the Department for Children, Schools and Families, the Department of Health, the Department of Communities & Local Government and the Department of Environment, Food and Rural Affairs.

The Council also receives specific grants from the European Union.

**Members of the Council** have direct control over the Council's financial and operating policies. Details of transactions relating to members' interests are recorded in the Register of Members' Interest open to public inspection at County Hall, Durham, DH1 5UL. This is also available on the Durham County Council website. Following a review of the register and the Related Party Transactions Declarations, it was established that there were no material related party transactions involving members.

**Officers:** The Corporate Director – Resources is the Treasurer to Durham Police Authority and County Durham and Darlington Fire and Rescue Authority. There were no related party transactions involving chief officers of the Council.

**Pension Fund:** Durham County Council administers the Durham County Council Pension Fund on behalf of 70 bodies, including district, parish and town councils, colleges, statutory bodies and admitted bodies. During 2008/09, the Pension Fund had an average balance of £84.386m (109.756m in 2007/08) surplus cash deposited with the Council. The Council paid the fund a total of £4.085m (6.559m in 2007/08) in interest on these deposits. The Council charged the fund £1.077m (£1.276m in 2007/08) for expenses incurred in administering the Fund.



**DurhamNet:** DurhamNet is a strategic partnership between Durham County Council and Derwentside District Council with the objective to deliver broadband services throughout the County. Derwentside District Council is the Accountable Body for the partnership.

**Youth & Community Associations:** Each year, Durham County Council provides financial support towards the running of various youth and community groups.

**Beamish** – In conjunction with other Councils, the Authority operates a number of joint ventures. The County Council is a member of the Joint Committee responsible for running Beamish – The North of England Open Air Museum.

**e - Government Partnership** - The County Durham e-Government Partnership was established in November 2003. The partnership includes Durham County Council and the seven district councils (Wear Valley, Easington, City of Durham, Sedgefield, Derwentside, Teesdale and Chester-le-Street) within the boundaries of County Durham. The aim of the partnership is to promote the use of technology to offer all local taxpayers the freedom to access services provided by the member authorities in different ways. In 2008/09 Durham County Council made a contribution of £218,972 to the partnership. The contribution in 2007/08 was £263,875.

Wear Valley District Council acts as the Accountable Body for the partnership and has prepared the following financial summary:

	2007/08 £000	2008/09 £000
Balance as at 1st April	834	663
Contributions from Partners	675	424
Interest Credited in year	32	20
Less: Expenditure in year	878	800
<b>Balance as at 31st March</b>	<b>663</b>	<b>307</b>

## 12. AUDIT AND INSPECTION FEES

	2007/08 £000	2008/09 £000
Fees payable to the Audit Commission with regard to external audit services carried out by the appointed auditor	216	224
Fees payable to the Audit Commission in respect of statutory inspection	100	20
Fees payable to the Audit Commission for certification of grant claims	28	19
Fees payable in respect of other services provided by the appointed auditor	5	5
	<b>349</b>	<b>268</b>

The decrease in fees payable to The Audit Commission for statutory inspections is mainly due to the fact that the 2007/08 figure included a payment of £69,200 for conducting the final Corporate Assessment, which is no longer applicable in 2008/09.

The reduction in fees payable for the certification of grant claims is due to the fact that the testing threshold for all grants has been raised. This change is in line with the Audit Commission's strategic aim of minimising the burden on local authorities by changing the requirements of certain grant claims.

Other services in 2008/09 provided by the auditor relate to training for members of the Audit Committee, and in 2007/08 include the review of the Base Data Return to Central Government relating to local government reorganisation and the Building Schools for the Future programme.

## Notes to the Core Financial Statements

Fees relating to the audit of the Pension Fund to the value of £40,000 in 2008/09 have been excluded from the above table but are included in note 11 of the Pension Fund Accounts on page 88 (The corresponding fee for auditing the Pension Fund in 2007/08 was £15,750).

### 13. ANALYSIS OF RECONCILING ITEMS IN THE STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE

2007/08 £000	2008/09 £000
<b>Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the General Fund Balance for the year</b>	
-8,348 Gain/Loss(-) on the disposal of fixed assets	2,845
-50 Amortisation of intangible fixed assets	-176
-55,420 Depreciation and impairment of fixed assets	-81,453
4,719 Government Grants deferred amortisation	14,155
-7,587 Revenue Expenditure Funded from Capital Under Statute (REFCUS)	-4,509
4,182 Revenue Grants and Contributions relating to REFCUS	2,323
-44,320 Net charges made for retirement benefits in accordance with FRS17	-47,650
<u>-106,824</u>	<u>-114,465</u>
<b>Amounts not included in the Income and Expenditure Account but required to be included by statute when determining the Movement on the General Fund Balance for the year</b>	
9,145 Minimum revenue provision for capital financing	9,426
7,930 Capital Expenditure charged in year to the General Fund	5,647
35,822 Employers contributions payable to Durham County Council Pension Fund and retirement benefits payable direct to Pensioners	37,929
<u>52,897</u>	<u>53,002</u>
<b>Transfers to or from the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund balance for the year</b>	
2,286 Voluntary revenue provision for capital financing	-
10,813 Net transfer to or (-) from earmarked reserves	-17,013
<u>13,099</u>	<u>-17,013</u>
<b><u>-40,828</u></b>	<b><u>-78,476</u></b>
<b>Net additional amount required to be (-) credited or debited to the General Fund balance for the year</b>	

## 14. CAPITAL FINANCING REQUIREMENT

2007/08 £000		2008/09 £000
228,616	<b>Opening Capital Financing Requirement</b>	235,645
	<b>Capital Expenditure:</b>	
629	Intangible Assets	1,096
45,515	Operational Assets	65,307
22,853	Non-operational Assets	16,079
476	Repayment of deferred liability (equipment lease)	153
7,587	Revenue Expenditure Funded from Capital Under Statute	4,524
	<b>Sources of Finance:</b>	
-10,797	Capital Receipts	-14,212
-39,872	Government grants and other contributions	-44,843
	Sums set aside from revenue	
-7,931	Revenue contributions and reserves	-5,647
-11,431	Minimum Revenue Provision and Voluntary set-aside	-9,426
<u>235,645</u>	<b>Closing Capital Financing Requirement</b>	<u>248,676</u>
	<b>Explanation of movement in the year</b>	
7,030	Increase in underlying need to borrow (supported by Government financial assistance)	13,031
-	Increase in underlying need to borrow (unsupported by Government financial assistance)	-
<u>7,030</u>	<b>Increase / (decrease) in Capital Financing Requirement</b>	<u>13,031</u>



A more detailed analysis of land and buildings is shown below:

	<b>£000</b>	<b>%</b>
Secondary Schools	329,171	40
Nursery & Primary Schools	283,771	34
Other Children's and Young People's Services Assets	67,758	8
Special Schools	40,463	5
Adult & Community Services	36,342	4
Office Accommodation	25,375	3
Environment Assets	19,450	2
Industrial Estates	16,641	2
Other	6,904	1
Service Direct	4,713	1
	<b>830,588</b>	<b>100</b>

#### **16. INFORMATION ABOUT DEPRECIATION METHODOLOGIES**

All assets, other than non-depreciable land and non-operational assets under construction, are depreciated over the expected useful life of the asset on a straight-line basis. Life expectancies of buildings vary according to their age and condition, up to a maximum of 50 years. Infrastructure is depreciated over 40 years. Vehicles, plant and equipment lives vary from 3 to 10 years.

#### **17. VALUATION INFORMATION**

Assets are valued in the Balance Sheet at either historic or current cost.

Land and buildings are valued on a current-cost basis when they are acquired or become operational and are then subject to a rolling revaluation programme over a five-year cycle. Specific assets may be revalued between major valuations if there is a significant change in value, for example because of major alterations. In addition, assets that are declared surplus are revalued and this may be on a different basis to the basis of valuation when operational. The table below shows gross book valuations at 31<sup>st</sup> March for the last five years including 2008/09.

## Notes to the Core Financial Statements

	Major Revaluation	Gross Book Values				
		2004/05 £000	2005/06 £000	2006/07 £000	2007/08 £000	2008/09 £000
<b>Valued at Historic Cost</b>						
<i>Infrastructure</i>		245,708	272,983	279,353	301,014	322,527
<i>Assets Under Construction</i>		25,789	21,548	13,972	32,383	26,982
<b>Valued at Current Cost</b>						
<i>Land &amp; Buildings</i>						
County Farms	2004/05	3,369	2,601	2,338	1,934	2,077
Service Direct	2004/05	1,587	1,587	4,854	4,795	4,841
Highways	2004/05	1,456	2,395	7,554	7,547	7,599
Administrative Buildings	2004/05	19,917	20,516	20,861	21,101	21,380
		<b>26,329</b>	<b>27,099</b>	<b>35,607</b>	<b>35,377</b>	<b>35,897</b>
Environment	2005/06	614	1,119	1,063	1,053	10,629
Registrars	2005/06	302	442	460	485	501
Waste Disposal	2005/06	2,548	1,260	1,260	1,260	1,282
Reclamation	2005/06	2,165	2,653	2,674	2,478	2,704
		<b>5,629</b>	<b>5,474</b>	<b>5,457</b>	<b>5,276</b>	<b>15,116</b>
Economic Development	2006/07	6,798	6,637	10,937	10,985	17,438
Children's Centres	2006/07	-	859	16,570	21,602	25,344
Social Care & Health	2006/07	18,679	18,718	26,700	28,384	29,175
		<b>25,477</b>	<b>26,214</b>	<b>54,207</b>	<b>60,971</b>	<b>71,957</b>
Education	2008/09	423,775	440,248	470,109	810,884	743,444
Cultural Services	2008/09	10,946	10,946	10,946	11,194	16,219
Surplus Property	2008/09	17,152	15,669	27,471	27,222	30,977
		<b>451,873</b>	<b>466,863</b>	<b>508,526</b>	<b>849,300</b>	<b>790,640</b>
Magistrates' Courts*		8,070	-	-	-	-
		<b>8,070</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Land &amp; Buildings</b>		<b>517,378</b>	<b>525,650</b>	<b>603,797</b>	<b>950,924</b>	<b>913,610</b>
<i>Vehicles, Plant, Furniture &amp; Equipment</i>		40,412	39,286	40,453	39,589	45,929
<b>Total All Assets</b>		<b>829,287</b>	<b>859,467</b>	<b>937,575</b>	<b>1,323,910</b>	<b>1,309,048</b>

\* Transferred to Department for Constitutional Affairs (now the Ministry of Justice) on 1st April 2005.

## 18. INTANGIBLE ASSETS

	Purchased software licences £000
Cost at 1st April 2008	1,628
Accumulated amortisation at 1st April 2008	-707
<b>Net Book Value at 1st April 2008</b>	<b>921</b>
<b>Movement in 2008/09</b>	
Additions (capital expenditure)	1,096
Amortisation charge for the year	-176
<b>Net Book Value at 31st March 2009</b>	<b>1,841</b>
<i>Cost at 31st March 2009</i>	<i>2,724</i>
<i>Accumulated amortisation at 31st March 2009</i>	<i>-883</i>

The intangible assets included in the Balance Sheet consist of software licences and a software maintenance agreement. These assets are valued at historic cost and are written off to the Income and Expenditure Account on a straight-line basis over their estimated useful life.

Details of the intangible assets are shown below:

Type of asset	Nature of asset	Date operational	Cost (£000)	Life (years)	Method of amortisation
Accounting Software	Licence	April 1996	358	10	Straight line
Remote Host Software	Licence	July 2003	250	5	Straight line
Remote Host Software	Maintenance Agreement	July 2003	112	3	Straight line
Accounting Software	Licence	November 2008	1,935	5	Straight line
Server Software	Licence	January 2009	44	5	Straight line
VMware Software	Licence	January 2009	26	5	Straight line

#### 19. ANALYSIS OF NET ASSETS EMPLOYED

31st March 2008 £000		31st March 2009 £000
707,762	General Fund	435,493
1,949	Direct Service Organisations	932
<b>709,711</b>	<b>Net Assets Employed</b>	<b>436,425</b>

#### 20. COMMITMENTS UNDER CAPITAL CONTRACTS

The significant capital commitments for future years, in respect of schemes that are already underway, are shown below:

	£000
Durham Johnston School New Build Replacement	3,428
Seaham Trinity Primary New Build	604
Building Schools for the Future Phase 1 funding gap	2,290
Broadband in schools	1,202
Waste minimisation schemes	3,179
Environmental Improvement schemes	3,551
Durham City Vision	3,524
Horden Dene project	713
Structures - bridges programme	7,244
Street lighting column replacement	2,510
Local area schemes (members)	1,017
A688 West Auckland Bypass	849
Durham Park and Ride	617
A688 Wheatley Hill to Bowburn	580
Netpark Plot 3	3,792
Seaham St John's Square multi-user centre	5,110
Gypsy and traveller sites	2,192
	<b>42,402</b>

**21. ASSETS HELD UNDER / FOR LEASES**

**Operating leases**

The County Council operates a variety of cars, vans and buses financed under the terms of operating leases. The County Council was committed at 31<sup>st</sup> March 2009 to making payments of £660,918 under operating leases in 2009/10 (£784,987 in 2008/09) comprising the following elements:

	<b>Vehicles, Plant and Equipment £000</b>
Leases expiring in 2009/10	145
Leases expiring between 2010/11 and 2011/12	427
Leases expiring after 2012/13	89
	<hr/> <b>661</b> <hr/>

Durham County Council leases land and buildings from a variety of organisations to provide services in line with stated priorities. Leases paid for rent of buildings in 2008/09 was £2,189,265 (£1,858,668 in 2007/08).

Durham County Council has granted leases to different organisations and individuals to generate income from land and buildings and to encourage commercial activity within the county. Rental income of £1,065,165 was received in 2008/09 (£1,095,127 in 2007/08)

**Finance Leases**

Home Computer Initiative

In 2005/06 the Council acquired computer equipment under a three-year finance lease to lend to employees, also under a finance lease, as part of the Home Computer Initiative:

- For the lease in, where the Council acts as lessee, the rentals payable in 2008/09 were £124,554, with £21,930 financing costs (i.e. interest) charged to the Income and Expenditure Account and £102,624 relating to the reduction of amounts owed to the leasing company (debited to long-term liabilities).
- For the lease out, where the Council acts as lessor, the rentals receivable from employees in 2008/09 were £124,554. The finance element (£21,930) has been credited to the Income and Expenditure Account, with the principal element (£102,624) reducing long-term debtors, both elements offsetting the costs paid as lessee.

As 2008/09 is the final year of the scheme there is no balance to carry forward to 2009/10.

Computer Servers

In 2006/07, the Council acquired computer servers under a three-year finance lease, as part of the PC/Server replacement programme. The rentals payable in 2008/09 were £173,444, with £20,560 financing costs (i.e. interest) charged to the Income and Expenditure Account and £152,884 relating to the reduction of amounts owed to the leasing company (debited to long-term liabilities).



The servers are accounted for as part of Tangible Fixed Assets, as follows:

	<b>£000</b>
Value at 1st April 2008	1,164
Depreciation	-292
Value at 31st March 2009	<b>872</b>

Outstanding obligations to make payment under the computer servers finance lease (excluding finance costs) at 31<sup>st</sup> March 2009, accounted for as part of long-term liabilities, are as follows:

	<b>£000</b>
Obligations payable in 2009/10	172
Total liabilities at 31st March 2009	<b>172</b>

## **22. INTERESTS IN COMPANIES**

### **Group Accounts**

The 2008 SORP requires all local authorities to examine the relationship between themselves and other organisations used to deliver local services in order to establish whether to prepare Group Accounts. The aim of Group Accounts is to provide information about the risks and benefits associated with organisations over which the County Council could exercise control or significant influence.

A thorough review was carried out of the information held on all the organisations with which services are delivered. The review was based on information held by the authority as well as discussions with officers from departments and other local authorities in the area. From the information gathered, the County Council followed the 2008 SORP guidance to assess the nature of the relationship with each entity/organisation and to establish whether the production of Group Accounts was necessary.

The County Council has financial relationships with a number of related companies, some of which have been excluded on the grounds of materiality or the fact that DCC is not in a position to exert significant influence over these organisations. However, it was concluded that the following organisations should be consolidated within the Group Accounts:

- The County Council owns the majority shareholding in the Durham County Waste Management Company
- County Durham Development Company is wholly owned by the County Council.
- NewCo Ltd

The level of investments held in County Durham Development Company, Durham County Waste Management Company Ltd, New Co Ltd, local airports and Durham Dales Centre Ltd, are detailed in the table on interests in companies below.

