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EXPLANATORY FOREWORD

1. INTRODUCTION

This document presents the first published accounts for Durham County Council as a Unitary Authority for the year ended 31st March 2010 - 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 2009/10 is prepared in accordance with the 'Accounts and Audit Regulations 2003', as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 and 2009 and the 2009 '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 £608.561m and capital spending on tangible and intangible fixed assets was £119.915m.

Those reserves which are earmarked for specific purposes, and are not therefore available for general use, increased from £89.615m to £95.140m and general reserves decreased from £43.512m to £28.542m during 2009/10. The balance of general reserves remaining with the County Council represents 6.8% of the County Council's budget requirement for 2009/10.

The Statement also includes the 2009/10 accounts for the Durham County Council Pension Fund, for which Durham County Council is the administering authority.

2. THE CREATION OF DURHAM COUNTY COUNCIL AS A NEW UNITARY AUTHORITY

On the 1st April 2009 Local Government Re-organisation (LGR) took effect, and the seven District Councils in Durham County were dissolved. Their assets and liabilities transferred to Durham County Council which assumed their responsibilities as a Unitary Authority. The Unitary Authority now provides the vast majority of council services to the citizens of County Durham including the collection of council tax, non-domestic rates and the provision of social housing. The transfer of these assets and liabilities and the income and expenditure incurred in providing these new services to the public are disclosed in the Balance Sheet on page 32 and the Income and Expenditure Statement on page 28. The effect on the Council's net worth is shown in the Statement of Total Recognised Gains and Losses on page 31. Where the LGR transfer has affected the closing balance on the General Fund and Housing Revenue Account, this has been disclosed in the relevant notes to the accounts.

3. 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 2009/10 together with its financial position at 31st March 2010.

The information and financial statements are as follows:

INDEPENDENT AUDITOR'S REPORT (Page 14)

The Report of the Independent Auditor on the County Council's Accounts and the Durham County Council Pension Fund Accounts for the year ended 31st March 2010.

STATEMENT OF ACCOUNTING POLICIES (Page 18)

Showing the policies and procedures adopted in compiling the Accounts.

INCOME AND EXPENDITURE ACCOUNT (Page 28)

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 30)

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 31)

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 32)

Showing the financial position of the County Council at 31st March 2010 (excluding the Pension Fund and other Trust Funds).

CASH FLOW STATEMENT (Page 33)

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 36)

These notes aim to assist in understanding, by breaking down, balances shown in the Income and Expenditure Account, Statement of Movement on the General Fund Balance, Balance Sheet, Statement of Recognised Gains and Losses and the Cash Flow Statement.

GROUP FINANCIAL STATEMENTS (Page 79)

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.

THE HOUSING REVENUE ACCOUNT (Page 93)

A record of revenue income and expenditure relating to the Council's housing functions. Its primary purpose is to ensure that expenditure on managing tenancies and maintaining dwellings is funded by rents charged to tenants. Consequently the HRA is a statutory account, ring-fenced from the rest of the General Fund, so that rents cannot be subsidised from Council Tax.

COLLECTION FUND (Page 101)

Showing the transactions relating to Council Tax and Non-Domestic Rates and illustrates how these have been distributed.

DURHAM COUNTY COUNCIL PENSION FUND ACCOUNTS (Page 107)

Showing the operation and membership of the Fund, the expenditure and income during the year and its financial position at 31st March 2010. Following the Accounts are notes providing further information.

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS (Page 120)

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

ANNUAL GOVERNANCE STATEMENT (Page 121)

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 132)

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

4. CHANGES IN ACCOUNTING POLICIES

Following changes to the Code of Practice on Local Authority Accounting for the 2009/10 Accounts, as a Billing Authority, the Council no longer recognises debtors and creditors in respect of Non-Domestic Ratepayers and Non-Domestic Pool Account and the Provision for Bad Debts. Instead, it recognises the combined effect of these balances as either a Net Government Debtor or Net Government Creditor as 'cash collected but not paid to the Government' at the balance sheet date.

In relation to the Collection fund, the Council now prepares its accounts as the major precepting agent with a requirement to exclude from its own such balances appropriate shares of the Collection Fund balance, Council Taxpayers debtors and creditors and Provision for Bad Debts relating to major preceptors (Durham Police Authority and County Durham and Darlington Fire and Rescue Authority) and instead to reflect these as either major preceptors' debtors or creditors.

5. A REVIEW OF 2009/2010 - REVENUE

The analysis below summarises the information shown in the Income and Expenditure Account which appears on page 28.

Where the money comes from:

	2008/09	2009/10
	£000	£000
Specific Government Grants	395,756	636,328
Income from Fees and Charges	117,697	228,288
Included in Net Cost of Services	513,453	864,616
Income from Fees and Charges	8,149	9,674
Gain on disposal of fixed assets	2,845	3,418
Interest and Dividends	7,426	5,105
Contribution to debt charges	258	-
Included in Net Operating Expenditure	18,678	18,197
Revenue Support Grant	19,736	42,037
Area Based Grant	30,111	48,009
LABGI Grant	411	267
LPSA Grant	-	3,307
NNDR	141,771	182,127
Precepts	159,069	207,005
General sources of income	351,098	482,753
Total income for year	883,229	1,365,566

How it was spent:

	2008/09 £000	2009/10 £000
Children's and Education Services	561,127	574,987
Adult Social Care	223,641	213,617
Highways and Transportation	51,742	64,800
Planning and Development	19,726	60,802
Cultural and Related Services	16,214	63,691
Environmental Services	21,425	58,898
Local Authority Housing (HRA)	-	60,518
Other Housing Services (inc. Supporting People)	-	185,707
Other Services	22,829	102,607
Local Government Reorganisation	1,348	7,452
Net Cost of Services	918,052	1,393,079
Precepts and levies	413	11,981
Other operating expenditure (Trading accounts)	8,230	12,082
FRS17 pension cost adjustment	19,990	56,970
Interest payable	8,025	17,262
Net Operating Expenditure	36,658	98,295
Total expenditure for year	954,710	1,491,374
Deficit for year	71,481	125,808

What it was spent on:

	2008/09 £000	2009/10 £000
Employees	491,073	610,978
Running expenses	455,612	863,134
Interest payable	8,025	17,262
	954,710	1,491,374

The County Council's net revenue budget for 2009/10 was £479.834m which, after a contribution from reserves of £13.147m and Area Based Grant of £46.533m, left £420.154m to be financed from Formula Grant and Council Tax.

Formula Grant, comprising Revenue Support Grant and redistributed National Non Domestic Rates funded 53.4% of the budget requirement, the balance of 46.6% coming from council tax.

The 2009/10 Band D council tax was £1,258.92 and this helped to provide services to deliver our priorities, which were:

For Healthier Communities:

- Maintained 3,479 km of footpaths, bridleways and byways and 109 km of railway paths
- Provided leisure facilities across the county including 28 public and community use swimming pools
- Safeguarded and promoted the welfare of children and young people and protected them from neglect and harm
- Supported families and prevented family breakdown

- Provided foster placements for looked after children and arranged adoption for children who needed this.

For Safer Communities:

- Helped over 20,000 vulnerable people to live in their own homes
- Cared for more than 4,300 people in residential and nursing care
- Provided more than 2.8 million hours of home care each year
- Provided decent and affordable housing and prevented more than 700 people from becoming homeless 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.

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 119,500 children and young people in 287 nurseries, primary, secondary and special schools
- Provided services to 4,500 carers
- Enabled adult learners to achieve 11,293 qualifications over the last year
- Supported younger children and families through 43 Children's Centres
- Helped schools to improve test and exam results.

For Economic Wellbeing:

- Worked in partnership to help the unemployed back into work and supported people considering self employment
- Invested in major regeneration projects across the county
- Handled more than 5,000 planning applications
- Promoted a safe and fair trading environment

For an Improved Environment:

- Handled 260,000 tonnes of household waste annually, of which 34% was recycled or composted
- Maintained and improved parks, playgrounds and open spaces
- Maintained 3,711 km of roads, improved the transport network and bus services

COMPARISON TO ORIGINAL BUDGET

Extract from Income and Expenditure Account

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

Explanatory Foreword

	Original Budget £000	Actuals £000	Variance £000
Children's and Education Services	116,885	135,629	-18,744
Adult Social Care	160,860	162,271	-1,411
Highways and Transportation	47,942	51,845	-3,903
Planning and Development	48,229	39,447	8,782
Cultural and Related Services	30,917	43,703	-12,786
Environmental Services	46,583	52,248	-5,665
Local Authority Housing (HRA)	-	856	-856
Other Housing Services (inc. Supporting People)	5,988	7,877	-1,889
Other Services	22,115	27,135	-5,020
Local Government Reorganisation	8,851	7,452	1,399
NET COST OF SERVICES	488,368	528,463	-40,095
Precepts	-	11,981	-11,981
Surplus or deficit on trading activities not included in Net Cost of Services	-	1,961	-1,961
Insurance uncertain liabilities	-	-755	755
Interest payable and similar charges	18,591	17,262	1,329
Gain/Loss on disposal of fixed assets	-	-3,418	3,418
Interest and investment income	-2,435	-5,105	2,670
Impairment on financial investments	-	45	-45
Contributions of housing capital receipts to government pool	-	1,157	-1,157
Pension interest costs and expected return on pension assets	-	56,970	-56,970
NET OPERATING EXPENDITURE	504,524	608,561	-104,037
Demand on the Collection Fund	-195,990	-207,005	11,015
General government grants	-89,820	-93,621	3,801
Non-domestic rates redistribution	-182,128	-182,127	-1
SURPLUS (-) / DEFICIT FOR THE YEAR	36,586	125,808	-89,222
Reconciling transaction	-27,735	-111,871	84,136
Net change on General Fund Balance	8,851	13,937	-5,086

During 2009/10 the national and international economic downturn continued. Short-term interest rates effectively collapsed in the previous financial year, however, there has been no significant impact to investment income in 2009/10 as our revised budgets reflected a projected shortfall in income of over £10 million.

The County Council spent £608.561m during 2009/10. At Net Cost of Service level there is an over spending in the County Council's services of £40.095m 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 2010/11. The amount across services is £2.371m, which is shown as an over spending but is met from an earmarked reserve. An amount of £2.974m remains in an earmarked reserve to meet the costs associated with job evaluation for non-schools' employees and £3.994m 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 2009/10 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 where the asset has no revaluation

reserve impairment, has had an impact on the Income and Expenditure account. This impact is £53.9m for the General Fund.

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 was over spent due to increased childcare referrals as recent high profile childcare cases have led to a countrywide increase in demand. Durham was no different and Safeguarding and Specialist Services costs, especially relating to fostering and independent special school placement, have increased.

Adult Social Care under spent slightly due to The Life Opportunities Programme (improving day care services for adults with learning disabilities). This was as a result of extensive consultations with service users and carers. This inclusive process led to slower progress than would have been preferred, resulting in the underspend.

Highways and Transportation over spent mainly as a result of Winter Maintenance and major flooding incidents and Planning and Development under spent due to staff vacancies within the service. Environmental Services include the costs involved in bringing the Recycling service back in-house.

Within other Services, Corporate Services were over spent due to agency costs which were partially offset by savings against the staffing establishment. Premises costs over spent mainly connected with the ongoing maintenance costs of surplus properties which were not disposed of due to a suppressed property market.

Loss of income due to the economic climate and unachievable base budget income levels also contributed to the overall overspend. These were partially offset due to staff vacancies and delays in the LGR recruitment process.

Finally, grants from government exceeded the original budget by £3.801m, due to the amount received in Area Based Grants exceeding that allocated to the County Council, at the time the budget was set, by £1.432m. In addition the Performance Reward Grant exceeded the original budget by £2.057m. This gives an overall net over spend of £89.222m before the reconciling transaction from the Statement of Movement in the General Fund Balance is added.

The variance in the reconciling transaction is £84.136m and the actual outturn reconciling transaction of £111,871m is analysed in the extract from the 'Note on reconciling items for the Statement of Movement on the General Fund Balance' on page 46. It is made up of a transfer to earmarked reserves of £7.038m; 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.

The result of these and the other entries in the reconciling transaction line leads to actual net deficit for the year of £13.937m which has resulted in a reduction in the General Reserve. The budget reflected a use of the General Reserve to cover the LGR transition costs which were estimated to be £8.851m. Therefore the overspend for the year amounts to £5.086m.

6. HOUSING REVENUE ACCOUNT (HRA) POSITION

The HRA produced an in year change of £1.514m to the balances, compared to the original break even budget. The following table outlines the position:

Housing Revenue Account	Original Budget £000	Actual Outturn £000	Variance £000
Net Service Expenditure	-9,293	1,428	10,721
Gain/Loss on sale of assets	-	-1,205	-1,205
Interest payable	7,925	5,653	-2,272
Investment Income	-169	-79	90
(Surplus)/Deficit for the Year	-1,537	5,797	7,334
Items included in the HRA Income and Expenditure Account but excluded from the movement on HRA Balance	-	-9,123	-9,123
Items not included in the HRA Income and Expenditure Account but included in the movement on HRA Balance	1,537	1,812	275
Change in HRA Balance in Year	-	-1,514	-1,514

The change in the HRA balance is due to the following:

	£000	£000
Reduced Revenue Contribution to Capital	-144	
Reduced Interest Payable	-2,273	
Additional Rent Income	-28	
Reduced Rates and Taxes Payable	-90	
Reduced Contribution to Pensions	-935	
Savings on Housing Repairs and Management	-1,229	
Other Net Savings/Increased Income	-82	
Total Savings/Increased Income		-4,781
Additional Housing Subsidy Payable		2,297
Reduced Care Services Income		220
Reduced Investment Income		89
Increase in Provision for Bad Debts		661
Change in HRA Balance in Year		-1,514

7. REVIEW OF 2009/10 – CAPITAL

The table below shows the capital expenditure, by service, in 2009/10. Capital expenditure for 2009/10 was £119.915m; £42.550m less than original budget. £38.711m was invested in Children and Young People's Services, £4.655m in Adults, Wellbeing and Health, £20.247m in Neighbourhood Services, £53.463m in Regeneration and Economic Development (including Housing) and £2.839m in other services.

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

Service	Original Budget 2009/10 (July 2009)	Slippage from 08/09 and revisions	Final Budget 2009/10	Outturn	Variance - outturn v original budget
	£000	£000	£000	£000	£000
Assistant Chief Executive	-	1,260	1,260	567	-567
Adults, Wellbeing and Health	3,494	10,019	13,513	4,655	-1,161
Children and Young People's Service	68,101	8,036	76,137	38,711	29,390
Neighbourhood Services	27,980	18,271	46,251	20,247	7,733
Regen and Econ Dev't	57,308	28,932	86,240	53,463	3,845
Resources	5,582	2,978	8,560	2,272	3,310
Total	162,465	69,496	231,961	119,915	42,550

The major sources of financing of the capital programme are £33.516m from external borrowing, £45.714m from capital grants and contributions, £12.449m Major Repairs Allowance, capital receipts of £19.414m and £5.179m of direct revenue funding and the use of reserves. The Dedicated Schools Grant (DSG) has been used to finance £3.643m of capital expenditure in schools.

8. MATERIAL ASSETS ACQUIRED, LIABILITIES INCURRED AND BORROWING

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

	Expenditure in 2009/10 £000
Durham Johnston - replacement school	2,841
Aycliffe Secure Unit	1,831
Easington Community School	5,381
Schools - structural maintenance of buildings	3,024
Schools - Modernisation Schemes	2,508
Schools - schemes funded from capital budgets delegated to schools (including revenue expenditure funded from capital under statute of £462k)	9,924
Other schools schemes	5,198
Traveller's Sites	1,091
Housing capital programme	27,027
North Dock	1,308
St John's Square, Seaham	1,360
Netpark Plot 3 Production Facility	3,053
Pelton Fell Village Regeneration	846
Environment Improvement Schemes	1,191
A167 Capitalised Maintenance	985
Other Highways and Transportation schemes	15,540
Structural maintenance of buildings (non schools)	705
Vehicles, plant, furniture and equipment	7,571
Revenue expenditure funded from capital under statute (other than school's delegated)	13,284

The total borrowing at 31st March 2010 was £316.1m. £0.9m of the total is due to be repaid by Durham Police Authority. An analysis of loans outstanding is shown in Note 21.

9. 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 Pension Fund actuary.

10. CHANGES IN STATUTORY FUNCTIONS

Following LGR on 1st April 2009 (see note 2 of the Explanatory Forward) Durham County Council became a Unitary Authority assuming the responsibilities of the dissolved District Councils in the County. The County Council is now responsible for:

- Collection of council tax and national non-domestic rates; and
- Social housing

11. 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.

The Government recently announced a wide range of policies which will have far reaching effects on local authorities and the communities they serve. The announcements outlined the major financial challenges local authorities will face in the future.

Work has already begun on the Medium Term Financial Plan to consider base budget pressures, efficiency savings and savings proposals to meet the significant challenges ahead.

12. 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 31st March 2010, usable capital receipts of £23.613m, and unapplied capital grants and contributions of £54.614m, (included in Receipts in Advance) were held. These sums, together with other capital resources such as future supported borrowing, will be used to finance the Council's approved capital programme, which is subject to rolling review.

General and earmarked reserves and provisions of a revenue nature, totalling £141.8m, were also held as at 31st March 2010. These are detailed in notes 26 and 27 to the Core Financial Statements.

13. SUBSEQUENT EVENTS

The Statement of Accounts is signed by the Interim Corporate Director - Resources and approved by the Audit Committee on 27th October 2010. 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 DURHAM COUNTY COUNCIL

OPINION ON THE AUTHORITY AND GROUP ACCOUNTING STATEMENTS

I have audited the Authority and Group accounting statements and related notes of Durham County Council for the year ended 31 March 2010 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, the Housing Revenue Account, the Statement of Movement on the Housing Revenue Account, the Collection Fund 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 published by the Audit Commission in April 2008.

Respective responsibilities of the Responsible Financial Officer and auditor

The Responsible Financial Officer's responsibilities for preparing the accounting statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice 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 give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of:

- 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 accounting 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 consider whether it is consistent with the audited Authority and Group accounting statements. This other information comprises the Explanatory Foreword. 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. 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 accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Authority as at 31 March 2010 and its income and expenditure for the year then ended; and
- The Group accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Group as at 31 March 2010 and its income and expenditure for the year then ended.

OPINION ON THE PENSION FUND ACCOUNTING STATEMENTS

I have audited the pension fund accounting statements for the year ended 31 March 2010 under the Audit Commission Act 1998. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. The pension fund 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 published by the Audit Commission in April 2008.

Respective responsibilities of the Responsible Financial Officer and Scheme Administrator and auditor

The Responsible Financial Officer's responsibilities for preparing the pension fund accounting statements, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the pension fund 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 pension fund accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of 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 accounting statements and related notes and consider whether it is consistent with the audited pension fund accounting statements. This other information comprises the Explanatory Foreword and the content of the Annual Report. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the pension fund 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 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 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 pension fund 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 pension fund accounting statements and related notes.

Opinion

In my opinion the pension fund accounting statements and related notes give a true and fair view, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial transactions of the Pension Fund during the year ended 31 March 2010, and the amount and disposition of the fund's assets and liabilities as at 31 March 2010, 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 the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009. 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 identified the following:

- the Authority did not produce and approve its draft accounting statements by the statutory deadline of 30 June 2010;
- the Authority was unable to support an efficient audit due to weaknesses in working papers and delays in responding to audit queries;
- the Authority did not approve and publish its audited accounting statements by the statutory deadline of 30 September 2010; and
- the Authority did not maintain sound internal financial control for many of its key financial systems during the year ended 31 March 2010.

Having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009, 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 2010 except for:

- timely and reliable financial reporting that meets the needs of internal users, stakeholders and local people; and
- managing its 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
Nickalls House
Metro Centre
Gateshead
Tyne and Wear
NE11 9NH

29 October 2010

STATEMENT OF ACCOUNTING POLICIES

1. GENERAL PRINCIPLES

The general principles adopted in compiling the Accounts follow the 'Code of Practice on Local Authority Accounting in the United Kingdom 2009: 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 Financial Reporting Standard (FRS) 18. In particular:

The qualitative characteristics of financial information:

- Relevance
- Reliability
- Comparability
- Understandability
- Materiality
- Pervasive accounting concepts
- Primacy of legislative requirements
- Accruals
- Going concern

2. BASIS OF ACCOUNTING FOR ITEMS OF INCOME AND EXPENDITURE

The Revenue Accounts are maintained on an accruals basis. This means that sums due to the Council in the year are accounted for even if the cash had not yet been received. All payments made which relate to the financial year 2009/10 have been included in the accounts, together with any identifiable and material sums which still remain to be paid for goods and services provided up to 31st March 2010.

3. BEST VALUE

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

4. TANGIBLE FIXED ASSETS

Expenditure on the acquisition, creation or enhancement of tangible fixed assets is capitalised on an accruals basis, provided that it yields benefits to the council and the services that it provides for more than one financial year. Expenditure that secures but does not extend the previously assessed standard of performance of an asset (eg repairs and maintenance) is charged to revenue as it is incurred.

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
 - Council dwellings - At market value - existing use for social housing
 - Infrastructure assets (e.g. roads) - At historical cost, net of depreciation
 - Community assets - At historical cost, net of depreciation
 - Vehicles, plant, furniture and equipment - At depreciated historic cost, as a proxy for current value
- Intangible assets
 - At historical cost net of amortisation

- Non-operational assets
 - Investment properties - At market value
 - 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 1st April of the financial year and assets are revalued on a five-year rolling programme. All valuations undertaken in 2009-10, other than council dwellings, were carried out by County Council staff. Valuations of council dwellings were undertaken by Stuart Baister BSc (Hons) MRICS, Senior Surveyor, District Valuer Services. 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.

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

In accordance with FRS 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) and debited to the Capital Adjustment Account.

5. 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 over their expected useful life, taking account of their expected residual value, if any.

6. REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

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.

7. FOREIGN CURRENCIES

Stocks of foreign currency held at 31st 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.

8. 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 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.

9. 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 31st 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 31st March or estimated amounts for goods and services received.

Debtors appearing on the Balance Sheet represent sums due to the Council excluding sums due where the Council acts as agent, which have not been received by 31st March.

10. INTERNAL INTEREST

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

The General Fund receives the interest, and an internal transfer is made to the Housing Revenue Account, based on the actual average interest rate achieved on the Council's external investments throughout the year, and in accordance with the Item 8 Credit calculation of the Housing Subsidy Determinations.

11. 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. Grant monies received in advance of conditions being met are shown as a grant liability.

12. 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 31st March 2010 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.

13. 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.

14. 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, where the Council has a present obligation in respect of a past event.

A provision counts as expenditure in the Income and Expenditure Account in the year in which the provisional liability 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.

Certain reserves are kept to manage the accounting processes for tangible fixed assets and retirement benefits and that do not represent usable resources for the council – these reserves are explained in the relevant policies below.

15. BASIS OF PROVISIONS FOR PENSIONS

Retirement Benefits

Employees of the council are members of two separate pension schemes:

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Children, Schools and Families (DCSF).
- The Local Government Pensions Scheme, administered by Durham County Council.

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

However, the arrangements for the teachers' scheme mean that liabilities for these benefits cannot be identified to the council. The scheme is therefore accounted for as if it were a defined contributions scheme that is, no liability for future payments of benefits is recognised in the Balance Sheet and CYPS revenue is charged with the employer's contributions payable to teachers' pensions in the year.

