



# Statement of Accounts

## For the year ended 31 March 2017

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

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

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**John Hewitt C.P.F.A.**  
Corporate Director Resources

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## **1. Message from John Hewitt CPFA – Corporate Director Resources**

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

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

It is the Council's view that the financial landscape for all local authorities is likely to remain challenging until at least 2020/21, resulting in the longest period of austerity in modern times. The added uncertainty brought about by the upcoming exit from the European Union will only serve to compound these issues.

By the end of 2016/17, the Council had delivered £185.7m of financial savings and our forecasts show that the Council will need to save an estimated further £59.6m of savings over the three year period 2017/18 to 2019/20, resulting in a cumulative spending reduction of over £245m in the period 2011/12 to 2019/20.

That said, the Council continues to deliver high standard and well regarded services. All service groupings of the Council continue to work together and build on our achievements in order to provide the best possible services for the people of County Durham.

The Council's Medium Term Financial Plan (MTFP) strategy for the last five years has been to protect front line services as far as possible and prioritise back office efficiencies and reductions in management. This strategy is becoming increasingly more difficult to maintain over time with the Council's Transformation Programme being developed to ensure all options are exhausted so front line services can be protected wherever possible. Front line services will however inevitably become increasingly impacted over the next three years, as the year on year cumulative impact of the scale of the cuts increasingly impacts on the resources the Council has available to provide key services.

This document presents the published accounts for Durham County Council for the year ended 31 March 2017 – the 'Statement of Accounts'.

The Council continues to have a robust financial standing with sound and continuously improving financial management procedures and processes in place.

I aim to give the readers of these accounts and all interested parties, including electors, local residents, Council Members, partners and other stakeholders information about the money that the Council has received and spent, that it has been accounted for properly, that the financial standing of the Council continues to be safe and secure and services are being delivered using value for money principles at all times.

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

**John Hewitt CPFA**  
**Corporate Director Resources**

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## 2. Introduction

The purpose of the Statement of Accounts is to give members of the public, electors, those subject to locally levied taxes and charges, members of the Council, employees and other interested parties clear information about the Council's finances in order that they may:

- Understand the financial position of the Council and the outturn for 2016/17;
- Have confidence in the Council's stewardship of public money which has been used and accounted for in an appropriate manner; and
- Be assured that the financial position of the Council is sound and secure.

The Statement of Accounts begins with this Narrative Report and has been prepared in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA).

This Narrative Report provides information about Durham, including key issues affecting the Council and its accounts. It also provides a summary of the financial position as at 31 March 2017 and an executive summary of the non-financial performance of the Council in 2016/17. The purpose is to provide an understandable guide of the most significant aspects of the Council's financial performance, year-end financial position and cash flows. The Narrative Report focuses on the matters that are of relevance to the principal users of the Statement of Accounts. As well as complementing and supplementing the information provided in the Accounts, it also provides a forward look at the issues that have affected the Council's development, performance and position during 2016/17 and are likely to impact in the future. This foreword covers and is structured as below:

- 1 Message from the Corporate Director Resources
- 2 Introduction
- 3 An Introduction to Durham
- 4 An Introduction to Durham County Council
- 5 Financial Performance of the Council 2016/17
- 6 Non-Financial Performance of the Council 2016/17
- 7 Significant Issues for 2017/18 and Beyond
- 8 Corporate Risks
- 9 Summary Position
- 10 Receipt of Further Information
- 11 Explanation of Accounting Statements

## 3. An Introduction to Durham

County Durham is a unique place with a rich cultural history. Durham City has been an important spiritual centre and place of pilgrimage from early medieval times. Today, the castle and cathedral are recognised by UNESCO as a World Heritage site because of their international, cultural and physical significance and is a top attraction in the county for

tourists from around the world. The historic market towns of Barnard Castle and Bishop Auckland also date from the Middle Ages. In its later history, County Durham became a centre for the industrial revolution providing the country and developing empire with coal, steel and ships. The area also saw the development of the world's first passenger steam railway in 1825. An economic past of heavy industry based around mining, metal production and manufacturing leaves a legacy of diverse spatial geography across 12 main towns and numerous villages and smaller communities.