## Notes to the Core Financial Statements

	County Durham Development Company Limited		Durham County Waste Management Company Limited		NewCo Limited		Newcastle Airport Local Authority Holding Company Limited		Durham Tees Valley Airport		Durham Dales Centre Limited	
	2007/08 £000	2008/09 £000	2007/08 £000	2008/09 £000	2007/08 £	2008/09 £	2007 £000	2008 £000	2006/07 £000	2007/08 £000	2007/08 £000	2008/09 £000
Net Assets/Liabilities	1,121	1216	9,078	6,950	24	56	-106,033	137,908	21,204	20,200	-14	-
Profit / Loss before tax	191	95	1,809	-266	29	40	-696	2,272	-1,916	-2,089	-112	13
Profit / Loss after tax	191	95	1,370	-204	23	32	2,080	-10,312	-1,431	-1,418	-112	13
Dividend declared	-	-	-	n/a	-	-	-	131	n/a	n/a	n/a	n/a
% Share Capital held / ownership	100	100	84	84	100	100	11.84	11.84	3.3	3.3	50	50
Group Accounts	Included		Included		Included		Not included No dominant influence		Not included No dominant influence		Not included No dominant influence	

It should be noted:

- the information above for Newcastle Airport Local Authority Holding Company Limited is for the year 1<sup>st</sup> January to 31<sup>st</sup> December
- Information relating to 2008/09, included in the above table, is subject to audit.

### County Durham Development Company Limited

The Company is wholly owned by the County Council and limited by guarantee. The County Council will continue to support the Company in order that its liabilities will be met as they fall due. It was established in 1986 to promote, encourage and secure the economic development of the County.

### Durham County Waste Management Company Limited

The Company is a 'Local Authority Waste Disposal Company' created under the Environmental Protection Act 1990. The waste disposal assets and liabilities of Durham County Council were formally vested in the Company in 1993. The Council holds 84% of the share capital.

### Service Direct NewCo Limited

Service Direct NewCo Ltd 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

The former North East Regional Airport 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 County Council received £4.702m (14%) of the issued share capital. On 4th May 2001, the seven local authority shareholders of Newcastle International Airport Ltd entered into a strategic partnership with Copenhagen Airports. This involved the creation of a new company; NIAL Holdings PLC to hold 100% of shares in Newcastle International Airport Ltd. The seven constituent authorities holding 51% of the shareholding of NIAL Holdings PLC formed a separate company known as Newcastle Airport Local Authority Holding Company Limited. 49% is held by Copenhagen Airports for which they paid the local authority shareholders £95m in cash. In addition, NIAL Holdings PLC issued £100m of loan notes to the local authority shareholders in recognition of the value built up in Newcastle International Airport over the years, which were redeemed in

April 2002. As a consequence of this transaction the County Council's holding was revalued as detailed in Note 23. £25m of the loan notes (of which the Council's share was £3.108m) were long-term investments to be repaid in equal instalments over ten years, with the last instalment being due in 2012/13. This is shown on the Balance Sheet as a debtor matched by a deferred capital receipt. The balance at 31<sup>st</sup> March 2009 was £1.554m (£1.865m at 31<sup>st</sup> March 2008). On 19<sup>th</sup> December 2006, NIAL Holdings PLC re-registered as a private company and changed its name to NIAL Holdings Limited.

Newcastle Airport Local Authority Holding Company Limited has a called up share capital of 10,000 shares with a nominal value of £1. Durham County Council has a shareholding of 1,183 shares representing 11.84% interest in the company, which is an effective shareholding of 6% of Newcastle International Airport Ltd.

The principal activity of Newcastle International Airport Ltd is the provision of landing services for both commercial and freight operators.

In 2008/09, dividends £1.107m were declared by NIAL Holdings, of which the County Council's share was £0.131m. No dividends were declared in 2007/08.

The most recent figures available are detailed below:

	<b>2007</b>	<b>2008</b>
	<b>£000</b>	<b>£000</b>
Net Assets	-106,033	137,908
Profit / Loss (-) before tax	-696	2,272
Profit / Loss (-) after tax	2,080	-10,312

Further information regarding the consolidated accounts of Newcastle International Airport Limited and NIAL Holdings Limited can be obtained from the Company Secretary at its Registered Office at Newcastle International Airport Limited, Woolsington, Newcastle upon Tyne, NE13 8BZ.

### **Durham Tees Valley Airport**

The former Teesside Airport 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 County Council received £7.600m (40%) of the issued share capital. With effect from 1st April 2003, 75% of the total shareholding in the now renamed Durham Tees Valley Airport was acquired by Peel Airports Limited. The County Council now holds 3.3% of the total shareholding in Peel Airports Limited at a value of £0.883m. The Company accounts for 2008/09 are not yet available. The most recent information is detailed below. No dividend was declared for the year.

	<b>2006/07</b>	<b>2007/08</b>
	<b>£000</b>	<b>£000</b>
Net Assets	21,204	20,200
Profit / Loss (-) before tax	-1,916	-2,089
Profit / Loss (-) after tax	-1,431	-1,418

Further information regarding the Company's accounts can be obtained from its Registered Office at Durham Tees Valley Airport Limited, Darlington, DL2 1LU.

**Durham Dales Centre Limited**

The Company is limited by guarantee and is principally engaged in the stimulation and support of the economic regeneration of the Durham Dales. This is achieved by providing business training and advice and essential office services in the Dales Centre at Stanhope, which also incorporates a tourist information centre, a business centre and tea room. The Company is jointly owned by the County Council and Wear Valley District Council who each underwrite 50% of the Company's operating deficit, which amounted to £128,847 in 2008/09 (£112,078 in 2007/08). Net liabilities at 31<sup>st</sup> March 2009 amounted to £nil (£13,763 as at 31<sup>st</sup> March 2008). At 31<sup>st</sup> March 2009, the County Council owed the Dales Centre £5,655 (£3,973 as at 31<sup>st</sup> March 2008) and the Dales Centre owed the County Council £166,623 (£82,166 in 2007/08). The accounts for Durham Dales Centre Limited are subject to audit.

Further information about the Company's accounts can be obtained from its Registered Office at County Hall, Durham DH1 5UL.

## 23. FINANCIAL INSTRUMENTS

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

### Financial Instrument Balances

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

31st March 2008			31st March 2009	
Long term	Current		Long term	Current
£000	£000		£000	£000
<b>Financial Liabilities at amortised cost:</b>				
-	-79,139	Trade creditors	-	-75,859
-172,774	-4,318	Borrowing	-171,436	-1,338
<b>-172,774</b>	<b>-83,457</b>	<b>TOTAL BORROWINGS</b>	<b>-171,436</b>	<b>-77,197</b>
<b>Loans and receivables at amortised cost:</b>				
-	141,953	Short term investments	-	118,988
298	208	Car loan	342	221
1,453	-	Independent Sector Care Providers	1,397	-
1,219	139	Loans to Durham County Waste Management Company	1,079	139
-	103	Home Computer Initiative lease out	-	-
1,243	311	Newcastle Airport Loan Notes	932	311
1,051	123	Long-term Loan - Durham Police Authority	928	123
-	3	Long-term Loan - Darlington Borough Council	-	-
-	31,404	Trade debtors	-	44,640
5,264	174,244		4,678	164,422
<b>Available-for-sale financial assets at fair value:</b>				
1,158	-	Durham County Waste Management Company shares	1,158	-
8,085	-	Newcastle International Airport shares	965	-
883	-	Durham Tees Valley Airport shares	667	-
10,126	-		2,790	-
<b>15,390</b>	<b>174,244</b>	<b>TOTAL INVESTMENTS</b>	<b>7,468</b>	<b>164,422</b>

#### Short-Term Investments

The short-term investments figure of £118.988m (31<sup>st</sup> March 2008: £141.953m) is made up of £37.206m (31<sup>st</sup> March 2008: £65.923m) invested with banks, £55.214m (31<sup>st</sup> March 2008: £76.030m) with building societies, £16.728m (31<sup>st</sup> March 2008: Nil) with Local Authorities and £9.840m (31<sup>st</sup> March 2008: Nil) with the UK Government Debt Management Agency.

Of the total balance, £116.195m (31<sup>st</sup> March 2008: £129.197m) of the balance is made up of fixed rate, fixed term deposits, all of which mature within 364 days. The remaining £2.793m (31<sup>st</sup> March 2008: £12.756m) is held in variable rate instant access accounts.

#### Soft loans

The SORP also requires that local authorities that grant loans to third parties at below market rates (soft loans) account for them on a fair value basis. The fair value is the present value of all future cash receipts, discounted using the prevailing market interest rate for a similar instrument and for an organisation with a similar credit rating. Local Authority Accounting Panel Bulletin 73 (LAAP 73) confirms that materiality needs to be taken into consideration and, where the value is not material, the new accounting adjustments need not be followed.

The SORP requires that the difference between cash lent and fair value be recognised immediately in the Income and Expenditure Account. The fair value of a soft loan will increase over the term of the loan, because the amount of interest forfeited will reduce. Increasing the carrying value of the loan to reflect the unwinding of the discount reflects this process. The resulting increase in value is recognised in the Income and Expenditure Account. The impact of a soft loan upon the Income and Expenditure Account will be neutral over the period of the loan.

## Notes to the Core Financial Statements

The value of soft loans given by the Council amounts to £562,354 at 31<sup>st</sup> March 2009 (31<sup>st</sup> March 2008: £505,967), in respect of car loans to employees. The difference between the carrying amount and the fair value of soft loans is considered to be insignificant and to have no material impact on the accounts. Therefore, the Income and Expenditure Account has not been adjusted.

### Items of Income, Expense, Gains or Losses

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

	31st March 2009			
	Financial Liabilities Measured at amortised cost £000	Loans and receivables £000	Available-for- sale assets £000	Total £000
Interest expense	8,025	-	-	8,025
<b>Interest payable and similar charges</b>	<b>8,025</b>	-	-	<b>8,025</b>
Interest income		-7,295	-131	-7,426
<b>Interest and investment income</b>	-	<b>-7,295</b>	<b>-131</b>	<b>-7,426</b>
Loss on revaluation			7,337	
<b>Loss arising on revaluation of financial assets</b>			<b>7,337</b>	
<b>Net (-) gain / loss for the year</b>	<b>8,025</b>	<b>-7,295</b>	<b>7,206</b>	

	31st March 2008			
	Financial Liabilities Measured at amortised cost £000	Loans and receivables £000	Available-for- sale assets £000	Total £000
Interest expense	8,068	-	-	8,068
<b>Interest payable and similar charges</b>	<b>8,068</b>	-	-	<b>8,068</b>
Interest income		-7,824	-	-7,824
<b>Interest and investment income</b>	-	<b>-7,824</b>	-	<b>-7,824</b>
<b>Net (-) gain / loss for the year</b>	<b>8,068</b>	<b>-7,824</b>	-	<b>244</b>

The Council's holding in Newcastle International Airport and Durham Tees Valley Airport have been revalued and reductions in value of £7.120m and £0.127m respectively have been recognised in the Statement of Total Recognised Gains and Losses.

£0.053m receivable from Durham Police Authority in respect of their long-term loan is now shown as part of interest income under Loans and receivables. Previously, this was offset against interest expenses under Financial Liabilities. The equivalent figure for 2007/08 (£0.059m) has not been restated.

### Fair value of Assets and Liabilities carried at Amortised Cost

Financial assets and liabilities represented by loans and receivables are carried in the Balance Sheet at amortised cost. Their fair value has been assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- For loans from the Public Works Loans Board (PWLB) and other loans payable, premature repayment rates from the PWLB have been applied to provide the fair value under PWLB debt redemption procedures.
- 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 actual principal outstanding or the invoiced or billed amount.
- No early repayment or impairment is recognised.
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

<b>31st March 2008</b>			<b>31st March 2009</b>	
<b>Carrying amount</b>	<b>Fair value</b>		<b>Carrying amount</b>	<b>Fair value</b>
<b>£000</b>	<b>£000</b>		<b>£000</b>	<b>£000</b>
		<b>Financial Assets</b>		
		<b>Loans and receivables</b>		
141,953	141,953	Short-term investments	118,988	118,988
		Long-term debtors:		
887	887	-element due within 12 months	794	794
5,264	5,264	-element due after 12 months	4,678	4,678
31,404	31,404	Trade debtors	44,640	44,640
<b>179,508</b>	<b>179,508</b>		<b>169,100</b>	<b>169,100</b>
		<b>Financial Liabilities (current and long-term)</b>		
-177,074	-179,972	PWLB borrowing	-172,774	-191,852
-18	-18	Other borrowing	-	-
-79,149	-79,149	Trade creditors	-75,859	-75,859
<b>-256,241</b>	<b>-259,139</b>		<b>-248,633</b>	<b>-267,711</b>

The fair value of financial liabilities at 31<sup>st</sup> March 2009 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.

#### **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
- 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.

Short-term investments are carried out under policies approved by the Council in the annual treasury management strategy.

#### **Overall Procedures for Managing Risk**

The Council's overall risk management procedures focus on the unpredictability of financial markets, and implementing restrictions to minimise these risks. The procedures for risk management are set out through a legal framework set out in the *Local Government Act 2003* and the associated regulations. These require the Council to comply with the CIPFA Prudential Code, the CIPFA Treasury Management in the Public Services Code of Practice 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 Code of Practice;
- By approving annually in advance prudential 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 in respect of the maturity structure of its debt;
  - Its maximum annual exposures to investments maturing beyond a year.

## Notes to the Core Financial Statements

- By approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investment counterparties in compliance with the Government Guidance.

These are required to be reported and approved at or before the Council's annual Council Tax setting budget. These items are reported with the annual treasury management strategy that outlines the detailed approach to managing risk in relation to the Council's financial instrument exposure. Actual performance is also reported annually to Members.

The Corporate Director - Resources is responsible for implementing the policies outlined above. The Council maintains written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash through Treasury Management Practices (TMPs). These TMPs are a requirement of the Code of Practice and are reviewed regularly.

### **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 and Moody's Ratings Services. The Annual Investment Strategy also imposes a maximum amount and time to be invested with a financial institution located within each category. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined above.

The following analysis summarises the Council's potential maximum exposure to credit risk. The table (from Fitch) gives details of global corporate finance average cumulative default rates (including financial organisations) for the period 1990 – 2007 on investments out to 5 years.

Deposits with banks and financial institutions	Amount at 31st March 2009 £000 A	Historical experience of default % B	Historical experience adjustment for market conditions at 31st March 2009 % C	Estimated maximum exposure to default and uncollectability £000 (AxC)
AA rated counterparties	38,218	0.06%	0.06%	23
A rated counterparties	54,093	0.65%	0.65%	352
	92,311			375
Other counterparties	26,677	0.00%	0.00%	-
	<b>118,988</b>			<b>375</b>
Other counterparties includes deposits with Debt Management Agency, NSB and other local authorities				

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.

Whilst the current credit crisis in international markets has raised the overall possibility of default, the Council maintains strict credit criteria for investment counterparties.

The likelihood of default by customers is assessed on past experience, age profile of the debt and other factors, which result in a prudent provision for bad debts for the County Council overall. As at 31<sup>st</sup> March 2009, the amount due to the Council in respect of invoices raised was £20.612m (31<sup>st</sup> March 2008: £26.583m) and a provision for bad debt of £1.712m (31<sup>st</sup> March 2008: £1.094m) was made.



The age profile of the outstanding debt is:

	2008	2009	2009	2009
	Gross	Gross	Bad Debt	Net
	£000	£000	Provision	£000
			£000	
Less than one month old	19,988	2,983	-	2,983
One to three months	1,980	14,204	-	14,204
Three to six months	617	864	-39	825
Six months to one year	900	1,218	-148	1,070
More than one year	3,098	1,343	-1,525	-182
	<b>26,583</b>	<b>20,612</b>	<b>-1,712</b>	<b>18,900</b>
Non-Invoiced Debtors	<b>4,821</b>	<b>24,028</b>	-	<b>24,028</b>
	<b>31,404</b>	<b>44,640</b>	<b>-1,712</b>	<b>42,928</b>

### Liquidity risk

The Council has ready access to borrowings from the Money Markets to cover any day to day cash flow need, and whilst the PWLB provides access to longer term funds, it also acts as a lender of last resort to councils (although it will not provide funding to a council whose actions are unlawful). 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. Instead, the risk is that the authority will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates.

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 cash flow management procedures required by the Code of Practice. The maturity analysis of borrowing is as follows:

31st March 2008		31st March 2009	
£000	£000	£000	£000
<b>Source:</b>			
	177,074	Public Works Loan Board	172,774
	18	Other Local Authorities	-
	<b>177,092</b>		<b>172,774</b>
<b>Analysis by Maturity Date:</b>			
Short-term borrowings (current liability) -			
	4,318	Repayable within 1 year	1,338
Long-term borrowings -			
	1,338	Between 1 and 2 years	1,056
	2,926	Between 2 and 5 years	2,555
	895	Between 5 and 10 years	210
	167,615	More than 10 years	167,615
	172,774		171,436
	<b>177,092</b>		<b>172,774</b>

All trade and other payables are due to be paid in less than one year.

### Market risk

#### Interest rate risk

The Council is exposed to significant 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:

## Notes to the Core Financial Statements

- borrowings at variable rates – the interest expense charged to the Income and Expenditure Account will rise
- borrowings at fixed rates – the fair value of the liabilities borrowings will fall
- investments at variable rates – the interest income credited to the Income and Expenditure Account will rise
- investments at fixed rates – the fair value of the assets will fall.