The Local Government Pension Scheme

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

- The liabilities of the Durham County Council pension scheme attributable to the council are included in the Balance Sheet on an actuarial basis using the projected unit method that is an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 5.5% (based on the Hewitt UK Corporate AA Curve – Flat Extrapolation derived from the constituents of the iBoxx index).
- The assets of the Durham County Council Pension Fund attributable to the council are included in the Balance Sheet at their fair value:

- quoted securities – current bid price
 - unquoted securities – professional estimate
 - unitised securities – current bid price
 - property – market value.
- The change in the net pensions liability is analysed into seven components:
 - current service cost – the increase in liabilities as result of years of service earned this year – allocated in the Income and Expenditure Account to the revenue accounts of services for which the employees worked.
 - past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Net Cost of Services in the Income and Expenditure Account as part of Non Distributed Costs.
 - interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to Net Operating Expenditure in the Income and Expenditure Account.
 - expected return on assets – the annual investment return on the fund assets attributable to the council, based on an average of the expected long-term return – credited to Net Operating Expenditure in the Income and Expenditure Account.
 - gains/losses on settlements and curtailments – the result of actions to relieve the council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited to the Net Cost of Services in the Income and Expenditure Account as part of Non Distributed Costs.
 - actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Statement of Total Recognised Gains and Losses.
 - contributions paid to the Durham County Council Pension Fund – cash paid as employer’s contributions to the pension fund.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the council to the pension fund in the year, not the amount calculated according to the relevant accounting standards. In the Statement of Movement on the General Fund Balance this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and any amounts payable to the fund but unpaid at the year-end.

Discretionary Benefits

The council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

16. 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.

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.

17. 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. The Department of Communities & Local Government (CLG) issued guidance to support these changes and gave four options for authorities to consider.

The County Council adopted a methodology for calculating the Minimum Revenue Provision, choosing the following two, of the four options:

- Option 2 (Capital Financing Requirement Method – 4% of non-housing 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). For unsupported borrowing the debt would be written down over the estimated asset life for which the borrowing has been undertaken.

18. 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 19 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 21 to the Core Financial Statements.

The 2009 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 2009 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 Limited, which is wholly owned by the County Council.
- The County Council owns the majority shareholding (84%) in the Durham County Waste Management Company Limited.
- East Durham Homes Limited is owned (100%) by the County Council.
- Dale & Valley Homes Limited is owned (100%) by the County Council.

The review also revealed the following relationships which have not been consolidated within the Group Accounts due to insufficient control or materiality:

- Durham Dales Centre Limited owned (100%) by the County Council.
- Teesdale West Durham Community Interest Company is owned (100%) by the County Council.
- Coalfields Housing Renewals Partnership is owned (100%) by the County Council.
- Imprint Partnership is owned (100%) by the County Council.
- Durham Heart of the City Joint Venture company, owned (50%) by the County Council.
- Teesdale Development Company Limited is 22% owned by the County Council.
- The County Council has minority shareholdings in Newcastle International and Durham Tees Valley airports.
- DurhamNet is a venture with the objective to deliver broadband services throughout the County.
- The County Council owns 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.
- The County Council owns the majority shareholding (51%) in Durham Villages Regeneration Limited.
- NewCo, a Local Authority Trading Company which began trading in 2007/08. It is wholly owned by the County Council.

In addition the County Council had involvement in the following entities either as a board member, guarantor or similar:

- Durham City Forum Limited
- Durham City Vision
- Sedgefield Borough Homes Limited
- Hackworth Trust Fund
- Durham Rural Community Council Limited
- Ground Work West Durham and Darlington
- Middleton Plus Development Trust
- The Enterprise Agency for Wear Valley and Teesdale
- Teesdale Marketing
- Teesdale Housing Association Limited
- Bishop Auckland Community Partnership

19. 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. Interest accrued is added to the outstanding loan liability.

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.

Following the above, 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 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 de-recognition 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 de-recognition of the asset are credited/debited to the Income and Expenditure Account, along with any accumulated gains/losses previously recognised in the STRGL.

20. LANDFILL ALLOWANCES TRADING SCHEME (LATS)

The County Council receives allowances from Central Government that are used to meet its liability from land filling 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 2009/10, 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.

21. VALUE ADDED TAX (VAT)

VAT is only included in income and expenditure accounts, whether of a capital or revenue nature, to the extent that it is irrecoverable.

22. POST BALANCE SHEET EVENTS

The accounts include the impact of any material post balance sheet events that reflect conditions existing at the balance sheet date. Any material post balance sheet events that reflect conditions after the balance sheet date are disclosed as a note to the accounts.

23. CONTINGENT ASSETS / LIABILITIES

Contingent assets are not accrued in the accounting statements but disclosed by way of notes if the inflow of a receipt or economic benefit is probable. The disclosures indicate the nature of the contingent asset and an estimate of its financial effect.

Contingent liabilities are not accrued in the accounting statements but are disclosed by way of notes if there is a possible obligation which may require a payment or a transfer of economic benefits.

24. CHARGES TO REVENUE

Service revenue accounts, central support services and statutory trading accounts are charged with a capital amount for all fixed assets used in the provision of the service. Such amounts record the cost to the service for the use of the fixed asset during the year as follows:

- Depreciation attributable to tangible fixed assets
- Amortisation attributable to intangible fixed assets
- Impairment losses on fixed assets either attributable to the consumption of economic benefits or from a general market decline in value where the loss is greater than any revaluation gain in the revaluation reserve for the particular asset subject to impairment

As these amounts are not to be met from the principle sources of finance, eg. local taxation an appropriation is made from the capital adjustment account to the statement of movement on the general fund balance.

25. REORGANISATION COSTS

Costs arising from the reorganisation of the County Council including costs associated with the taking on of the responsibilities, assets, liabilities and similar of the former District Councils have

been provided for in the accounts of the County Council at the time at which the liability can both be recognised and can be quantified.

26. SIGNIFICANT CHANGES IN ACCOUNTING POLICY

a) Due to the SORP 2009

Under the 2009 Local Authority SORP, significant changes to the accounting treatment for Council Tax and National Non-Domestic Rates (NNDR) have also been introduced.

The SORP 2009 clarifies for the first time, the agency arrangements between the Council and its major precepting Authorities in terms of collection of Council Tax. Apart from the Council's share of council tax transactions, the Council's accounts now only reflect the effects of timing differences between the collection of council tax attributable to major precepting bodies and the paying it across to those authorities, rather than the totals of these transactions.

Also under the agency arrangements, NNDR income is not classed as income of the Council and is therefore not included in the Income and Expenditure Account. Similarly, the NNDR debtor and creditor balances with taxpayers are not assets and liabilities of the Council and have not been recognised in the Balance Sheet. The Council's account instead include a debtor balance relating to the difference between the cash collected from NNDR taxpayers and the amount paid to Central Government at the Balance Sheet date.

b) Other significant policy changes

Accounting for those employees who left prior to Local Government Re-organisation, the costs where added years were previously spread over five years, have now been met in full from a pension reserve. Any augmentation costs met by the new Unitary Authority, will only be for current employees.

27. PRIOR YEAR ADJUSTMENTS

Following Local Government Reorganisation on 1st April 2009, the seven District Councils within County Durham were abolished and their assets and liabilities transferred to Durham County Council. Durham County Council became a single tier Unitary Authority on this date. The table on Page 37 shows by geographical (District) split, the composition of the Unitary Authority's balance sheet.

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. The 2009/10 figures have been separated between the services previously provided by the former District Councils in order to make clear the effect on Net Expenditure of Local Government Reorganisation.

2008/09		2009/10						
Former DCC Net Expenditure £000		Former DCC			Acquired operations from LGR			Total Net Expenditure £000
		Gross Expenditure £000	Gross Income £000	Net Expenditure £000	Gross Expenditure £000	Gross Income £000	Net Expenditure £000	
140,913	Children's and Education Services	574,299	438,865	135,434	688	493	195	135,629
159,261	Adult Social Care	213,617	51,346	162,271	-	-	-	162,271
36,476	Highways and Transportation	62,208	11,328	50,880	2,592	1,627	965	51,845
16,595	Planning and Development	30,570	10,278	20,292	30,232	11,077	19,155	39,447
12,352	Cultural and Related Services	22,252	6,075	16,177	41,439	13,913	27,526	43,703
19,521	Environmental Services	21,558	1,785	19,773	37,340	4,865	32,475	52,248
760	Courts and Probation	836	-	836	-	-	-	836
	Central Services							
7,845	Corporate and Democratic Core	10,399	2,444	7,955	-	-	-	7,955
1,525	Central Services to the Public	1,492	899	593	59,742	53,645	6,097	6,690
8,616	Non Distributed Costs	14,510	-	14,510	-	-	-	14,510
-	Local Authority Housing (HRA)	-	-	-	60,518	59,662	856	856
-29	Other Housing Services (including Supporting People)	16,284	16,018	266	169,423	161,812	7,611	7,877
-584	Other Services	15,332	18,302	-2,970	296	182	114	-2,856
1,348	Local Government Reorganisation	7,452	-	7,452	-	-	-	7,452
404,599	NET COST OF SERVICES	990,809	557,340	433,469	402,270	307,276	94,994	528,463
413	Precepts and levies			404			-	404
-	Parish council precepts			-			11,577	11,577
	Loss on trading activities not included in Net Cost of							
1,296	Services			1,438			523	1,961
-1,215	Insurance - uncertain liabilities			-755			-	-755
8,025	Interest payable and similar charges			11,610			5,652	17,262
-7,426	Interest and investment income			-5,028			-77	-5,105
-	Impairment on financial investments			-			45	45
-	Contributions of housing capital receipts to government			-				
-	pool			-			1,157	1,157
-258	Contribution to debt charges			-			-	-
	Pensions interest cost and expected return on pensions							
19,990	assets			56,970			-	56,970
-2,845	Gain on disposal of fixed assets			-2,213			-1,205	-3,418
422,579	NET OPERATING EXPENDITURE			495,895			112,666	608,561
-50,258	General Government Grants			-93,621			-	-93,621
-141,771	Non-domestic rates redistribution			-182,127			-	-182,127
-159,069	Demand on the Collection Fund			-207,005			-	-207,005
71,481	DEFICIT FOR THE YEAR			13,142			112,666	125,808

The above analysis of Net Cost of Services is in accordance with BVACOP 2008.

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

Cultural and Related Services covers Libraries, Museums, Parks and 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.

Local Authority Housing (HRA) includes all the income and expenditure arising from the Provision, Management and Maintenance of the Council's Housing Stock.

Housing Services includes Housing Strategy, Housing Advice, Housing Benefits Payments and Administration, and Homelessness Administration.

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

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.

2008/09 £000	2009/10 £000
71,481 Deficit for the year on the Income and Expenditure Account	125,808
Net additional amount required by statute and non statutory proper practices to be	
-78,476 debited or credited to the General Fund Balance for the year	-111,871
-6,995 (-) Increase / Decrease in General Fund Balance for the year	13,937
-21,132 General Fund Balance brought forward	-28,127
- General Fund Balance transferred due to LGR	-15,385
- Movement in General fund Balance due to harmonisation as a result of LGR	1,033
-28,127 General Fund Balance carried forward	-28,542
Balances held by governors under schemes to finance schools - held as	
-17,801 earmarked reserves	-13,838

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 12 to the Core Financial Statements.

Statement of Total Recognised Gains and Losses

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 deficit 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.

2008/09 £000	2009/10 £000
71,481 Deficit for the year on the Income and Expenditure account	125,808
50,199 Loss/Gain (-) arising on revaluation of assets	-33,049
142,592 Actuarial losses on pension fund assets and liabilities	261,580
7,337 Deficit arising on revaluation of available-for-sale financial assets	579
Other losses/gains required to be included in the STRGL:	
1,677 Transfer from Capital Adjustment Account to Government Grants Deferred	-
- Movement on Collection Fund	562
- Net assets/liabilities transferred to the new unitary authority	-548,156
- Adjustments to transferred assets/liabilities from alignment of accounting policies	-11,945
<u>273,286</u> Total recognised losses / gains (-) for the year	<u>-204,621</u>

The total recognised gain in 2009/10 of £204.621m reconciles to the movement in net worth from (2008/09 to 2009/10), taking into account the prior period adjustments detailed in notes 1 and 3 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 2009		LGR Transition		As at 1st April 2009		Notes:	As at 31 March 2010	
£000	£000	£000	£000	£000	£000		£000	£000
FIXED ASSETS -								
1,841		2,050		3,891			2,602	0
						16		
						14		
		622,154		622,154			670,353	
830,589		190,236		1,020,825			1,013,593	
12,990		13,240		26,230			30,345	
272,897		1,098		273,995			282,212	
-		2,727		2,727			5,611	
30,942		55,101		86,043			84,767	
26,982		11,093		38,075			15,241	
-		27,529		27,529			7,524	
	1,176,241		925,228		2,101,469			2,112,248
	2,789		2,106		4,895			8,224
	4,679		2,997		7,676			7,616
	1,183,709		930,331		2,114,040			2,128,088
CURRENT ASSETS -								
3,132		786		3,918			4,243	
52,953		34,405		87,358		23	80,950	
118,988		84,553		203,541		21 & 24	170,518	
1,049		6,423		7,472		21	89,396	
	176,122		126,167		302,289			345,107
	1,359,831		1,056,498		2,416,329			2,473,195
CURRENT LIABILITIES -								
-1,338		-8,610		-9,948			-13,448	
-132,983		-38,020		-171,003		21	-178,250	
-3,778		-4,609		-8,387		21 & 25	-101,141	
	-138,099		-51,239		-189,338			-292,839
	1,221,732		1,005,259		2,226,991			2,180,356
LONG-TERM LIABILITIES								
-171,436		-145,314		-316,750			-306,832	
-15,403		-2,309		-17,712		21	-18,088	
-		-2,540		-2,540		26	-593	
-190,846		-29,322		-220,168			-237,448	
-172		-1,212		-1,384			-701	
-407,450		-263,520		-670,970		18	-975,648	
	436,425		561,042		997,467			641,046
FINANCED BY:								
334,458		134,349		468,807			477,258	
404,464		612,679		1,017,143		27	980,623	
-		-3,861		-3,861		27	-3,557	
1,243		2,044		3,287		27	2,806	
11,242		26,107		37,349		27	23,613	
-407,450		-263,520		-670,970		32	-975,648	
		1,888		1,888			1,200	
		6,997		6,997			8,511	
28,127		15,385		43,512			28,542	
1,632		-		1,632			1,053	
-		2,068		2,068			1,505	
62,709		26,906		89,615		27	95,140	
	436,425		561,042		997,467			641,046

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.

2008/09			2009/10	
£000	£000		£000	£000
	17,677	NET CASH INFLOW / OUTFLOW (-) - REVENUE ACTIVITIES		-9,162
		RETURNS ON INVESTMENTS AND SERVICING OF FINANCE -		
		Cash inflows -		
7,206		Interest received	4,625	
	7,206			4,625
		Cash outflows -		
-5,549		Interest paid	-16,066	
-20		Interest element of finance lease rental payments	-80	
	-5,569			-16,146
	<u>1,637</u>	NET CASH INFLOW / OUTFLOW (-) - SERVICING OF FINANCE		<u>-11,521</u>
		CAPITAL ACTIVITIES -		
		Cash inflows -		
4,945		Sale of fixed assets	5,678	
41,328		Government and EU capital grants received	79,561	
2,100		Other capital cash receipts	11,761	
	48,373			97,000
		Cash outflows -		
-85,545		Purchase of fixed assets		-119,142
	<u>-37,172</u>	NET CASH OUTFLOW - CAPITAL ACTIVITIES		<u>-22,142</u>
	<u>-17,858</u>	NET CASH OUTFLOW BEFORE FINANCING		<u>-42,825</u>
		MANAGEMENT OF LIQUID RESOURCES -		
22,965		Net (increase)/decrease in short term deposits		33,023
-		Net (increase)/decrease in other liquid resources		8,142
	<u>22,965</u>			<u>41,165</u>
		FINANCING -		
		Cash inflows -		
-		New loans raised	-	
608		Repayment of amounts	1,303	
	608			1,303
		Cash outflows -		
-3,128		Repayments of amounts borrowed	-8,598	
-		New loans issued	-1,250	
-326		Capital element of finance lease rental payments	-625	
	-3,454			-10,473
	<u>-2,846</u>	NET CASH OUTFLOW - FINANCING		<u>-9,170</u>
	<u>2,261</u>	INCREASE/DECREASE(-) IN CASH		<u>-10,830</u>

Reconciliation of Income and Expenditure account to Cash Flow

	£000	£000
Deficit on Income and Expenditure Account for the year		
Deficit for the year		-125,808
Non-cash transactions		
Gain on disposal of fixed assets	-3,548	
Amortisation of intangible assets	1,288	
Depreciation and impairment of fixed assets	111,574	
Government grants deferred amortisation	-19,505	
Net charges on retirement benefits	43,098	
Movement on Collection Fund	562	
Impairment on investments	-304	
Capital receipts to Housing Capital Receipts Pool	1,157	
Movements on provisions	376	
Other non-cash transactions	337	
		135,035
Movement in working capital balances		
(Increase)/decrease in long-term debtors	60	
(Increase)/decrease in stock and work in progress	-325	
(Increase)/decrease in debtors and payments in advance	-2,045	
Increase/(decrease) in creditors and receipts in advance	-28,236	
		-30,546
Items classified elsewhere in the Cash Flow Statement -		
Investment and Dividend income	-5,105	
Interest paid	17,262	
		12,157
NET CASH FLOW FROM REVENUE ACTIVITIES		-9,162

Reconciliation of Movement in Cash to Movement in Net Debt

	£000	£000
Decrease in Cash as per Cash Flow Statement		-10,830
Less -		
Net cash flow from Revenue Activities	9,162	
Net cash flow from Capital Activities	22,142	
Net cash flow from Servicing of Financing	11,521	
		42,825
		31,995
Movement in Net Debt		
Decrease in short term deposits		33,023
Increase in other short term liquid resources		8,142
Repayment of amounts borrowed		-8,598
Repayment of finance leases principal		-625
New loans issued		-1,250
Repayment of long term investments		1,303
		31,995

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 31st March 2009	LGR adj	Balance at 1st April 2010	Movement in year	Balance at 31st March 2010
	£000	£000	£000	£000	£000
Cash in hand and at bank	1,049	6,423	7,472	81,924	89,396
Bank overdraft	-3,778	-4,609	-8,387	-92,754	-101,141
INCREASE IN CASH	-2,729	1,814	-915	-10,830	-11,745
Short term deposits	118,988	84,553	203,541	-33,023	170,518

ANALYSIS OF GRANTS

2008/09 £000		2009/10 £000
274,436	Dedicated Schools Grant	279,925
-	Benefit Grants	206,514
35,400	Standards Fund	41,331
23,513	Learning and Skills Council	24,592
18,016	Sure Start	18,077
16,227	School Standards	16,266
14,588	Supporting People Programme	15,580
-	LPSA Performance Reward	5,435
2,205	Teacher Development Agency	1,234
7,061	Total other grants	24,763
411	LABGI	267
30,111	Area Based Grant	48,009
421,968		681,993

ANALYSIS OF CHANGES IN FINANCING INCLUDED IN CASH FLOW STATEMENT

	Balance at 31st March 2009 £000	LGR adj £000	Balance at 1st April 2010 £000	Cash movement in year £000	Non-cash movement in year £000	Balance at 31st March 2010 £000
Borrowing	-172,774	-153,924	-326,698	8,598	-2,180	-320,280
Long term debtors	4,679	2,997	7,676	-53	-7	7,616
Deferred liability	-172	-1,212	-1,384	625	58	-701

1. LOCAL GOVERNMENT REORGANISATION (LGR)

Following Local Government Reorganisation on 1st April 2009, the seven District Councils within County Durham were abolished and their assets and liabilities transferred to Durham County Council. Durham County Council became a single tier Unitary Authority on this date. The table below shows by geographical (District) split the composition of the Unitary Authority's balance sheet:

Notes to the Core Financial Statements

	As at	LGR Transition									As at	
	31 March 2009	District and City Council Balances at 31 March 2009 and Harmonisation Adjustments									1 April 2009	
	Durham County Council	Chester-le-Street	City of Durham	Derwentside	Easington	Sedgefield	Teesdale	Wear Valley	Adjustments	Total LGR Transition	Durham County Council Unitary Authority	
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
FIXED ASSETS												
Intangible Assets	1,841	171	1,565	-	59	78	177	-	-	2,050		3,891
Tangible Assets -												
Operational Assets -												
Council Dwellings	-	-	231,691	-	250,257	-	-	140,206	-	622,154		622,154
Land and Buildings	830,589	15,054	52,283	37,336	42,011	28,674	3,782	13,720	-2,624	190,236		1,020,825
Vehicles, Plant, Furniture and Equipment	12,990	956	640	393	2,308	3,906	794	3,211	1,032	13,240		26,230
Infrastructure Assets	272,897	1,079	-	-	19	-	-	-	-	1,098		273,995
Community Assets	-	1,371	435	295	80	545	-	1	-	2,727		2,727
Non-operational Assets -												
Surplus assets held for disposal	30,942	-	12,004	11,384	4,120	22,472	21	5,100	-	55,101		86,043
Assets under construction	26,982	-	-	7,727	-	-	125	-	3,241	11,093		38,075
Investment Properties	-	3,121	2,787	7,743	1,951	5,045	670	6,212	-	27,529		27,529
Total Fixed Assets	1,176,241	21,752	301,405	64,878	300,805	60,720	5,569	168,450	1,649	925,228		2,101,469
Long-term Investments	2,789	-	-	2,104	-	-	-	2	-	2,106		4,895
Long-term Debtors	4,679	1,517	258	112	51	372	15	672	-	2,997		7,676
Total Long-term Assets	1,183,709	23,269	301,663	67,094	300,856	61,092	5,584	169,124	1,649	930,331		2,114,040
CURRENT ASSETS												
Stocks and Work in Progress	3,132	22	921	309	64	56	24	8	-618	786		3,918
Debtors	52,953	3,356	6,765	9,860	11,189	7,961	1,158	3,434	-6,712	37,011		89,964
Short Term Investments	118,988	2,002	70	24,765	17,565	16,743	1,032	22,376	-	84,553		203,541
Cash and Bank	1,049	3	240	5	86	2,245	1,273	2,571	-	6,423		7,472
Total Current Assets	176,122	5,383	7,996	34,939	28,904	27,005	3,487	28,389	-7,330	128,773		304,895
TOTAL ASSETS	1,359,831	28,652	309,659	102,033	329,760	88,097	9,071	197,513	-5,681	1,059,104		2,418,935
CURRENT LIABILITIES												
Short-term borrowing	-1,338	-	-1,042	-	-2,032	-17	-1	-5,518	-	-8,610		-9,948
Creditors	-132,983	-2,446	-6,235	-8,563	-10,872	-10,488	-1,504	-10,285	9,767	-40,626		-173,609
Bank overdraft	-3,778	-527	-	-1,275	-243	-	-	-2,092	-472	-4,609		-8,387
Total Current Liabilities	-138,099	-2,973	-7,277	-9,838	-13,147	-10,505	-1,505	-17,895	9,295	-53,845		-191,944
TOTAL ASSETS LESS CURRENT LIABILITIES	1,221,732	25,679	302,382	92,195	316,613	77,592	7,566	179,618	3,614	1,005,259		2,226,991
LONG-TERM LIABILITIES												
Long-term Borrowings	-171,436	-	-20,409	-11,396	-63,983	-300	-2,099	-47,127	-	-145,314		-316,750
Provisions	-15,403	-	-19	-	-	-966	-6	-181	-1,137	-2,309		-17,712
Grants and contributions unapplied	-	-1,912	-	-180	-	-375	-73	-	-	-2,540		-2,540
Government grants deferred	-190,846	-1,951	-2,013	-6,237	-11,241	-3,757	-566	-3,557	-	-29,322		-220,168
Deferred liabilities	-172	-	-	-	-	-	-	-	-1,212	-1,212		-1,384
Liability related to defined benefit pension schemes	-407,450	-24,940	-59,360	-50,830	-54,240	-49,590	-8,090	-28,090	11,620	-263,520		-670,970
TOTAL ASSETS LESS LIABILITIES	436,425	-3,124	220,581	23,552	187,149	22,604	-3,268	100,663	12,885	561,042		997,467
FINANCED BY:												
Revaluation Reserve	334,458	893	25,324	14,700	70,154	17,419	50	3,404	2,405	134,349		468,807
Capital Adjustment Account	404,464	18,117	251,533	43,936	150,260	43,728	2,992	104,698	-2,585	612,679		1,017,143
Financial Instruments Adjustment Account	-	-92	-454	-3,190	104	-370	151	-10	-	-3,861		-3,861
Deferred Capital Receipt	1,243	1,719	160	55	20	72	12	6	-	2,044		3,287
Usable Capital Receipts Reserve	11,242	48	343	11,581	46	5,397	84	8,608	-	26,107		37,349
FRS17 Pension Reserve	-407,450	-24,940	-59,360	-50,830	-54,240	-49,590	-8,090	-28,090	11,620	-263,520		-670,970
Major Repairs Reserve	-	-	-	-	-	-	-	1,888	-	1,888		1,888
Housing Revenue Account	-	-	1,103	-	1,761	977	-	3,156	-	6,997		6,997
General Fund Balance	28,127	540	235	4,623	3,508	1,830	1,177	2,512	960	15,385		43,512
Available for sale Reserve	1,632	-	-	-	-	-	-	-	-	-		1,632
Collection Fund	-	-19	57	543	318	-148	11	102	1,204	2,068		2,068
Earmarked Reserves	62,709	610	1,640	2,134	15,218	3,289	345	4,389	-719	26,906		89,615
TOTAL NET WORTH	436,425	-3,124	220,581	23,552	187,149	22,604	-3,268	100,663	12,885	561,042		997,467

The closing balances of the demising authorities have been further adjusted for alignment of accounting policies before being entered into the Unitary Authority's opening balance sheet. This is shown in the 'Adjustments' column towards the right of the table. These adjustments are described in more detail in the following note.