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

Interesting facts about your county:

- County Durham has a population of 519,695 the highest population of any local authority area in the North East region;
- All areas of the county have shown a growth in population since 2001 with Durham City and North Durham experiencing the largest growth rates;
- The working age population in County Durham has increased by 3.1% since 2001 but the population aged 65+ has increased by 26.4% in the same period;
- Key industries in County Durham are manufacturing with approximately 97% being small and micro businesses;
- Durham Castle and Cathedral is one of only 17 sites in England considered to be of such cultural importance that it is designated by UNESCO as a World Heritage Site;
- The remote and unspoiled countryside of the Durham Dales forms part of the North Pennines Area of Outstanding National Beauty; and
- The county has one of the finest coastlines in the country which has been recognised by Natural England and granted Heritage Coast status.

#### **4. An Introduction to Durham County Council**

Durham County Council was established along with other county councils in England and Wales in 1888. The latest reorganisation of local government in Durham in 2009 saw the abolition of the seven district and borough councils in the county and the creation of Durham County Council as a single all-purpose authority providing the full range of local government services to the public.

Interesting facts about your council:

- Durham County Council has a gross budget of over £880m and employs around 8,500 staff - excluding schools;
- The council maintains 3,690 km of highway, over 80,000 street lights, owns and manages 39 libraries, 10 leisure centres, 8 customer access points and 238 schools (excluding academies);
- There are 241,000 domestic and 15,000 business premises in the County;

- We have 126 councillors representing 63 electoral divisions within County Durham making us the largest elected body in England outside of the UK Parliament;
- The political makeup of the council after the County Council elections on 4 May 2017 is as follows:
  - 73 Labour,
  - 14 Liberal Democrat,
  - 13 Durham Independent Group,
  - 10 Conservative,
  - 9 Durham County Council Independent Group,
  - 5 Spennymoor Independent Group,
  - 1 not aligned to any political group,
  - and 1 vacancy;
- Our administrative staff are concentrated at five strategic centres in Crook, Seaham, Spennymoor, Meadowfield and in our headquarters at County Hall in Durham;
- The Council has 14 Area Action Partnerships which cover the whole county; these give residents the chance to set local priorities which are acted on through local projects.

## **5. Financial Performance of the Council 2016/17**

### **Revenue Outturn Position**

The Council's revenue outturn is shown in the following table. The original budget of £413.346m was approved at the Council meeting on 24 February 2016. The original budget set out how the Council planned to allocate its funding during the year in order to deliver services to the people and communities of Durham. During the financial year, amendments to the Council's budget were approved by Cabinet.

In overall terms, the outturn was an underspend of £11.452m for the financial year when comparing actual net expenditure to the revised budgeted/planned net expenditure. The underspend represents 2.7% of the revised total net expenditure budget. The surplus for the year in respect of Service Groupings (£5.552m) has been allocated to the individual Cash Limit Reserves to meet future service demands. The remaining £5.900m was allocated to the Council's General Reserve.

	Original Budget	Revised Budget (Including Qtr 4 Cash Limit Adjustments)	Service Groupings Final Outturn	Variance
	£'000	£'000	£'000	£'000
<b>Service Groupings</b>				
Adult and Health Services	158,665	163,830	159,084	-4,746
Children and Young People's Services	96,429	114,748	118,608	3,860
Regeneration and Local Services	125,882	104,429	101,669	-2,760
Resources	16,282	18,432	16,631	-1,801
Transformation and Partnerships	9,448	13,426	13,321	-105
<b>Sub - Total</b>	<b>406,706</b>	<b>414,865</b>	<b>409,313</b>	<b>-5,552</b>
<b>Corporate Finance</b>				
Contingencies	6,194	4,252	-	-4,252
Centrally Held Budgets	-	-1,572	-1,572	-
Corporate Costs	4,235	4,944	4,701	-243
Capital, Treasury and Technical Accounting	-19,718	-11,257	-12,469	-1,212
Levies	15,929	15,929	15,929	-
<b>Sub - Total</b>	<b>6,640</b>	<b>12,296</b>	<b>6,589</b>	<b>-5,707</b>
<b>Total Net Expenditure</b>	<b>413,346</b>	<b>427,161</b>	<b>415,902</b>	<b>-11,259</b>
<b>Funded By:</b>				
Council Tax	-185,798	-185,798	-185,802	-4
Use of (-) / contribution to earmarked reserves	-11,621	-14,050	-14,050	-
Estimated net surplus on Collection Fund	-2,617	-2,617	-2,617	-
Start up Funding Assessment	-192,977	-192,977	-193,021	-44
New Homes Bonus	-10,182	-10,182	-10,182	-
New Homes Bonus - Re-imburement	-267	-267	-267	-
Section 31 Grant	-4,267	-4,267	-4,400	-133
Education Services Grant	-5,407	-5,407	-5,419	-12
Forecast contribution to / from (-) Cash Limit Reserve	-210	-11,596	-11,596	-
<b>Total Funding</b>	<b>-413,346</b>	<b>-427,161</b>	<b>-427,354</b>	<b>-193</b>
<b>Variance</b>	<b>-</b>	<b>-</b>	<b>-11,452</b>	<b>-11,452</b>