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

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together the Council's prudential indicators and its expected treasury operations, including an expectation of interest rate movements. From this Strategy a prudential indicator is set which provides maximum and minimum limits for fixed and variable interest rate exposure.

The central Treasury team will monitor market and forecast 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.

If interest rates had been 1% higher during 2008/09 with all other variables held constant, the financial effect would be an increase in interest earned on short-term investments of £1.770m, compared to £1.179m in 2007/08 (impact on the Income and Expenditure Account). The impact of a 1% fall in interest rates would be the reverse.

### Foreign exchange risk

The Council has no financial assets or liabilities denominated in foreign currencies, other than a small stock of cash. The Council therefore has no exposure to loss arising from movements in exchange rates.

## 24. CURRENT ASSETS

### Stock and Work in Progress

As at 31st March 2008 £000	As at 31st March 2009 £000
<b>Stocks -</b>	
288 Highways and Transportation	485
858 Service Direct	514
90 Other	184
<b>Work in Progress (External Bodies only) -</b>	
1,561 Rechargeable Works	1,745
209 Service Direct	204
<b>3,006</b>	<b>3,132</b>

## Debtors and Payments in Advance

As at 31st March 2008 £000	As at 31st March 2009 £000
<b>Debtors -</b>	
11,334 Government Departments	6,328
160 European Union Funds	77
32,291 Other Debtors	45,432
-1,094 Less: bad debt provision	-1,712
42,691 <b>Total Debtors</b>	50,125
3,232 <b>Payments in Advance</b>	2,828
<b>45,923</b>	<b>52,953</b>

## 25. CREDITORS AND RECEIPTS IN ADVANCE

As at 31st March 2008 £000	As at 31st March 2009 £000
<b>Creditors -</b>	
34,312 Government Departments	37,763
123 European Union Funds	1,192
79,149 Other Creditors	75,857
113,584 <b>Total Creditors</b>	114,812
6,423 <b>Receipts in Advance</b>	18,171
<b>120,007</b>	<b>132,983</b>

## 26. PROVISIONS

The provisions at 31<sup>st</sup> March 2009 were as follows:

**S117 Refunds Provision**

To meet the cost of refunding contributions made under s117 of the Mental Health Act 1983. Payments began in 2004/05; more are expected in future years.

**Insurance Provision**

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

**Equal Pay and Job Evaluation**

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.

## Notes to the Core Financial Statements

	Equal Pay £000	Insurance £000	S117 Refunds £000	Totals £000
<b>Balance at 1st April 2008</b>	-	5,533	101	5,634
Increase during the year	9,477	2,447	-	11,924
Utilised during the year	-	-601	-	-601
Written-off during the year	-	-1,554	-	-1,554
<b>Balance at 31st March 2009</b>	<u>9,477</u>	<u>5,825</u>	<u>101</u>	<u>15,403</u>

## 27. RESERVES

The Council keeps a number of reserves in the Balance Sheet. Some are required to be held for statutory reasons. Some are needed to comply with proper accounting practices, and others have been set up voluntarily to earmark resources for future spending plans.

Reserve	Balance at 1st April 2008 £000	Net Movement in Year £000	Balance at 31st March 2009 £000	Purpose of Reserve	Further Details of Movement
Revaluation Reserve	399,651	-65,193	334,458	Store of gains on revaluation of fixed assets not yet realised through sales	(a) below
Capital Adjustment Account	433,622	-29,158	404,464	Store of capital resources set aside to meet past expenditure	(b) below
Deferred Capital Receipt	1,554	-311	1,243	Capital income to be received where deferred payment has been agreed	
Usable Capital Receipts	20,199	-8,957	11,242	Proceeds of fixed assets sales available to meet future capital investment	(c) below
FRS17 Pensions Reserve	-255,138	-152,312	-407,450	Balancing account to allow inclusion of Pensions Liability in the Balance Sheet	Note 32 on page 60
Available-for-sale Reserve	8,968	-7,337	1,632	Store of gains on revaluation of airport shares	
General Fund	21,132	6,995	28,127	Resources available to meet future running costs	Statement of Movement on General Fund Balance on page 26
Other Reserves	79,723	-17,014	62,709	Resources set aside for future spending plans	(d) below
	<u>709,711</u>	<u>-273,287</u>	<u>436,425</u>		

The Balance Sheet figures for 1<sup>st</sup> April 2008 have been adjusted from the closing figures included in the Statement of Accounts for 2007/08 to accommodate the amendment to FRS17 Retirement Benefits included in the 2008 SORP (see Changes in Accounting Policies page 24).

**(a) Revaluation Reserve**

2007/08 £000		2008/09 £000
-	<b>Opening Balance</b>	399,651
	Movement in year:	
418,996	Revaluation gains/(-)losses	-50,199
-15,095	Excess of current cost depreciation over historic cost depreciation written off to Capital Adjustment Account	-14,553
-4,250	Balance written off to Capital Adjustment Account on disposal of asset	-441
<u>399,651</u>	<b>Closing Balance</b>	<u>334,458</u>

**(b) Capital Adjustment Account**

2007/08 £000		2008/09 £000
466,875	<b>Opening Balance</b>	433,622
	Movement in year:	
18,659	Capital Financing from revenue and capital receipts	19,720
11,431	Minimum Revenue Provision/Voluntary Set Aside	9,426
-54,157	Amounts included in I&E account but required by statute to be excluded from General Fund Balance (capital charges)	-69,660
-	Transfer to Government Grants Deferred	-1,677
	Amounts written off from Revaluation Reserve:	
15,095	Excess of current cost depreciation over historic cost depreciation	14,553
4,250	Balance on disposal of fixed asset	441
	Other amounts written off on disposal of fixed assets:	
-29,185	Net Book Value	-1,961
654	Government Grants Deferred balance	-
<u>433,622</u>	<b>Closing Balance</b>	<u>404,464</u>

**(c) Usable Capital Receipts**

2007/08 £000		2008/09 £000
10,347	<b>Unapplied Balance at 1st April</b>	20,199
	Movement in year:	
20,633	Received in year	5,255
-10,781	Applied in year	-14,212
<u>20,199</u>	<b>Unapplied Balance at 31st March</b>	<u>11,242</u>

### (d) Other Reserves

The significant reserves at 31<sup>st</sup> March 2009 were as follows:

#### **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.

#### **Direct Service Organisation's Reserve**

To provide, on a first call basis, any losses incurred by the Direct Service Organisation and thereafter is available to fund Capital Expenditure and to make contributions to the County Council.

#### **Early Retirement Pensions Reserve**

To provide for the costs of early retirements approved. The balance is available to pay to the Pension Fund to reduce future pension contributions.

#### **Aycliffe Young People's Centre Reserve (previously Social Services Reserve)**

The reserve comprises several Aycliffe Young People's Centre balances including: Aycliffe Young People's Centre Development Reserve, Aycliffe Secure Services Capital Reserve, Aycliffe Secure Services Operating Surplus and Aycliffe Trustees Reserve.

#### **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<sup>st</sup> March 2009 comprised individual school balances totalling £17.801m, net of loans outstanding of £2.288m.

#### **Equal Pay Reserve**

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

#### **Regeneration and Communities Reserve**

To provide a resource to deliver projects, determined by Members, that will be linked to regeneration and communities.

#### **Special Projects Reserve**

To provide a resource for Members to deliver special projects in line with the County Council's priorities.

#### **Cabinet Reserve**

A special dividend from Newcastle Airport shares to be used to deliver one-off projects.

#### **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.

**Movements on Reserves**

	Balance at 31st March 2008 £000	Contributions to Reserves £000	Contributions from Reserves £000	Transfer between Reserves £000	Balance at 31st March 2009 £000
<b>Earmarked Reserves</b>					
Children's Fund Returned Grant	213	-	-86	-	127
Computer & IT Reserve	38	-	-38	-	-
Connexions	496	28	-33	-	491
Continuing Professional Development	288	254	-	-	542
Corporate Reserve	468	255	-292	-	431
Culture & Leisure	231	9	-12	-	228
Direct Service Organisation	1,926	599	-3,721	2,129	933
Early Retirement Pensions	5,274	677	-	314	6,265
Education Reserve	91	3,389	-91	-	3,389
Equal Pay Reserve	16,892	-	-9,603	-2,443	4,846
Information & Technical Support Service	565	-	-65	-	500
Insurance	10,856	1,215	-	-	12,071
Schools' Revenue Balance	25,490	4,366	-12,055	-	17,801
Aycliffe Young People's Centre	1,601	120	-	-	1,721
Non-ringfenced Grants	44	-	-44	-	-
Centralised IT Renewals	206	-	-206	-	-
Regeneration & Communities	2,000	-	-	-	2,000
Special Projects	3,000	-	-	-	3,000
Cabinet	7,496	-	-	-	7,496
Reallocated underspends	2,548	-	-1,680	-	868
<b>Total Earmarked Reserves</b>	<b>79,723</b>	<b>10,912</b>	<b>-27,926</b>	<b>-</b>	<b>62,709</b>

**28. CONTINGENT LIABILITIES – EQUAL PAY AND JOB EVALUATION**

A contingent liability has been recognised in respect of the second phase of job evaluation, the costs and scope of which have yet to be fully determined, but are likely to be significant with the potential to be backdated to previous years. The first phase has been included as a provision within the statement of accounts 2008/09.

The remaining balance held in reserves at 31<sup>st</sup> March 2009, after funding equal pay compensation payments and provisions in 2008/09 is £3.502m for non-schools' employees. An amount of £4.892m has also been earmarked in schools' reserves.

**29. CONTINGENT ASSET – VAT FLEMING CLAIMS**

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events, not wholly within the authority's control.

As a result of the recent House of Lords' decisions in the cases of Michael Fleming (t/a Bodycraft) -v- HMRC (Fleming) and Condé Nast Publications Ltd -v- HMRC (Condé Nast), claims may now be made for output tax overpaid or over declared in accounting periods ending before 4 December 1996 and input tax in respect of which the entitlement to deduct arose in accounting periods ending before 1 May 1997.

As such, Durham County Council has lodged claims with HMRC to the value of £0.89m. It is not certain that the claim will be upheld, so the asset cannot be recognised in the accounts.

**30. EVENTS AFTER THE BALANCE SHEET DATE**

After the year end, merger of the Balance Sheets of the demising district councils will result in a significant change to the carrying values of Durham County Council's assets and liabilities.

No other events that have an effect on the financial statements or disclosure notes have taken place since the Balance Sheet date and the approval of the accounts on 30<sup>th</sup> September 2009.

**31. TRUST FUNDS (NOT INCLUDED IN THE BALANCE SHEET)**

The County Council is responsible for administering 47 individual Trust Funds. The Funds have been established from donations or bequests by benefactors who specified the uses which may be made of them, usually for the provision of educational prizes and scholarships.

<b>2007/08</b>	<b>2008/09</b>
<b>£000</b>	<b>£000</b>
<b>356 Balance at 1st April</b>	<b>374</b>
- New funds opened in year	-
21 Interest on balances, dividends etc. received	20
-3 Expenditure on prizes etc.	-9
<b>374 Balance at 31st March</b>	<b>385</b>

The transactions, assets and liabilities of the Trust Funds are not part of the County Council's Core Financial Statements.

**32. RETIREMENT BENEFITS**

**Participation in Pensions Schemes**

As part of the terms and conditions of employment of its officers and other employees the County Council offers retirement benefits. Employees are admitted to the Durham County Council Pension Fund ("the Fund") which is administered by Durham County Council under the Regulations governing the Local Government Pension Scheme (LGPS), a defined benefits scheme based on members' final pensionable salary. With effect from March 2004 entry to the LGPS was extended to county councillors who may now opt to join the scheme.

It is a funded scheme, meaning that the authority and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets.

In addition to the funded scheme the Council has unfunded liabilities in relation to the LGPS and Teachers Pension Scheme.

**Transactions Relating to Retirement Benefits**

The County Council recognise the cost of retirement benefits in the Net Costs of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge required to be made against council tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out in the Statement of Movement in the General Fund Balance. The following transactions have been made in the Income and Expenditure Account and Statement of Movement in the General Fund Balance during the year:



	Funded		Unfunded	
	2007/08	2008/09	2007/08	2008/09
	As restated £000	£000	As restated £000	£000
<b>Income and Expenditure Account</b>				
<i>Net Cost of Services:</i>				
- Current service cost	29,774	22,545	-	-
- Past service cost	8,520	2,540	-	270
<i>Net operating expenditure:</i>				
- Current service cost	2,756	2,305	-	-
- Interest costs	50,960	61,030	2,130	2,600
- Expected return on assets in scheme	-49,820	-43,640	-	-
<b>Net Charge to the Income and Expenditure Account</b>	<b>42,190</b>	<b>44,780</b>	<b>2,130</b>	<b>2,870</b>
<b>Statement of Movement in the General Fund Balance</b>				
- Reversal of net charges made for retirement benefits in accordance with FRS 17	-42,190	-44,780	-2,130	-2,870
<b>Actual amount charged against General Fund Balance for pensions in the year</b>				
- Employers' contributions payable to scheme	32,605	34,529	-	-
- Retirement benefits payable to pensioners	-	-	3,217	3,400

In addition to the recognised gains and losses included in the Income and Expenditure Account, actuarial losses of £142.57m (2007/08 as restated: gain £70.92m) were included in the Statement of Total Recognised Gains and Losses. The cumulative amount of actuarial gains and losses recognised in the Statement of Total Recognised Gains and Losses is £178,585m.

A new benefit structure was introduced in the LGPS from 1<sup>st</sup> April 2008. This change affects both the value of benefits earned up to 31<sup>st</sup> March 2008 and the cost going forward from that date.

The changes introduced in the 2008 scheme that affect the active members' benefits earned before 1<sup>st</sup> April 2008 are:

- An increase in the period of the pension guarantee following retirement from 5 to 10 years.
- The introduction of contingent dependants' benefits for co-habitees.
- An increase in the lump sum on death in deferment benefits following the member leaving service from three times to five times the deferred pension.
- A change to service enhancements for ill-health and death in service pensions.

This change is accounted for as a past service cost.

### Assets and Liabilities in Relation to Retirement Benefits

Reconciliation of present value of the scheme liabilities:

	Funded		Unfunded	
	2007/08	2008/09	2007/08	2008/09
	As restated £000	£000	As restated £000	£000
<b>1 April</b>	956,910	894,240	41,810	39,730
Current service cost	32,530	24,850	-	-
Interest cost	50,960	61,030	2,130	2,600
Contributions by scheme participants	10,350	11,520	-	-
Actuarial (gains) and losses	-131,360	-12,100	-1,010	620
Net benefits paid out	-33,670	-32,300	-3,200	-3,320
Past service costs	8,520	2,540	-	270
<b>31 March</b>	<b>894,240</b>	<b>949,780</b>	<b>39,730</b>	<b>39,900</b>

## Notes to the Core Financial Statements

Reconciliation of fair value of the scheme assets:

	Funded	
	2007/08	2008/09
	As restated £000	£000
<b>1 April</b>	681,160	678,810
Expected rate of return	49,820	43,640
Actuarial gains and (losses)	-61,450	-154,050
Employer contributions	32,600	34,410
Contributions by scheme participants	10,350	11,520
Net benefits paid out	-33,670	-32,300
<b>31 March</b>	<b>678,810</b>	<b>582,030</b>

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

The actual return on scheme assets in the year was £110.41m (2007/08 as restated: £11.63m).

Scheme history:

	2004/05 *	2005/06 *	2006/07	2007/08	2008/09
	£000	£000	As restated £000	As restated £000	£000
Present value of liabilities					
- Funded	795,720	905,180	956,910	894,240	949,780
- Unfunded	39,650	43,880	41,810	39,730	39,900
Fair value of assets in the pension scheme					
- Funded	492,600	628,340	681,160	678,810	582,030
Surplus/(deficit) in the scheme #					
- Funded	-303,120	-276,840	-275,750	-215,430	-367,750
- Unfunded	-39,650	-43,880	-41,810	-39,730	-39,900
<b>- Total</b>	<b>-342,770</b>	<b>-320,720</b>	<b>-317,560</b>	<b>-255,160</b>	<b>-407,650</b>
Adjusted Surplus/(deficit) in the scheme #	-347,044	-320,032	-320,335	-255,138	-407,450

\* The council has elected not to restate fair value of scheme assets for 2004/05 and 2005/06 as permitted by FRS 17 (as revised).

# These figures differ from that given for the FRS17 pension liability and reserve on the Balance Sheet due to the substitution of actual contributions to the Pension Fund to replace estimated figures arrived at by the Authority's actuary for these years. This has been performed to produce a more accurate assessment of the authority's FRS17 liability. The adjusted figures, as shown in the balance sheet are given for reference.

The liabilities show the underlying commitment that the County Council has to pay future retirement benefits. The pension liability of £407.450m has a substantial impact on the net worth of the County Council as reported in the Balance Sheet. However, statutory arrangements mean that the deficit on the Pension Fund will be made good by increased contributions, amongst other things, over the working life of employees, as assessed by the Fund actuary

The total contributions expected to be made to the funded local Government Pension Scheme by the council in the year to 31<sup>st</sup> March 2010 is £36.51m. Direct payments are expected to be £3.49m to cover unfunded obligations in the year to 31<sup>st</sup> March 2010.

### Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. The scheme has been assessed by Hewitt Associates Limited (formerly Hewitt Bacon and Woodrow Limited), an independent firm of actuaries. The latest valuation of the Fund took place as at 31<sup>st</sup> March 2007.

The principal assumptions used by the actuary have been:

	Funded		Unfunded	
	2007/08 As restated	2008/09	2007/08 As restated	2008/09
Mortality assumptions:				
<i>Men and Women</i>				
- Base table (in 2007)	PNMA00 with allowance for MC improvement factors to 2007			
- Scaling to above base table rates	125%	125%	125%	125%
<i>Men</i>				
- Cohort improvement factors (from 2007)	100% of MC	80% of LC	100% of MC	80% of LC
- Minimum underpin to improvement factors	1.00%	1.25%	1.00%	1.25%
- Future lifetime from age 65 (currently aged 65)	20.3	21.1	20.3	21.1
- Future lifetime from age 65 (currently aged 45)	22.2	23.4	22.2	23.4
<i>Women</i>				
- Cohort improvement factors (from 2007)	100% of MC	60% of LC	100% of MC	60% of LC
- Minimum underpin to improvement factors	0.50%	1.25%	0.50%	1.25%
- Future lifetime from age 65 (currently aged 65)	22.4	23.2	22.4	23.2
- Future lifetime from age 65 (currently aged 45)	22.2	23.4	22.2	23.4
Principal financial assumptions:				
- Rate of inflation	3.7	3.4	3.7	3.4
- Rate of increase in salaries	5.2	4.9	-	-
- Rate of increase in pensions	3.7	3.4	3.7	3.4
- Rate of increase to deferred pensions	3.7	3.4	-	-
- Rate for discounting scheme liabilities	6.8	6.7	6.8	6.7
- Take-up of option to convert annual pensions into retirement grant:				
- Pre April 2008 service	50.0	50.0	50.0	50.0
- Post April 2008 service	-	75.0	-	75.0

The Scheme's main asset categories are shown in the table below along with the long-term expected rate of return on the asset category and the proportion of the total assets held:

	Funded		Funded	
	Long-term expected rate of return on assets in the scheme:		Asset Split	
	2007/08 %	2008/09 %	2007/08 %	2008/09 %
- Equities	7.6	7.0	47.4	45.2
- Property	6.6	6.0	4.4	3.9
- Government bonds	4.6	4.0	29.3	30.0
- Corporate bonds	6.8	5.8	9.2	11.0
- Other	6.0	1.6	9.7	9.9
	6.4	5.4	100.0	100.0

## Notes to the Core Financial Statements

The council employs a building block approach in determining the rate of return on Fund assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed rate of return on each asset class is set out within this note. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation for the Fund at 31<sup>st</sup> March 2009.

### History of experience of gains and losses

The actuarial gains identified as movements on the Pensions Reserve in 2008/09 net of the adjustment for the difference between actual contributions and the actuary's estimate can be analysed in the following categories, measured as a percentage of assets or liabilities at 31<sup>st</sup> March 2009:

	2004/05 *		2005/06 *		2006/07 *		2007/08 As restated		2008/09	
	£000	%	£000	%	£000	%	£000	%	£000	%
Differences between the expected and actual return on assets										
- Funded	4.30	0.0%	15.50	0.0%	5,320	0.8%	-61,450	-9.1%	-154,050	-26.5%
Experience gains and losses on liabilities										
- Funded and Unfunded #	5,663	0.7%	-3,486	0.3%	1,161	0.2%	-	-	-	-
- Funded #	-	-	-	-	-	-	4,591	0.5%	3,585	0.4%
- Unfunded #	-	-	-	-	-	-	534	-1.3%	467	-1.2%

\* In accordance with Paragraph 79 of FRS 17 (as revised), unfunded liabilities are disclosed separately for periods beginning on or after 6 April 2007. The history of experience gain / (loss) on liabilities shown has not been restated for periods ending 2005, 2006 and 2007 and includes the experience relating to unfunded liabilities.

# includes gains / (loss) in respect of liability experience only and excludes any change in liabilities in respect of changes to the actuarial assumptions used. The figure has been adjusted to reflect actual contributions.

### Teachers' Pension Scheme

Teachers employed by the County Council are members of the Teachers' Pension Scheme administered by Capita Teachers' Pensions. It provides teachers with defined benefits upon their retirement and the authority contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

In 2008/09 the County Council paid £21.936m (£21.382m in 2007/08) to Teachers' Pensions in respect of teachers' retirement benefits representing 14.1% (14.1%) of pensionable pay.

The scheme is a defined benefit scheme. Although the scheme is unfunded, Teachers' Pensions use a notional fund as the basis for calculating the employers' contribution rate paid by local education authorities. However, it is not possible for the authority to identify a share of the underlying liabilities in the scheme attributable to its own employees. For the purposes of this statement of accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

The authority is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These benefits are fully accrued in the pensions liability disclosed above.

In 2008/09 the costs associated with early retirement of teachers amounted to £2.542m (£2.498 in 2007/08), representing 1.7% (1.7%) of pensionable pay.

**33. DEDICATED SCHOOLS GRANT**

The council's expenditure on schools is funded primarily by grant monies provided by the Department for Children, Schools and Families; the Dedicated Schools Grant (DSG). 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 2008. 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 2008/09 are as follows:

Notes	Central Expenditure £000	ISB £000	Total £000
A Final DSG for 2008/09			<b>274,436</b>
B Brought forward from 2007/08 (estimated)			<b>-565</b>
C Carry forward to 2009/10 agreed in advance			<b>-7</b>
D Agreed budgeted distribution in 2008/09	22,787	251,077	<b>273,864</b>
E Actual central expenditure	20,227		
F Actual ISB deployed to schools		253,720	
G Local Authority contribution for 2008/09	895	-	<b>895</b>
H Carry forward to 2009/10	3,455	-2,643	<b>819</b>
I Reversal of estimated 2007/08 brought forward			<b>565</b>
J Actual brought forward from 2007/08			<b>-44</b>
K Actual carry forward to 2009/10			<b>1,340</b>

A: DSG figure as issued by DCSF on 19 June 2008.

B: Figure brought forward from 2007/08 as agreed with DCSF. (Estimated figure as per Section 52 Budget Statement for 2008/09)

C: The amount which the authority decided after consultation with the schools forum to carry forward to 2009/10 rather than distribute in 2008/09 – this is the difference between estimated and final DSG for 2008/09.

D: Budgeted distribution of DSG, adjusted for carry forward, as agreed with the schools forum.

E: Actual amount of central expenditure items in 2008/09.

F: Amount of ISB actually distributed to schools (ISB is regarded for DSG purposes as spent by the authority once it is deployed to schools' budget shares).

G: Any contribution from the local authority in 2008/09 which will have the effect of substituting for DSG in funding the Schools Budget.

H: Carry forward to 2009/10

For Central Expenditure, this is the difference between budgeted distribution of DSG (D) and actual expenditure (E), plus the local authority contribution (G).

For ISB, the over deployment on the ISB relates to transfers from central expenditure during the year on contingencies and recoupement income for pupils with Special Education Needs registered in mainstream schools.

Total carry forward (H) on central expenditure less carry forward on ISB (H) plus carry forward to 2009/10 already agreed (C).

I: Reversal of the estimated brought forward balance from 2007/08 at Section 52 budget stage

J: The actual brought forward balance from 2007/08.

K: After adjusting for the estimated brought forward figure from 2007/08 (I) and the Actual brought forward figure from 2007/08 (J), the actual carry forward figure to 2009/10.

£3.607m of the DSG has been used to fund capital expenditure in schools. This expenditure is not included in the net cost of Children's and Education Services as it is not a proper charge to the Income and Expenditure Account. The expenditure forms part of the Statement of Movement on the General Fund Balance.

### DURHAM COUNTY COUNCIL GROUP FINANCIAL STATEMENTS

The financial statements and notes to those financial statements on pages 26 to 67 inclusive consider the Council only as a single entity, accounting for its interests in other organisations as investments on its Balance Sheet and any dividends received from those investments reported within its Income and Expenditure Account.

Durham County Council chooses to conduct some of its activities through a variety of undertakings, either under the ultimate control of the Council or in partnership with other organisations. As a consequence, a full understanding of the Council's economic activities, financial position, service position, accountability for resources and exposure to risk is not presented in the Council's single entity financial statements. For this reason Group Financial Statements are used to provide an understanding of the Council's activities as a group.

The following pages include:

- Group Income and Expenditure Account
- Notes to the Group Income and Expenditure Account
- Reconciliation of the Single Entity Surplus/Deficit to the Group Surplus/Deficit
- Group Statement of Total Recognised Gains and Losses
- Group Balance Sheet
- Notes to the Group Balance Sheet
- Group Cash Flow Statement
- Notes to the Group Cash Flow Statement
- Group Financial Statements Accounting Policies

The general principles adopted in preparing the Group Financial Statements follow the "Code of Practice on Local Authority Accounting in the United Kingdom 2008: A Statement of Recommended Practice" (SORP) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

#### **Durham County Council Group**

The inclusion of a related entity within the Durham County Council Group Financial Statements is dependent upon the interest and level of control that that Council has with each individual entity. The Council has carried out a review of all such entities and has made the following classifications:

**Subsidiary** – where the Council exercises control, or has the ability to exercise control, and as a result of that control can benefit from gains of the entity and be exposed to the risks of the entity.

The income, expenditure, assets and liabilities of these entities are included within the Group Financial Statements with any intra Group transactions and balances being eliminated when preparing the Group Financial Statements.

**Simple Investment** – where the council holds neither a controlling nor influencing interest in the organisation.

These entities are, therefore, only included in the Group Financial Statements as a long term investment in the Group Balance Sheet with any income arising from that entity being reported within the Group Income and Expenditure Account.

**No Group Relationship** – where the interest is not a legal entity or the Council has an insufficient interest in the entity to justify inclusion in the Group Financial Statements.

These entities are where appropriate only included in the Group Financial Statements as an investment in the Group Balance Sheet with any income arising from that entity being reported within the Group Income and Expenditure Account.

As part of carrying out its review of its current or future interests in entities the Council identified two other classifications that, although not being currently relevant, may become relevant in subsequent years.

**Associates** – where the Council exercises, or could exercise, significant influence and has a participating interest in the gains and risks of the entity

**Joint Ventures** - where the Council exercises joint control with one or more organisations.

Associates and Joint Ventures would be included in the Group Financial Statements by including the Council's share of the entities' net operating results in the Group Income and Expenditure Account and the value of the investments in these entities being adjusted on the Group Balance Sheet for the Council's share of the entities' net operating results to date.

The following gives details of the entities included in the Group Financial Statements analysed between the above classifications:

**Subsidiaries:**

**County Durham Development Company Limited**

The Company was established in 1986 to promote, encourage and secure the economic development of the County. It is wholly owned by the County Council and limited by guarantee. The County Council will continue to support the Company in order that its liabilities will be met as they fall due. The Company's net assets at 31<sup>st</sup> March 2009 were £1.216m (31<sup>st</sup> March 2008: £1.121m) and the profit for the year amounted to £0.095m (2008: £0.191m loss).

It should be noted that the Company's accounts have yet to be finalised and therefore the figures used for the preparation of the Group Financial Statements are still subject to audit. Copies of the Company's accounts can be obtained from the Registered Office at County Hall, Durham, DH1 5UT.

**Durham County Waste Management Company Limited**

The County Council's waste disposal assets and liabilities were formally vested in Durham County Waste Management Company in 1993. The Company is a 'Local Authority Waste Disposal Company' and was created under the Environmental Protection Act 1990. The principal activity of the Company is that of waste disposal. The County Council owns 84% of the issued share capital with Darlington Borough Council owning the remaining 16%. The Company's net assets at 31<sup>st</sup> March 2009 were £6.950m (31<sup>st</sup> March 2008: £9.077m) and the loss for the year amounted to £0.204m (There company profit for the year ending 31st March 2008 amounted to £1.370m).

It should be noted that the Company's accounts have yet to be finalised and therefore the figures used for the preparation of the Group Financial Statements are still subject to audit. Copies of the Company's accounts can be obtained from the Registered Office at County Hall, Durham, DH1 5UT.

**Service Direct Newco Limited**

Service Direct Newco Limited is a Local Authority Trading Company established to provide services to non local authority customers initially focused around building maintenance, civil engineering, grounds maintenance, vehicle fleet services and domestic services. The County Council owns 100% of the issued share capital of the Company. The Company was established during 2007/08 and made a limited number of low value transactions during that year. The company profit of £32 for 2007/08 has been incorporated in the 2008/09 Group Income and Expenditure Account. The net assets of the company as at 31<sup>st</sup> March 2009 were £56 and the profit amounted to £55.

The details of other interests held by the Council are given in Note 22 of the entity Statement of Accounts for the Council.

## Group Financial Statements

### Group Income and Expenditure Account for the year ended 31<sup>st</sup> March 2009

2007/08 Net Expenditure £000		Notes	Gross Expenditure £000	2008/09 Gross Income £000	Net Expenditure £000
	Continuing Operations:				
103,382	Children's and Education Services		561,072	420,214	140,858
124,961	Adult Social Care		209,647	50,386	159,261
9	Supporting People		13,994	14,023	-29
29,888	Highways and Transportation		51,742	15,266	36,476
8,393	Planning and Development		19,955	3,671	16,284
11,622	Cultural and Related Services		16,214	3,862	12,352
18,159	Environmental Services		46,736	26,614	20,122
735	Courts and Probation		912	152	760
	Central Services				
5,533	Corporate and Democratic Core		7,598	13	7,585
656	Central Services to the Public		2,135	610	1,525
10,960	Other Corporate Costs		8,659	43	8,616
-110	Other Services		3,265	3,849	-584
-	Exceptional Costs of Local Government Review		1,348	-	1,348
<b>314,188</b>	<b>NET COST OF SERVICES</b>		<b>943,277</b>	<b>538,703</b>	<b>404,574</b>
290	Precepts				413
-1,490	Surplus(-)/loss on trading activities not included in net cost of services				1,002
-1,133	Insurance - uncertain liabilities				-1,215
8,426	Interest payable and similar charges	1			8,407
-7,835	Interest and investment income				-7,487
-	- Contribution to debt charges				-24
3,255	Pensions interest cost and expected return on pensions assets	2			20,029
8,345	Gain(-)/Loss on disposal of fixed assets	3			-2,927
439	Corporation tax (subsidiaries)	4			-61
219	Minority Interest (subsidiaries)	5			-33
<b>324,704</b>	<b>NET OPERATING EXPENDITURE</b>				<b>422,678</b>
-21,634	General government grants				-50,258
-120,410	Non-domestic rates redistribution				-141,771
-152,515	Precepts upon district council collections funds				-159,069
<b>30,145</b>	<b>SURPLUS (-) / DEFICIT FOR THE YEAR</b>				<b>71,580</b>



Notes to Group Income and Expenditure Account for the year ended 31<sup>st</sup> March 2009

**Note 1. Interest payable**

These figures represent the actual external interest payable by the group as follows:

2007/08 £000	2009/08 £ '000
8,068 Durham County Council	8,025
358 Durham County Waste Management Company	382
- County Durham Development Company	-
- Service Direct Newco	-
<b>8,426</b>	<b>8,407</b>

**Note 2. Pensions interest costs and expected return on pension assets**

These figures represent the pension interest costs and expected return on pension assets by the group as follows:

2007/08 £000	2008/09 £000
3,270 Durham County Council	19,990
-15 Durham County Waste Management Company	39
- County Durham Development Company	-
- Service Direct Newco	-
<b>3,255</b>	<b>20,029</b>

**Note 3. Disposal of fixed assets**

This figure represents the (gain)/loss on the disposal of fixed assets by the group as follows:

2007/08 £000	2008/09 £000
8,348 Durham County Council	-2,845
-4 Durham County Waste Management Company	-82
- County Durham Development Company	-
- Service Direct Newco	-
<b>8,344</b>	<b>-2,927</b>

**Note 4. Corporation tax**

These figures represent the actual corporation tax liability of the group as follows:

2007/08 £000	2008/09 £000
- Durham County Council	-
439 Durham County Waste Management Company	-61
- County Durham Development Company	-
- Service Direct Newco	-
<b>439</b>	<b>-61</b>

**Note 5. Minority interest**

The minority interest relates to the 16% shareholding in Durham County Waste Management Company Limited that is owned by Darlington Borough Council.

## Group Financial Statements

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### Reconciliation of the Single Entity (Surplus)/ Deficit for the year to the Group (Surplus)/ Deficit

This shows how the group entities have contributed to the overall (surplus)/ deficit shown in the group income and expenditure account.