2. HARMONISATION ADJUSTMENTS

Consistent with the accounting for group reorganisations, the accounting policies of the demising councils were aligned with those of the new Unitary Authority and the opening balances for assets, liabilities and reserves were adjusted accordingly. The table below shows a summary of the adjustments by former authority:

Harmonisation Adjustment	Durham County Council £000	Chester-le-Street £000	City of Durham £000	Net Assets Impact					Total £000
				Derwent-side £000	Easington £000	Sedgefield £000	Teesdale £000	Wear Valley £000	
1 Inter-entity Balance Eliminations <i>Removal of inter-entity balances to avoid the overstatement of debtors and creditors within the unitary authority accounts.</i>	715	101	131	-142	593	-514	-209	359	1,034
2 Accounting Policies <i>Adjustments where made to balances in order to harmonise the accounting policies.</i>	-354	-243	-276	-489	824	-757	239	593	-463
3 Audit Adjustments <i>These adjustments were included within the Annual Governance Statements issued in relation to the 2008/09 accounts.</i>	9,387	-	-	1,770	-	860	-	477	12,494
4 Contracts and Leases <i>Adjustments have been made in order to correct wrongly classified leases.</i>	-131	-	-64	163	-69	-71	-8	-	-180
	9,617	-142	-209	1,302	1,348	-482	22	1,429	12,885

3. PRIOR PERIOD AND EXCEPTIONAL / EXTRAORDINARY ITEMS

In accordance with the SORP 2009, a prior period adjustment has also been made to the 2008/09 figures for Council Tax and National Non-Domestic Rates (NNDR). The SORP 2009 clarifies for the first time the agency arrangements between the Council and Central Government/Precepting Authorities in terms of the collection of taxes. Council Tax and NNDR transactions and balances have therefore been allocated between the Council as the billing authority and Central Government/major preceptors.

Apart from the Council's share of council tax transactions, these accounts only reflect the effects of timing differences between the collection of council tax attributable to major precepting bodies and paying it across to those authorities.

Under the agency arrangements, NNDR income is not the income of the Council and is not included in the Income and Expenditure Account. Similarly the NNDR debtor and creditor balances with taxpayers are not assets and liabilities of the Council and therefore have not been recognised in the Balance Sheet. The Council's accounts instead include a debtor balance relating to the difference between the cash collected from NNDR taxpayers and the amount paid to Central Government at the Balance Sheet date.

Details of the transactions are provided below:

	2008/09 £000	Movement in relation to Collection Fund £000	Movement in relation to NDR £000	2008/09 Restated £000
Income and Expenditure Account				
Demand on Collection Fund	-190,045	-9		-190,054
Balance sheet				
Debtors	90,427	-463	-2,606	87,358
Creditors	-173,718	109	2,606	-171,003
Collection Fund Adjustment Account	-2,422	354		-2,068

4. TRADING OPERATIONS

There are no significant trading operations other than Direct Services (Direct Service Organisation). However, a number of other trading activities are included in the line 'Loss on trading activities not included in the Net Cost of Services' in the Income and Expenditure Account on page 28. The Summary Revenue Account for Direct Services is shown separately below.

2008/09 £000		2009/10 £000
EXPENDITURE -		
15,549	Direct Labour	21,156
11,057	Materials	11,691
9,009	Transport and Plant	8,762
8,181	Sub-contractors	7,223
12,105	Overheads	8,450
Exceptional Items -		
-	Debt written off	188
47	Redundancy Costs	26
-	Augmentation Costs	1
2,443	Equal Pay	499
-	Remedial Defects	912
Changes during the year in -		
847	Work in progress	-369
-74	Provisions	-
59,164	Total Expenditure	58,539
INCOME -		
56,452	Charge to Services and other bodies	56,764
56,452	Total Income	56,764
-2,712	DEFICIT FOR THE YEAR	-1,775

Movement in Reserves

2008/09		2009/10	
£000	£000	£000	£000
	1,865		872
	DSO Reserve at 1st April		
-2,712	Add: Deficit for the year - defined activities	-1,775	
-	Surplus deficit for the year transferred to service out-turn	<u>1,775</u>	
	-2,712		-
	Deficit to County Fund		
	599 Add: Depreciation		-
	-388 Less: Capital expenditure financed from reserves		-
	-314 Less: Contribution towards costs of early retirement		-
	- Less: Used in year		-872
	2,443 Add: Transfer from Equal Pay Reserve		-
	-621 Less: Transfer to General Reserve - loan charge		-
	<u>872</u>		<u>-</u>
	DSO Reserve at 31st March		
	61		61
	Vehicle and Plant Reserve at 1st April		
	- Less: Used in year		-61
	<u>61</u>		<u>-</u>
	Vehicle and Plant Reserve at 31st March		
	<u>933</u>		<u>-</u>
	Total Reserves at 31st March		

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:

2008/09	2009/10
£000	£000
44 Expenditure (including capital charges)	47
54 Income	65
<u>-10</u>	<u>-18</u>

6. 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 was the lead body for the Learning Disabilities Services Pooled Budget within the County. This was 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 were:

- 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.

	2008/09	2009/10
	£000	£000
Learning Disabilities		
Gross Partnership Expenditure	18,887	-
Gross Partnership Income	19,390	-
Net Expenditure	-503	-
Contribution from Durham County Council	13,230	-

The pooled budget underspend was not carried forward to 2009/10 and the contribution from Durham County Council was reduced to reflect this. The pooling arrangements formally ceased on 31st March 2009.

7. MEMBERS' ALLOWANCES

The total of allowances and expenses paid to elected members during 2009/10 was £2,077,925. The corresponding payments in 2008/09 were £1,686,953.

8. OFFICERS' EMOLUMENTS

The number of employees whose remuneration, excluding employer's pension contributions, was £50,000 or more in bands of £5,000 was as follows:

Notes to the Core Financial Statements

2008/09				Remuneration Band (£)	2009/10			
School Staff	Other Staff	Total	Left in Year		School Staff	Other Staff	Total	Left in Year
135	51	186	2	50,000 to 54,999	165	73	238	11
63	30	93	1	55,000 to 59,999	70	56	126	13
23	12	35	1	60,000 to 64,999	31	12	43	6
11	6	17	-	65,000 to 69,999	17	15	32	8
11	12	23	-	70,000 to 74,999	12	3	15	1
11	5	16	-	75,000 to 79,999	16	14	30	4
4	6	10	1	80,000 to 84,999	4	1	5	1
3	3	6	-	85,000 to 89,999	3	3	6	2
3	1	4	-	90,000 to 94,999	2	4	6	3
1	1	2	1	95,000 to 99,999	3	11	14	2
-	2	2	1	100,000 to 104,999	1	4	5	2
-	2	2	-	105,000 to 109,999	-	-	-	-
-	-	-	-	110,000 to 114,999	-	6	6	1
-	-	-	-	115,000 to 119,999	-	-	-	-
-	1	1	1	120,000 to 124,999	1	3	4	2
-	2	2	-	125,000 to 129,999	-	1	1	-
-	1	1	-	130,000 to 134,999	-	-	-	-
-	1	-	-	135,000 to 139,999	-	-	-	-
-	-	-	-	140,000 to 144,999	-	4	4	-
-	-	-	-	145,000 to 149,999	-	1	1	-
-	-	-	-	150,000 to 154,999	-	-	-	-
-	1	-	-	155,000 to 159,999	-	-	-	-
-	-	-	-	160,000 to 164,999	-	-	-	-
-	-	-	-	165,000 to 169,999	-	1	1	1
-	-	-	-	170,000 to 174,999	-	-	-	-
-	-	-	-	175,000 to 179,999	-	-	-	-
-	-	-	-	180,000 to 184,999	-	-	-	-
-	-	-	-	185,000 to 189,999	-	-	-	-
-	-	-	-	190,000 to 194,999	-	-	-	-
-	-	-	-	195,000 to 199,999	-	-	-	-
-	-	-	-	200,000 to 204,999	-	1	1	-
-	-	-	-	205,000 to 209,999	-	-	-	-
-	-	-	-	210,000 to 214,999	-	-	-	-
-	1	1	1	215,000 to 219,999	-	-	-	-

Senior Officers emoluments - salary £150,000 or more per year

Post Holder information	Note	Salary £	Expense Allowances £	Total Remuneration (excluding pension contributions) £	Pension Contributions £	Total Remuneration (including pension contributions) £
Chief Executive – George Garlick		200,000	685	200,685	41,800	242,485

Senior Officers emoluments - salary between £50,000 and £150,000 per year

Senior Officers are those officers who are responsible for the management of the Council and who have power to direct or control the major activities of the Council. A breakdown of senior officer's remunerations for 2009/10 is listed below.

Post Holder information	Note	Salary £	Expense Allowances £	Total Remuneration (excluding pension contributions) £	Pension Contributions £	Total Remuneration (including pension contributions) £
Corporate Director - Resources		140,000	-	140,000	29,260	169,260
Corporate Director - Adults, Wellbeing and Health	1	123,238	134	123,372	25,757	149,129
Corporate Director - Children and Young Peoples' Services		140,000	903	140,903	29,260	170,163
Corporate Director - Neighbourhood Services		140,000	-	140,000	29,260	169,260
Corporate Director - regeneration and Economic Development		140,000	364	140,364	29,260	169,624
Assistant Chief Executive		120,000	171	120,171	25,080	145,251
Monitoring Officer - from 23rd July 2009	2	94,762	-	94,762	19,805	114,567
Monitoring Officer - retired 22nd July 2009	2	47,208	461	47,669	9,866	57,535

Notes:

1. The Corporate Director - Adults, Wellbeing and Health works 4.5 days per week. The whole time equivalent salary for this post is £140,000.
2. The Monitoring Officer retired on 22nd July 2009. The Monitoring Officer was replaced on 23rd July 2009. The annualised salary for this post is £110,000 per year.

'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.

Comparative figures for 2008/09 are shown below:

Senior Officers emoluments 2008/09 - salary £150,000 or more per year

Post Holder information	Note	Salary £	Expense Allowances £	Total Remuneration (excluding pension contributions) £	Pension Contributions £	Total Remuneration (including pension contributions) £
Chief Executive – George Garlick from 22 September 2008		105,000	492	105,492	19,845	125,337
Chief Executive - John Richardson left 31 March 2009		149,114	2,549	151,663	28,183	179,846

John Richardson held the post of Acting Chief Executive from 1st April 2008 until 21st September 2008, when George Garlick became Chief Executive.

Senior Officers emoluments 2008/09- salary between £50,000 and £150,000 per year

Post Holder information	Note	Salary £	Expense Allowances £	Total Remuneration (excluding pension contributions) £	Pension Contributions £	Total Remuneration (including pension contributions) £
Corporate Director - Resources		126,937	787	127,724	23,991	151,715
Corporate Director - Adults, Wellbeing and Health		126,937	-	126,937	23,991	150,928
Corporate Director - Children and Young Peoples' Services		132,971	1,368	134,339	25,131	159,470
Corporate Director - Neighbourhood Services from 2 February 2009		22,917	-	22,917	4,331	27,248
Corporate Director - Regeneration and Economic Development from 26 January 2009		25,591	-	25,591	4,837	30,428
Assistant Chief Executive from 19 January 2009		24,194	-	24,194	4,573	28,767
Monitoring Officer		104,499	1,413	105,912	19,750	125,662

9. GENERAL GRANTS

	2008/09 £000	2009/10 £000
Area Based Grant	30,111	48,009
Revenue Support Grant	19,736	42,038
LPSA Reward Grant	-	3,307
LABGI Grant	411	267
Total General Grants	50,258	93,621

From 2009/10, 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 2009/10.

10. 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 and 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 the County Durham and Darlington Fire and Rescue Authority, the Charter Trustees for the City of Durham, the Central Durham Crematorium Joint Committee and the Mountsett Crematorium Joint Committee. 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 67 bodies, including borough, parish and town councils, colleges, statutory bodies and admitted bodies. During 2009/10, the Pension Fund had an average balance of £66.793m (£84.386m in 2008/09) surplus cash deposited with the Council. In 2009/10, the Council paid the fund a total of £0.536m (£4.085m in 2008/09) in interest on these deposits. The Council charged the fund £1.142m (£1.077m in 2008/09) for expenses incurred in administering the Fund.

Youth and 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.

11. AUDIT AND INSPECTION FEES

	2008/09 £000	2009/10 £000
Fees payable to Audit Commission with regard to external audit services carried out by the appointed auditor	224	689
Fees payable to Audit Commission in respect of statutory inspection	20	47
Fees payable to Audit Commission for certification of grant claims	19	68
Fees payable in respect of other services provided by the appointed auditor	5	6
	268	810

The total fees paid to the Audit Commission of £689,000 include the annual fee of £570,000 and additional fees of £119,000, relating to the additional audit work of the 2008/09 Statement of Accounts of the former district councils of Derwentside, Easington, City of Durham and Durham County Council.

The increase in inspection fees relates to the housing services inspections carried out by the Audit Commission in 2009/10.

The increase in fees payable for certification of grant claims is mainly due to the additional grants received by the new Unitary Authority such as Housing Subsidy and Housing Benefit and Council Tax Benefit Subsidy.

Other services in 2009/10 provided by the auditor relate to the audit of the e-government partnership, which ceased to exist from 1st April 2009 and a workshop for members of the Audit Committee.

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

2008/09 £000	2009/10 £000
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	
2,845 Gain on the disposal of fixed assets	3,548
-176 Amortisation of intangible fixed assets	-1,288
-81,453 Depreciation and impairment of fixed assets	-111,574
14,155 Government Grants deferred amortisation	19,505
-4,509 Revenue Expenditure Funded from Capital Under Statute (REFCUS)	-14,229
2,323 Revenue Grants and Contributions relating to REFCUS	8,929
-47,650 Net charges made for retirement benefits in accordance with FRS17	-103,880
- Movement in Collection Fund Balance	-562
- Impairment on investments	-45
-114,465	-199,596
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	
9,426 Minimum revenue provision for capital financing	11,890
5,647 Capital Expenditure charged in year to the General Fund	8,823
- Transfer from Capital Receipts to Housing Capital Receipts Pool	-1,157
Employers contributions payable to Durham County Council Pension Fund and	
37,929 retirement benefits payable direct to Pensioners	60,782
- Negation of reversal impairment on interest on Icelandic investments	349
53,002	80,687
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	
- Net transfer to Housing Revenue Account Balance	1,514
-17,013 Net transfer to / from (-) to earmarked reserves	5,524
-17,013	7,038
Net additional amount required to be credited to the General Fund balance for the year	
-78,476	-111,871

13. CAPITAL FINANCING REQUIREMENT

2008/09 £000		2009/10 £000
235,645	Opening Capital Financing Requirement	248,676
-	Transferred due to LGR	148,091
235,645	Restated Opening Capital Financing Requirement	396,767
	Capital Expenditure:	
1,096	Intangible Assets	
65,307	Operational Assets	90,521
16,079	Non-operational Assets	15,477
153	Repayment of deferred liability (equipment lease)	171
4,524	Revenue Expenditure Funded from Capital under Statute (REFCUS)	13,747
	Sources of Finance:	
-14,212	Capital Receipts	-19,414
-44,843	Government grants and other contributions	-45,714
-	Major Repairs Allowance	-12,449
	Sums set aside from revenue:	
-5,647	Revenue Contributions and Reserves	-8,823
-9,426	Minimum Revenue Provision	-11,890
248,676	Closing Capital Financing Requirement	418,393
	Explanation of movement in year	
	Increase in underlying need to borrow:	
13,031	Supported by Government financial assistance	21,626
-	Unsupported by Government financial assistance	-
13,031	Increase in Capital Financing Requirement	21,626

14. TANGIBLE ASSETS

	Operational					Non-Operational			Total £000
	Council Dwellings £000	Land and Buildings £000	Vehicles, Plant, Furniture, and Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Investment Properties £000	
Cost or valuation									
At 31 March 2009	-	882,633	45,929	322,527	-	30,977	26,982	-	1,309,048
Assets transferred due to LGR	629,053	214,249	29,365	1,186	2,964	67,135	11,093	30,195	985,240
Restated Cost or valuation at 1 April 2009	629,053	1,096,882	75,294	323,713	2,964	98,112	38,075	30,195	2,294,288
Additions	27,027	34,856	11,832	16,525	379	-	15,479	13	106,111
Disposals	-1,061	-7,816	-2,216	-	-5	-1,703	-	-	-12,801
Reclassifications	-1,605	58,688	649	-	2,475	314	-38,314	-22,206	-
Reclassifications to revenue	-	-483	-	-	-	-	-	-	-483
Revaluations	17,178	-115,645	-	-	2	273	-	-	-98,192
At 31 March 2010	670,593	1,066,482	85,559	340,238	5,815	96,995	15,241	8,002	2,288,923
Depreciation									
At 31 March 2009	-	-52,044	-32,939	-49,630	-	-35	-	-	-134,648
Depreciation of assets transferred due to LGR	-6,849	-15,705	-16,115	-88	-18	-629	-	-2,504	-41,908
Restated Depreciation at 1 April 2009	-6,849	-67,749	-49,054	-49,718	-18	-664	-	-2,504	-176,556
Charge for 2009/10	-11,802	-34,278	-8,010	-8,308	-1	-162	-	-	-62,561
Written off on disposal	13	719	1,860	-	-	6	-	-	2,597
Reclassifications	107	-2,180	-	-	9	-10	-	2,073	-
Revaluations	18,397	58,728	-	-	-	6	-	-	77,131
At 31 March 2010	-133	-44,760	-55,204	-58,026	-10	-824	-	-431	-159,388
Accumulated Impairment									
At 31 March 2009	-	-	-	-	-	-	-	-	-
Impairment of assets transferred due to LGR	-50	-8,308	-11	-	-218	-11,404	-	-163	-20,154
Restated Impairment at 1 April 2009	-50	-8,308	-11	-	-218	-11,404	-	-163	-20,154
Charge for 2009/10 (consumption of economic benefits)	-827	-14,224	-	-	-	-	-	-	-15,051
Charge for 2009/10 (additions not adding value)	-	-27	-	-	-	-	-	-13	-40
Charge for 2009/10	-	0	-	-	-	-	-	-	0
Written off on disposal	770	14,224	-	-	-	-	-	-	14,994
Reclassifications	-	-154	-	-	25	-	-	129	-
Written off on revaluation	-	360	-	-	-	-	-	-	360
At 31 March 2010	-107	-8,129	-11	-	-193	-11,404	-	-47	-19,890
Balance Sheet Amount at 31 March 2010	670,353	1,013,593	30,344	282,212	5,612	84,767	15,241	7,524	2,109,645
Restated Balance Sheet Amount at 1 April 2009	622,154	1,020,825	26,229	273,995	2,728	86,044	38,075	27,528	2,097,578
Balance Sheet Amount at 31 March 2009	-	830,589	12,990	272,897	-	30,942	26,982	-	1,174,400
Nature of asset holding									
Owned	670,353	1,013,593	28,854	282,212	5,612	84,767	15,241	7,524	2,108,155
Finance lease	-	-	1,490	-	-	-	-	-	1,490
Total	670,353	1,013,593	30,344	282,212	5,612	84,767	15,241	7,524	2,109,645

Information on assets held

The written-down value of tangible assets in the Balance Sheet is £2,110m. An analysis of the major classes of tangible assets is shown below.

As at 31st March 2009		LGR Transition		As at 1st April 2009		As at 31st March 2010	
£000	%	£000	%	£000	%	£000	%
-	0%	622,154	68%	622,154	30%		
830,589	71%	190,236	21%	1,020,825	49%	670,353	32%
12,990	1%	13,240	1%	26,230	1%	1,013,593	48%
272,897	23%	1,098	0%	273,995	13%	30,345	2%
-	0%	2,727	0%	2,727	0%	282,212	13%
						5,611	0%
30,942	3%	55,101	6%	86,043	4%		
26,982	2%	11,093	1%	38,075	2%	84,767	4%
-	0%	27,529	3%	27,529	1%	15,241	1%
						7,524	0%
1,174,400	100%	923,178	100%	2,097,578	100%	2,109,646	100%

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.

15. INFORMATION ABOUT DEPRECIATION METHODOLOGIES

Depreciation is provided for all assets with a determinable finite life other than:

- non-depreciable land.
- non-operational assets under construction.
- non-operational investment properties

Assets are depreciated over their expected useful life on a straight line basis.

Life expectancy of assets vary, and are as follows:

Asset	Life expectancy
Buildings (according to age and condition)	up to 50 years
Infrastructure	40 years
Vehicles, Plant, Furniture and Equipment	3 to 10 years

Depreciation is calculated using the Net Book Value over the remaining life of the asset on a pro-rata basis from the date of acquisition to disposal.

The date of acquisition for enhancement expenditure is as follows:

- Infrastructure – added with an effective date of 30th September to reflect the assumption that expenditure is incurred evenly throughout the year.
- Vehicles, Plant, Furniture, and Equipment – added as at the actual date of purchase

For all other asset categories, expenditure is added with an effective date of 31st March, so that depreciation is not affected until the following financial year.

16. INTANGIBLE ASSETS

	Purchased software licences £000
Cost	
At 31 March 2009	2,724
Assets transferred due to LGR	5,703
Restated cost or valuation at 1 April 2009	<u>8,427</u>
At 31 March 2010	<u>8,427</u>
Amortisation	
At 31 March 2009	-883
Amortisation transferred due to LGR	-3,653
Restated amortisation at 1 April 2009	<u>-4,536</u>
Amortisation charge for the year	-1,288
At 31 March 2010	<u>-5,824</u>
Balance Sheet Amount	2,603
Restated Balance Sheet Amount at 1 April 2009	3,891
Balance Sheet Amount at 31 March 2009	1,841

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 material intangible assets in use at the Balance Sheet date are shown below:

Type of asset	Nature of asset	Date operational	Cost £000	Life (Years)	Method of amortisation
Accounting Software	Licence	November 2008	1,935	5	Straight line
Server Software	Licence	January 2009	44	5	Straight line
Vmware Software	Licence	January 2009	26	5	Straight line
Assets transferred due to LGR					
Various software	Licence	2006	1,219	various	Straight line
Various software	Licence	2007	723	various	Straight line
Various software	Licence	2008	1,073	various	Straight line
Various software	Licence	2009	71	various	Straight line

17. COMMITMENTS UNDER CAPITAL CONTRACTS

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

	Commitments Under Contract
	£000
Aycliffe Secure Services	13,042
Building Schools for the Future	18,969
Co-Location Fund - Durham Integration Project	970
Modernisation & Primary Capital - various schools	2,330
NetPark Plot 3	220
St. Johns' Square Seaham Multi-Use Centre	2,982
Playbuilder Programme	82
North Dock Seaham	2,906
Waste minimisation	1,868
	43,369

18. ASSETS HELD UNDER / FOR LEASES**Operating leases**

Vehicles, plant and equipment - The Council operates a variety of vehicles and equipment to fulfil functions such as grass cutting, refuse, street cleaning and maintenance works which are financed under the terms of operating leases. The amount paid under these arrangements in 2009/10 was £1,646,350.