The main variances contributing to the net underspend are as follows:

- In Adult and Health Services (AHS) the early achievement of a number of future MTFP savings from management and support service proposals across the Adult Care and related areas, together with the careful management and control of vacant posts and supplies and services budgets across the service has created a net underspend for the year of £4.6m
- In Children and Young People's Services (CYPS) Children's Services was £4.626m over budget for the year. This is primarily related to costs associated with Children's placements, both those who have a legal status of looked after and those young people in permanent placements that are financially supported by the Council, details as follows:



- Young people requiring to be looked after is a volatile and high cost area of activity within CYPS and current external demographic demands are creating a strain on the service both in terms of staffing and financial resource allocation. The additional demand on the service has been recognised and growth funding has been agreed in 2017/18 to address the identified staffing pressure (£1.384m) and placement costs for young people with a legal status of looked after and those young people accommodated in other placement arrangements that incur costs to the authority (£2.735m). Work actively continues to try to address the placement mix of young people looked after, focusing on increasing the proportion of placements in higher quality low cost in-house foster care but the current numbers and mix of placements is leading to an overspend when combined with non Looked After Children (LAC) permanent placements of £4.192m.
- £4.252m of the Contingencies budget remained unspent at the end of the financial year; and
- There has been an overachievement of investment income of £1.368m which is mainly due to the higher than anticipated levels of cash balances held during 2016/17. This is due to capital expenditure being below base budget levels and generally higher than forecast cash balances.

### **Capital Outturn Position**

The original General Fund capital budget for 2016/17, taking into account the budgets approved by Council on 24 February 2016 and adjustments for re-profiling of underspends at 2015/16 year end was £126.090m. This was agreed by Cabinet on 13 July 2016.

Throughout the year, the Capital Member Officer Working Group (MOWG) has continually reviewed progress in delivering the capital programme to take into account changes in planning and delivery timescales and analysis of changes in demands on resources. Regular updates to the capital programme were reported to and approved by Cabinet as part of the quarterly budgetary control reports in year. Requests for re-profiling capital programme underspends at 31 March 2017 have also been considered by MOWG.

The Council spent £107.141m on its Capital Programme in 2016/17 compared to the revised forecast spend of £112.829m. The Capital Programme was financed through a number of sources including borrowing, Government grants, revenue contributions, earmarked reserves and capital receipts. The capital expenditure incurred during the year and financing of this expenditure is shown in the following table:

	Revised Budget	Service Groupings Final Outturn	Variance
	£'000	£'000	£'000
<b>Service Groupings</b>			
Adult and Health Services	896	633	-263
Children and Young People's Services	24,901	21,499	-3,402
Regeneration and Local Services	78,811	78,656	-155
Resources	4,179	3,856	-323
Transformation and Partnerships	4,042	2,497	-1,545
<b>Total</b>	<b>112,829</b>	<b>107,141</b>	<b>-5,688</b>
<b>Funded By:</b>			
Grants and Contributions	-37,544	-47,150	-9,606
Revenue and Reserves	-2,040	-20,398	-18,358
Capital Receipts	-8,728	-7,649	1,079
Borrowing	-64,517	-31,944	32,573
<b>Total</b>	<b>-112,829</b>	<b>-107,141</b>	<b>5,688</b>

The variance between the revised capital budget and the final outturn for the year was £5.688m. This underspend of planned expenditure will be re-profiled into 2017/18 and future years together with the associated financing and therefore this does not represent a financial issue for the Council.