<b>2007/08</b> <b>£000</b>		<b>2008/09</b> <b>£000</b>
<b>31,510</b>	<b>Authority income and expenditure (surplus)/ Deficit for the year</b>	<b>71,481</b>
-1,365	Add (surplus)/ deficit attributable to subsidiaries	99
<b>30,145</b>	<b>Group account Income and Expenditure (surplus)/ deficit for the year</b>	<b>71,580</b>

### Group Statement of Total Recognised Gains and Losses

<b>2007/08</b> <b>£000</b>		<b>2008/09</b> <b>£000</b>
<b>30,145</b>	<b>Net (surplus)/ deficit for the year</b>	<b>71,580</b>
-219	Minority interest	33
<b>-419,081</b>	(surplus)/ deficit on the revaluation of fixed assets	<b>50,199</b>
<b>-72,014</b>	Actuarial (gains)/losses on pension fund assets and	<b>145,263</b>
-	(surplus)/deficit arising on revaluation of available-for-sale	<b>7,337</b>
391	Other (Gains)/losses recognised in the STRGL	929
<b>-460,778</b>	<b>Total recognised (gains) and losses for the year</b>	<b>275,341</b>

Group Balance Sheet as at 31<sup>st</sup> March 2009

As at 31 March 2008			As at 31 March 2009	
£000	£000	Notes	£000	£000
<b>FIXED ASSETS</b>				
<b>Intangible fixed assets -</b>				
921		1	1,841	
973			877	
<b>Tangible fixed assets -</b>				
<b>Operational assets -</b>				
898,719			833,807	
2,856			4,336	
16,211			16,463	
259,179			272,897	
5,501			4,491	
<b>Non-operational assets -</b>				
32,383			26,982	
27,063			30,942	
<b>1,243,806</b>	<b>Total fixed assets</b>			<b>1,192,636</b>
8,968	<b>Long-term investments</b>	3		1,631
4,045	<b>Long-term debtors</b>	4		3,600
<b>1,256,819</b>	<b>Total Long-term assets</b>			<b>1,197,867</b>
<b>CURRENT ASSETS</b>				
3,256	Stock and work-in-progress		3,352	
50,356	Debtors	5	58,019	
142,956	Short-term investments		120,409	
8,013	Cash and bank		5,637	
<b>204,581</b>	<b>Total current assets</b>			<b>187,417</b>
<b>1,461,400</b>	<b>TOTAL ASSETS</b>			<b>1,385,284</b>
<b>CURRENT LIABILITIES</b>				
-4,318	Short-term borrowing		-1,338	
-125,020	Creditors		-138,912	
-6,021	Bank overdraft		-3,778	
<b>-135,359</b>	<b>Total Current Liabilities</b>			<b>-144,028</b>
<b>1,326,041</b>	<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			<b>1,241,256</b>
<b>LONG-TERM LIABILITIES</b>				
-172,774	Long-term borrowings		-171,436	
-17,611	Provisions		-25,840	
-160,809	Government grants deferred		-190,846	
-938	Deferred liabilities		-602	
-254,972	Liability related to defined benefit pension schemes		-408,954	
-163	Deferred Income	6	-145	
<b>-607,267</b>	<b>Total long term liabilities</b>			<b>-797,823</b>
<b>718,774</b>	<b>TOTAL ASSETS LESS LIABILITIES</b>			<b>443,433</b>
<b>FINANCED BY:</b>				
399,651	Revaluation reserve	7	334,458	
433,622	Capital adjustment account	7	404,464	
1,554	Deferred capital receipt	7	1,243	
20,199	Usable capital receipts reserve	7	11,242	
-255,138	FRS 17 Pension reserve	7	-407,450	
21,132	General fund balance	7	28,127	
8,968	Available for sale reserve	7, 8	1,632	
79,723	Earmarked reserves	7	62,709	
7,612	Group Income and Expenditure Reserve	7	5,897	
<b>717,323</b>	<b>Group balances and reserves</b>			<b>442,322</b>
1,451	Minority interest	9		1,111
<b>718,774</b>	<b>TOTAL BALANCES AND RESERVES</b>			<b>443,433</b>

## Group Financial Statements

### Notes to Group Balance Sheet

#### Note 1. Intangible fixed assets

The movements in the group intangible fixed assets are shown below:

	<b>Software Licences £000</b>	<b>Goodwill £000</b>	<b>Total £000</b>
Cost or valuation			
At 1 April 2008	1,628	2,059	3,687
Additions	1,096	-	1,096
<b>At 31 March 2009</b>	<b>2,724</b>	<b>2,059</b>	<b>4,783</b>
Amortisation			
At 1 April 2008	-707	-1,086	-1,793
Charge for year	-176	-96	-272
<b>At 31 March 2009</b>	<b>-883</b>	<b>-1,182</b>	<b>-2,065</b>
<b>Net Book Value at 31 March 2009</b>	<b>1,841</b>	<b>877</b>	<b>2,718</b>
<b>Net Book Value at 1 April 2008</b>	<b>921</b>	<b>973</b>	<b>1,894</b>

#### Note 2. Tangible fixed assets

The movements in the group tangible fixed assets are shown below:

	Operational						Non-Operational		Total Operational & Non Operational Assets £000
	Land & Buildings at Valuation £000	Land & Buildings at Historic Cost £000	Site Development £000	Vehicles, Plant, Furniture & £000	Infrastructure Assets £000	Restoration & aftercare costs £000	Assets Under Construction £000	Surplus Assets Held for Disposal £000	
<b>Cost or valuation</b>									
At 1 April 2008	923,702	5,666	6,925	47,832	301,015	14,070	32,383	27,222	1,358,815
Additions	37,216	36	2,389	7,083	21,512	-	15,903	177	84,316
Disposals	-1,044	-	-	-1,176	-	-833	-	-971	-4,024
Reclassifications	14,147	-	-	664	-	-	-18,269	3,458	-
Revaluations	-91,386	-	-	-	-	-	-3,035	1,091	-93,330
<b>At 31 March 2009</b>	<b>882,635</b>	<b>5,702</b>	<b>9,314</b>	<b>54,403</b>	<b>322,527</b>	<b>13,237</b>	<b>26,982</b>	<b>30,977</b>	<b>1,345,777</b>
<b>Depreciation</b>									
At 1 April 2008	-28,244	-2,405	-4,069	-31,621	-41,836	-8,569	-	-159	-116,903
Charge for 2008/09	-26,037	-79	-909	-7,443	-7,794	-177	-	-117	-42,556
Disposals	61	-	-	1,124	-	-	-	15	1,200
Reclassifications	132	-	-	-	-	-	-	-132	-
Revaluations	2,042	-	-	-	-	-	-	358	2,400
<b>At 31 March 2009</b>	<b>-52,046</b>	<b>-2,484</b>	<b>-4,978</b>	<b>-37,940</b>	<b>-49,630</b>	<b>-8,746</b>	<b>-</b>	<b>-35</b>	<b>-155,859</b>
<b>Balance Sheet Amount at 31 March 2009</b>	<b>830,589</b>	<b>3,218</b>	<b>4,336</b>	<b>16,463</b>	<b>272,897</b>	<b>4,491</b>	<b>26,982</b>	<b>30,942</b>	<b>1,189,918</b>
<b>Balance Sheet Amount at 1 April 2008</b>	<b>895,458</b>	<b>3,261</b>	<b>2,856</b>	<b>16,211</b>	<b>259,179</b>	<b>5,501</b>	<b>32,383</b>	<b>27,063</b>	<b>1,241,912</b>

#### Note 3. Long-term investments

An analysis of the long-term investments by Durham County Council is given in note 23 to its entity Statement of Accounts.

The following amounts have been taken out of the Council's long-term investments as they relate to companies within the group:

<b>2007/08 £000</b>	<b>2008/09 £000</b>
- County Durham Development Company	-
1,158 Durham County Waste Management Company	1,158
- Service Direct Newco	-
<b>1,158</b>	<b>1,158</b>

**Note 4. Long-term debtors**

An analysis of the long-term debtors by Durham County Council is given in note 23 to its entity Statement of Accounts.

The following amounts have been taken out of the Council's long-term debtors as they relate to companies within the group:

2007/08 £000	2008/09 £000
- County Durham Development Company	-
1,219 Durham County Waste Management Company	1,079
-	-
<b>1,219</b>	<b>1,079</b>

**Note 5. Debtors**

This figure includes £284,726 (2007: £154,007) deferred tax assets relating to Durham County Council Waste Management Company Limited.

**Note 6. Deferred income**

Deferred income represents amounts received from Sanyo in 2003 and 2005 to set up a Young Persons Employment fund. Interest generated on these sums are added back to the fund.

**Note 7. Group reserves**

An analysis of the movements in group reserves, with the exception of the income and expenditure account balance is given in note 27 to the entity Statement of Accounts of Durham County Council. The balance on the income and expenditure account relates wholly to the subsidiaries.

**Note 8. Revaluation reserve – airport companies**

Details of this reserve are given in note 27 to the entity accounts of Durham County Council.

**Note 9. Minority interest**

The minority interest relates to the 16% shareholding in Durham County Waste Management Company Limited that is owned by Darlington Borough Council.

**Note 10. Contingent liabilities**

Note 28 to the Durham County Council entity Statement of Accounts gives details of contingent liabilities relating to equal pay.

Further contingent liabilities of the group are as follows:

**Durham County Waste Management Company Limited**

- i) Barclays Bank has provided bonds to customers of the company in order to guarantee ongoing work on a number of contracts. At 31<sup>st</sup> March 2009 the bonds totalled £3,251,757 (2008: £2,165,639). In consideration for these bonds the company has taken out a mortgage debenture in favour of Barclays Bank. The debenture provides for a fixed and floating charge over the assets of the Company.
- ii) In December 2007, Premier Waste Management Limited ("Premier"), a subsidiary of the Company, received a claim from one of its sub contractors relating to a contract between the two parties for the processing and recycling of tyres, which Premier had cancelled in accordance with the terms of the contract. On 20th December 2007, the sub contractor sought an injunction at Leeds High Court to force Premier to continue with the contract, which was rejected by the court and costs awarded in favour of Premier. Subsequently the sub contractor has sought the appointment of an arbitrator

## **Group Financial Statements**

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in pursuit of its claim although the matter remains currently under the jurisdiction of the High Court. Premier has rejected the claim and believes, on the basis of legal advice, that it is without merit.



Notes to Group Cash Flow Statement for the year ended 31<sup>st</sup> March 2009

Note 1. Reconciliation of Surplus/ (Deficit) to Net Cash Flow

2007/08			2008/09	
£000	£000		£000	£000
	<b>-30,145</b>	<b>Surplus/deficit (-) for the year</b>		<b>-71,580</b>
	<b>219</b>	Add Surplus (-)/deficit attributable to subsidiaries		<b>-33</b>
		Non-cash transactions		
-2,251		Add transfers to/from (-) provisions in year	8,362	
18,812		Net effect of internal revenue/capital transactions	16,696	
894		Net interest	-1,336	
-274		Difference between pension charge and cash contribution	-390	
	<b>17,181</b>			<b>23,332</b>
		Items on accruals basis		
4,740		add decrease/increase (-) in stocks, debtors and payments in advance	-8,967	
18,094		add increase/decrease (-) in creditors, receipts in advance	14,173	
439		corporation tax payments	-61	
53,782		Net additional amount required by statute and non-statutory proper practices to be debited to the General Fund Balance for the year	61,500	
	<b>77,055</b>			<b>66,645</b>
	<b>64,310</b>	<b>NET CASH INFLOW/(-OUTFLOW) FROM REVENUE ACTIVITIES</b>		<b>18,364</b>



## Group Financial Statements Accounting Policies

### Accounting standards

The financial statements have been prepared in accordance with applicable United Kingdom accounting standards and are prepared under the historical cost convention as modified for the revaluation of land and buildings.

### Basis of consolidation

The consolidated financial statements include the accounts of the company and its subsidiary undertakings. All intercompany transactions are eliminated, as are any intercompany profits or losses.

The accounting policies applied by each of the entities within their respective Financial Statements are consistent with those applied by the Council in preparing its entity Statement of Accounts. Consequently the accounting policies applied by the Council detailed on pages 18 to 25 inclusive apply to the Group Financial Statements.

The following sets out policies applied by entities within the Group which are not covered by the accounting policies detailed in the Council's entity Statement of Accounts:

### Intangible fixed assets

Goodwill arising up to 31<sup>st</sup> December 1997 has been eliminated against reserves in accordance with FRS 10 "Goodwill and Intangibles". From that date on goodwill has been capitalised and is amortised so as to write off the cost to the profit and loss account in equal annual instalments over a period of 20 years.

### Tangible fixed assets

Durham County Council land and buildings valued on the basis recommended by CIPFA and in accordance with the Statements of Asset Valuation Principles and Guidance Notes issued by the Royal Institute of Chartered Surveyors. The land and buildings of the subsidiary, Durham County Waste Management Company Limited are stated at historic cost less accumulated depreciation.

The subsidiary, Durham County Waste Management Company Limited, has site development costs which are written off over the expected useful life of the site or, in the case of landfill sites, in proportion to the void space used.

### Site restoration and aftercare

Provision has been made in accordance with FRS 12 for site restoration and aftercare costs likely to be incurred in the foreseeable future on sites filled or partially filled at the year end. Full provision is made for the costs, discounted at an appropriate cost of capital. The unwinding of the discount is charged on an annual basis to interest payable in the Income and Expenditure Account. The asset arising, representing part of the cost of the sites, has been included in fixed assets and is being amortised as the site volumes are depleted.

### Pension costs

The subsidiary, County Durham Development Company Limited, pension contributions are payable at a defined contribution rate into a scheme of the employee's choice. The company charges pension contributions to the profit and loss account in the period in respect of which they become payable.

### Deferred taxation

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. Deferred taxation is measured on a non-discounted basis at the tax rates that are expected to apply in the period in which timing differences reverse, based on taxation rates and laws enacted at the balance sheet date.

PENSION FUND ACCOUNT

31st March 2008			31st March 2009	
£000	£000		£000	£000
<b>CONTRIBUTIONS AND BENEFITS</b>				
93,439		Contributions receivable (see note 12)	99,608	
8,947		Transfers in	8,463	
	102,386			108,071
72,810		Benefits payable (see note 13)	73,359	
5,200		Payments to and on account of leavers (see note 14)	7,168	
1,276		Administration expenses (see note 11)	1,077	
	79,286			81,604
	<b>23,100</b>	<b>Net additions or withdrawals (-) from dealings with members</b>		<b>26,467</b>
<b>RETURN ON INVESTMENTS</b>				
32,937		Investment income (see note 15)	37,942	
-85,250		Change in market value of investments (see note 5)	-243,712	
-2,107		Investment management fees (see note 10)	-3,181	
	<b>-54,420</b>	<b>Net returns on investments</b>		<b>-208,951</b>
	<b>-31,320</b>	<b>NET INCREASE / DECREASE (-) IN THE FUND DURING THE YEAR</b>		<b>-182,484</b>
	<u>1,459,174</u>	<b>NET ASSETS OF THE FUND AT 1ST APRIL</b>		<u>1,427,854</u>
	<u>1,427,854</u>	<b>NET ASSETS OF THE FUND AT 31ST MARCH</b>		<u>1,245,370</u>

NET ASSETS STATEMENT

As at 31st March 2008			As at 31st March 2009	
£000	£000		£000	£000
<b>Investments (see note 5)</b>				
19,560		Fixed interest securities	25,431	
642,607		Equities	529,019	
285,311		Index linked securities	284,293	
342,099		Managed and unitised funds	289,903	
128,294		Cash and short term investments	115,510	
	1,417,871			1,244,156
<b>Current assets and liabilities (see note 9)</b>				
7,311		Investment related	1,724	
2,672		Other	-510	
	9,983			1,214
	<u>1,427,854</u>	<b>NET ASSETS OF THE FUND AT 31ST MARCH</b>		<u>1,245,370</u>

## **1. FUND OPERATION AND MEMBERSHIP**

Durham County Council is the Administering Authority for the Durham County Council Pension Fund. The County Council administers the Scheme on behalf of 70 contributing employers including District, Parish and Town Councils, Statutory Bodies and Colleges. These include:

### **Local Authorities -**

Durham County Council  
Darlington Borough Council  
Chester-le-Street District Council  
Derwentside District Council

Durham City Council  
District of Easington  
Sedgefield Borough Council  
Teesdale District Council  
Wear Valley District Council

### **Parish Councils -**

Brandon and Byshottles  
Chilton  
Easington Colliery  
Easington Village  
Esh  
Fishburn  
Framwellgate Moor  
Horden  
Hutton Henry  
Monk Hesleden  
Murton  
North Lodge  
Shotton  
South Hetton  
Thornley  
Trimdon  
Wheatley Hill  
Wingate

### **Town Councils -**

Ferryhill  
Great Aycliffe  
Peterlee  
Seaham  
Sedgefield  
Shildon  
Spennymoor  
Stanley

### **Statutory Bodies -**

Durham Police Authority  
Valuation Tribunal Service  
Central Durham Joint Crematorium Committee  
County Durham and Darlington Fire and Rescue Authority  
National Probation Service County Durham  
East Durham Homes  
Dale and Valley Homes  
Eastbourne Academy  
North East Fire Control Company

### **Colleges -**

Bishop Auckland College  
Darlington College  
Queen Elizabeth Sixth Form College  
Derwentside College  
New College, Durham  
East Durham & Houghall Community College

### **Admitted Bodies -**

Barnard Castle School  
Leisureworks  
Derwentside Leisure Ltd  
Shildon & Darlington Training Ltd  
Bowes Museum  
Three Rivers Housing  
Murton Welfare Association  
Hobson Golf Club  
Peterlee Fire Company  
Mitie PFI Ltd  
Compass Group UK  
The Forge  
Teesdale Housing Association  
Mitie Cleaning  
Derwentside Homes  
Cestria Community Housing Association  
Mears Limited  
Kier Support Services Limited  
Sedgefield Borough Homes  
Taylor Shaw

Apart from teachers, who have their own unfunded arrangements, membership of the LGPS is open to all County Council employees. Membership is automatic for staff with a contract of employment of at least 3 months. Employees can opt not to join the Scheme. The County Council is not required to administer a Stakeholder Scheme, so employees have to make their own arrangements with an appropriate provider.