Land and Buildings - The Council leases land and buildings from a variety of organisations to provide services in line with stated priorities. Leases paid for rent of land and buildings in 2009/10 were £1,743,923 (£2,189,265 in 2008/09).

Commitments under Operating Leases - The County Council was committed at 31st March 2010 to making payments of £3.344m under operating leases in 2010/11 comprising the following elements:

	Vehicles, Plant, Furniture, and Equipment	Land and Buildings
	£000	£000
Leases expiring in 2010/11	-	436
Leases expiring between 2011/12 and 2015/16	1,600	1,107
Leases expiring after 2016/17	-	201
	1,600	1,744

Authority as Lessor - 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 £2.934m was received in 2009/10 (£1.065m in 2008/09)

This note is not SORP compliant as the gross value of assets held for use in operating leases, and the related accumulated depreciation changes are not disclosed here.

Finance Leases

Vehicles, Plant, Furniture, and Equipment - The Council has acquired assets under finance leases. The rentals payable under these arrangements in 2009/10 were £0.703m, charged to the Income and Expenditure account as £0.078m finance costs and £0.625m relating to the write down of obligations to the lessor.

The following is the value of these assets accounted as part of Tangible Fixed Assets:

	Cost or Valuation	Depreciation	Value at 31st March 2010
	£000	£000	£000
Value at 1st April 2009	1,606	695	911
Changes due to LGR	242	121	121
Prior year adjustment	3,643	2,611	1,032
Additions	118	-	118
Depreciation	-	692	-692
Value at 31st March 2010	5,609	4,119	1,490

Following a re-appraisal, 21 leases previously classified as operating leases have been reclassified as finance leases under SSAP 21. The financial effect on the Accounts has been calculated from the inception of the leases, increasing Tangible Assets by £1.032m, Deferred Liabilities by £1.212m and reducing the Capital Adjustment Account by £0.180m. These adjustments are not considered material and therefore prior year figures have not been adjusted. Instead the alterations have been included as 2009/10 transactions. In the above table these are shown as prior year adjustment.

Outstanding obligations to make payments under these finance leases (excluding finance costs) at 31st March 2010 accounted for as part of long-term liabilities, are as follows:

	Vehicles, Plant, Furniture, and Equipment £000
Obligations payable in 2010/11	401
Obligations payable between 2011/12 and 2015/16	300
Total liabilities at 31st March 2010	701

Land and Buildings - There are no finance leases in respect of land and buildings.

19. PRIVATE FINANCE INITIATIVE ARRANGEMENTS

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

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

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

The contract was signed on 14th August 2009 and is for the design, construction and finance of the new school buildings and maintenance of them for 25 years after commencement of operations. The contract runs over two phases - construction and operational.

The operational phase starts when the buildings are released for use by the schools. For Shotton Hall Primary the operational phase started on 6th September 2010 and for Sedgefield Community College and Shotton Hall School the operational phases are expected to start on 4th January 2010. The operational phase for all schools will end on 3rd January 2036. The end of the operational phase marks the end of the contract and the contractor is required to handover the buildings to the Council in a good state of repair and at nil cost. Where any of the schools have become academies during the lifetime of the contract the Council would expect to lease the buildings to the academy trust following handover: Shotton Hall School has expressed an interest in becoming an academy.

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

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

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

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

In addition to the monthly payments the Council is also contributing a capital contribution of £270k at the end of the construction phase. Additional variations agreed during construction total £342k. These will be paid as a capital contribution at the end of the construction phase.

As the contract was not operational in 2009/10 the Council has not recognised an asset or liability in the balance sheet. Estimated payments from 2010/11 to the end of the contract are shown below at 2009/10 prices:

Year	Service £000	Repayment of Liability £000	Interest £000	Total £000
2010-11	903	-320	1,343	1,926
2011-12 to 2014-15	6,684	2,485	18,068	27,237
2015-16 to 2019-20	9,026	4,168	20,852	34,046
2020-21 to 2024-25	9,440	6,385	18,221	34,046
2025-26 to 2029-30	10,058	10,078	13,910	34,046
2030-31 to 2034-35	11,060	15,568	7,418	34,046
2035-36	1,318	3,473	380	5,171
	48,489	41,837	80,192	170,518

20. INTERESTS IN COMPANIES

Group Accounts

The 2009 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 2009 SORP guidance to assess the nature of the relationship with each entity/organisation and to establish whether the production of Group

Accounts was necessary. However, it was concluded that the following organisations should be consolidated within the Group Accounts:

- Durham County Waste Management Company Limited
- County Durham Development Company Limited
- Dale and Valley Homes Limited
- East Durham Homes Limited

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.

The level of investments held in each of these companies is detailed in the table of interests in companies below.

Company Name	Financial Year	Net Assets / Liabilities	Profit / Loss Before Tax	Profit / Loss After Tax	Dividends Declared	% Share Capital held / ownership	Group Accounts
		£000	£000	£000	£000	£000	
Durham County Waste Management Company Limited	2008/09	6,950	-266	-204	n/a	84	Included
	2009/10	5,590	339	220	n/a	84	Included
County Durham Development Company Limited	2008/09	1,214	93	93	-	100	Included
	2009/10	1,375	161	161	-	100	Included
Dale & Valley Homes Limited	2008/09	-778	96	91	-	100	Included
	2009/10	-1,308	-78	-80	-	100	Included
East Durham Homes Limited	2008/09	-13,329	-1,082	-1,091	-	100	Included
	2009/10	-17,549	-206	-210	-	100	Included
Durham Dales Centre Limited	2008/09	-	13	13	n/a	50	Not included - immaterial
	2009/10	-	4	4	n/a	100	Not included - immaterial
Service Direct Newco Limited	2008/09	3	4	3	-	100	Not included - immaterial
	2009/10	6	4	3	-	100	Not included - immaterial
Newcastle Airport Local Authority Holding Company Limited	2008	-40,989	2,357	-10,227	-	11.84	Not included - no dominant influence
	2009	-46,506	-4,097	-3,087	2,171	11.84	Not included - no dominant influence
Durham Tees Valley Airport Limited	2007/08	20,200	-2,089	-1,418	n/a	3.3	Not included - no dominant influence
	2008/09	16,476	-3,904	-2,653	n/a	3.3	Not included - no dominant influence
Durham Villages Regeneration Limited	2007/08	349	503	1,180	-	50	Not included - no dominant influence
	2008/09	75	104	75	-	50	Not included - no dominant influence

It should be noted:

- the information above for Newcastle Airport Local Authority Holding Company Limited is for the year 1st January to 31st December
- Information relating to 2009/10, included in the above table, is subject to audit.

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.

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.

Dale & Valley Homes Limited

Dale & Valley Homes Limited was established as an Arms Length Management Organisation by Wear Valley District Council on 1st April 2006 to carry out the management and maintenance of council houses. The Board of Dale & Valley Homes has a total of 15 members of which 5 are members from the Council. The net liability of the company at 31st March 2010 is £1.308m (2009: £0.778m) and deficit for the year to 31st March 2010 was £80k (2009: surplus £91k).

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.

East Durham Homes Limited

East Durham Homes Limited was created as an Arms Length Management Organisation in April 2004 to carry out the housing management and maintenance functions on behalf of the authority. The Board of East Durham Homes Limited has a total of 15 members of which 5 are also members of the Durham County Council. The net liability of the company at 31 March 2010 is £17.549m (2009: £13.329m) and deficit for the year to 31st March 2010 was £210k (2009: £1,091k).

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 Dales Centre Limited

The company is wholly owned by the County Council and is limited by guarantee. It 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 incorporates a tourist information centre, a business centre and tea room. Following a review in 2009/10, the decision was taken to dissolve the company from the 31 March 2010 and to incorporate the services provided within in the Business Services function of the Regeneration and Economic Development Division of the County Council.

Service Direct NewCo Limited

Service Direct NewCo Limited is a Local Authority Trading Company established to provide services to non local authority customers initially focused around building maintenance, civil engineering, grounds maintenance, vehicle fleet services and domestic services.

Durham County Council owns 100% of NewCo, which began trading in 2007/08.

NIAL Holdings Limited

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 Limited 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 Limited. 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 20. £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 31st March 2009 was £1.554m (£1.865m at 31st March 2008). On 19th 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 Limited.

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

No dividends were declared in 2009/10.

The most recent figures available are detailed below:

	2008	2009
	£000	£000
Net Assets	-40,989	-46,506
Profit / Loss (-) before tax	2,357	-4,097
Profit / Loss (-) after tax	-10,227	-3,087

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

Durham Tees Valley Airport Limited

The former Teesside Airport Limited became a limited company under the Airports Act 1986. In consideration of the transfer of the property, rights, liabilities and functions, the former constituent authorities received share allocations. The 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 Limited 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 £0.544m. The Company accounts for 2009/10 are not yet available. The most recent information is detailed below. No dividend was declared for the year.

	2008	2009
	£000	£000
Net Assets	20,200	16,479
Profit / Loss (-) before tax	-2,089	-3,904
Profit / Loss (-) after tax	-1,418	-2,653

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

21. 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:

As at 31 March 2009		LGR Transition		As at 1st April 2009		As at 31st March 2010	
Long term £000	Current £000	Long term £000	Current £000	Long term £000	Current £000	Long term £000	Current £000
Financial Liabilities at amortised cost:							
-	-75,857	-	-20,057	-	-95,914	-	-122,054
-171,436	-1,338	-145,315	-8,610	-316,751	-9,948	-306,832	-13,448
-171,436	-77,195	-145,315	-28,667	-316,751	-105,862	-306,832	-135,502
Loans and receivables at amortised cost:							
-	118,988	-	84,553	-	203,541	-	170,518
-	-	2,106	-	2,106	-	6,012	-
342	221	4	-	346	221	418	267
1,397	-	-	-	1,397	-	1,238	-
1,079	139	-	-	1,079	139	940	139
932	311	-	-	932	311	622	311
-	-	-	-	-	-	1,250	-
928	123	-	-	928	123	806	123
-	-	221	-	221	-	221	-
-	-	749	13	749	13	746	-
-	-	1,500	275	1,500	275	1,000	538
-	-	523	-	523	-	377	-
-	45,432	-	12,835	-	58,267	-	42,496
4,678	165,214	5,103	97,676	9,781	262,890	13,630	214,392
Available-for-sale financial assets at fair value:							
1,158	-	-	-	1,158	-	1,158	-
965	-	-	-	965	-	509	-
667	-	-	-	667	-	544	-
2,790	-	-	-	2,790	-	2,211	-
7,468	165,214	5,103	97,676	12,571	262,890	15,841	214,392

Short-Term Investments

The short-term investments figure of £170.518m (31st March 2009: £118.988m) is made up of £99.597m (31st March 2009: £37.206m) invested with banks, £37.652m (31st March 2009: £55.214m) with building societies, and £32.962m (31st March 2009: £16.728m) with Local Authorities. The remaining balance of £0.308m relates to accrued interest and adjustments to Icelandic loans (see note 22).

Of the total balance, £153.370m (31st March 2009: £116.195m) of the balance is made up of fixed rate, fixed term deposits, all of which mature within 364 days. The remaining £16.841m (31st March 2009: £2.793m) 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 value of soft loans given by the Council was £0.775m at 31st March 2010 (31st March 2009: £0.562m). £0.685m relates to car loans to employees and £0.09m to below market rate loans to third party organisations. 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 2010			
	Financial Liabilities	Financial Assets		Total £000
	Measured at	Loans and	Available-for-	
	amortised cost	receivables	sale assets	
£000	£000	£000		
Interest expense	17,262	-	-	17,262
Interest payable and similar charges	17,262	-	-	17,262
Interest Income	-	- 5,105	-	- 5,105
Interest and investment income	-	- 5,105	-	- 5,105
Loss on revaluation				
Loss arising on revaluation of financial assets			579	579
Net loss / gain (-) for the year	17,262	- 5,105	579	

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

The Council's holding in Newcastle International Airport and Durham Tees Valley Airport has been revalued and reductions in value of £0.456m and £0.123m respectively have been recognised in the Statement of Total Recognised Gains and Losses.

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.

As at 31st March 2009		LGR Transition		As at 1st April 2009		As at 31st March 2010	
Carrying amount £000	Fair value £000	Carrying amount £000	Fair value £000	Carrying amount £000	Fair value £000	Carrying amount £000	Fair value £000
Financial Assets							
Loans and receivables							
118,988	118,988	84,553	84,658	203,541	203,646	170,518	170,518
-	-	2,106	2,217	2,106	2,217	6,012	6,012
794	794	13	13	807	807		
4,678	4,678	2,997	2,997	7,675	7,675		
45,432	45,432	12,835	12,835	58,267	58,267		
169,892	169,892	102,504	102,720	272,396	272,612	228,020	228,020
Financial Liabilities (current and long-term)							
-172,774	-191,852	-125,391	-150,688	-298,165	-342,540	-289,435	-317,440
-	-	-28,534	-30,483	-28,534	-30,483	-26,700	-28,863
-75,857	-75,857	-20,057	-20,057	-95,914	-95,914	-122,054	-122,054
-248,631	-267,709	-173,982	-201,228	-422,613	-468,937	-438,189	-468,357

The fair value of financial liabilities at 31st March 2010 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.
- 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 semi-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 (composite defaults from Fitch, Standard and Poors and Moody's) gives details of global corporate finance average cumulative default rates (including financial organisations) for the period since at least 1990 to 2009.

Deposits with banks and financial institutions	Amount at 31st March 2010	Historical experience of default	Historical experience adjustment for market conditions at 31st March 2010	Estimated maximum exposure to default and uncollectability
	£000	%	%	£000 (AxC)
	A	B	C	
AA rated counterparties	72,500	0.03%	0.03%	22
A rated counterparties	64,561	0.08%	0.08%	52
	<u>137,061</u>			<u>74</u>
Other counterparties	33,151	0.00%	0.00%	-
	<u>170,212</u>			<u>-</u>
Other counterparties includes deposits with NSB and other local authorities				

The above table does not include investments with Icelandic Banks. In accordance with accounting practice the Council has been notified of objective evidence that impairment has occurred and the investments have been impaired according to accounting requirements. The impact of the principal invested has been mitigated in the accounts according to government regulations, although all related investment income has been fully impaired.

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.

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 31st March 2010, the amount due to the Council in respect of invoices raised was £35.895m (31st March 2009: £20.612m) and a provision for bad debt of £7.439m (31st March 2009: £1.712m) was made.

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 2009/10 with all other variables held constant, the financial effect would be an increase in interest earned on short-term investments of £2.139m (£1.770m in 2008/09) and an increase on interest paid of £0.080m (Nil in 2008/09). 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.

22. FINANCIAL INSTRUMENT DISCLOSURES

Early in October 2008, the Icelandic banks Landsbanki, Kaupthing and Glitnir collapsed and the UK subsidiaries of the banks, Heritable and Kaupthing Singer and Friedlander went into administration. The authority had £7m deposited across three of these institutions, with varying maturity dates and interest rates as follows:

Investments included in current assets figure in the Balance Sheet include the following investments that have been impaired because of the financial difficulties experienced by Icelandic Banks.

Bank	Date Invested	Maturity Date	Amount Invested (£)	Interest Rate (%)	Carrying Amount (£)	Impairment (£)
KSF	30/10/07	28/10/08	1,000,000	6.120	346,155	446,772
Landsbanki (1)	12/04/07	13/10/08	1,000,000	6.010	799,414	365,661
Landsbanki (2)	12/04/07	14/04/09	1,000,000	6.040	782,631	382,280
Glitnir Bank (1)	25/10/06	24/10/08	3,000,000	5.620	3,189,265	321,833
Glitnir Bank (2)	18/12/07	16/12/08	1,000,000	6.290	1,002,967	137,476
Total			7,000,000		6,120,432	1,654,022

The carrying amounts of the investments included in the balance sheet have been calculated using the present value of the expected repayments, discounted using the investment's original interest rate.

The Balance Sheet shows the net impact of the impairment of the Icelandic Banks investment in the Financial Instruments Adjustment Account. Regulations issued in March 2009 allow the authority to defer the impact of an impairment loss on the General Fund. Such amounts are instead transferred to the Financial Instruments Adjustment Account, an account that records the timing differences between charging these amounts to the General Fund in accordance with proper practice and in accordance with the regulations.

The Authority has taken advantage of the regulations, and has transferred the amounts shown in the following table to the Financial Instruments Adjustment Account.

Bank	Amount Transferred to Financial Instruments Adjustment Account (£)
KSF	336,542
Landsbanki	417,954
Glitnir Bank	-265,678
Total	488,818

Under the regulations, the Authority must transfer the balance on the Financial Instruments Adjustment Account to the General Fund no later than 31st March 2011 or 31st March 2012 in Wales (if used), and must also credit the Financial Instruments Adjustment Account with interest earned until such time as the balance has been transferred to the General Fund. The Authority estimates that the following credits will be made to the Financial Instruments Adjustment Account (FIAA):

Bank	Balance on FIAA at 31 st March 2009 (£)	Interest during 2009/10 (£)	Change in Impairment (£)	Capitalisation (£)	Balance on FIAA at 31 st March 2010 (£)
KSF	525,866	-23,209	-166,115	N/A	336,542
Landsbanki	415,626	-92,287	94,615	N/A	417,954
Glitnir Bank	-148,324	-233,346	115,992	N/A	-265,678
Total	793,168	-348,842	44,492	N/A	488,818

All monies within these institutions are currently subject to the respective administration and receivership processes. The amounts and timing of payments to depositors such as the authority will be determined by the administrators / receivers.

The current situation with regards to recovery of the sums deposited varies between each institution. Based on the latest information available the authority considers that it is appropriate to consider an impairment adjustment for the deposits, and has taken the action outlined below. As the available information is not definitive as to the amounts and timings of payments to be made by the administrators / receivers, it is likely that further adjustments will be made to the accounts in future years.

Kaupthing Singer and Friedlander Limited

For Kaupthing Singer and Friedlander Limited a total repayment of £317,304 was received (35%) in 2009/10 and the revised impairment is based on the assumption that a further 36% will be received by the end of 2012/13, taking total dividends expected to be paid to 71%.

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

Date	Repayment	Date	Repayment
July 2010	6%	January 2012	6%
January 2011	6%	July 2012	6%
July 2011	6%	January 2013	6%

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

Glitnir Bank hf and Landsbanki

The impairment for Glitnir and Landsbanki in 2008/09 has been based on the assumption that local authority deposits with the bank had priority status, and would therefore be repaid ahead of any creditors that did not have priority status. This was based on the legal advice obtained by local authorities, and on announcements made by the banks.

The Glitnir Winding-Up Board has since expressed the view that local authority deposits do not have priority status. This may also impact on the Landsbanki position. Local authorities' legal advice remains that deposits have priority status under Icelandic law however decisions on the

priority status of local authority deposits will be made by the Icelandic courts. It is unlikely that the position on priority status will be known until 2011/12 however the impairment for 2009/10 has been calculated on the basis that priority status for Glitnir will be confirmed and a 100% repayment received in 2011/12, and for Landsbanki 94.86% received between October 2011 and October 2018.

Deposits with the Icelandic-domiciled banks were converted to Icelandic Krona on 22nd April 2009. Repayments by the banks will be based on the value of the deposit in ISK; the sterling value received by authorities will depend on the prevailing exchange rate, and may therefore be lower than the equivalent value on 22nd April 2009.

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

Glitnir: 100% recoverable in June 2011.

Landsbanki:

Date	Repayment	Date	Repayment
October 2011	22.17%	October 2015	8.87%
October 2012	8.87%	October 2016	8.87%
October 2013	8.87%	October 2017	8.87%
October 2014	8.87%	October 2018	19.47%

If the Council does not receive priority status the expected repayments will be for Glitnir 29% between October 2011 and October 2015 and for Landsbanki 38.19% between October 2011 and October 2018.

23. CURRENT ASSETS

Stock and Work in Progress

As at 31st March 2009 £000	Transferred due to LGR £000	As at 1st April 2009 £000	As at 31st March 2010 £000
Stocks -			
485	-	485 Highways and Transportation	137
514	-	514 Service Direct	1,072
184	683	867 Other	729
Work in Progress (External Bodies only) -			
1,745	-	1,745 Rechargeable Works	1,492
204	-	204 Service Direct	813
-	103	103 Other	-
3,132	786	3,918	4,243

24. DEBTORS AND PAYMENTS IN ADVANCE

As at 31st March 2009 £000	Transferred due to LGR £000	As at 1st April 2009 £000	As at 31st March 2010 £000	
Debtors -				
6,328	12,442	18,770	Government Departments	30,755
77	-	77	European Union Funds	69
45,432	12,835	58,267	Other Debtors	42,496
-	12,726	12,726	Collection Fund	11,422
-	3,908	3,908	Housing Rents	3,236
-1,712	-8,294	-10,006	Less: bad debt provision	-10,901
50,125	33,617	83,742	Total Debtors	77,077
2,828	788	3,616	Payments in Advance	3,873
52,953	34,405	87,358		80,950

25. CREDITORS AND RECEIPTS IN ADVANCE

As at 31st March 2009 £000	Transferred due to LGR £000	As at 1 April 2009 £000	As at 31st March 2010 £000	
Creditors -				
37,763	11,277	49,040	Government Departments	30,613
1,192	-	1,192	European Union Funds	5,911
75,857	20,057	95,914	Other Creditors	122,054
-	1,549	1,549	Collection Fund	1,822
-	288	288	Housing Rents	544
114,812	33,171	147,983	Total Creditors	160,944
18,171	4,849	23,020	Receipts in Advance	17,306
132,983	38,020	171,003		178,250

26. PROVISIONS

The provisions at 31st March 2010 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.

Other

Following the creation of the new Unitary Authority, a provision of £0.261m has been brought forward regarding commuted sums a general purpose provision.