### Other Key Financial Items in 2016/17

#### Material Assets and Liabilities:

- As at 31 March 2017, the Council held £1,692.139m of Long Term Assets, £241.600m of Current Assets, £113.096m of Current Liabilities and £1,435.373m of Long Term Liabilities.
- Long Term Assets have increased by £60.295m, which is mainly due to an increase in the value of £54.214m in Property, Plant and Equipment assets.
- Current Assets have reduced by £23.585m, which includes the following significant items:
  - A reduction of £16.568m in Short Term Investments due to investment management activities which result in movements between Short Term Investments, Long Term Investments and Cash and Cash Equivalents.
  - A reduction of £3.670m in Short Term Debtors.
  - A reduction of £4.133m in Cash and Cash Equivalents due to investment management activities and day to day cash flow changes.

- Current Liabilities have decreased by £15.600m, which includes the following significant items:
  - A reduction of £10.201m in Short Term Borrowing due to the lower value of loans maturing in 2017/18.
  - A reduction of £5.131m in Short Term Creditors.
- Long Term Liabilities have increased by £235.169m, which includes the following significant items:
  - An increase of £20.005m in Long Term Borrowing, reflecting new loans taken out in 2016/17.
  - An increase of £214.706m in Other Long Term Liabilities mainly due to an increase of £215.992m in the Pension Fund Liability. This is as a result of the financial assumptions used by the Pension Fund Actuary (Aon Hewitt). These assumptions are determined by the Actuary and represent the market conditions at the reporting date. The Council relies and places assurance on the professional judgement of the Actuary and the assumptions used to calculate this actuarial valuation. Further details are given in Note 46.

#### Council's Borrowing Position

- The General Fund Medium Term Financial Plan 2016/17 to 2019/20 and Revenue and Capital Budget 2016/17 Report, approved by Council on 24 February 2016, details the 2016/17 borrowing limits for the Council.
- The specific borrowing limits set relate to two of the prudential indicators that are required under the Prudential Code. The Council is required to set borrowing limits for the following three financial years. The limits for 2016/17 were as follows:
  - Authorised limit for external debt of £552m
  - Operational boundary for external debt of £499m
- As part of the Council's Treasury Management service, these indicators are monitored on a daily basis, and neither was exceeded during 2016/17. The highest level of external debt incurred by the Council during the year was £255.639m.

## 6. Non-Financial Performance of the Council 2016/17

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

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

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

Throughout 2016/17, 70% (40) of our target indicators improved or maintained performance and 69% (41) were approaching, meeting or exceeding target. For tracker indicators, 66% (58) improved or maintained performance. 90% (186) of Council Plan actions have been achieved or are on target to be achieved by the deadline.

You will be able to find the full Quarter Four 2016/17 Performance Management Report on the Durham County Council website after it is approved by Cabinet on 14 June 2017.

## Council Plan

The three year, high level plan is underpinned by a series of service plans and links closely with the Medium Term Financial Plan (MTFP). It sets out how Durham County Council is to consider corporate priorities for improvement, and the key actions to be taken to deliver the longer-term goals in the Sustainable Community Strategy and improvement agenda.

There are five priority themes for County Durham, plus an additional one specifically for the Council. Each of these priorities, alongside the main objectives and achievements are set out below:

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

## Objectives

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

## Achievements

- Attracted Hitachi Rail Europe to Newton Aycliffe generating over 900 jobs.
- Adopted an innovative approach to business and supported the UK's first digital bank in establishing its headquarters in Durham City.
- Digital Durham bringing superfast broadband to the county.
- Successfully launched 'This is Durham – Place of Light'.
- Spectacular programme of cultural events set to provide a multi-million pound boost to tourism and the local economy.

- Transfer of housing stock to County Durham Housing Group Limited paving the way for over 700 homes to be built within the first seven years and securing £800m investment over 30 years.
  - Established Chapter Homes Durham Limited (one of the first local authorities to establish a market housing company).
  - Process in the region of 3,000 planning applications each year.
  - Provided business units for over 300 businesses, employing over 1,600 people.
  - Started a Durham County Records Office internship programme with Durham University.
  - Durham at War project (2014-2018) awarded £0.475m Heritage Lottery Fund grant to create interactive mapping website, recruit and train volunteers to research and upload over 5,000 stories of County Durham people in the First World War.
- **Altogether Better for Children and Young People** - enabling children and young people to develop and achieve their aspirations, and to maximise their potential in line with Every Child Matters.