The Fund provides benefits for employees of the bodies listed above. On retirement, contributors receive payments of lump sums and annual pensions. Entitlement to these benefits arises mainly on the grounds of reaching retirement age and retirement through ill health, through early retirement schemes or being made redundant. Contributors who leave and who are not immediately entitled to these benefits may have their pension rights transferred or preserved until reaching retirement age. In a minority of cases refunds of contributions can be made.

## Notes to Durham County Council Pension Fund Accounts

In 2008/09, the number of pensionable employees in the Fund was 19,303 (19,249 in 2007/08), and the number of pensioners was 14,641 (14,353 in 2007/08).

Contributions represent the total amounts receivable from employing authorities in respect of their own contributions which are at a rate determined by the Fund's Actuary and those made by pensionable employees which are set by statute. The benefits and contributions are analysed as follows:

2007/08		2008/09	
Benefits £000	Contributions £000	Benefits £000	Contributions £000
35,847	43,032	32,814	45,982
36,498	48,481	39,305	47,626
465	1,926	1,240	6,000
<u>72,810</u>	<u>93,439</u>	<u>73,359</u>	<u>99,608</u>

Further information about the Fund can be obtained from its separately published Annual Report, available from the Corporate Director - Resources, County Hall, Durham, DH1 5UE and is available on the County Council's website: [www.durham.gov.uk](http://www.durham.gov.uk).

## 2. STATEMENT OF ACCOUNTING POLICIES

### BASIS OF PREPARATION

The Pension Fund accounts have been prepared in accordance with the accounting recommendations of Financial Reports of Pension Schemes Section 2: A Statement of Recommended Practice. However, disclosures have been limited to those required by the Code of Practice on Local Authority Accounting in the United Kingdom 2008: A Statement of Recommended Practice.

The financial statements summarise the transactions and the net assets of the Fund. 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 undertook a valuation during 2007/08, which determined the contribution rates from 1<sup>st</sup> April 2008 to 31<sup>st</sup> March 2011. The previous valuation was undertaken as at 31<sup>st</sup> March 2004, and set contribution rates from 1<sup>st</sup> April 2005 to 31<sup>st</sup> March 2008. Details of the latest valuation are included in Note 3.

The following principal accounting policies, which have been applied consistently, have been adopted in the preparation of the financial statements:

### BASIS OF ACCOUNTING

The accounts have been prepared on the normal accruals basis of accounting.

Transfer values are the only exception to this; they have been prepared on a cash basis as the amount payable or receivable is not determined until payment is made and accepted by the recipient.

### INVESTMENTS

#### a) Valuation of investments –

Investments are shown at their market value, which has been determined as follows:

- Securities traded through the Stock Exchange Electronic Trading Service (SETS) are valued on the basis of the latest mid-market price. Other quoted investments are valued on the basis of the mid-market value quoted on the relevant stock market at 31<sup>st</sup> March.

- Unit Trusts and managed funds are valued at the average of the bid and offer prices provided by the relevant fund managers, which reflect the market value of the underlying investments.
- Overseas securities and cash are translated into sterling at the rate ruling at the Balance Sheet date.
- Fixed Interest Stocks have been included in the accounts at market value, which do include accrued interest.
- Unlisted securities are valued by the fund managers at the year-end in accordance with generally accepted guidelines.

**b) Investment income -**

Income from equities is accounted for on the date stocks are quoted ex-dividend. Income from overseas investments is recorded net of any withholding tax where this cannot be recovered.

Income from fixed interest and index-linked securities, cash and short-term deposits is accounted for on an accruals basis.

Income from other investments is accounted for on an accruals basis.

Foreign income has been translated into sterling at the date of the transactions, when received during the year, or at the exchange rates applicable at 31<sup>st</sup> March where amounts were still outstanding at the year-end.

**c) Investment transactions -**

Investment transactions arising up to 31<sup>st</sup> March but not settled until later are accrued in the accounts.

**d) Investment Management Expenses -**

The fees relating to the managers are described in Note 10.

**e) Acquisitions costs of investments -**

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

**f) Interest on property development -**

The Fund holds no direct property investments; all property investment is made through Pooled Investment Vehicles.

**g) Administrative expenses -**

A proportion of relevant officers' salaries have been charged to the Fund on the basis of actual time spent on investment and related matters and pension administration. Certain specific expenses have been charged directly to the Fund and other office expenses and related overheads have been charged to the Fund in proportion to the salaries charged.

Independent advisers' fees are based on a retainer for attendance at Pension Fund Committee and Annual Meetings and the provision of advice to the Pension Fund Committee. Fees for any additional work are based on a daily or hourly rate, as provided for by agreement or by separate arrangement.

Any additional work will be subject to a suitable fee arrangement or subject to separate tendering exercises.

### **3. ACTUARIAL POSITION OF THE FUND**

The accounts summarise the transactions and net assets of the fund. They do not take account of liabilities to pay pensions and other benefits in the future. Actuarial valuations, which do take account of such liabilities, are carried out every three years.

The latest valuation of the Fund was undertaken as at 31<sup>st</sup> March 2007, by the Pension Fund's actuary, Hewitt Associates Limited (formerly Hewitt Bacon and Woodrow Limited). Contribution rates were set for the period 1<sup>st</sup> April 2008 to 31<sup>st</sup> March 2011. The results disclosed a funding deficit of £382.1m and a funding ratio of 79%. This was the result of the market value of the fund's assets of £1,459.2m compared to a funding target of £1,841.3m.

The actuary has set contribution rates for all employers who contribute to the Fund to eliminate the funding deficit over an agreed period of time; the recovery period. The Administering Authority has agreed that the recovery period should be 19 years apart from those employers who are now closed to new entrants and those whose contract period ends at an earlier date. Nine of the 64 employers have recovery periods which are different to 19 years.

For some employers the contribution rate payable increases in 3 steps up to the rate required to finance the funding target over the recovery period. Different rates are payable by different employers.

The Projected Unit Method with a one year control period has been used for most employers to calculate the future service contribution rate. The Attained Age Method has been used for some employers who do not permit new employees to join the Fund. The actuary has taken into account the Pension Fund's funding strategy as described in the Funding Strategy Statement.

The valuation results are sensitive to the choice of financial assumptions. The table below shows the key financial assumptions used for the valuation:

	%
In Service Discount Rate:	
Scheduled Bodies	6.2
Admitted Bodies	6.2
Left Service Discount Rate:	
Scheduled Bodies	6.2
Admitted Bodies	5.2
Rate of Pay increases	4.7
Rate of Price Inflation	3.2
Rate of Pension Increases:	
On benefits in excess of guaranteed minimum pension (GMP)	3.2
on post 5 <sup>th</sup> April 1988 GMP's	2.7
Rate of deferred pension increases	3.2
Rate of GMP increases in deferment	4.7

The shortfall relative to the funding target will be removed through payment of additional contributions, expressed as a percentage of pay, by employers over a range of different recovery periods. The majority of employers in the Fund will pay contributions over a recovery period of 19 years from 1<sup>st</sup> April 2008. The overall contribution rate applicable from 1<sup>st</sup> April 2008 to 31<sup>st</sup> March 2011 is 20.2% of pensionable pay. This consists of 13.9%, which is the long-term rate, the rate of contribution that would be appropriate if the Fund had no shortfall, and 6.3%, the rate of contribution which will recover the shortfall over 19 years.

## Notes to Durham County Council Pension Fund Accounts

The overall contribution rate applicable from 1<sup>st</sup> April 2008 to 31<sup>st</sup> March 2011 can be summarised as follows:

	% Pensionable Pay
Long-term rate	13.9
Deficit funding (19 years from 1 <sup>st</sup> April 2008)	6.3
<b>Overall Contribution rate</b>	<b>20.2</b>

### 4. VALUATION OF INVESTMENTS

The Pension Fund has six investment managers: Edinburgh Partners Limited ('Edinburgh Partners'), BlackRock Investment Management (UK) Limited ('BlackRock'), AllianceBernstein Limited ('AllianceBernstein'), Royal London Asset Management ('RLAM'), CB Richard Ellis Collective Investors Limited ('CBRE') and Baring Asset Management Limited ('Barings') to manage its assets.

The long-term strategic allocation is as follows (the actual allocation may vary due to market movements):

Investment Manager	%	Asset Classes	Investment Style
Edinburgh Partners	28	Global Equities	Active
BlackRock	20	UK Equities	Active
AllianceBernstein	16	Global Bonds	Active
RLAM	20	Investment grade sterling bonds	Active
CBRE	8	Global Property	Active
Barings	8	Dynamic Asset Allocation – All major asset classes with derivative overlay	Active

The market values of investments in the hands of each manager were as follows:

At 31st March 2008		At 31st March 2009	
£000	%	£000	%
363,220	28.16	Edinburgh Partners	319,548 28.28
263,774	20.45	Blackrock	191,487 16.95
221,296	17.16	Alliance Bernstein	191,498 16.95
288,098	22.34	RLAM	281,618 24.93
59,275	4.60	CBRE	47,576 4.21
93,436	7.25	Baring Asset Management	97,193 8.6
2	0.00	Morley - Residual	- 0
-	0.00	DCC - Residual	906 0.08
477	0.04	<b>Managed in-house</b>	- 0
<b>1,289,578</b>	<b>100.00</b>		<b>1,129,826 100.00</b>

### 5. ANALYSIS OF INVESTMENTS

Value at 31/3/08	Purchases at cost	Sales proceeds	Change in market value	Value at 31/03/09
£000	£000	£000	£000	£000
1,417,871	1,089,743	-1,019,746	-243,712	1,244,156

## Notes to Durham County Council Pension Fund Accounts

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

<b>31/03/2008</b>	<b>31/03/2009</b>
<b>£000</b>	<b>£000</b>
<b>Fixed interest securities</b>	
13,406 UK - Government	13
2,388 UK - other	8,322
3,766 Overseas - Government	10,151
Overseas - other	6,945
<b>19,560</b>	<b>25,431</b>
<b>Equities</b>	
338,891 UK quoted	241,439
477 UK unquoted	544
303,239 Overseas quoted	287,036
<b>642,607</b>	<b>529,019</b>
<b>Index linked securities</b>	
285,311 UK quoted	284,293
<b>285,311</b>	<b>284,293</b>
<b>Managed and unitised funds</b>	
221,298 Managed funds - non property - UK	191,498
1,890 Managed funds - non property - Overseas	49,043
55,005 Unit Trusts - non property - UK	-
63,906 Unit Trusts - property	49,362
<b>342,099</b>	<b>289,903</b>
<b>Cash and Short Term Investments</b>	
484 Loans - long term - local authorities	471
71,144 Loans - short term - money market	95,035
56,666 Managers' Cash	23,897
- Cash in Hand	-3,893
<b>128,294</b>	<b>115,510</b>

### 6. CURRENCY HEDGING

All investment managers have agreement subject to prior consultation with the Corporate Director - Resources to enter into foreign exchange contracts in order to hedge against inflation in foreign currencies.



## 7. TAXATION

The SORP requires that any withholding tax that is irrecoverable should be disclosed in the Fund Account as a tax charge. No amount of irrecoverable withholding tax is disclosed as Fund Managers have not been able to supply information for the full year.

- **United Kingdom Tax**

The Fund is an exempt approved Fund under the Finance Act 1970 and is therefore not liable to UK income tax on interest, dividends and property income, or to capital gains tax.

- **Value Added Tax**

As Durham County Council is the administering authority for the Fund, VAT input tax is recoverable on most fund activities.

- **Foreign Withholding Tax**

Income earned from investments in stocks and securities in the United States, Australia and Belgium is exempt from tax. In all other countries dividends are taxed at source and, where the tax paid at source is greater than the rate of tax under the 'Double Taxation Agreement', the excess tax is reclaimable except in the case of Malaysia.

## 8. CAPITAL COMMITMENTS

At present the Pension Fund has invested £425,000 in Capital North East, but has entered into a commitment to invest up to £500,000 in this organisation, which provides start-up and development capital for businesses in the North East.

## 9. CURRENT ASSETS AND LIABILITIES

2007/08 £000	2008/09 £000
<b>Investment related</b>	
267 Investment Transactions	-4,273
6,975 Dividend Accruals	5,329
69 Recoverable Taxation	668
<b>7,311</b>	<b>1,724</b>
<b>Other</b>	
8,551 Contributions	8,392
-2 Transfer values	-
-737 Refunds and pensions	-163
-2,262 Administration expenses	-2,069
- Other	-677
-2,896 DCC	-5,622
- HMRC	-346
18 Fire Authority	-25
<b>2,672</b>	<b>-510</b>
<b>9,983</b>	<b>1,214</b>
<b>9,983 Total Current Assets and Liabilities</b>	<b>1,214</b>

**10. INVESTMENT MANAGEMENT FEES**

The six investment managers' fees are based on the value of assets under management. In the case of four investment managers, a performance related fee structure is in place based on a base fee plus a percentage of out-performance. In the case of the two remaining investment managers an ad-valorem fee is payable. All fees are payable quarterly in arrears.

The new managers were allocated their assets for management on 11<sup>th</sup> February 2008. This increased the fees payable by the Pension Fund for the management of the assets only in the last quarter of 2007/08. The full year impact of the higher fees payable reflect the more challenging performance targets that have been given to the investment managers.

Included as 'Other advisory fees', Independent Advisers' fees are based on a retainer for attendance at Pension Fund Committee and Annual Meetings and the provision of advice to the Pension Fund Committee. Fees for any additional work are based on a daily or hourly rate, as provided for by agreement or by separate arrangement.

<b>2007/08</b>	<b>2008/09</b>
<b>£000</b>	<b>£000</b>
1,971 Administration, management and custody	3,124
136 Other advisory fees	57
<b>2,107</b>	<b>3,181</b>

**11. ADMINISTRATION EXPENSES**

<b>2007/08</b>	<b>2008/09</b>
<b>£000</b>	<b>£000</b>
1,020 Recharge from Durham County Council	963
66 CLASS - CPX	62
2 FRS17	2
26 Actuarial consultancy fees - Triennial valuation	-
16 Audit fees	40
2 Subscriptions	8
5 FIDS and Manninen Claim	10
135 Consultancy Fees - Actuarial Services	127
90 Legal Services	2
4 Euraplan	27
6 Publications	-
Receipts -	
-22 costs received on pensions increase	-27
-74 consultancy fees recharged	-137
<b>1,276</b>	<b>1,077</b>

Regulations permit local authorities to charge scheme administration to the Fund. A proportion of relevant officers' salaries have therefore been charged to the Fund on the basis of actual time spent on investment and related matters and pension administration. Certain specific expenses have been charged directly to the Fund and other office expenses and related overheads have been charged to the Fund in proportion to the salaries charged.

12. CONTRIBUTIONS RECEIVABLE

2007/08 £000		2008/09 £000
	Employers -	
70,177	normal contributions	70,092
-	additional contributions	-
1,486	special contributions	2,625
	deficit payments	2,700
	Employees -	
21,507	normal contributions	21,333
269	additional contributions	2,858
<b>93,439</b>		<b>99,608</b>
	43,032 Durham County Council	45,982
	48,481 Scheduled Bodies	47,626
	1,926 Admitted Bodies	6,000
<b>93,439</b>		<b>99,608</b>

13. BENEFITS PAYABLE

2007/08 £000		2008/09 £000
	60,106 Pensions	63,514
	16,578 Commutations and lump sum retirement grants	13,176
	1,026 Lump sum death grants	1,675
	-4,900 Recharged benefits	-5,006
<b>72,810</b>		<b>73,359</b>
	35,847 Durham County Council	32,814
	36,498 Scheduled Bodies	39,340
	465 Admitted Bodies	1,205
<b>72,810</b>		<b>73,359</b>

14. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2007/08 £000		2008/09 £000
	20 Refunds to members leaving service	20
	3 Payments for members joining state scheme	-1
	5,177 Individual transfers to other schemes	7,149
<b>5,200</b>		<b>7,168</b>

**15. INVESTMENT INCOME**

2007/08 £000		2008/09 £000
2,612	Fixed interest securities	1,130
1,344	Index linked securities	4,298
20,361	Equities	20,708
7,515	Income from cash deposits	1,405
1,105	Property unit trusts	10,401
<b>32,937</b>		<b>37,942</b>

**16. RELATED PARTY TRANSACTIONS**

**Durham County Council:** Durham County Council administers the Durham County Council Pension Fund on behalf of 70 bodies, including district, parish and town councils, colleges, statutory bodies and admitted bodies. During 2008/09, the Pension Fund had an average balance of £84.386m (£109.756m in 2007/08) of surplus cash deposited with the Council. In 2008/09 the Council paid the fund a total of £4.085m (£6.559m in 2007/08) in interest on these deposits. The Council charged the fund £1.077m in 2008/09 (£1.276m in 2007/08) for expenses incurred in administering the Fund.