	Equal Pay £000	Insurance £000	S117 Refunds £000	Other £000	Totals £000
Balance at 31st March 2009	9,477	5,825	101	-	15,403
Transferred due to LGR	7	2,041	-	261	2,309
Restated Balance at 1 April 2009	9,484	7,866	101	261	17,712
Increase during the year	7,036	4,300	-	-	11,336
Utilised during the year	-7,819	-1,368	-	-	-9,187
Written-off during the year	-	-1,773	-	-	-1,773
Balance at 31st March 2010	8,701	9,025	101	261	18,088

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 31st March 2009 £000	Reserves Transferred due to LGR £000	Restated Balance at 1st April 2009 £000	Net Movement in Year £000	Balance at 31st March 2010 £000	Purpose of Reserve	Further Details of Movement
Revaluation Reserve	334,458	134,349	468,807	8,451	477,258	Store of gains on revaluation of fixed assets not yet realised through sales	(a) below
Capital Adjustment Account	404,464	612,679	1,017,143	-36,520	980,623	Store of capital resources set aside to meet past expenditure	(b) below
Financial Instruments Adj. Account	-	-3,861	-3,861	304	-3,557	Records the differences in financing the costs of any financial instruments entered into by the Council	(d) below
Deferred Capital Receipt	1,243	2,044	3,287	-481	2,806	Capital income to be received where deferred payment has been agreed	
Usable Capital Receipts	11,242	26,107	37,349	-13,736	23,613	Proceeds of fixed assets sales available to meet future capital investment	(c) below
FRS17 Pensions Reserve	-407,450	-263,520	-670,970	-304,678	-975,648	Balancing account to allow inclusion of Pensions Liability in the Balance Sheet	Note 32 on page 72
Major Repairs Reserve	-	1,888	1,888	-688	1,200	This reserve represents the amount of the Major repairs allowance unspent at the year end	Note 13 on page 100
Housing Revenue Account	-	6,997	6,997	1,514	8,511	Resources available to meet future running costs for council houses	HRA Statements on page 93
General Fund	28,127	15,385	43,512	-14,970	28,542	Resources available to meet future running costs of non housing services	Statement of Movement on General Fund Balance on page 30
Available-for-sale Financial Instruments Reserve	1,632	-	1,632	-579	1,053	Store of gains on revaluation of airport shares	
Collection Fund Adjustment Account	-	2,068	2,068	-563	1,505	Reflects the collection and distribution of amounts due to Council Tax	Collection Fund Accounts on page 101
Other Reserves	62,709	26,906	89,615	5,525	95,140	Resources set aside for future spending plans	(e) below
	436,425	561,042	997,467	-356,421	641,046		

(a) Revaluation Reserve

2008/09		2009/10
£000		£000
399,651	Opening Balance	334,458
	- Transferred due to LGR	134,349
399,651	Restated opening balance	468,807
	Movement in year:	
-50,199	Revaluation losses(-)/gains	25,527
-14,553	Excess of current cost depreciation over historic cost depreciation written off to Capital Adjustment Account	-15,487
-441	Balance written off to Capital Adjustment Account on disposal of asset	-1,589
334,458	Closing Balance	477,258

(b) Capital Adjustment Account

2008/09		2009/10
£000		£000
433,622	Opening Balance	404,464
	- Transferred due to LGR	612,679
433,622	Restated opening balance	1,017,143
	Movement in year:	
19,720	Capital Financing from revenue and capital receipts	28,236
9,426	Minimum Revenue Provision	11,890
-69,660	Amounts included in I&E account but required by statute to be excluded from General Fund / HRA Balance (capital charges)	-98,656
-1,677	Transfer to Government Grants Deferred	-
	Transfers from Major Repairs Reserve:	
-	Depreciation on Council Dwellings	-11,762
-	Capital Expenditure on Council Dwellings Financed from Major Repairs Allowance	12,449
	Amounts written off from Revaluation Reserve:	
14,553	Excess of current cost depreciation over historic cost depreciation	15,487
-	Transfer on impairment	7,522
441	Balance on disposal of fixed asset	1,589
-1,961	Net Book Value written off on disposal of fixed assets	-3,275
404,464	Closing Balance	980,623

(c) Usable Capital Receipts

2008/09 £000		2009/10 £000
-20,199	Unapplied Balance at 1st April	-11,242
-	Transferred due to LGR	-26,107
<u>-20,199</u>	Restated opening balance	<u>-37,349</u>
	Movement in year:	
-5,255	Received in year	-6,836
-	Housing receipts paid to national pool	1,157
14,212	Applied in year	19,414
<u>-11,242</u>	Unapplied Balance at 31st March	<u>-23,614</u>

(d) Financial Instruments Adjustment Account

2008/09 £000		2009/10 £000
-	Opening Balance	-
-	Transferred due to LGR	3,861
<u>-</u>	Restated opening balance	<u>3,861</u>
	Movement in year:	
-	Impairment of Icelandic Investments	45
-	Interest in respect of Icelandic Investments	-349
<u>-</u>	Closing Balance	<u>3,557</u>

(e) Other Reserves

The significant reserves at 31st March 2010 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.

Area Based Grants Reserve

The purpose of this reserve is to carry forward unspent balances from previous financial years that will enable the agreed projects to be funded in 2010/11.

AAP Reserve

The purpose of the reserve is to ensure the projects can be funded in 2010/11 where an agreed spending plan exists.

Building Services Defects Liability Reserve

To provide, for the costs to correct any subsequent defects where the defects liability period has not yet expired.

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 31st March 2010 comprised individual school balances totalling £13.838m, net of loans outstanding of £1.976m.

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.

Planning Reserve

To provide, a resource for improvements to the planning service.

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

	Reserves		Restated	Contributions to Reserves	Contributions from Reserves	Transfer between Reserves	Balance at 31st March 2010
	Balance at 31st March 2009	Transferred due to LGR	Balance at 1st April 2009				
	£000	£000	£000	£000	£000	£000	£000
Earmarked Reserves							
AAP Reserve	-	60	60	1,484	-	-	1,544
ABG Reserve	-	9,582	9,582	5,636	-	-	15,218
Asset Management Reserve	-	141	141	-	-	-	141
Aycliffe Young People's Centre Reserve	1,721	-	1,721	306	-	-	2,027
Building Services Defects Liability Reserve	-	-	-	912	-	-	912
Cabinet Reserve	7,496	-	7,496	-	-1,248	-	6,248
Children's Fund Returned Grant	127	-	127	-	-	-	127
Community Safety	-	86	86	-	-	-	86
Connexions	491	-	491	-	-13	-	478
Continuing Professional Development	542	120	662	-	-264	-	398
Corporate Reserve	431	2,173	2,604	183	-65	-	2,722
Culture & Leisure	228	589	817	235	-97	-	955
Direct Service Organisation	933	-	933	-	-933	-	-
Early Retirement Pensions Reserve	6,265	1,889	8,154	-	-	-	8,154
Education Reserve	3,389	34	3,423	385	-118	-	3,690
Equal Pay Reserve	4,846	-	4,846	499	-2,371	-	2,974
General Housing Subsidy	-	26	26	-	-	-	26
HMO Licensing Reserve	-	100	100	-	-50	-	50
Information & Technical Support Service	500	187	687	-	-500	-	187
Insurance Reserve	12,071	3,494	15,565	1,068	-1,113	-	15,520
LABGI Economic Growth Fund	-	135	135	267	-	-	402
LEP Reserve	-	-	-	80	-	-	80
LSVT Reserve	-	160	160	-	-	-	160
Performance Reward Grant Reserve	-	-	-	1,559	-	-	1,559
Planning Reserve	-	560	560	1,630	-	-	2,190
Reallocated underspends	868	-	868	-	-	-	868
Regeneration and Communities Reserve	2,000	7,264	9,264	200	-384	-	9,080
Schools' Revenue Balance	17,801	-	17,801	3,661	-7,624	-	13,838
Section 106 Agreements	-	232	232	-	-	-	232
Special Projects Reserve	3,000	-	3,000	1,860	-60	-	4,800
TAMP Funding Reserve	-	-	-	400	-	-	400
Twin Bin Implementation	-	10	10	-	-	-	10
Youth Forum	-	64	64	-	-	-	64
Total Earmarked Reserves	62,709	26,906	89,615	20,365	-14,840	-	95,140

28. CONTINGENT LIABILITIES – EQUAL PAY AND JOB EVALUATION

a) 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.

b) The Spectrum Centre

Wear Valley District Council (WVDC) established the Spectrum Centre as a charitable trust in 1982, with the trustees consisting of 9 WVDC members and 2 members of the public. The centre was run as a normal leisure centre, benefiting from charitable status, but in 2006 the Council transferred the Spectrum Trust to a community group SLAM Community Development Trust on a long term lease. However, the Council had to remain as the Corporate Trustee of the Spectrum Centre. This was as a condition given by CISWO (Coal Industry Social Welfare Organisation) who it is believed 'gifted' the land to the Council many years ago.

Durham County Council is currently in discussions with SLAM Community Development Trust regarding the alleged failure of WVDC to discharge properly its duties as Trustee of the Spectrum Leisure Centre, financial irregularities, misappropriation of assets and conflicts of interest. It is also alleged that Durham County Council has failed to grasp its new responsibilities since Local Government Re-organisation and SLAM Community Development Trust are seeking compensation for these alleged grievances. All interested parties are now engaged in the process and the potential liability (if any) is, at this stage, unknown.

c) Domiciliary Care Procurement

A contingent liability has been recognised in respect of a legal claim pending settlement in the region of £300,000 relating to a challenge to the procurement process for the supply of domiciliary care for the County Council.

The County Council disputes the validity of the claims and has made no provision in the accounts for the sums.

29. CONTINGENT ASSETS

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.

There are no contingent assets to be disclosed.

30. EVENTS AFTER THE BALANCE SHEET DATE

No significant 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 27th October 2010.

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

The County Council is responsible for administering 48 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.

2008/09	2009/10
£000	£000
374	385
- New funds opened in year	11
Interest on balances, dividends etc.	
20 received	15
-9 Expenditure on prizes etc.	-3
385	408
Balance at 1st April	
Balance at 31st March	

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	
	2008/09	2009/10	2008/09	2009/10
	As restated £000	£000	As restated £000	£000
Income and Expenditure Account				
<i>Net Cost of Services:</i>				
- Current service cost	22,545	30,058	-	-
- Past service cost	2,540	14,510	270	-
<i>Net operating expenditure:</i>				
- Current service cost	2,305	2,342	-	-
- Interest costs	61,030	98,870	2,600	4,940
- Expected return on assets in scheme	-43,640	-46,840	-	-
Net Charge to the Income and Expenditure Account	44,780	98,940	2,870	4,940
Statement of Movement in the General Fund Balance				
- Reversal of net charges made for retirement benefits in accordance with FRS 17	-44,780	-98,940	-2,870	-4,940
Actual amount charged against General Fund Balance for pensions in the year				
- Employers' contributions payable to scheme	34,529	54,698	-	-
- Retirement benefits payable to pensioners	-	-	3,400	6,084

In addition to the recognised gains and losses included in the Income and Expenditure Account, actuarial losses of £261.38m (2008/09: loss £142.57m) 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 £440.165m.

A new benefit structure was introduced in the LGPS from 1st April 2008. This change affects both the value of benefits earned up to 31st March 2009 and the cost going forward from that date.

The changes introduced in the 2008 scheme that affect the active members' benefits earned before 1st 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 cohabittees.
- 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	
	2008/09 £000	2009/10 £000	2008/09 £000	2009/10 £000
31 March	894,240	949,780	39,730	39,900
Transferred due to LGR	-	530,170	-	36,700
1 April	894,240	1,479,950	39,730	76,600
Current service cost	24,850	32,400	-	-
Interest cost	61,030	98,870	2,600	4,940
Contributions by scheme participants	11,520	15,110	-	-
Actuarial (gains) and losses	-12,100	495,990	620	8,630
Net benefits paid out	-32,300	-75,140	-3,320	-5,900
Past service costs	2,540	14,510	270	-
31 March	949,780	2,061,690	39,900	84,270

Reconciliation of fair value of the scheme assets:

	Funded	
	2008/09 £000	2009/10 £000
31 March	678,810	582,030
Transferred due to LGR	-	303,350
1 April	678,810	885,380
Expected rate of return	43,640	46,840
Actuarial gains and losses(-)	-154,050	243,240
Employer contributions	34,410	55,470
Contributions by scheme participants	11,520	15,110
Net benefits paid out	-32,300	-75,140
31 March	582,030	1,170,900

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 £290.08m (2008/09: loss £110.41m).

Scheme history:

	As at 31 March 2006 * £000	As at 31 March 2007 £000	As at 31 March 2008 £000	As at 31 March 2009 £000	Transferred due to LGR £000	As at 1 April 2009 £000	As at 31 March 2010 £000
Present value of liabilities							
- Funded	905,180	956,910	894,240	949,780	530,170	1,479,950	2,061,690
- Unfunded	43,880	41,810	39,730	39,900	36,700	76,600	84,270
Fair value of assets in the pension scheme							
- Funded	628,340	678,160	678,810	582,030	303,350	885,380	1,170,900
Surplus/(deficit) in the scheme #							
- Funded	-276,840	-278,750	-215,430	-367,750	-226,820	-594,570	-890,790
- Unfunded	-43,880	-41,810	-39,730	-39,900	-36,700	-76,600	-84,270
- Total	-320,720	-320,560	-255,160	-407,650	-263,520	-671,170	-975,060
Adjusted Surplus/(deficit) in the scheme	-320,032	-320,335	-255,138	-407,450	-263,520	-670,970	-975,648

* The council has elected not to restate fair value of scheme assets for 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 £975.648m 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 31st March 2011 is £56.26m. Direct payments are expected to be £5.9m to cover unfunded obligations in the year to 31st March 2011.

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 31st March 2007.

The principal assumptions used by the actuary have been:

	Funded		Unfunded	
	2008/09	2009/10	2008/09	2009/10
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)	80% of LC	80% of LC	80% of LC	80% of LC
- Minimum underpin to improvement factors	1.25%	1.25%	1.25%	1.25%
- Future lifetime from age 65 (currently aged 65)	21.1	21.2	21.1	21.2
- Future lifetime from age 65 (currently aged 45)	23.4	23.5	-	-
<i>Women</i>				
- Cohort improvement factors (from 2007)	60% of LC	60% of LC	60% of LC	60% of LC
- Minimum underpin to improvement factors	1.25%	1.25%	1.25%	1.25%
- Future lifetime from age 65 (currently aged 65)	23.2	23.3	23.2	23.3
- Future lifetime from age 65 (currently aged 45)	25.3	25.4	-	-
Principal financial assumptions:				
- Rate of inflation	3.4	3.9	3.4	3.8
- Rate of increase in salaries	4.9	5.4	-	-
- Rate of increase in pensions	3.4	3.9	3.4	3.8
- Rate of increase to deferred pensions	3.4	3.9	-	-
- Rate for discounting scheme liabilities	6.7	5.5	6.7	5.5

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	
	2008/09	2009/10	2008/09	2009/10
	%	%	%	%
- Equities	7.0	8.0	45.2	57.1
- Property	6.0	8.5	3.9	4.9
- Government bonds	4.0	4.5	30.0	25.4
- Corporate bonds	5.8	5.5	9.9	9.6
- Cash	1.6	0.7	-	3.0
- Other	1.6	8.0	11.0	-
	5.4	6.7	100.0	100.0

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 31st March 2010.

History of experience of gains and losses

The actuarial gains identified as movements on the Pensions Reserve in 2009/10 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 31st March 2010:

	2005/06 *		2006/07 *		2007/08 As restated		2008/09		2009/10	
	£000	%	£000	%	£000	%	£000	%	£000	%
Differences between the expected and actual return on assets										
- Funded	15.50	0.0%	5,320	0.8%	-61,450	-9.1%	-154,050	-26.5%	243,240	20.8%
Experience gains and losses on liabilities										
- Funded and Unfunded #	-3,486	0.3%	1,161	0.2%	-	-	-	-	-	-
- Funded #	-	-	-	-	4,591	0.01%	3,585	0.4%	20,620	1.0%
- Unfunded #	-	-	-	-	534	-0.01%	467	-1.2%	2,550	-3.0%

* 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 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 2009/10 the County Council paid £22.286m (£21.936m in 2008/09) to Teachers' Pensions in respect of teachers' retirement benefits representing 14.2% (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 2009/10 the costs associated with early retirement of teachers amounted to £2.583m (£2.542m in 2008/09), representing 1.6% (1.7%) of pensionable pay.

33. POST BALANCE SHEET EVENT

Retirement Benefits – FRS 17

In its budget on 22 June 2010 the Government announced that future increases in public sector pensions will reflect movements in the Consumer Price Index (CPI), effective from April 2011. Increases are currently determined by reference to the Retail Price Index (RPI).

The rate at which pensions will increase is one of the key factors in determining the liabilities of defined benefit pension funds. Any change in the rate at which pensions will increase will therefore affect the value of pension fund liabilities. The CPI differs from, and tends to be lower than, the RPI. The change from RPI to CPI is therefore expected to result in a reduction in the pension's liabilities and therefore the pension deficit on the balance sheet. The change will also impact upon the income and expenditure account over the next accounting period.

Hewitt have calculated that the impact on the balance sheet if the CPI change had occurred at the accounting date would have been to reduce the value of the liabilities on the balance sheet by:

- Approximately £170m for LGPS funded benefits.
- Approximately £5m for LGPS unfunded benefits.

Hewitt have based these figures on the FRS 17 assumptions applicable at the accounting year end, and allowing for CPI increases being lower than RPI increases by around 0.7% p.a. in the long term (Hewitt's best estimate of the differential at the accounting date). The actual figure will also reflect the date of measurement and assumptions used when producing next year's figures.

It is anticipated that the reduction in liabilities will be accounted for as a (negative) past service cost i.e. this change constitutes a change to benefits since pension scheme members will expect a lower benefit following the change.

It is also anticipated that the move to CPI will reduce the interest cost and current service cost calculated for the next accounting period compared to the position if pension increases remained linked to the RPI.

34. 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 2009/10 are as follows:

Notes	Central Expenditure £000	ISB £000	Total £000
A Final DSG for 2009/10			279,925
B Brought forward from 2008/09 (estimated)			665
C Carry forward to 2010/11 agreed in advance			-786
D Agreed budgeted distribution in 2009/10	24,404	255,400	279,804
E Actual central expenditure	22,624		
F Actual ISB deployed to schools		257,565	
G Local Authority contribution for 2009/10	1,400	-	1,400
H Carry forward to 2010/11 agreed in advance	3,180	-2,165	1,801
I Reversal of estimated 2008/09 brought forward			-665
J Actual brought forward from 2008/09			1,340
K Actual carry forward to 2010/11			2,476

A: DSG figure as issued by DCSF on 25 June 2009.

B: Figure brought forward from 2008/09 as agreed with DCSF. (Estimated figure as per Section 52 Budget Statement for 2009/10)

C: The amount which the authority decided after consultation with the schools forum to carry forward to 2010/11 rather than distribute in 2009/10 – this is the difference between estimated and final DSG for 2009/10.

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

E: Actual amount of central expenditure items in 2009/10.

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 2009/10 which will have the effect of substituting for DSG in funding the Schools Budget.

H: Carry forward to 2010/11.

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 recoupment 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 2010/11 already agreed (C).

I: Reversal of the estimated brought forward balance from 2008/09 at Section 52 budget stage

J: The actual brought forward balance from 2008/09.

K: After adjusting for the estimated brought forward figure from 2008/09 (I) and the Actual brought forward figure from 2008/09 (J), the actual carry forward figure to 2010/11.

£3.643m 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 28 to 78 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
- Reconciliation of the Single Entity Surplus/Deficit to the Group Surplus/Deficit
- Group Statement of Total Recognised Gains and Losses
- Group Balance Sheet
- Group Cash Flow Statement
- Notes to the Group Financial Statements
- 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 2009: 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 along with the materiality and effect inclusion has on the users of the financial statements. 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:

Durham County Waste Management Company Limited

The County Council's waste disposal assets and liabilities were formally vested in Durham County Waste Management Company Limited 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 31st March 2010 were £5.59m (31st March 2009: 6.95m) and the profit for the year amounted to £219k (There company loss for the year ending 31st March 2009 amounted to £204k).

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.

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 31st March 2010 were £1.375m (31st March 2009: £1.216m) and the profit for the year amounted to £160k (2009: £95k).

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.

East Durham Homes Limited

East Durham Homes Limited was created as an Arms Length Management Organisation in April 2004 to carry out the housing management and maintenance functions on behalf of the authority. The Board of East Durham Homes Limited has a total of 15 members of which 5 are also members of the Durham County Council. The net liability of the company at 31 March 2010 is £17.549m (2009: £13.329m) and deficit for the year to 31 March 2010 was £210k (2009: £1,091k).

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.

Dale & Valley Homes Limited

Dale & Valley Homes Limited was established as an Arms Length Management Organisation by Wear Valley District Council on 1st April 2006 to carry out the management and maintenance of council houses. The Board of Dale & Valley Homes Limited has a total of 15 members of which 5 are members from the Council. The net liability of the company at 31st March 2010 is £1.363m (2009: £0.778m) and surplus for the year to 31st March 2010 was £31k (2009: deficit £91k).

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.

Group Income and Expenditure Account for the year ended 31st March 2010

2008/09		2009/10						
Former DCC Net Expenditure £000	Notes	Former DCC			Acquired operations from LGR			Total Net Expenditure £000
		Gross Expenditure £000	Gross Income £000	Net Expenditure £000	Gross Expenditure £000	Gross Income £000	Net Expenditure £000	
140,858	Children's and Education Services	574,234	438,865	135,369	688	493	195	135,564
159,261	Adult Social Care	213,617	51,346	162,271	-	-	-	162,271
36,476	Highways and Transportation	62,208	11,328	50,880	2,592	1,627	965	51,845
16,284	Planning and Development	30,290	10,258	20,032	30,232	11,077	19,155	39,187
12,352	Cultural and Related Services	22,252	6,075	16,177	41,439	13,913	27,526	43,703
20,122	Environmental Services	44,827	25,437	19,390	37,340	4,865	32,475	51,865
760	Courts and Probation	836	-	836	-	-	-	836
	Central Services							
7,585	Corporate and Democratic Core	10,151	2,444	7,707	-	-	-	7,707
1,525	Central Services to the Public	1,492	899	593	59,742	53,645	6,097	6,690
8,616	Non Distributed Costs	14,510	-	14,510	-	-	-	14,510
-	Local Authority Housing (HRA)	-	-	-	60,518	59,662	856	856
-29	Other Housing Services (including Supporting People)	16,284	16,018	266	166,002	159,250	6,752	7,018
-584	Other Services	15,332	18,302	-2,970	296	182	114	-2,856
1,348	Local Government Reorganisation	7,452	-	7,452	-	-	-	7,452
404,574	NET COST OF SERVICES	1,013,485	580,972	432,513	398,849	304,714	94,135	526,648
413	Precepts and levies			404			-	404
-	Parish council precepts			-			11,577	11,577
	Surplus(-)/loss on trading activities							
1,002	not included in Net Cost of Services			1,132			523	1,655
-1,215	Insurance - uncertain liabilities			-755			-	-755
8,407	Interest payable and similar charges			12,072			5,652	17,724
-7,487	Interest and investment income			-5,073			-104	-5,177
-	Impairment on financial investments			-			45	45
-	Contributions of housing capital receipts to government pool			-			1,157	1,157
-24	Contribution to debt charges			-			-	-
20,029	Pensions interest cost and expected return on pensions assets			57,226			1,170	58,396
-2,927	Gain(-)/Loss on disposal of fixed assets			-2,231			-1,205	-3,436
-61	Corporation tax (subsidiaries)			120			6	126
-33	Minority interest (subsidiaries)			35			-	35
422,678	NET OPERATING EXPENDITURE			495,443			112,956	608,399
-50,258	General Government Grants			-93,621			-	-93,621
-141,771	Non-domestic rates redistribution			-182,127			-	-182,127
-159,069	Demand on the Collection Fund			-207,005			-	-207,005
71,580	DEFICIT FOR THE YEAR			12,690			112,956	125,646

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 deficit /(surplus) shown in the group income and expenditure account.