### Objectives

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

### Achievements

- 94.8% of children offered first choice placement at primary and 98.3% were allocated one of their top three choices at secondary phase.
- Youth Employment Initiative.
- Participation of vulnerable groups of young people in Education, Employment and Training.
- Transition of statements to Education, Health and Care Plans (EHCPs) and compliance of 20 week turnaround for new assessments with parental / young person satisfaction above national level.
- Early Year's outcomes in line with national figures for the first time in the history of Durham.
- Percentage of pupils attending a good or better school.
- Primary phase results are above national average in all assessed areas.
- Percentage of eligible 2 year olds receiving an offer of 15 hours is significantly above national average.
- Outcomes for Looked After Children above national and regional levels in every area.
- Continued very high voluntary buy-back of school improvement services, indicating high levels of confidence in the support the Local Authority offers.
- Quality Improvement Framework developed and introduced to create a culture of quality.
- Reduced social worker caseloads.

- 11 Families First Teams created with the intention of providing a comprehensive family support service to families with complex needs.
- Improved focus on child neglect.
- Many more families living in disadvantaged areas in regular contact with our Children's Centres following implementation of the Early Years Review.
- Award for County Durham Youth Offending Service at the 2017 National Shine a Light Awards.
- County Durham Youth Offending Service in partnership with Public Health have completed the first ever Health Needs Assessment of young people who offend.
- Growth in the number of organisations delivering transitional services between children's and adult services (i.e. Community Outreach, Day Care Services, Befriender Services)

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

### **Objectives**

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

### **Achievements**

- First year of new 0-19 health service, health visitors and school nurse service with some positive changes:
- Employment of five emotional wellbeing nurses
- Implementation of the home environment checklist
- YAM pilot (youth aware mental health) commenced with year 9 students
- Vulnerable parent pathway commenced.
- Oral Health Strategy launched highlighting the significant inequalities in poor oral health for children across the County – work progressing with early years providers to encourage families to visit the dentist regularly and reduce sugar content of food.
- Smoking rates continue to decline.
- Introduction of the Assessment of Service Quality which ensures that providers are delivering high quality services.
- The Wellbeing for Life service, which works closely with communities to improve health and wellbeing has exceeded all targets with over 4,000 people making positive changes to their behaviour.
- Development of a new mental health promotion and prevention model.
- Positive performance for delayed transfers of care show that the target set of 387.6 per 100,000 population aged 18 and over has been exceeded.

- High usage (over 858,000 viewings) of the online service directory application 'Locate' which enables the public to have greater control over choosing their health and care services
- A six-out-of-six rating awarded to Durham Health and Wellbeing Board by the National Energy Action for progress on fuel poverty.
- Durham Humanitarian Support partnership established to support the settlement of Syrian Refugee families into the County

- **Altogether Safer** - creating a safer and more cohesive county.

### Objectives

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

### Achievements

- Seizure of £0.430m worth assets from people committing crimes which harm the community.
- Seizure of over 480,000 cigarettes, more than 70kg of illicit hand rolled tobacco and over £0.050m in raids linked to the supply of suspected illicit tobacco carried out by the Consumer Protection Team between 2015 and now.
- Road safety improved through the introduction of 20 mph safety zones.
- Coordinated and led the operational response to flooding events and provided a high quality winter maintenance service.
- Successful launch of Dying to be Cool campaign including school assemblies and educational video for Safe Durham Partnership – this helped reduced deaths and near misses from 20 in 2014/15 to 7 last year

- **Altogether Greener** - ensuring an attractive and 'liveable' local environment, and contributing to tackling global environmental challenges.

### Objectives

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

### Achievements

- Development of the Air Quality Action Plan for Durham City to reduce the levels of Nitrogen Dioxide from vehicle emissions.
- Achieved maximum 3 star efficiency rating from DfT (one of only 2 in the country).

- Awarded 14 Green Flags for Parks and Cemeteries (the most in the North East).
  - Gold awards for Britain in Bloom and Northumbria in Bloom for Durham City.
  - Received national recognition for tackling envirocrime (fly-tipping).
  - 71 successful prosecutions for fly-tipping since the launch of Operation Stop It.
  - £3m redevelopment of Wharton Park and £1.75m investment in 45 playground sites (ongoing).
  - Finalist in the Local Government Chronicle Awards for community resilience to flooding.
- **Altogether Better Council** - ensuring corporate improvements are achieved against the five priority themes.