**Long-Term Loans:** The Long-Term Loans referred to in note 5 are loans made to a number of the current and former participating employers of the Fund. The loans outstanding were made between March 1964 and May 1967, this being common practice at the time. No further loans have been granted since January 1974. The Pension Fund receives interest of between 5.75% and 6.875% of the outstanding balance per annum in addition to capital repayments. The maximum amount outstanding on these loans at any time during the year was the opening balance. The table below shows the balance outstanding on these loans as at 31<sup>st</sup> March 2009:

Amount outstanding 31st March 2008 £000	Employer	Amount outstanding 31st March 2009 £000
316	Sedgefield District Council	309
168	Sunderland City Council	162
<b>484</b>		<b>471</b>

**17. STATEMENT OF INVESTMENT PRINCIPLES**

The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 1999 require the County Council to prepare and review a written statement of the investment policy of the Pension Fund. Such a Statement has been adopted by the Pension Fund Committee and is published in the Annual Report.

A copy of the Annual Report can be obtained from the Corporate Director - Resources, County Hall, Durham DH1 5UE and is available on the County Council's website: [www.durham.gov.uk](http://www.durham.gov.uk)

**18. FUNDING STRATEGY STATEMENT**

The Local Government Pension Scheme (England and Wales) (Amendment) Regulations 2004 require Administering Authorities to prepare a Funding Strategy Statement. The Funding Strategy Statement was published in March 2005. It is to be revised whenever there is a material change in policy in matters set out in the Funding Strategy Statement or the Statement of Investment

Principles. The Funding Strategy Statement is available on the County Council's website: [www.durham.gov.uk](http://www.durham.gov.uk)

**19. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVC)**

Regulation 5(2)(c) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 do not permit AVCs to be paid into the Pension Fund, so contributions administered by the County Council have not been consolidated into the figures disclosed in the accounts.

The Pension Fund offers two types of AVC arrangement:

- Purchase of additional years of service, which is invested as an integral part of the Fund's assets.
- Money purchase scheme, managed separately by HECM, Standard Life and Prudential. AVCs may be invested in a range of different funds.

The table below refers only to the money purchase AVCs:

	<b>Value at 31/03/08 £000</b>	<b>Purchases £000</b>	<b>Sales £000</b>	<b>Change in Market Value £000</b>	<b>Value at 31/03/09 £000</b>
HECM	2,586	82	250	-113	2,305
Prudential	2,129	1,136	670	-73	2,522
Standard Life	1,295	138	15	-253	1,165
<b>Total</b>	<b>6,010</b>	<b>1,356</b>	<b>935</b>	<b>-439</b>	<b>5,992</b>

**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 County 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 of Practice').

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 Code of Practice.

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 Corporate Director - Resources**

I certify that the Statement of Accounts presents fairly the financial position of the County Council as at 31<sup>st</sup> March 2009 and its income and expenditure for the year ended 31<sup>st</sup> March 2009

S. D. Crowe C.P.F.A.  
Corporate Director - Resources  
30<sup>th</sup> September 2009

**Certificate of Chairman**

In accordance with Regulation 10 (3) (b) of the Accounts and Audit Regulations 2003, I certify that these Accounts were approved by the County Council at the meeting held on 30<sup>th</sup> September 2009

B. Myers MBE JP  
Chairman of the County Council  
Chair of the meeting approving the accounts

### 1. SCOPE OF RESPONSIBILITY

Durham County Council (the Council) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

The Council has approved, adopted and published on its website, a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework – “Delivering Good Governance in Local Government”. This statement explains how the Council has complied with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit regulations 2003 as amended by the Accounts and Audit (Amendment) (England) regulations 2006 in relation to the publication of a Statement on Internal Control.

### 2. THE PURPOSE OF THE GOVERNANCE FRAMEWORK

The governance framework comprises the systems and processes, and culture and values, by which the Council is directed and controlled and its activities through which it 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.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at the Council for the year ended 31 March 2009 and up to the date of approval of the statement of accounts.

### 3. THE GOVERNANCE FRAMEWORK

The key elements of the systems and processes that comprise the Council's governance arrangements include:

#### **Identifying and communicating the Council's vision of its purpose and intended outcomes for citizens and service users**

The Council published its Strategic Vision for County Durham as a central plan to influence and guide the work and activities of partner organisations in a way that best meets community needs and aspirations. The Council, in delivering its vision, explains and reports regularly on activities, performance and the Council's financial position. Timely, objective and understandable information about the Council's activities, achievements, performance and financial position is provided through the publishing of:

- Community Engagement and Consultation Strategy
- Externally audited account;
- Independently verified performance information
- Annual Council Plan
- Sustainable Community Strategy

The Sustainable Community Strategy and the Local Area Agreement are regularly reviewed with our partners. The Council's Performance Framework, which oversees the collation and

publication of corporate performance information and Service Improvement Planning, is also regularly reviewed.

### **Reviewing the Council's vision and its implications for the Council's governance arrangements**

The Council considers the governance implications of its actions. The Council has revised its Code of Corporate Governance in a way that is consistent with the principles of the CIPFA/SOLACE Framework – “Delivering Good Governance in Local Government”.

### **Measuring the quality of services for users, for ensuring they are delivered in accordance with the Council's objectives and for ensuring that they represent the best use of resources.**

The Council is committed to delivering quality services to the public in an efficient and effective way. The Council does this by:

- Delivering services to meet local needs through the Sustainable Community Strategy, and has put in place policies and processes to ensure that they operate effectively in practice;
- Directing resources to those that need services most;
- Developing effective relationships and partnerships with other public sector agencies and the private and voluntary sectors;
- Responding positively to the findings and recommendations of external auditors and statutory inspectors and putting in place arrangements for the implementation of agreed actions;
- Comparing information about our services with services provided by similar organisations, assessing why levels of efficiency, effectiveness and quality are different elsewhere and considering other alternative means of service provision and procurement to maximise opportunities and improve value for money where appropriate.
- Holding various consultation events
- Appropriate performance frameworks for specific areas of service and for partnership arrangements.
- Identifying performance improvements through the development and monitoring of Corporate and Service improvement plans.

The main processes and procedures for ensuring this are the Council's;

- Performance Management Framework
- Medium Term Financial Strategy and Budget Setting Process
- Capital Strategy
- Asset management Plan
- Community Engagement and Consultation Strategy
- Communication Strategy
- Complaints Procedure
- VFM Framework
- Use of Resources Assessment
- Corporate Procurement Strategy
- Contract Procedure Rules
- Financial Procedure Rules
- Effective Internal Audit
- External Audit Opinion

### **Defining and documenting the roles and responsibilities of the executive, non-executive, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication**

The Council ensures that the necessary roles and responsibilities for the Governance of the Council are identified and allocated so that it is clear who is accountable for decisions that are made. The Council does this by:



- Electing a Leader of the Council and nominating a Cabinet made up of Executive Members with defined executive responsibilities;
- The Council's Constitution clearly describes the role of the Leader and Deputy Leader of the Council, Executive Members, Executive Support Members, the Chairman and Vice-Chairman of a Committee, Opposition Group Leader, Frontline Councillors, Corporate Panel Members and Non- Elected and Co-opted Members.
- Agreeing a scheme of delegated responsibilities to Directors;
- Annually appointing Committees to discharge the Council's Regulatory responsibilities;
- Annually appointing Committees to discharge the Council's Scrutiny responsibilities;
- Undertaking a regular review of the operation of the Council's Constitution;
- Having in place effective and comprehensive arrangements for the scrutiny of services and for holding the Executive to account;
- Making the Chief Executive responsible and accountable for all aspects of operational management (Head of Paid Service);
- Making a nominated Senior Officer responsible for the proper administration of its financial affairs (S151 Officer);
- Making a nominated Senior Officer responsible for actions taken in accordance with Statute and Regulation (Monitoring Officer);
- Developing protocols that ensure effective communications between Members and Officers;
- Development of a Councillor Compact outlining the mutual expectations of the officers and councillors in the new unitary council: taking into account new and transformational ways of working.

**Developing, communicating and embedding codes of conduct, defining the standards of behaviour for members and staff**

The Council fosters a culture of behaviour based on shared values, high ethical principles and good conduct. The Council does this by establishing and keeping under review:

- The Council's own values on Leadership as enshrined in the Council Plan and evidenced in Codes of Conduct that set a standard for behaviour;
- A Member Code of Conduct;
- A Code of Practice for Members responsible for determining Planning Applications;
- An Officer Code of Conduct;
- A Protocol governing Member/Officer relations;
- A Register of Interests and declaration of Gifts and Hospitality accepted;
- Equality and Diversity arrangements;
- A Whistleblowing policy (Confidential Reporting Code);
- The roles of Members and officers in decision-making;
- Appropriate and timely advice, guidance and training for both Members and Officers;
- The Councillor Compact
- Systems for reporting and dealing with any incidents of fraud and corruption.

The Council has appointed a Standards Committee with responsibilities for promoting and monitoring the application and delivery of these codes and protocols and promoting positive and trusting relationships within the Council.

The Council will also look to agree a set of behavioural values with our key partners.

**Reviewing and updating standing orders, standing financial instructions, a scheme of delegation and supporting procedure notes/manuals, which clearly define how decisions are taken and the processes and controls required to manage risks**

The Council's Constitution sets out how the Council operates, how decisions are made and the procedures which are followed to ensure that these are effective, transparent and accountable to local people. A major review of the Constitution has been carried out in preparation of the New Unitary and was approved by full Council in March 2009. This will be reviewed and amended on an annual basis as required.

## **Annual Governance Statement**

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The Council operates a risk management approach that aids the achievement of its strategic objectives, supports its decision making processes, protects the Council's reputation and other assets and is compliant with statutory and regulatory obligations. The Council ensures that the risk management approach:

- Enables a culture of risk awareness;
- Formally identifies and manages risks;
- involves elected members in the risk management process;
- Maps risks to financial and other key internal controls;
- Documents and records details of risks in a risk management information system;
- Monitors the progress in mitigating significant risks, and reports this to appropriate Members; and
- Reviews and, if necessary, updates its risk management processes at least annually.

### **Undertaking the core functions of an audit committee, as identified in CIPFA's Audit Committees – Practical Guidance for Local Authorities**

The Council established in May 2007 an Audit Committee with responsibility for monitoring and reviewing the risk, control and governance processes and associated assurance processes to ensure Internal Control systems are effective and that policies and practices are in compliance with statutory and other regulations and guidance. This includes considering the work of External Audit, Internal Audit, Risk Management and making recommendations concerning relevant governance aspects of the Constitution.

### **Ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful**

The Council ensures that appropriate legal, financial and other professional advice is always considered as part of the decision-making process and observes both specific requirements of legislation and general responsibility by Law.

The Council is transparent about how decisions are taken and recorded. The Council does this by:

- Ensuring that all decisions are made in public and recording those decisions and relevant information and making them available publicly (except where that information is exempt under the provisions of the Freedom of Information Act or determined as being confidential by Government or otherwise exempt by the Council);
- Having rules and procedures which govern how decisions are made.

### **Whistle-blowing and procedures for receiving and investigating complaints from the public**

A Confidential Reporting (Whistle-blowing) Code is in place to enable individuals within the Council to raise issues of concern without the fear of intimidation or reprisal.

The Council ensures that effective, transparent and accessible arrangements are in place for dealing with complaints;

- Complaints policies and procedures are in place to support the timely resolution of service complaints and to learn the lessons from such complaints for future service planning and delivery. The Standards Committee receives regular reports on Complaints handling within the Council.
- Policies and procedures are in place to deal with allegations about Member misconduct.

### **Identifying the development needs of members and senior officers in relation to their strategic roles, supported by appropriate training**

The Council ensures that those charged with the governance of the Council have the skills, knowledge and experience they need to perform well. The Council does this by:

- Consistent application of the People Strategy;

- Ensuring that the Council maintains an effective and skilled workforce by applying the Workforce Development Plan;
- Operating robust recruitment and selection processes;
- Implementing a Member Development Strategy;
- Maintaining the Investor in People Standard;
- Cascading regular information to Members and staff;
- Investing in Member and Officer Leadership training;
- Providing resources that support Member and Officer development,
- Promoting schemes supporting ongoing professional development.

**Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation**

The Council responds to the views of stakeholders and the community. The Council does this by:

- Forming and maintaining relationships with the leaders of other organisations;
- Ensuring Partnership arrangements demonstrate clear and appropriate governance accountabilities;
- Producing plans for service delivery within the community;
- Publishing a Forward Plan of Key Decisions;
- Having a Community Engagement and Consultation Strategy and providing access to a range of consultation methods, particularly to those groups which are harder to reach;
- Using an approach that recognises that people are different and gives everyone the same or an equal opportunity to information, advice and support in ways that are suited to the needs or circumstances of the individual;
- Encouraging and supporting the public in submitting requests for aspects of the Council's Service to be scrutinised;
- Providing and supporting ways for Citizens to present community concerns to the Council;
- Providing for the public the opportunity to ask questions or make representations at full Council and Regulatory Committees;
- Publishing annually a corporate plan providing information in relation to the Council;
- Continually developing clear channels of communication;
- Providing a modernised ICT Service that meets the needs and aspirations of the organisation and the communities we serve
- Issuing the Council's resident's newsletter, County Wide, to every household in the County.

**Incorporating good governance arrangements in respect of partnerships and other group working as identified by the Audit Commission's report on the governance of partnerships, and reflecting these in the Council's overall governance arrangements**

The Council has a strong commitment to working with partners to meet the needs of its communities. The Council ensures good governance in respect of partnerships by establishing a comprehensive and detailed partnership performance management framework, and by the independent review of governance arrangements by Internal Audit. Risk registers should also be maintained for all significant partnerships which will be reviewed by the Corporate Risk Manager. The Council is also establishing joint assurance functions with our partners to improve accountability and data quality.

**4. REVIEW OF EFFECTIVENESS**

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the senior managers within the Council who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

The process for maintaining and reviewing the effectiveness of the corporate governance framework is outlined below:

### **The Executive**

In readiness for the move to Unitary status from April 2009, the Government increased the size of the Council from 63 to 126 Members, who meet together to decide the Council's overall policies and set the budget. The Council is responsible for appointing the Leader of the Council and the Cabinet which together are known as the Executive. As a group the Executive is responsible for most decisions. Where a decision is identified as key, these are published in advance in the Executive's Forward Plan.

### **Overview and Scrutiny Committee**

The Council maintains an Overview and Scrutiny Management Board and six Scrutiny Committees that support the work of the Executive and the Council as a whole in the interests of achieving common aims and continuous improvement. In doing this, Overview and Scrutiny may make recommendations on policies, budget and service delivery and can call-in a decision of the Executive which has been made but not yet implemented.

### **Standard Committee**

A Standards Committee has responsibility for promoting high ethical standards across the Council, overview of the Member and officer codes and other relevant protocols together with the Council's complaints handling regime.

### **The Audit Committee**

The Audit Committee described in the previous section contributes to this review by seeking assurance that the Council's governance arrangements are effective. It does this by

- a. Reviewing the Annual Governance Statement and how it has been prepared
- b. Reviewing the Council's Statements of Accounts and how they have been prepared
- c. Monitoring progress made on improvements identified from the previous years AGS
- d. Reviewing the effectiveness of the system of internal audit
- e. Reviewing regular risk management and internal audit progress reports
- f. Reviewing the Annual Internal Audit Report and Risk Management Report
- g. Reviewing reports from the external auditor
- h. Maintaining an awareness of the key process and policies in place, and how they are reviewed, that underpin the corporate governance framework.

In addition, the review of the effectiveness of the Council's governance arrangements has been considered as part of the Council's arrangements for the transition to Local Government Reorganisation (LGR) with many of the key policies and procedures that support the governance framework being challenged and reviewed to ensure that they are fit for purpose for the New County Council.

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.

Significant issues arising from the review of the effectiveness, where improvements are needed, are outlined in the following section. These will be included in an action plan and will be regularly reviewed and monitored.

## **5. SIGNIFICANT GOVERNANCE ISSUES**

The Council is fully committed to the principles of corporate governance, and has made further progress during the past twelve months in developing its arrangements. Following the production of the Annual Governance Statement (AGS) for 2007/08, an action plan, containing

14 recommendations was produced. The progress made in implementing each of the recommendations was confirmed by Internal Audit and formed the starting point of the work carried out in producing the AGS for 2008/09.

In addition to the issues contained within the action plan, Internal Audit sought assurance on the effectiveness of the Council's governance arrangements from each of the Council's Corporate Directors and the Assistance Chief Executive. As a result of this exercise, and the work of both Internal and external audit, a number of issues have been identified where improvement in the Council's governance arrangements are required.