2008/09 £000		2009/10 £000
71,481	Authority income and expenditure (surplus)/ Deficit for the year	125,808
99	Add deficit /(surplus) attributable to subsidiaries	-162
71,580	Group account Income and Expenditure (surplus)/ deficit for the year	125,646

Group Statement of Total Recognised Gains and Losses

2007/08 £000		2008/09 £000
71,580	Net deficit for the year	125,646
33	Minority interest	-35
50,199	deficit /(surplus) on the revaluation of fixed assets	-33,049
145,263	Actuarial losses on pension fund assets and liabilities	268,235
7,337	Deficit arising on revaluation of available-for-sale financial assets	579
929	Other losses /(gains) recognised in the STRGL	-52
	- Net liabilities transferred to the new unitary authority	-534,049
	- Adjustments to transferred assets/liabilities	-11,945
275,341	Total recognised losses and gains(-) for the year	-184,670

Group Balance Sheet as at 31st March 2010

As at 31 March 2009		LGR Transition		As at 1 April 2009			As at 31 March 2010	
£000	£000	£000	£000	£000	£000	Notes	£000	£000
FIXED ASSETS								
Intangible fixed assets -								
1,841		2,141		3,982		6		
877		-		877			2,832	
Tangible fixed assets -								
Operational assets -								
		622,154		622,154			670,353	
833,807		190,246		1,024,053			1,018,400	
4,336		-		4,336			4,313	
16,463		13,267		29,730			33,621	
272,897		1,098		273,995			282,212	
-		2,727		2,727			5,611	
4,491		-		4,491			3,829	
Non-operational assets -								
30,942		55,101		86,043			84,767	
26,982		11,093		38,075			15,241	
-		27,529		27,529			7,524	
1,192,636		925,356		2,117,992			2,129,504	
1,631		2,106		3,737		8	7,066	
3,600		2,997		6,597		9	6,676	
1,197,867		930,459		2,128,326			2,143,246	
CURRENT ASSETS								
3,352		1,017		4,369			4,413	
58,224		18,147		76,371		10	59,812	
120,203		84,553		204,756			172,376	
5,634		8,520		14,154			96,177	
187,413		112,237		299,650			332,778	
1,385,280		1,042,696		2,427,976			2,476,024	
CURRENT LIABILITIES								
-1,338		-8,610		-9,948			-13,448	
-138,907		-22,966		-161,873			-160,597	
-3,778		-4,609		-8,387			-101,225	
-144,023		-36,185		-180,208			-275,270	
1,241,257		1,006,511		2,247,768			2,200,754	
TOTAL ASSETS LESS CURRENT LIABILITIES								
LONG-TERM LIABILITIES								
-		-29		-29			-15	
-171,436		-145,314		-316,750			-306,832	
-25,840		-2,309		-28,149			-26,761	
-		-2,540		-2,540			-593	
-190,846		-29,322		-220,168			-237,448	
-602		-1,212		-1,814			-995	
-408,954		-278,850		-687,804			-999,911	
-145		-		-145		11	-95	
-797,823		-459,576		-1,257,399			-1,572,650	
443,434		546,935		990,369			628,104	
TOTAL ASSETS LESS LIABILITIES								
FINANCED BY:								
334,458		131,944		466,402		12	477,258	
404,464		615,084		1,019,548		12	980,623	
-		-3,861		-3,861			-3,557	
1,243		2,044		3,287		12	2,806	
11,242		26,107		37,349		12	23,613	
-407,450		-278,850		-686,300		12	-997,078	
-		1,888		1,888			1,200	
-		6,997		6,997			8,511	
28,127		15,385		43,512		12	28,542	
1,632		-		1,632		12, 13	1,053	
-		2,068		2,068			1,505	
62,709		26,906		89,615		12	95,140	
5,897		1,223		7,120		12	7,594	
442,322		546,935		989,257			627,210	
1,112		-		1,112		5	894	
443,434		546,935		990,369			628,104	
TOTAL BALANCES AND RESERVES								

Group Cash Flow Statement for the year ended 31st March 2010

2008/09			2009/10	
£000	£000	Notes	£000	£000
	18,360			
		15		-4,795
	-223			-31
-5,629			-16,090	
-62			-116	
	-5,691			-16,206
-			-	
7,492			4,685	
	7,492			4,685
	<u>1,801</u>			<u>-11,521</u>
-88,419			-123,223	
	-88,419			-123,223
5,054			5,703	
41,328			79,561	
2,100			11,761	
	48,482			97,025
	<u>-39,938</u>			<u>-26,198</u>
	-20,000			-42,545
22,965				33,023
-				8,142
	22,965			41,165
-3,128			-8,598	
-326			-751	
-			-1,250	
	-3,454			-10,599
352			1,164	
	352			1,164
	<u>-3,102</u>			<u>-9,435</u>
	<u>-137</u>			<u>-10,815</u>

Notes to Group Financial Statements for the year ended 31st March 2010

Note 1. Interest payable

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

2009/08 £000	2009/10 £000
8,025 Durham County Council	17,262
382 Durham County Waste Management Company Limited	462
- County Durham Development Company Limited	-
- East Durham Homes Limited	-
- Dale & Valley Homes Limited	-
8,407	17,724

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:

2009/08 £000	2009/10 £000
19,990 Durham County Council	56,970
39 Durham County Waste Management Company Limited	256
- County Durham Development Company Limited	-
- East Durham Homes Limited	1,060
- Dale & Valley Homes Limited	110
20,029	58,396

Note 3. Disposal of fixed assets

This figure represents the gain on the disposal of fixed assets by the group as follows:

2009/08 £000	2009/10 £000
-2,845 Durham County Council	-3,418
-82 Durham County Waste Management Company Limited	-18
- County Durham Development Company Limited	-
- East Durham Homes Limited	-
- Dale & Valley Homes Limited	-
-2,927	-3,436

Note 4. Corporation tax

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

2009/08 £000	2009/10 £000
- Durham County Council	-
-61 Durham County Waste Management Company Limited	120
- County Durham Development Company Limited	-
- East Durham Homes Limited	4
- Dale & Valley Homes Limited	2
-61	126

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.

Note 6. Intangible assets

The movements in the group intangible assets are shown below:

	Software Licences £000	Goodwill £000	Total £000
Cost or valuation			
At 31 March 2009	2,724	2,059	4,783
Transferred due to LGR	5,794	-	5,794
At 1 April 2009	8,518	2,059	10,577
Additions	204	20	224
At 31 March 2009	8,722	2,079	10,801
Accumulated amortisation			
At 31 March 2009	-883	-1,182	-2,065
Transferred due to LGR	-3,653	-	-3,653
At 1 April 2009	-4,536	-1,182	-5,718
Charge for year	-1,354	-96	-1,450
At 31 March 2009	-5,890	-1,278	-7,168
Balance Sheet Amount at 31 March 2010	2,832	801	3,633
Balance Sheet Amount at 31 March 2009	1,841	877	2,718

Note 7. Tangible assets

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

	Operational								Total Operational Assets £000
	Council Dwellings £000	Land & Buildings at Valuation £000	Land & Buildings at Historic Cost £000	Site Development £000	Vehicles, Plant, Furniture & £000	Infrastructure Assets £000	Community Assets £000	Restoration & aftercare costs £000	
Cost or valuation									
At 31 March 2009	-	882,635	5,702	9,314	54,403	322,527	-	13,237	1,287,818
Assets transferred due to LGR	629,053	214,259	-	-	29,400	1,186	2,964	-	876,862
At 1 April 2009	629,053	1,096,894	5,702	9,314	83,803	323,713	2,964	13,237	2,164,680
Additions	27,028	35,175	1,424	1,634	12,420	16,526	379	-	94,586
Disposals	-1,061	-7,816	-	-	-3,296	-	-5	-	-12,178
Reclassifications	-1,605	58,688	-	-	649	-	2,475	-	60,207
Reclassifications to revenue	-	-483	-	-	-	-	-	-	-483
Revaluations	17,178	-115,645	-	-	-	-	1	-1,307	-99,773
At 31 March 2010	670,593	1,066,813	7,126	10,948	93,576	340,239	5,814	11,930	2,207,039
Depreciation									
At 31 March 2009	-	-52,046	-2,484	-4,978	-37,940	-49,630	-	-8,746	-155,824
Transferred due to LGR	-6,849	-15,705	-	-	-16,123	-88	-18	-	-38,783
At 1 April 2009	-6,849	-67,751	-2,484	-4,978	-54,063	-49,718	-18	-8,746	-194,607
Charge for 2009/10 - Depreciation	-11,802	-34,344	-98	-1,657	-8,815	-8,309	-1	-368	-65,394
Disposals	14	719	-	-	2,933	-	-	-	3,666
Reclassifications	107	-2,180	-	-	-	-	9	-	-2,064
Revaluations	18,397	58,728	-	-	-	-	-	1,013	78,138
At 31 March 2010	-133	-44,828	-2,582	-6,635	-59,945	-58,027	-10	-8,101	-180,261
Amortisation									
At 31 March 2009	-	-	-	-	-	-	-	-	-
Transferred due to LGR	-50	-8,308	-	-	-10	-	-218	-	-8,586
At 1 April 2009	-50	-8,308	-	-	-10	-	-218	-	-8,586
Charge for 2009/10 (consumption of economic benefits)	-827	-14,224	-	-	-	-	-	-	-15,051
Charge for 2009/10 (additions not adding value)	-	-27	-	-	-	-	-	-	-27
Charge for 2009/10	-	-	-	-	-	-	-	-	-
Written off on disposal	770	14,224	-	-	-	-	-	-	14,994
Reclassifications	-	-154	-	-	-	-	25	-	-129
Written off on revaluation	-	360	-	-	-	-	-	-	360
At 31 March 2010	-107	-8,129	-	-	-10	-	-193	-	-8,439
Balance Sheet Amount at 31 March 2010	670,353	1,013,856	4,544	4,313	33,621	282,212	5,611	3,829	2,018,339
Restated Balance Sheet Amount at 1 April 2010	622,154	1,020,835	3,218	4,336	29,730	273,995	2,728	4,491	1,961,487
Balance Sheet Amount at 31 March 2009	-	830,589	3,218	4,336	16,463	272,897	-	4,491	1,131,994

Group Financial Statements

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

	Non-Operational			Total Non Operational Assets £000
	Surplus Assets Held for Disposal £000	Assets Under Construction £000	Investment properties £000	
Cost or valuation				
At 31 March 2009	30,977	26,982	-	57,959
Assets transferred due to LGR	67,135	11,093	30,195	108,423
At 1 April 2009	98,112	38,075	30,195	166,382
Additions	-	15,480	13	15,493
Disposals	-1,704	-	-	-1,704
Reclassifications	314	-38,314	-22,208	-60,208
Reclassifications to revenue	-	-	-	-
Revaluations	273	-	-	273
At 31 March 2010	96,995	15,241	8,000	120,236
Depreciation and amortisation				
At 31 March 2009	-35	-	-	-35
Transferred due to LGR	-629	-	-2,504	-3,133
At 1 April 2009	-664	-	-2,504	-3,168
Charge for 2009/10 - Depreciation	-162	-	-	-162
Disposals	6	-	-	6
Reclassifications	-10	-	2,074	2,064
Revaluations	6	-	-	6
At 31 March 2009	-824	-	-430	-1,254
Amortisation				
At 31 March 2009	-	-	-	-
Transferred due to LGR	-11,404	-	-163	-11,567
At 1 April 2009	-11,404	-	-163	-11,567
Charge for 2009/10 (consumption of economic benefits)	-	-	-	-
Charge for 2009/10 (additions not adding value)	-	-	-12	-12
Charge for 2009/10	-	-	-	-
Written off on disposal	-	-	-	-
Reclassifications	-	-	129	129
Written off on revaluation	-	-	-	-
At 31 March 2010	-11,404	-	-46	-11,450
Balance Sheet Amount at 31 March 2010	84,767	15,241	7,524	107,532
Restated Balance Sheet Amount at 1 April 2010	86,044	38,075	27,528	151,647
Balance Sheet Amount at 31 March 2009	30,942	26,982	-	57,924

Note 8. Long-term investments

An analysis of the long-term investments by Durham County Council is given in note 21 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:

2008/09 £000		2009/10 £000
	- County Durham Development Company Limited	-
1,158	Durham County Waste Management Company Limited	1,158
	East Durham Homes Limited	
	- Dale & Valley Homes Limited	-
1,158		1,158

Note 9. Long-term debtors

An analysis of the long-term debtors by Durham County Council is given in note 21 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:

2008/09 £000		2009/10 £000
	- County Durham Development Company Limited	-
1,079	Durham County Waste Management Company Limited	940
	- East Durham Homes Limited	-
	- Dale & Valley Homes Limited	-
1,079		940

Note 10. Debtors

This figure includes £567k (2009: £437k) deferred tax assets relating to Durham County Council Waste Management Company Limited.

Note 11. 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 12. 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 13. Available-for-sale Financial Instruments Reserve

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

Note 14. 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

1. Barclays Bank has provided bonds to customers of the company in order to guarantee ongoing work on a number of contracts. At 31st March 2010 the bonds totalled £3.252m (2009: £3.252m.) 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.

2. 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 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.

Note 15. Reconciliation of Deficit to Net Cash Flow

2008/09			2009/10	
£000	£000		£000	£000
	-71,580	Surplus/deficit (-) for the year		-125,646
	-33	Add Surplus (-)/deficit attributable to subsidiaries		35
		Non-cash transactions		
-2,927		Gain on disposal of fixed assets	-3,566	
176		Amortisation of intangible assets	1,288	
83,396		Depreciation and impairment of fixed assets	113,609	
-14,155		Government grants deferred amortisation	-19,505	
9,760		Net charges on retirement benefits	43,330	
-		Movement on collection fund	562	
7,336		Impairment on investments	-304	
-		Capital receipts to housing capital receipts pool	1,157	
8,362		Add transfers to/from (-) provisions in year	-534	
-		Add transfers to/from (-) reserves in year	-	
-5,779		Other non-cash transactions	337	
	86,169			136,374
		Movement in working capital balances		
-		add decrease/increase (-) in long-term debtors	60	
-96		add decrease/increase (-) in stocks and work in progress	-276	
-8,871		add decrease/increase (-) in debtors and payments in advance	5,220	
14,169		add increase/decrease (-) in creditors and receipts in advance	-34,306	
-61		corporation tax payments	125	
	5,140			-29,177
		Items classified elsewhere in the Cash Flow Statement		
-7,492		Investment and dividend income	-5,165	
6,155		Interest paid	18,784	
	-1,337			13,619
	18,360	NET CASH INFLOW/(-OUTFLOW) FROM REVENUE ACTIVITIES		-4,795

Group Financial Statements Accounting Policies – UK GAAP 2009/10

Accounting standards

The financial statements have been prepared in accordance with applicable United Kingdom accounting standards 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 authority 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 27 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 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 are 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.

THE HOUSING REVENUE ACCOUNT

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

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

Notes to the HRA follow these two statements.

HRA INCOME AND EXPENDITURE ACCOUNT

	2009/10	
	Notes	£000
Income		
Dwelling Rents (Gross)	7	-53,451
Non Dwelling Rents (Gross)		-961
Charges for Services and Facilities		-1,240
Contributions towards Expenditure		-43
Total Income		-55,695
Expenditure		
Repairs and Maintenance		15,664
Supervision and Management	9	12,730
Rent, Rates, Taxes and Other Charges (including Void Rent Loss)	10	1,130
Negative HRA Subsidy Payable	6	2,765
Debt Management Costs		163
Depreciation and Impairment of Fixed Assets	11 and 12	21,457
Bad Debt Provision and Debts Written Off	8	911
Total Expenditure		54,820
Net Cost of HRA Services per Authority Income and Expenditure Account		-875
HRA Services Share of Corporate and Democratic Core		1,590
HRA Share of Other Amounts Included in the Whole Authority Net Cost of Services but Not Allocated to Specific Services		713
Net Cost of HRA Services		1,428
Gain on Sale of HRA Fixed Assets		-1,205
Interest Payable and Similar Charges		5,653
Interest and Investment Income		-79
Deficit for Year		5,797

STATEMENT OF MOVEMENT ON THE HRA BALANCE

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

	2009/10 £000
Deficit for the year on the HRA Income and Expenditure Account	5,797
Net additional amount required by statute to be credited to the HRA Balance for the year	-7,311
Increase in the Housing Revenue Account Balance	-1,514
Housing Revenue Account surplus brought forward	-6,997
HRA surplus carried forward	-8,511

The surplus on the HRA Income and Expenditure Account shown above is measured on a basis that is consistent with UK GAAP. However, local authorities operate under specific statutory rules, which specify what income and expenditure must be taken into account when determining the impact on its HRA. In order to give a full presentation of the financial performance of the Council on its HRA for the year, the HRA Income and Expenditure Account is reconciled to the movement on HRA balance.

NOTE TO THE STATEMENT OF MOVEMENT ON THE HRA BALANCE

	2009/10
	£000
Items included in the HRA Income and Expenditure Account but excluded from the movement on HRA Balance for the Year	
Difference between any other item of income and expenditure determined in accordance with the SORP and determined in accordance with statutory HRA requirements (if any)	-9,695
Gain or loss on sale of HRA Fixed Assets	1,205
Net charges made for retirement benefits in accordance with FRS17	-633
Sums directed by the Secretary of State to be debited or credited to the HRA that are not income or expenditure in accordance with UK GAAP	
Sub Total	-9,123
Items not included in the HRA Income and Expenditure Account but included in the movement on HRA Balance for the Year	
Employer's contributions payable to the Pension Fund and retirement benefits payable direct to pensioners	419
Capital expenditure funded by the HRA	1,393
Sub Total	1,812
Net additional amount required by statute to be debited or credited(-) to the HRA Balance for the Year	-7,311

NOTES TO HRA INCOME AND EXPENDITURE ACCOUNT

1. ACQUIRED OPERATIONS

On 1st April 2009 Durham County Council acquired the housing stock of the former district authorities of Durham City, Easington and Wear Valley.

2. HOUSING STOCK

The Council was responsible for managing an average of 18,954 dwellings during 2009/10. The following table shows the movements in stock numbers at the beginning and end of the year:

Movements in the Year	Houses	Flats	Bungalows	Total
Stock at 1st April, 2009	11,519	1,975	5,485	18,979
Added Back	2	-	-	2
Sales	-24	-1	-2	-27
Demolitions	-5	-6	-12	-23
Other Disposals	-2	-	-	-2
Stock at 31st March, 2010	11,490	1,968	5,471	18,929

The housing stock is managed on a day to day basis by three separate providers consisting of two Arms Length Management Companies (ALMOs) – Dale and Valley Homes (4,276 dwellings) and East Durham Homes Limited (8,529 dwellings), and one in-house provider – Durham City Homes (6,124 dwellings). This reflects the management arrangements that were in place in the former district authorities of Wear Valley, Easington and Durham City prior to local government reorganisation which the new Unitary Authority has now inherited.

3. HOUSING ASSETS VALUATION

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

Asset Type	Valuation at 01/04/2009 £000		Valuation at 31/03/2010 £000	
	Operational assets comprising:			
Dwellings excluding garages	615,477		665,420	
Garages	6,677		4,933	
Total Dwellings including garages		622,154		670,353
Other land and buildings		21,926		25,803
Non-operational assets		7,642		5,878
Total balance sheet valuation		651,722		702,034

The Vacant Possession value of the dwellings held in the Housing Revenue Account as at 1st April 2009 was £1,226,443,464. The valuation of the dwellings in the Balance Sheet (as shown in the table above) is on the basis of Existing Use as Social Housing with secure tenancies. The difference between the Balance Sheet valuation and the higher valuation on the basis of Vacant Possession shows the economic cost of providing council housing at less than open market rents.

4. CAPITAL EXPENDITURE AND FINANCING

The Council spent £27.328m during 2009/10 on its HRA Assets as shown below: -

Expenditure	2009/10 £000
Improvements to Council Housing	27,328
Total Expenditure	27,328

This expenditure was financed as follows:-

Financing	2009/10 £000
Major Repairs Allowance	11,762
Supported Borrowing	13,471
Capital Grants	15
Revenue Contributions	1,393
Reserves and Balances	687
Total Financing	27,328

5. CAPITAL RECEIPTS

During 2009/10 the Council generated £2.198m gross capital receipts from the sale of its Housing assets as shown below: -

Source of Receipt	2009/10 £000
Council House Sales (RTB Legislation)	1,537
Qualifying Council House Disposals	497
Council House Mortgage Repayments	35
Housing Land and Other Sales	129
Total Capital Receipts	2,198

Under the Capital Receipts Pooling Arrangements the Council had to pay over to the Government £1.157m of the above sale proceeds in 2009/10. This is shown in the following table:

Source of Receipt	Capital Receipt £000	Usable Element £000	Poolable Element £000
Council House Sales (RTB Legislation) (1)	1,538	407	1,131
Council House Mortgage Repayments	35	9	26
Housing Land Sales	89	89	-
Qualifying Disposals	497	497	-
Total	2,159	1,002	1,157

(1) Net of the cost of administering Right to Buy sales and the value of improvements made to these properties in the three years prior to their sale.

6. HRA SUBSIDY

The Housing Revenue Account subsidy is based on a notional account representing the Government's assessment of what the Council should be collecting and spending. Below is a breakdown of that assessment:

	2009/10 £000
Management and Maintenance	29,353
Major Repairs Allowance	11,762
Charges for Capital	6,660
Admissible Allowance	-
Rent Constraint Allowance	467
Subsidy Allowances	48,242
Less:	
Mortgage Interest	-6
Assumed Rent Income	-51,001
Subsidy Reductions	-51,007
Total Subsidy Payable	-2,765

The table shows that the Council was in negative HRA Subsidy which meant that sums were payable to Government for redistribution to other authorities.

7. DWELLING RENTS

This sum represents the gross rental income due for the year after allowance is made for empty properties. During the year 1.8% of properties available for rent were vacant, which is less than the Government's target of 2% for empty properties. The average rent in 2009/10 was £54.76 a week on a 52 week basis.

8. RENT ARREARS AND PROVISION FOR BAD AND DOUBTFUL DEBTS

The amount of rent arrears at 31st March 2010 was £3.251m (£3.374m at 1st April 2009).

The Council, in accordance with SORP Guidance, annually reassesses the potential losses that could arise from defaulting debtors. The charge to the HRA reflects the change in the provision required after taking into account sums recovered from former tenants.

The aggregate balance sheet provision in respect of uncollectable debts at 31st March 2010 is £2.428m (£1.838m at 1st April 2009).

The actual charge to the HRA in respect of bad debts provision and debts written off in 2009/10 was £911,270. This charge relates to write-offs of uncollectable rent of £0.321m and an increase in provision of £0.590m to ensure the provision reflects the estimated doubtful debt based on an age profile of value of rent arrears.

9. SUPERVISION AND MANAGEMENT (GENERAL AND SPECIAL)

Supervision and management expenditure on functions relating to all HRA properties are charged under this item. General Services includes expenditure on HRA policy and management, tenancy management, and rent collection and accounting. Special Services are the running costs of those services that benefit specific groups of tenants. These include communal heating and lighting, lifts, caretaking and cleaning, grounds maintenance and non-essential care welfare services. Sheltered Housing provision comes under the heading of Special Services.

The HRA includes management fee payments to the two ALMOs – Dale & Valley Homes and East Durham Homes Limited of £5.853m and £12.260m respectively. This is broken down as follows:

	East Durham Homes Limited £000	Dale & Valley Homes Limited £000	Total £000
Repairs and Maintenance	7,356	4,308	11,664
Supervision and Management	4,904	1,545	6,449
Total Management Fee	12,260	5,853	18,113

10. RENTS, RATES, TAXES AND OTHER CHARGES

This includes all items which the Council is liable to pay in respect of HRA property. It includes Council Tax on empty properties, lease rental on properties, rates and water charges payable on non-dwellings and landlord insurance costs.

11. DEPRECIATION OF FIXED ASSETS

Authorities are required to charge depreciation on all HRA properties calculated in accordance with proper practices, including non-dwelling properties. For HRA dwellings these proper practices need to be considered in the context of the Major Repairs Allowance (MRA), which is a component part of HRA subsidy. It is intended to represent the estimated average annual cost of maintaining the condition of the housing stock over a 60-year period, based on the authority's mix of dwelling archetypes, and it is accepted that the MRA is likely to constitute a reasonable estimate of depreciation for HRA dwellings.

During 2009/10 the total charge made for depreciation of HRA assets was £14.829m as shown below: -

Asset Type	2009/10 £000
Operational Assets: Dwellings	11,762
Operational Assets: Other Buildings e.g. Garages	2,821
Operational Assets: Vehicles, Plant and Equipment	185
Non-Operational Assets: Shops etc	61
Government Grants Written Down	-181
Total Depreciation Charge	14,648

12. IMPAIRMENT OF FIXED ASSETS

There were revaluations in 2009/10 in respect of impairment on HRA assets, resulting in a charge of £6.809m.

13. MOVEMENT ON MAJOR REPAIRS RESERVE (MRR)

The Council is required to maintain a Major Repairs Reserve (MRR). The items to be credited to the reserve are an amount equal to HRA dwelling depreciation for the year, and transfers from the HRA required by statutory provision. Movements in the Major Repairs Reserve during the year were as follows:

Movement on Reserve	2009/10 £000
Balance as at 1st April	-1,888
Depreciation on HRA Assets	-11,762
HRA Capital Expenditure funded from MRA	12,449
Balance as at 31st March	-1,201

COLLECTION FUND

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

2008/09 £000		2009/10	
		Notes	£000
	INCOME AND EXPENDITURE ACCOUNT		
	Income		
-188,124	Council Tax Due from Taxpayers	Note 2	-193,041
-45,885	Council Tax Benefit		-51,181
-96,906	Non-Domestic Rates Due from Ratepayers	Note 3	-98,773
-330,915	Total Income		-342,995
	Expenditure		
	Precepts and Demands	Note 4	
197,783	Durham County Council (including Parishes)		205,167
21,856	Durham Police Authority		22,683
12,676	County Durham and Darlington Fire and Rescue Authority		13,134
	Business Rates		
96,293	Payment to National Pool		98,155
613	Costs of Collection		618
	Bad and Doubtful Debts		
807	Write Offs - Council Tax		867
-1,971	Change in Provision for Bad and Doubtful Debts	Note 5	161
2,846	Distribution of Previous Year's Estimated Surplus	Note 6	2,816
330,903	Total Expenditure		343,601
-12	Movement on Fund Balance		606
-2,410	Surplus on Fund at start of year		-2,422
-2,422	Fund Balance at end of year	Note 7	-1,816

NOTES TO THE COLLECTION FUND ACCOUNTS

1. THE COLLECTION FUND INCOME AND EXPENDITURE ACCOUNT

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

2. COUNCIL TAX

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

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

Based on information on the Valuation Lists (held on a District basis for 2009/10) the properties in each area are categorised into Bands A to H, as in the table below. An agreed proportion is applied to properties in each band to convert them into Band D equivalents. Further adjustments to the number of properties are made in respect of those occupied by a single Council taxpayer (25% discount), second homes, other eligible discounts and an allowance for non-collection to arrive at the Council Tax Base.

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

Property Value	Council Band	Number of Properties in Each Band	Proportion of Band 'D'	Band 'D' Equivalent Properties
Up to £ 40,000	Band A	142,608	6/9ths	95,072
Over £ 40,000 up to £52,000	Band B	27,974	7/9ths	21,758
Over £ 52,000 up to £68,000	Band C	27,561	8/9ths	24,499
Over £ 68,000 up to £88,000	Band D	18,501	1	18,501
Over £ 88,000 up to £120,000	Band E	9,158	11/9ths	11,193
Over £120,000 up to £160,000	Band F	3,483	13/9ths	5,031
Over £160,000 up to £320,000	Band G	1,955	15/9ths	3,258
Over £320,000	Band H	245	2	490
Chargeable Properties (after single person discounts etc)			Taxbase	153,774.7

The Council Tax base for 2008/09 was 153,411.5.

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

Authority	2008/09 £	2009/10 £
Durham County Council *	1,222.94	1,258.92
Durham Police Authority	142.47	147.51
County Durham and Darlington Fire and Rescue Authority	82.62	85.41
Plus Town/Parish precept as applicable		
Average Band D Tax	1,448.03	1,491.84

*The Durham County Council average for 2008/09 includes District Demands.

3. BUSINESS RATES [NON DOMESTIC]

Business Rates are determined on a national basis by Central Government, which sets an annual non-domestic rating multiplier each year.

A new valuation list was applied from 1st April 2005 that re-valued all non-domestic properties and rebased the annual multiplier. A new Small Business Relief was also introduced for properties with lower rateable values. For 2009/10 the general multiplier amounted to £0.485 (£0.462 in 2008/09) and the Small Business Relief was set at £0.481 (£0.458 in 2008/09).

Subject to the effects of transitional arrangements, local businesses pay rates calculated by multiplying their rateable value by this multiplier. The Council is responsible for collecting rates due from the ratepayers in its area but pays the proceeds, after various exemptions and reliefs (e.g. empty premises, charitable organisations, etc) into a national non-domestic rate pool, administered by the Government. The total non-domestic rateable value for Durham County Council at 31st March 2010 was £247,562,015 (£246,967,197 at 31st March 2009).

4. PRECEPTS AND DEMANDS

The following authorities made a Precept or demand on the Fund in 2009/10:

Authority	2008/09 £000	2009/10 £000
Durham County Council*	157,152	205,167
Derwentside	6,850	
Chester-le-Street	3,311	
Wear Valley	4,294	
Durham City	5,353	
Easington	9,104	
Teesdale	2,041	
Sedgefield	9,677	
Durham Police Authority	21,856	22,683
County Durham and Darlington Fire and Rescue Authority	12,676	13,134
Total	232,314	240,984

*In 2009/10, this includes what would have been the District Demands in 2008/09. The District Demands in 2008/09 totalled £40,630,000.

In 2008/09, the District Demands include Town and Parish precepts totalling £10,127,157. In 2009/10, the County Demand includes Town and Parish precepts of £11,576,797

A total of 123 Town and Parish Council levied a Precept in 2009/10. In addition, the newly formed Charter Trust for the City of Durham raised a charge of £5 for each residential dwelling in the former City of Durham.

The Band D Town or Parish precept ranged from £nil to £241.95. There are also areas for which there is no Town or Parish Council.

Regulations require that those Town or Parish Councils levying a precept of £140,000 or more are separately identified in Council Tax literature. Details of those Councils are detailed in the table below:

Parish or Town Council	2008/09 £	2009/10 £
Brandon and Byshottles	124,914	140,635
Chilton	183,892	191,758
Easington Colliery	337,000	345,000
Ferryhill	584,030	594,030
Great Aycliffe	1,576,775	1,625,500
Horden	431,580	448,489
Monk Hesleden	239,600	246,788
Murton	290,000	304,500
Peterlee	1,227,313	1,325,498
Seaham	1,043,372	1,068,935
Sedgefield	218,000	229,000
Sildon	585,990	628,210
Spennymoor	1,165,600	1,170,181
Stanley	0	800,000
Sub Total	8,008,066	9,118,524
Other Town and Parish precepts	2,119,091	2,458,273
Total	10,127,157	11,576,797

5. PROVISION FOR BAD DEBTS

Each year the provision made for uncollectable amounts on both Council Tax and NNDR is revised by examining the aged debt analysis and applying the basis agreed in the Council's detailed accounting policies.

In 2009/10 the bases applied are as follows:

Council Tax Flat rate provision of 30% of arrears. This is temporary arrangement to allow time for the development of an appropriate policy without needing to substantially alter the reserves. This was amended to 15% in the case of Costs charged to Council Tax payers as these are collected before the Council Tax debt.

NNDR The provision is based upon the aged debtors listing, in line with percentages adopted for Sundry debtors .

The agreed percentages were amended in line with the analysis available for the differing Business Rates systems:

Age of debt	Provision Applied
Up to one year	20%
1-2 years	40%
Over 2 years	100%

6. PREVIOUS YEAR'S SURPLUS

Any surplus or deficit on the Collection Fund at the end of the year must be taken into account in setting future years Council Taxes by those authorities precepting upon the fund.

The Council Tax surplus distributed during 2009/2010 was shared between principal authorities as follows: -

Authority	Total Surplus distributed in 2008/09 £000	Total Surplus distributed in 2009/10 £000
Districts	518	-
Durham County Council	1,917	2,400
Durham Police Authority	256	265
County Durham and Darlington Fire and Rescue Authority	155	151
Total Distributed	2,846	2,816

7. COLLECTION FUND BALANCE

The Collection Fund balance at the end of the 2009/2010 financial year amounted to a surplus of £1,816,254 which is due to be shared between principal authorities as shown below: -

Authority	Balance at 31/03/2009 £000	Balance At 31/03/2010 £000
Durham County Council	2,068	1,505
Durham Police Authority	226	196
County Durham and Darlington Fire and Rescue Authority	128	115
Collection Fund Surplus	2,422	1,816

There has been a change in the way that the balances of the Collection Fund are to be accounted for. Under current Guidelines, Durham County Council and the major preceptors, Durham Police Authority and County Durham and Darlington Fire and Rescue, should each account for a share of the Collection Fund balance in proportion to their Precept or Demand on the fund.

Supplementary Financial Statements

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

This does not apply to any balances relating to Business Rates as all such balances relate to Central Government.

The following table shows how the Collection Fund balances have been allocated between Durham County council and the major precepting authorities:

Authority	Collection Fund Surplus £000	Provision for Doubtful debts- Council Tax Arrears £000	Council Tax Arrears £000	Council Tax Overpayments and Prepayments £000
Durham County Council	1,505	3,463	-11,421	3,095
Durham Police Authority	196	414	-1,366	370
County Durham and Darlington Fire and Rescue Authority	115	237	-782	212
	1,816	4,114	-13,569	3,677

DURHAM COUNTY COUNCIL PENSION FUND ACCOUNTS

Pension Fund Account

31st March 2009			31st March 2010	
£000	£000		£000	£000
		DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED IN THE SCHEME		
100,740		Contributions receivable (see note 10)	118,041	
8,463		Individual transfers in	11,186	
	109,203			129,227
-73,359		Benefits payable (see note 11)	-85,473	
-7,168		Payments to and on account of leavers (see note 12)	-13,121	
-1,077		Administration expenses	-1,132	
	-81,604			-99,726
	27,599	Net additions from dealings with members		29,501
		RETURN ON INVESTMENTS		
37,942		Investment income (see note 13)	31,378	
-243,712		Change in market value of investments (see note 5)	375,300	
-3,181		Investment management fees (see note 9)	-3,959	
	-208,951	Net returns on investments		402,719
	-181,352	NET INCREASE / DECREASE (-) IN THE FUND DURING THE YEAR		432,220
	1,431,101	NET ASSETS OF THE FUND AT 1ST APRIL		1,249,749
	1,249,749	NET ASSETS OF THE FUND AT 31ST MARCH		1,681,969

Pension Fund Net Assets Statement

As at 31st March 2009			As at 31st March 2010	
£000	£000		£000	£000
		Investment assets		
25,431		Fixed interest securities (see note 4 and 5)	43,820	
529,019		Equities (see note 4 and 5)	879,152	
284,293		Index linked securities (see note 4 and 5)	313,638	
289,903		Managed and unitised funds (see note 4 and 5)	395,887	
115,510		Cash and short term investments (see note 4 and 5)	20,956	
-		Derivative contracts (see note 8)	5,383	
5,329		Dividend accruals	6,619	
668		Tax recovery	593	
9,881		Other investment balances	1,265	
	1,260,034			1,667,313
		Investment liabilities		
-		Derivative contracts (see note 8)	-6,400	
-14,154		Other investment balances	-3,730	
	-14,154			-10,130
		Current assets		
12,771		Contributions due	27,313	
		Other	2,598	
	12,771			29,911
		Current liabilities		
-163		Unpaid benefits	-465	
-8,739		Other	-4,660	
	-8,902			-5,125
	<u>1,249,749</u>	NET ASSETS OF THE FUND AT 31ST MARCH		<u>1,681,969</u>

The accounts summarise the transactions of the scheme and deal with the net assets at the disposal of the trustees. They do not take account of obligations to pay pensions and benefits which fall due after the end of the period.

The actuarial position of the scheme, which does take account of such obligations, is disclosed in Note 3 and the actuarial statement included in the Annual Report. These accounts should be read in conjunction with them.

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 67 contributing employers including Borough, Parish and Town Councils, Statutory Bodies and Colleges. Since Local Government Reorganisation on the 1st April 2009, the Local Authorities that were the district councils within County Durham ceased to exist and their assets, liabilities and services became part of the Durham County Council. The Administering Authority continues to make contributions for those staff transferred. Contributing authorities now include:

Local Authorities -

Durham County Council
Darlington Borough Council

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 Limited
Dale & Valley Homes Limited
Eastbourne Academy
North East Fire Control Company

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
Trimdon Foundry
Wheatley Hill
Wingate

Colleges -

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

Admitted Bodies -

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

Town Councils -

Barnard Castle
Ferryhill
Great Aycliffe
Peterlee
Seaham
Sedgefield
Shildon
Spennymoor
Stanley

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

Notes to Durham County Council Pension Fund Accounts

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.

In 2009/10, the number of pensionable employees in the Fund was 19,405 (19,303 in 2008/09), and the number of pensioners was 14,922 (14,641 in 2008/09).

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:

2008/09			2009/10	
Benefits £000	Contributions £000		Benefits £000	Contributions £000
32,814	47,114	Administering Authority	70,854	79,405
39,340	47,626	Scheduled Bodies	13,873	28,151
1,205	6,000	Admitted Bodies	746	10,485
73,359	100,740		85,473	118,041

The Corporate Director – Resources is responsible for the administration of the Pension Fund and is assisted by the Pensions Division and Strategic Finance in his statutory duty to ensure the Pension Fund remains solvent and is administered effectively. The Pension Fund Committee meet quarterly to assess investment performance and annually to consider wider matters. The Committee is comprised of Durham County Council and Darlington Borough Council members. Durham County Council officers, staff observers and other stakeholders are also present.

Further information about the Fund can be obtained from its separately published Annual Report, available from the Corporate Director of Resources, County Hall, Durham, DH1 5UE and is available on the County Council's website: 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 2007. However, disclosures have been limited to those required by the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice.

The financial statements summarise the transactions and the net assets of the Pension Fund available to the trustees. 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 has undertaken a valuation during 2007/08, the results of which will determine the contribution rates from 1st April 2008 to 31st March 2011. The previous valuation was undertaken as at 31st March 2004, and set contribution rates from 1st April 2005 to 31st March 2008. Details of the latest valuation are included in note 3.

The principal accounting policies below, which have been applied consistently, have been adopted in the preparation of the financial statements. These differ in their treatment of assets and liabilities from those shown in the pension liability in the Durham County Council's financial statements which are accounted for under FRS 17.

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 -

The Statement of Recommended Practice (SORP) requires that investments are included in the accounts at their market value, or where this cannot be established, at their fair value. Market value is the bid price quoted in an active market for securities and unitised investments. Fair value is the price that a buyer and seller may reasonably exchange an asset in an arm's length transaction. Where the bid price is not used, then the valuation is not SORP compliant. The accounting policies used for specific material types of investment are given below:

- Quoted equity securities that are traded on an exchange are accounted for on a mid-market basis as a basis of fair value, where fund managers provide valuations in this manner. Quoted equities managed by Black Rock are accounted for on a mid-market basis. Where fund managers provide both bid and offer prices, the bid price is used for market value. This is the case for quoted equities managed by Edinburgh partners and Barings Asset Management.
- Unquoted equity investments are included at the value given in the latest financial statements of the entity, adjusted for cash movements where the entity's reporting date differs from the Pension Fund.
- Unitised securities are valued at the closing bid price if bid and offer prices are reported by the relevant exchange and in the fund manager's valuation report; otherwise the mid-market, or average price as reported is used. For single priced unitised securities these are valued at the reported price. CBRE and Barings Asset management managed property funds are included in the accounts on a bid-price basis where available.
- Fixed interest securities, such as bonds, that are traded on an exchange are accounted for on a mid-market basis as a basis of fair value where fund managers provide valuations in this manner. Where fund managers provide both bid and offer prices, the bid price is used for market value. Bonds managed by Royal London Asset Management are valued on a mid-market basis. Fixed interest securities managed by Barings Asset Management are accounted for on a bid price basis.
- All prices in foreign currency are translated into sterling at the prevailing rate on the 31st March.
- Derivatives are included in the Net Assets Statement at fair value and gains and losses arising are recognised in the Fund Account as at 31st March. Fair value on forward foreign currency contracts are determined by the gain or loss that would arise at the 31st March from entering into an equal and opposite contract at that date.

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 31st March where amounts were still outstanding at the year-end.

c) Investment transactions –

Investment transactions arising up to 31st 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 9.

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 pensions 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 31st March 2007, by the Pension Fund's actuary, Hewitt Associates Limited (formerly Hewitt Bacon and Woodrow Limited). Contribution rates were set for the period 1st April 2008 to 31st 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 68 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.

Notes to Durham County Council Pension Fund Accounts

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 5th 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 1st April 2008. The overall contribution rate applicable from 1st April 2008 to 31st 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.

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

	% Pensionable Pay
Long term rate	13.9
Deficit funding (19 years from 1st April 2008)	6.3
Overall contribution rate	20.2

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

Notes to Durham County Council Pension Fund Accounts

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

At 31st March 2009		At 31st March 2010		
£000	%	£000	%	
319,548	28.28	Edinburgh Partners	492,935	30.19
191,487	16.95	Blackrock	346,118	21.20
191,498	16.95	AllianceBernstein	265,212	16.25
281,618	24.93	RLAM	325,628	19.95
47,576	4.21	CBRE	75,019	4.60
97,193	8.60	Baring Asset Management	127,388	7.80
362	0.03	DCC - Residual	-	-
544	0.05	Other	197	0.01
1,129,826	100.00		1,632,497	100.00

5. ANALYSIS OF INVESTMENTS

Investment category	Value at 31st	Purchases at	Sales proceeds	Change in market	Value at 31st
	March 2009	cost	£000	value	March 2010
	£000	£000	£000	£000	£000
Fixed interest securities	25,431	156,149	-132,462	-5,298	43,820
Equities	529,019	391,792	-316,744	275,085	879,152
Index linked securities	284,293	536,343	-544,062	37,064	313,638
Managed and unitised funds	289,903	67,101	-35,436	74,319	395,887
Cash and short term investments	115,510	-	-89,701	-4,853	20,956
Derivative contracts	-	-	-	-1,017	-1,017
	1,244,156	1,151,385	-1,118,405	375,300	1,652,436

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.

31st March 2009 £000	31st March 2010 £000
Fixed interest securities	
13 UK - Public sector	11,751
8,322 UK - other	10,540
10,151 Overseas - Public sector	21,529
6,945 Overseas - other	-
25,431	43,820
Equities	
241,439 UK quoted	438,211
544 UK unquoted	197
287,036 Overseas quoted	440,744
529,019	879,152
Index linked securities	
284,293 UK quoted - Public sector	309,975
- Overseas quoted -Public sector	3,663
284,293	313,638
Managed and unitised funds	
191,498 Managed funds - non property - UK - quoted	265,213
49,043 Managed funds - non property - Overseas - quoted	52,174
20,839 Unit Trusts - property - UK	30,462
28,523 Unit Trusts - property - Overseas	48,038
289,903	395,887
Cash and Short Term Investments	
471 Loans - long term - local authorities	466
91,142 Loans - short term - money market	5,441
23,897 Managers' cash	15,049
115,510	20,956
Derivative Contracts	
- Forward foreign exchange contracts - assets	5,383
- Forward foreign exchange contracts - liabilities	-6,400
-	-1,017

6. CURRENCY HEDGING

All investment managers have agreement to enter into foreign exchange contracts in order to hedge against adverse movements in foreign exchange rates. Several forward foreign currency contracts were open at the period end as shown in note 8. This agreement was subject to prior consultation with the Corporate Director of Resources.

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. DERIVATIVES

2008/09 £000	2009/10 £000
- Forward foreign exchange contracts - assets	5,383
- Forward foreign exchange contracts - liabilities	-6,400
- Market value of derivative contracts	-1,017

Currency is bought and sold by fund managers for future settlement at a pre determined exchange rate. Fund managers use these contracts to hedge against the risk of adverse currency movement on the Fund's investments. Contracts are by their nature over the counter and are primarily in US dollars, Euros and Sterling.

9. 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.

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.

2008/09 £000	2009/10 £000
3,124 Administration, management and custody	3,923
57 Other advisory fees	36
3,181	3,959

10. CONTRIBUTIONS RECEIVABLE

2008/09 £000		2009/10 £000
	Employers -	
70,092	normal contributions	75,191
3,757	special (augmentation) contributions	11,532
2,700	deficit payments	7,060
	Employees -	
24,191	normal contributions	24,258
100,740		118,041
47,114	Durham County Council	79,405
47,626	Scheduled Bodies	28,151
6,000	Admitted Bodies	10,485
100,740		118,041

11. BENEFITS PAYABLE

2008/09 £000		2009/10 £000
63,514	Pensions	68,734
13,176	Commutations and lump sum retirement grants	19,772
1,675	Lump sum death grants	1,938
-5,006	Recharged benefits	-4,971
73,359		85,473
32,814	Durham County Council	70,854
39,340	Scheduled Bodies	13,873
1,205	Admitted Bodies	746
73,359		85,473

12. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2008/09 £000		2009/10 £000
20	Refunds to members leaving service	12
-1	Payments for members joining state scheme	-
7,149	Individual transfers to other schemes	13,109
7,168		13,121

13. INVESTMENT INCOME

2008/09 £000		2009/10 £000
1,130	Fixed interest securities	1,804
4,298	Index linked securities	4,801
20,708	Equities	21,250
1,405	Income from cash deposits	555
10,401	Property unit trusts	2,968
37,942		31,378

14. RELATED PARTY TRANSACTIONS

Durham County Council: Durham County Council administers the Durham County Council Pension Fund on behalf of 67 bodies, including borough, parish and town councils, colleges, statutory bodies and admitted bodies. During 2009/10, the Pension Fund had an average balance of £66.793m (£84.386m in 2008/09) of surplus cash deposited with the Council. In 2009/10 the Council paid the fund a total of £0.536m (£4.085m in 2008/09) in interest on these deposits. The Council charged the fund £1.142m in 2009/10 (£1.077m in 2008/09) for expenses incurred in administering the Fund. Due to being the administering authority Durham County Council has a number of members who are on the Pension Fund Committee. These members are subjected to a declaration of interest circulation as with all Durham County Council members.

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 9.875% 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 31st March 2010:

Amount outstanding 31st March 2009 £000	Employer	Amount outstanding 31st March 2010 £000
309	Sedgefield District Council	n/a
-	Durham County Council	310
162	Sunderland City Council	156
471		466

15. 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 of Resources, County Hall, Durham DH1 5UE and is available on the County Council's website: www.durham.gov.uk

16. 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

17. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVC)

The Pension Fund offers two types of AVC arrangement:

- Purchase of additional pension, which is invested as an integral part of the Fund's assets; and
- 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:

	Value at 31st March 2009 £000	Purchases £000	Sales £000	Change in Market Value £000	Value at 31st March 2010 £000
HECM	2,305	78	-239	266	2,410
Prudential	2,522	980	-949	217	2,770
Standard Life	1,165	100	-188	324	1,401
Total	5,992	1,158	-1,376	807	6,581

The financial statement above, relating to money purchase AVCs, are not audited by the Audit Commission as they do not form part of the Pension Fund's Net Asset Statement or Fund Account.

18. PRIOR YEAR ADJUSTMENTS

The financial statements include a prior year adjustment of £4.379m to the 2008/09 comparators as a result of revised accounting guidance relating to the recognition of augmentation payments.

The adjustments comprised a £1.132m increase in Contributions Receivable for 2008/09 and £3.247m increase in Net Assets of the Fund as at 1st April 2009 in the Pension Fund Account, and also an increase of £4.379m in the Contributions Due figure in the Net Assets Statement as at 31st March 2009.

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

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 the Corporate Director - Resources

I certify that the Statement of Accounts presents a true and fair view of the financial position of the County Council as at 31st March 2010 and its income and expenditure for the year ended 31st March 2010.