The most significant issues, agreed by the Corporate Management Team (CMT) at its meeting on 17 June 2009 as reported to the Audit Committee on 25 June 2009, are detailed below.

### **Communicating the Council's Vision**

The Council's vision and expected outcomes needs to be communicated to a wider range of audiences. The Councils' Communication Strategy and the Council's Community Engagement and Consultation Strategy need to be reviewed and communicate through a number of alternative media. The development of Area Action Partnership with effect from 1<sup>st</sup> April 2009 will also improve communications.

### **Health and Wellbeing**

The Council continues to develop a strategic approach aimed at improving the health and wellbeing of the workforce. It has already implemented a number of initiatives that includes lifestyle screening on Coronary Heart Disease risk to employees and a Stress Management Policy and associated guidance however, the impact that these initiatives have had are still to be confirmed.

### **Business Continuity and Disaster Contingency Plans**

Although the Corporate Business Continuity plan is in place, some services, because of capacity issues, are struggling to complete the writing of service plans. With Local Government Reorganisation both the Corporate Business Continuity Plan and the Service plans need revision to reflect the new organisational responsibilities. The Civil Contingencies Unit (CCU) are currently reviewing the Corporate plan and a draft will be complete by the end of June 2009. The CCU are also assisting in the review of service plans and they should be complete by the end of July 2009.

ICT have Disaster Recovery and Business Continuity arrangements in place to support the Council's essential functions that are directly reliant on data or telecoms networks and access to e-mail, the intranet and internet. However a formal Disaster Recovery and Business Continuity plan which establishes the links with the revised corporate and service plans still needs to be finalised.

### **County Durham Partnership and Wider Partnership working**

The broad framework for the County Durham Partnership (CDP) governance has been agreed and implemented and performance against the Local Area Agreement (LAA) targets is reported quarterly to the CDP.

It is important that robust and effective partnership arrangements are maintained for the successful implementation of the Sustainable Community Strategy and the LAA 2008-11 targets and in ensuring that partnerships are effective and add value.

Further development of the ways in which value for money can be measured and improved across partnerships is required.

### **Single Status/Pay Harmonisation**

Work is underway to develop a pay structure for the Unitary Authority but is complex given the implications of TUPE following Local Government Reorganisation (LGR).

Work in introducing an equality proofed pay structure based on job evaluation results is ongoing.

### **Performance management**

During the LGR process the focus of work has been on collecting and reporting performance information from across all authorities to ensure performance is maintained and that there is no dip in service provision for users.

Future work will look towards ensuring a consistent performance monitoring framework within the organisation and with partners in the CDP. This framework will work towards ensuring that accurate County and where appropriate disaggregated figures are produced.

Joint performance monitoring with finance reporting will be reviewed and performance reports will be tailored to allow information to be presented in the most appropriate format for the various internal audiences use as well as for the County Durham partnerships.

More radical targets need to be introduced in some areas and some new targets need to be identified for key areas e.g. carbon reduction.

Further improvements are planned in relation to gauging public satisfaction with the quality of Council services on an annual basis.

The Council will continue to develop ways in which value for money can be measured and improved and investigate opportunities for improvement through innovative ways of delivering services and using resources through the delivery of the Altogether Better Corporate Improvement Programme.

### **Project Management**

A corporate approach to the management of projects and programmes is required. The methodology and governance arrangements that have been developed and utilised for LGR have been reviewed and adapted based on lessons learnt and to reflect the new CMT. It is proposed that this new methodology and governance arrangements along with a projects register will be used from April 2009 for all new transformational projects. A proposal including governance and methodology is to be agreed with the new CMT. This will require services embarking on transformational change projects to ensure the Project Initiation Document is signed off centrally. The Project Manager and Project Sponsor will need to be familiar with and adhere to the new methodology and governance arrangements. Project management skills need to be developed in some areas.

### **Risk management**

Risk management is assessed as part of the Key Lines of Enquiry in the Use of Resources element of the Comprehensive Performance Assessment, and in the 2008 assessment, our score of level 3 was retained. The main focus during the year was on managing risks surrounding the Local Government Re-organisation programme.

A new Corporate Risk Management Group has been established, and Corporate and Service Management Teams are identifying and assessing their risks. To complement this, the strategic risks (at a Corporate and Service level) across the 8 Councils were reviewed and communicated to appropriate Corporate Directors.

In the coming year, the key tasks will be to revise the existing Council approaches to risk management to align to the new Unitary Council, and to develop a plan to further embed risk management across the Council.

In addition, another key task will be to work with the strategic risk managers of key partners in the County Durham Partnership (CDP), with the aim of developing a process for the Partnership to manage the risks to achieving its objectives.

### **System of Internal Control**

Assurance on the effectiveness of the system of internal control is informed by the work of Internal and External audit as reported through annual audit reports. It should be noted that the implementation of the Oracle Business Suite in the same year as the transition to unitary status has proven to be very challenging for the Council. Consequently the 2008/9 annual internal audit report was able to provide only a moderate assurance opinion on the adequacy and effectiveness of the control environment. In addition, a number of areas of concern relating to internal controls in the main financial systems have been raised by the external auditor. These issues, some of which are considered potentially significant, are currently being addressed. In particular concern was raised regarding bank reconciliation, insufficient budget reporting to Cabinet and the late payment of creditors.. Managers were already aware of the issues raised and have already taken a number of actions to deliver the improvements required. Further work will continue in 2009/10 to ensure that processes become even more effective. The implementation of action required to address control weaknesses will be closely monitored and substantiated by Internal Audit through detailing testing in key areas during 2009/10.

### **Asset Management Planning & Capital Investment**

Service Asset Management planning and appraisal of potential capital projects requires developing to ensure that Capital Investment continues to be linked to corporate priorities and that measurable outcomes and whole-life costings are considered as part of the business case submitted to support potential investment. In addition we need to improve our consultation arrangements with stakeholders, our capital programme monitoring and post project evaluation reviews to ensure that expected outcomes from capital investment decisions are delivered. The corporate role of Asset Management needs to be strengthened to ensure that the Council's asset portfolio is effectively managed from the corporate perspective, improving efficiency and ensuring that the best use is made of our buildings. All property which is considered to be surplus to requirement needs to be disposed of in accordance with the Corporate Property Strategy.

### **Procurement**

Recent procurement exercises conducted by the Council have been subject to criticism by Members, Media and Residents. To address this concern, the Chair of Overview and Scrutiny Management Board has requested that a time limited review be carried out on the Council's Contract and Tender procedures in order to assess the level of openness, transparency, 'checks and balances' and member engagement in the process.

The Council's Procurement Strategy and Annual Procurement Plan is currently being developed in consultation with Members. Adherence to the resultant policies and procedures will require review during 2009/10 to ensure that they operate effectively.

### **Governance Assurance Framework**

The Corporate Risk Management Group currently has responsibility for preparing the AGS. However, as the nature of the AGS continues to change, members of this group do not have direct responsibility for key governance issues and may no longer be best placed for this task. Work has been undertaken in looking to establish a Corporate Assurance Group that will drive the process forward in future. In addition, it has been recognised that given the size and diversity of the Unitary Council there is a need to effectively communicate the Council's main governance documents, policies and procedures, to all employees using a number of alternative media, to improve awareness and overall effectiveness of the Council's governance framework.

### **Local Government Reorganisation**

Local Government Reorganisation has resulted in the Council undergoing a major structural change. The Council is working to ensure that robust staffing structures are in place and is in the process of standardising and communicating its key policies and procedures. Further assurance work will be required in 2009/10 to ensure that new policies and procedures implemented with effect from 1<sup>st</sup> April 2009 are operating effectively across the whole of the

Council. Given the extent of restructuring and new appointments within the Council any skill gaps and training needs, particularly in relation to business transformation/change management will need to be monitored and supported through adequate training budgets. Training and development needs of Members, at this time of significant change, also require regular review.

### **Scheme of Delegation**

The Council has approved a scheme of delegation as part of its Constitution but accountability for decisions made under delegated powers could be improved if there was a consistent approach for the recording and scrutiny of decisions. Services also develop their own schemes of Powers of Delegated Authority. These should be regularly reviewed to ensure they remain fit for purpose.

### **Employee Code of Conduct**

The Council has approved a Code of Conduct for employees. All new employees are made aware of this Code as part of the induction process. To ensure that the Code is fully embedded in the culture of the New Unitary Council regular reminders should be issued to all staff.

***We propose over the coming year to take steps to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.***

### **Signed:**

Simon Heing  
Leader of Durham County Council

George Garlick  
Chief Executive

Stuart Crowe  
Corporate Director - Resources

on behalf of the Members and senior officers of Durham County Council.



**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.

**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.

**Annual Governance Statement**

The statement gives assurance that appropriate mechanisms are in place to direct and control the activities of the County Council.

**Amortisation**

Amortisation is the equivalent of depreciation for intangible assets.

**Appropriation**

The transfer of sums to and from reserves, provisions and balances.

**Area Based Grant**

A general grant, allocated by Central Government. There is no restriction on how the grant is spent.

**Assets Under Construction**

Capital expenditure on assets where the work is incomplete.

## **Glossary of Terms Used in the Accounts**

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### **Best Value Accounting Code of Practice (BVACOP)**

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.

### **Borrowing**

Loans from the Public Works Loans Board and the money markets that finance the capital programme of the County Council.

### **Budget**

The Council's plans and policies for the period concerned, expressed in financial terms.

### **Building Schools for the Future**

Government investment programme with the aim of rebuilding or renewing every secondary school in England over a 10-15 year period.

### **Capital Adjustment Account (CAA)**

This account accumulates the write down of the historical cost of fixed 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 fixed 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 fixed 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 Statement of Movement on the General Fund.

### **Capital Expenditure**

Expenditure on the acquisition or construction of fixed assets that have a value to the County Council for more than one year, or expenditure which adds to and not merely maintains the value of existing fixed assets.

### **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. fixed 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 County Council's Minimum Revenue Provision.

### **Capital Receipts**

The proceeds from the sale of capital assets such as land and buildings. These sums can be used to finance capital expenditure.

### **Chartered Institute of Public Finance and Accountancy (CIPFA)**

The principal accountancy body dealing with local government finance.

**Contingent Asset**

Potential benefits that the County Council may reap in the future due to an event that has happened in the past.

**Contingent Liabilities**

Potential costs that the County Council may incur in the future due to something that has happened in the past.

**Corporate Governance**

The promotion of corporate fairness, transparency and accountability. The structure specifies the responsibilities of all stakeholders involved and the rules and procedures for making decisions.

**Creditors**

Persons or bodies to whom sums are owed by the County Council.

**Debtors**

Persons or bodies who owe sums to the County Council.

**Depreciation**

The fall in the value of an asset, as recorded in the financial records, due to wear and tear, age and obsolescence.

**Direct Revenue Financing**

The cost of capital projects that is financed directly from the annual revenue budget.

**Direct Service Organisations (DSOs)**

Workforces employed directly by local authorities to carry out works of repair, maintenance, construction etc. of buildings, grounds and roads and to provide catering and cleaning services and repairs and maintenance of vehicles.

**Equities**

Ordinary shares in UK and overseas companies traded on a stock exchange. Shareholders have an interest in the profits of the company and are entitled to vote at shareholder's meetings.

**Fair Value**

The value for which an asset can be exchanged or a liability can be settled in a market related transaction.

**FIDs and Manninen**

A claim has been lodged for Durham County Council Pension Fund and other Pension Funds for repayment of tax credits overpaid on Foreign Income Dividends (FIDs) and other dividends, referred to by name of the person whose case set the precedent, Manninen.

**Finance Lease**

A lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee. The payments usually cover the full cost of the asset, together with a return for the cost of finance.

## **Glossary of Terms Used in the Accounts**

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### **Financial Instrument**

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

### **Financial Reporting Standards (FRS)**

Statements developed by the Accounting Standards Board laying down common standards of accounting practice.

### **Financial Reporting Standard 17 (FRS 17) – Accounting for Retirement Benefits**

This Financial Reporting Standard requires local authorities to reflect the true value of the assets and liabilities relating to the Pension Fund in their financial statements. This creates a notional amount in the Balance Sheet but does not impact on council tax.

### **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 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 fixed assets have physical substance, for example land, buildings and vehicles. Intangible fixed assets do not have physical substance but are identifiable and controlled by the authority through custody or legal rights, for example software licences.

### **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.

### **Futures**

A contract made to purchase or sell an asset at an agreed price on a specified future date.

### **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 County Council.

### **Government Grants Deferred**

Grants and other external contributions towards capital expenditure are written off to the revenue account as the assets to which they relate are depreciated. The balance on the Government Grants deferred account represents grants not yet written off.

**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.

**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**

Fixed assets such as roads and bridges.

**Intangible Assets**

Intangible fixed assets do not have physical substance but are identifiable and controlled by the authority through custody or legal rights, for example software licences.

**Investment**

An asset which is purchased with a view to making money by providing income, capital appreciation or both.

**LAAP Bulletin**

CIPFA's Local Authority Accounting Panel (LAAP) periodically issues bulletins to local authority practitioners, providing guidance on topical issues and accounting developments and, when appropriate, clarification on the detailed accounting requirements.

**Leasing**

A method of funding expenditure by payment over a defined period of time. An operating lease is similar to renting; the ownership of the asset remains with the lessor and the transaction does not fall within the capital system. A finance lease transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee and do fall within the capital system.

**Liabilities**

An obligation to transfer economic benefits. Current liabilities are usually payable within one year.

**Local Authority Business Growth Incentive Grant (LABGI)**

A reward for promoting growth in local businesses.

**Local Public Service Agreement Performance Reward Grant (LPSA)**

A reward for achieving more demanding performance in the delivery of local services.

**Long-Term Investments**

Investments intended to be held for use on a continuing basis in the activities of the County Council where that intention can be clearly demonstrated or where there are restrictions on the ability to dispose of the investment.

## **Glossary of Terms Used in the Accounts**

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### **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.

### **Minimum Revenue Provision**

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.

### **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.

### **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 fixed 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 County 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 fixed assets.

### **Net Expenditure**

The actual cost of a service to the County 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-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**

Fixed assets 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.

### **Outturn**

Actual expenditure within a particular year.

### **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 Year Adjustments**

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.

### **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 1<sup>st</sup> 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.

### **Reserves**

Sums set aside to fund specific future purposes rather than to fund past events.

### **Revaluation Reserve**

The Revaluation Reserve records the accumulated gains on the fixed 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 fixed assets carried in the Balance Sheet is greater because they are carried at revalued amounts rather than depreciated historical cost.

## **Glossary of Terms Used in the Accounts**

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### **Revenue Contributions**

See 'Direct Revenue Financing'

### **Revenue Expenditure and Income**

Expenditure and income arising from the day-to-day operation of the County Council's services, such as salaries, wages, utility costs, repairs and maintenance.

### **Revenue Expenditure Funded from Capital Under Statute**

Expenditure that legislation allows to be classified as capital for funding purposes. However, it does not result in the expenditure being shown in the Balance Sheet as a fixed asset. This expenditure is charged to the relevant Service revenue account in the year.

Examples of this are grants and financial assistance to others, expenditure on assets not owned by the Council and amounts directed by the Government.

This accounting treatment, as defined in the CIPFA Statement of Recommended Practice (SORP) 2008, replaces the concept of deferred charges.

### **Revenue Support Grant (RSG)**

A Government grant that can be used to finance expenditure on any service.

### **Section 137**

Section 137 of the Local Government Act 1972 allowed a local authority to spend a limited amount on activities for which it had no specific legal powers but which it considered 'would bring benefit to the area, or any part of it or some of its inhabitants'. Most of this power was repealed and replaced with a 'well-being' power in the Local Government Act 2000.

### **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.

### **Statements of Recommended Accounting Practice (SORP)**

A publication produced by CIPFA, recognised by the Accounting Standards Board (ASB), that provides comprehensive guidance on the content of the County Council's Statement of Accounts

### **Statements of Standard Accounting Practice (SSAP)**

Accounting standards developed by the Accounting Standards Committee (ASC) and adopted by the Board are known as SSAPs. The statements ensure accounting consistency.

### **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.

### **Tangible Assets**

Tangible fixed assets have physical substance, for example land, buildings and vehicles.



**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 County Council's approach to treasury management activities. This includes setting borrowing and investment limits to be followed for the following year and is published annually in the Medium Term Financial Plan document.

**Trust Funds**

Funds established from donations or bequests usually for the purpose of providing educational prizes and scholarships.

**Unit Trusts**

A pooled fund in which small investors can buy and sell units. The pooled Fund then purchases investments, the returns on which are passed on to the unit holders. It enables a broader spread of investments than investors could achieve individually.

**Usable Capital Receipts Reserve**

Represents the resources held by the County Council from the sale of fixed assets that are yet to be spent on other capital projects.

**Variance**

The difference between budgeted expenditure and actual outturn also referred to as an over or under spend.

**Work-in-Progress**

The value of rechargeable work that had not been recharged at the end of the financial year.

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