D. McLure C.P.F.A.
Corporate Director - Resources
27th October 2010

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 27th October 2010.

E. Bell
Chairman of the Audit Committee
Chair of the meeting approving the accounts

ANNUAL GOVERNANCE STATEMENT 2009/10

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 and 2009 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 2010 and up to the date of approval of the statement of accounts.

3. THE GOVERNANCE FRAMEWORK

This sets out the key documents and processes that determine the way the Council is directed and controlled to meet the six core principles of the CIPFA/ SOLACE Framework. The key elements of the systems and processes that comprise the Council's governance arrangements include:

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

The Sustainable Community Strategy 2010-2030 (SCS) produced by the Council in conjunction with its partners on the County Durham Partnership (CDP) demonstrates its shared long-term vision for the future of County Durham. This vision for County Durham, namely 'Altogether Better Durham' outlines two areas of focus – **Altogether Better Place** and **Altogether Better for People** and five priority themes, which represent the major issues identified by residents in the Place Survey:

- Altogether wealthier;
- Altogether better for children and young people;
- Altogether healthier;
- Altogether greener;
- Altogether safer.

A comprehensive timetable of consultation was in place to develop the SCS and the accompanying three year action plan, and progress is monitored quarterly by the Cabinet and the CDP to ensure that the vision becomes a reality. The Local Area Agreement 2008-2011 (LAA) between local partners and the Government sets out for a three year period agreed targets for the 35 performance indicators which we believe are key to County Durham together with targets for 16 statutory education and early years indicators. It is based on consideration of a broad range of information and evidence and consultation with a wide range of stakeholders. The CDP partners have established a delivery, planning and performance management framework for the partnership to monitor progress.

The Council Plan contains the Council's corporate priorities and the key actions to take in support of delivering the longer term goals in the SCS, the targets in the LAA and the Council's own improvement agenda. The Council Plan is supported by a series of Service Improvement Plans at a Service Grouping level which details the planned actions to deliver the Council's vision. Priorities within the Council Plan are based on:

- The SCS;
- The LAA;
- Current performance;
- New evidence such as the Joint Strategic Needs Assessment and the draft Economic Strategy;
- External inspection findings including CAA corporate inspection, Annual Audit and Inspection Letter, Care Quality Commission annual performance assessment of social care for adults, the Joint Area Review and a number of countywide inspections carried out by the Audit Commission.

Other governance processes and procedures, such as the Asset Management Plan and Partnership Governance Framework, also make clear links to the Council priorities, to ensure that the impact on achieving them is considered when decisions are made.

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

The CDP annually review the SCS to ensure that it remains informative and valuable, and renew it every three years to ensure that our plans remain realistic, achievable within our current resources and soundly based, taking account of national and international developments and other changes.

The Council considers the governance implications of its actions, and 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".

3.3 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 Plan, the SCS, the LAA, Area Action Partnerships, and the Medium Term Financial Plan (MTFP), contribute into the corporate performance management arrangements, and the Council has a framework of quarterly reporting to Cabinet and Overview and Scrutiny on corporate performance. A Performance Statement is produced quarterly by all Service Groupings that includes a summary of achievements and identifies areas with significant performance challenges where a more in depth analysis of performance and improvement work should be carried out. Reports on the budgetary control statement are also considered quarterly by Cabinet. Supporting this, improvements to service delivery are identified and monitored through service improvement plans. The Improvement and Planning Group (IPG) meets fortnightly to discuss Council performance management issues, and similarly, the Development Improvement Group meets monthly to oversee the performance management arrangements of the County Durham Partnership. The Council continually reviews its performance management frameworks, both corporately and across service groupings, and reviews the corporate basket of indicators following the adoption of the Council Plan and Service Improvement Plans.

All complaints are logged and recorded on the customer relationship management system. The Standards Committee review a quarterly report indicating the number and type of complaints, average time to respond and the number of satisfied customers who have used this process. It also states how they have changed practices, procedures or policies as a result of these complaints. These reports can be found on the Council's intranet and website.

The Council's employee performance appraisal arrangements, which are designed around a series of competencies, are a key method of assessing the individual performance of officers, and addressing areas where performance can be improved. These arrangements have been revised during the year, and there is also a commitment to introduce 360° appraisals for senior management (Heads of Service and above).

To enable greater local participation in determining the priorities for service delivery, the Council has fourteen Area Action Partnerships (AAPs) covering the whole County. Working via a series of Task and Finish Groups, multi-agency AAPs are fully engaged with identifying and resolving local priorities, and utilise locality budgets allocated to each AAP to drive improvements to service quality. Progress on achieving these improvements is monitored by the AAP Boards.

The performance and quality of service delivery of the Community and Voluntary sectors is measured against a standard Service Level Agreement that they all work to.

3.4 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 key document which clearly describes roles and responsibilities is the Council Constitution. This includes the individual roles and responsibilities of the:

- Leader of the Council;
- Deputy Leader of the Council;
- Executive Member;
- Executive Support Member;
- Chairman of the Council;
- Vice Chairman of the Council;
- Chairman of a Committee;
- Vice Chairman of a Committee;
- Opposition Group Leader;
- Frontline Councillor (Community Leadership and Corporate Roles);
- Corporate Parenting Panel Member;
- Non-Elected Members (for Audit Committee, Overview and Scrutiny Committee, Pensions Committee and the Standards Committee);
- Officers of the Council, including the Chief Executive and other Statutory senior management appointments.

together with the responsibilities for functions such as the:

- Responsibility for Council Functions (which sets out those matters specifically reserved for collective decision of the Council);
- Responsibilities for Executive Functions;
- Officer Scheme of Delegation;
- Joint Committee Arrangements;
- Overview and Scrutiny arrangements;
- The Standards Committee;
- Budget Framework procedures.

To provide clarity for new councillors regarding their role, responsibilities and how to perform their duties, a Councillor Compact is in place. Specifically it covers:

- The role of the Elected Member;
- Frontline Councillor Roles;

- Executive Roles;
- Non-Executive Roles;
- Membership of Regulatory Committees;
- Partnership Working.

The Corporate Management Framework sets out the collective role and management arrangements for the Corporate Management Team and Extended Management Team.

Members and Officers work together on the workload of the Cabinet which is managed through a system of Cabinet pre-agenda meetings. To support this, Corporate Directors hold regular briefing sessions with Cabinet Portfolio Members and regular support Members, and there are clear principles of how media relations work with elected Members.

When working in partnership, the Council ensures that Members are clear about their roles and responsibilities both individually and collectively in relation to the partnership and to the authority. It also ensures that there is clarity about the legal status of the partnership and ensures that representatives of the organisations both understand and make clear to all other parties the extent of their authority to bind their organisation to partner decisions. Formal guidance is provided for Members when representing the Council on outside bodies and partnerships.

3.5 Developing, communicating and embedding codes of conduct, defining the standards of behaviour for Members and staff

The key elements of the Council's approach are detailed in the Constitution and include:

- The Code of Conduct for Elected Members, Voting Co-opted Members and Independent Members of the Standards Committee;
- The Code of Conduct for Employees;
- The Code of Practice for Members and Officers dealing with planning matters;
- The Statutory Declaration of Acceptance of Office, which all Members are required to sign. This includes an undertaking to observe the requirements of the Code of Conduct in operation at the time. Similar arrangements exist for independent members of the Standards Committee and Voting Co-opted members of the Scrutiny Committee.

The Council's partnership governance framework also makes clear reference to Codes of Conduct applying to any partnership working.

Any breach of the employee code is investigated in accordance with the Council's disciplinary procedures and any breach of the Member code is dealt with under Standards Committee Procedures. All Standards Board investigations into Member conduct are maintained and monitored by the Monitoring Officer and her staff. Quarterly statistics and annual returns containing information about the effectiveness of local standards arrangements are submitted online to the Standards Board for England by the Council's Monitoring Officer.

The Register of Gifts, Interests and Hospitality for Members is available online. The Code of Conduct for Members requires Members (including Co-Opted Members with voting rights):

- to register in the Authority's Register of Interests details of their personal interests;
- who become aware of any changes to his/her interests to provide details of that change to the Monitoring Officer within 28 days;
- to review their declarations of standing interests on an annual basis.

Gifts and hospitality and conflicts of interest are registered as and when required throughout the year. In terms of disclosure of gifts, hospitality and interests, Member declarations/registrations are maintained and monitored by the Monitoring Officer and her staff.

The Monitoring Officer issues advice and guidance (usually on an annual basis) reminding Corporate Directors of their responsibilities under the Code in relation to gifts and hospitality. Staff declarations are maintained and monitored by their Head of Service.

The Council's Standards Committee has an independent Chair and has been given a deliberately broad remit, including all complaints handling and oversight of other relevant

codes and protocols, so as to reinforce the Council's commitment to these issues. In accordance with the Standards Committee (England) Regulations 2008, the role of the Committee has been extended to include the local assessment of Member Conduct complaints.

3.6 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 and is reviewed and amended on an annual basis as required.

The Officer Scheme of Delegation is reviewed annually in line with the review of the Council's Constitution.

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 annually reviews its risk management strategy and policy, which outlines the formal approach to identifying and managing risk.

3.7 Ensure the Authority's financial management arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010)

The Council has appointed the Corporate Director of Resources as Chief Financial Officer (CFO) and Section 151 Officer. The CFO, who is a member of the Corporate Management Team and reports directly to the Chief Executive, is professionally qualified, and has the skills, knowledge, experience and resources to perform effectively in both a financial and non-financial role. The CFO is also the designated lead officer for the Audit Committee, the Corporate Risk Management Group and External Audit. To support these roles, the finance function is adequately resourced to fulfil its duties, and a structure is in place which provides a line of professional accountability for finance staff throughout the Council.

Key CIPFA codes, such as the Code on a Prudential Framework for Local Authority Capital Finance, and the Treasury Management Code, are complied with. Reports on the budgetary control statement, and quarterly outturn reports, are regularly presented to Cabinet and Corporate Management Team.

The CFO is involved in all Corporate Management Team discussions, and reviews all reports to Cabinet which have financial implications. The CFO also provides an opinion under section 25 of the Local Government Act 2003 on the reserves for the County Council, which Members consider when setting the budget.

3.8 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, Corporate Governance and making recommendations concerning relevant governance aspects of the Constitution.

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

The Constitution takes into account all relevant legislation including the Local Government Act 1972, the Local Government Act 2000, the Local Authorities (Functions and Responsibilities) (England) Regulations 2000 and the Local Government and Public Involvement in Health Act 2007. The Constitution is reviewed annually by the Constitution Working Group (CWG). This group consists of the lead Members from each political party and is chaired by the Leader of the Council. It is supported by the Chief Executive and the Head of Legal and Democratic

Services, and other officers as required, and makes recommendations to full Council on changes required to the Constitution. Externally audited accounts are published in the Annual Statement of Accounts.

All reports written by officers include the financial implications in the decisions they are asking Cabinet or Committees to make, and the Constitution states that the Chief Financial Officer can bring influence to bear on all material decisions.

The Constitution states that the Head of Legal and Democratic Services is the senior officer responsible to the authority for ensuring that agreed procedures are followed and that all applicable statutes and regulations are complied with. This is supported by the independent assurance work of Internal Audit. Information is provided for senior officers to understand what they can or cannot do under the Scheme of Delegation.

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

The Confidential Reporting Code (Whistle blowing policy) is part of the Council's Constitution. Together with the Council's complaints procedures, they provide mechanisms for the public to raise concerns about potential breaches of conduct. They are accessible on the Council's website, are communicated to all staff and Members, and have been brought to the attention of School Governing Bodies. These procedures also form part of the Council's approach to counter-fraud and are linked to the Councils' Counter Fraud and Corruption Strategy. An awareness campaign, "combating fraud through awareness" has been developed and encourages the public, staff, Members, contractors and the Council's partners to speak up and report any suspected irregularity.

The Standards Committee regularly monitors complaints handling by Services, including dip-sampling of completed investigations. It reports annually to the Full Council on its business which includes details of Member conduct complaints and Local Government Ombudsman investigations.

3.11 Identifying the development needs of Members and senior officers in relation to their strategic roles, supported by appropriate training

The Council has established systems and processes for identifying the development needs of Members and senior officers. It does this generally by:

- Operating robust recruitment and selection processes;
- Implementing a Member Development Strategy;
- Maintaining the Investor in People Standard;
- Consistent application of the People Strategy;
- Applying the Workforce Development Plan;
- Cascading regular information to Members and Staff;
- Investing in Member and Officer Leadership Training;
- Providing resources that support Member and Officer Development;
- Promoting schemes and supporting ongoing professional development;
- Personal Development Plans;
- Providing training to help Members understand their role on committees;
- Assessing personal development needs as part of the induction process for both Members and officers.

A Member Training and Development Strategy and Member Learning and Development Programme is in place. To support this, the Member Development Group has been established to oversee and co-ordinate Members training needs. This meets six times a year to discuss training and development initiatives for elected Members.

A training programme, based on needs analysis, has been developed, "Building Resilient Organisations Programme", for Corporate Management Team (CMT) and extended management team members, and other senior managers have the opportunity to undertake the North East Excellent Managers programme. Individual personal development of senior officers is addressed as part of the Council's employee performance appraisal arrangements developed with staff and is designed around a series of competencies. There is also a

commitment to introduce 360° appraisals for senior management (Heads of Service and above).

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

A full programme of communication is in place involving presentations, press releases, articles in local magazines and partners publications. The Council itself publishes Durham County News, a community magazine which is provided to all households across the County ten times per year. This is used to raise public awareness and promote consultation and engagement with the Community. To make information more accessible for people who have difficulty reading, the Council website is speech enabled via 'Browsealoud'.

A climate of openness has been encouraged by holding regular Cabinet meetings at various locations throughout County Durham including former district council offices. The Council responds to the views of stakeholders and the community in a number of ways including:

- Publishing a forward plan of key decisions;
- Encouraging and supporting the public in submitting requests for aspects of the Council services to be scrutinised;
- Providing to the public the opportunity to ask questions or make representations at full Council and regulatory committees;
- Boosting our Place Survey so that we had a statistically representative summary of residents' aspirations and needs;
- Incorporating some perception measures determined by the Place Survey into the LAA;
- Designing AAPs in consultation with the public to ensure that they are recognised as representing our natural communities. Each AAP has its own Plan, Board, budget and officer support structure, and are used to identify priorities for each area. They are consulted on the development of our MTFP to identify local priorities for action, test strategic priorities at a local level and seek innovative ideas from local people on how to realise efficiencies by working more closely with our partners;
- Consulting effectively with children and young people, service users and carers and key client groups to help plan and be involved in the design, delivery and evaluation of local services;
- Staff surveys and consultations with staff and Trade Unions.

The CDP has developed a County Durham Partnership Community Engagement and Empowerment framework to shape and support a common vision and approach for community engagement by partners in County Durham, so that people feel able to influence decision making.

3.13 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, and involves partners when developing the council's own three year MTFP, working with key agencies to develop complementary proposals and consulting on a joint basis with the Police and NHS County Durham. The Council has developed a partnership governance framework (PGF) to enable partnerships to be identified, recorded and reported upon corporately and to provide a mechanism for their effectiveness to be assessed. Complementing this, the Council obtains details of the governance arrangements in place at each of our key partner organisations, and conducts independent reviews of governance arrangements by Internal Audit. The Council is establishing joint assurance functions with our partners to improve accountability and data quality. The Council's Corporate Risk Management Team works with the risk managers of partner organisations to ensure joint management of risks to significant partnerships.

To strengthen community governance, the AAP boards comprise seven Members of the public selected through open recruitment; seven Members chosen from partner agencies working in the area and seven selected from local elected Members - including town and parish councillors - on a politically balanced basis for that area. They have a rotating chair, so that they are not indefinitely controlled by the Unitary administration.

The Council's Codes of conduct also apply to its partnership working.

4. REVIEW OF EFFECTIVENESS

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the senior managers within the Council who have responsibility for the development and maintenance of the governance environment, the annual report of the Manager of Internal Audit and Risk, 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

The Council is responsible for appointing the Leader of the Council for the remainder of the term of the Council, and the Cabinet, who are appointed annually, 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.

Chief Financial Officer

The principles outlined in the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010) are complied with by the Council.

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.

Standards 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 contributes to this review by seeking assurance that the Council's governance arrangements are effective. It does this by:

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

Improvement and Planning Group

The Improvement and Planning Group (IPG) co-ordinates and oversees the Council's corporate assurance arrangements. It does this by:

- Preparing and maintaining the Council's Code of Corporate Governance as a formal framework for the Council's governance arrangements;

- Reviewing the systems, processes and documentation to determine whether they meet the requirements of this Code, reporting any breaches and recommending improvements;
- Preparing an Annual Governance Statement to demonstrate how far the Council complies with the principles of good governance and recommending improvements, to be published in the Council's Annual Statement of Accounts.

Internal and External Audit

Internal and External Audit provide independent assurance on the effectiveness of the corporate governance framework.

The review was also informed by a statement provided by each Corporate Director and the Assistant Chief Executive commenting on the effectiveness of the Council's governance arrangements generally and how they impacted on their service areas. These included consideration of the effectiveness of internal controls.

Significant issues arising from the review of the effectiveness, where improvements are needed, are outlined in section 5 below. These will be included in an action plan and will be regularly reviewed and monitored.

5. SIGNIFICANT GOVERNANCE ISSUES

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit Committee. The Council is fully committed to the principles of corporate governance, and has made further progress during the past twelve months in developing its arrangements. Following the production of the Annual Governance Statement (AGS) for 2008/09, an action plan, containing fifteen recommendations was produced. Progress made in implementing each recommendation was confirmed by IPG and formed the starting point of the work to produce the 2009/10 AGS.

In addition to the issues contained within the action plan, IPG sought assurance on the effectiveness of the Council's governance arrangements from each of the Council's Corporate Directors and the Assistant 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.

In identifying these issues, the extent of change following local government re-organisation across the Council in the last year should not be underestimated. It has been particularly challenging for the Council to maintain effective controls over financial systems in the period of migrating to a single financial system for the new Council. One outcome of this has been delays in consolidating financial information together to provide a single set of final accounts, which has resulted in the final Statement of Accounts being agreed later than the statutory deadline. A further programme of work and actions is ongoing in order to ensure continuous improvements are made in this area in order to ensure the Council meet all of our statutory responsibilities by the due dates for the closure of our 2010/11 Statement of Accounts. Based on internal audit work undertaken during 2009/10, the Manager of Internal Audit and Risk has issued a Moderate overall assurance opinion on the adequacy and effectiveness of internal control operating across the Council in 2009/10. This moderate opinion ranking provides assurance that there is basically a sound system of control in place, but there are weaknesses and evidence of non-compliance. Control objectives are often achieved.

The most significant issues, agreed by the Corporate Management Team (CMT) at its meeting on 9 June 2010, and as reported to the Audit Committee on 24 June 2010, together with a summary of action taken or being taken to address each issue is detailed below.

1. Continue the positive direction of travel by implementing the planned control improvements to financial systems.

A number of key actions to address the financial systems weaknesses are being implemented with immediate effect. Dedicated resource has been put in place to deliver a programme of projects which is being personally performance managed by a senior manager with regular progress reporting to the Corporate Director Resources.

The importance of delivery has also been given a high corporate priority and incorporated into the Council's Corporate Improvement Plan which will be monitored by Corporate Management Team throughout the year.

2. Improve the Council's approach to tackling fraud.

Internal Audit has developed and is in the process of implementing a "combating fraud through awareness campaign" to help prevent, deter and detect fraud and raise awareness of the Council's Counter Fraud Strategy. The strategy and the awareness campaign recognises that the Council's employees, elected members, suppliers, contractors, partners and the public all have an important role to play in helping to embed a strong counter fraud culture across the Council.

Internal Audit will monitor and report on the effectiveness of the strategy and ensure that it remains fit for purpose.

3. Improve awareness of, and accessibility to, key policies and documents.

The council will effectively communicate the Council's key statutory documents, policies and procedures, to all employees using a number of alternative media. Accessibility for the community to key policies and documents via the website will also be improved. This will be supported by a framework to ensure that key statutory policies are maintained and kept up-to-date

4. Improve awareness of senior officers of the parts of the constitution relevant to their role, including the scheme of delegated powers, and the legal implications of their decisions.

The Council will raise the awareness of senior officers of the parts of the constitution relevant to their role, including the scheme of delegated powers, and the legal implications of their decisions. To support this, the Council will review the accuracy of information in the Scheme of Delegation, and will ensure that legal implications are considered in every report requiring a decision.

5. Implement policies for Records Management and Information Management and Governance

The Council has now implemented a Records Management policy. Central government will release a revised policy on the Transparency agenda in April 2011, and following this release, the Council will implement an Information Management and Governance policy as soon as possible thereafter.

6. Implement a Single Equalities Scheme.

A Single Equalities Scheme has now been implemented

7. Improve the management by the Services of their contract and supplier relationships.

The Council's Strategic Procurement Network will develop a Corporate Supplier Engagement Strategy to be implemented in both service areas and the corporate centre, as appropriate to each contract and relationship. In addition, procurement guidance will be issued to Officers as a Code of Conduct.

8. Implement revised Financial Management Standards.

The Council is developing Financial Management Standards to supplement the very high level roles and responsibilities defined in the financial procedures rules contained in the Constitution. Financial management standards set out in more detail how the procedure rules will be implemented to help embed sound financial management across the Council.

9. Further embed Officer and Member Codes of Conduct.

Programmes to raise awareness among Members and Officers of their respective Codes of Conduct will be implemented. This will include raising awareness initially via the corporate induction programme.

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.

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Signed:

Simon Henig
Leader of Durham County Council

George Garlick
Chief Executive

Don McLure
Corporate Director - Resources

GLOSSARY OF TERMS USED IN THE ACCOUNTS

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.

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.

Billing Authority

Durham County Council is the billing authority responsible for the collection of Council tax and non-domestic rates. The Council tax includes amounts for precepting authorities.

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.

Collection Fund

An account kept by the Council into which Council tax is paid and through which national non-domestic rates pass, and which pays out money to fund expenditure from the General Fund and the precept made by the Police and Fire Authority.

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.

Council Tax

This is a tax which is levied on the broad capital value of domestic properties, and charged to the resident or owner of the property.

Creditors

Persons or bodies to whom sums are owed by the 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.

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.

Housing Benefit

A system of financial assistance to individuals towards certain housing costs administered by Local Authorities and subsidised by central Government.

Housing Revenue Account (HRA)

This is a separate account to the General Fund, which includes the expenditure and income arising from the provision of housing accommodation by the Authority. The HRA is ring-fenced: no cross subsidy is allowed between the HRA and General Fund.

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.

Investment Properties

Interest in land and/or buildings in respect of which construction work and development have been completed and which are held for their investment potential rather than for operational purposes, any rental income being negotiated at arms length.

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.

Major Repairs Allowance (MRA)

The MRA is an element of housing subsidy, and represents the capital cost of keeping HRA dwellings stock in its current condition. It largely replaces credit approvals as a means of financing HRA capital expenditure.

Managed Funds

A type of investment where a number of investors pool their money into a fund, which is then invested by a fund manager.

Materiality

An expression of the relative significance of a particular issue in the context of the organisation as a whole.

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 (NDR)

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

An amount charged by another Authority to the Councils Collection Fund. There are two major preceptors in Durham County Councils collection fund: the Police and Fire Authorities.

Precept Income

County Councils obtain part of their income from precepts levied on the district councils in their area. Precepts, based on the council tax base of each district council, are levied on a collection fund, administered separately by each district council.

Prior 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 1st April 2004 and replaced them with a Prudential Code under which each local authority determines its own affordable level of borrowing. The Prudential Code requires authorities to set specific prudential indicators on an annual basis.

Public Works Loans Board (PWLB)

A government agency providing long and short-term loans to local authorities at interest rates only slightly higher than those at which Government itself can borrow.

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.

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.