### **Objectives**

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

### **Achievements**

- Ongoing development and delivery of the Council's Medium Term Financial Plan.
- The External Auditor's VFM conclusion identified that the Council has proper arrangements to secure financial resilience.
- A sound financial position considering current austerity measures across the public sector.
- Developed the open channel software to enable residents to self-serve e.g. submit single persons discount form.
- Improved performance in benefit processing, recovery of Council Tax and Business Rates and Invoice Payments.
- Successfully managed the Police and Crime Commissioner election in May 2016, European Referendum in June 2016 and County and Parish Council elections in May 2017 with preparations progressing for the General election in June 2017.
- The Property, Planning and Projects legal team were runners up in the Lawyers in local Government Place awards 2016.
- Judiciary recognise the Childcare team as leaders in provision of electronic bundles for cases despite the number of care proceedings almost doubling in the last two years.
- The Litigation team confirmed as providing best value for money in delivering employers liability claims, and have also started to secure funds via Proceeds of Crime applications.
- New online transaction capability for customers.
- A new corporate Customer Relationship Management system.
- System upgrades for increased security against ransomware.



- New face to face customer service facilities, including shared services.
- Simplified telephony: fewer telephone numbers.
- At the forefront of Counter Fraud activity in Local Government across the North East and Nationally. Including joint working with Durham Police in tackling the risk of serious and organised crime across the County
- The County Council won the Municipal Journal award for Excellence in Governance and Scrutiny.
- Continue to develop the Council's Area Action Partnerships. Since they were launched forum membership has grown to over 14,000, and over 4,000 projects have been delivered which have attracted over £48m of matched funding.
- Continue to support local residents and communities in responding to issues of poverty and changes to welfare.
- A comprehensive Budget and Medium Term Financial Plan consultation was carried out which engaged with over 3,000 people.
- Continue to develop our online presence with over 15 million impressions reached on Twitter. We have also grown Facebook followers to over 23,000 and users of our website to over 200,000.
- Established an overarching Transformation Programme for the Council which over the next 5 years aims to:
  - Use our available resources in a more effective way to achieve the best possible outcomes for the people of Durham
  - Help communities to become more resilient
  - Move partnership working from good to great
  - Ensure the Council is renowned for its skilled and flexible workforce and its employee engagement

## **7. Significant Issues for 2017/18 and Beyond**

### **Economic climate**

Since 2010, Durham County Council has faced significant financial challenges due to reductions in funding from central government along with cost pressures within services and greater volatility in financing. This process is on-going, will last until at least 2019/20 and will be continuously reviewed as the Council develops a stronger understanding of the financial challenges it faces.

Government figures highlight significant challenges ahead for councils which will have to make savings, despite receiving a flat-cash settlement over the next four years, sufficient to compensate for any additional cost pressures they face. These include those arising from general inflation, cost pressures in the care sector, increases in the number of adults and children needing support and rising levels of need, increases in demand for everyday services as the population grows, and increases in core costs such as national insurance, the National Living Wage and pension contributions.

The MTFP sets out the Council's approach to achieving a sustainable budget over the medium term whilst ensuring that all revenue resources are directed towards corporate priorities. The MTFP describes the financial direction of the Council over the planning period and outlines the financial pressures it will face.

## **Brexit**

While unclear what the local implications will be, the impact of leaving the European Union (EU) may lead to increased instability and uncertainty in respect of the financial context for councils and regions.

Following the referendum result on 23 June 2016 which meant that the United Kingdom was to leave the EU, the Prime Minister triggered Article 50 on 29 March 2017 which formally began this process. The implications of leaving the EU are not fully known but there could be a potential impact for the Council due to reductions in EU funding, a change in interest rates, an increase in expenditure and an increase in the cost of basic goods which could impact on residents and businesses.

In the 2014 – 2020 EU programming period, the North East Local Enterprise Partnership (LEP) area was allocated approximately £438.5m of European Funding, with £129m specific to County Durham. In County Durham schemes totalling £30.2m are signed off with a further £20.8m of projects pending. No assurances have been given with regards to the remaining funding and as a result the amount of funding at risk is £78m which could rise to £98.8m if the projects pending don't get final sign off.

It is too early to understand the full implications of Brexit on jobs and investment in the County until the trade negotiations begin in earnest.

The Council has already seen a reduction in investment income as a result of interest rate uncertainty. As there is still a degree of doubt, the risk associated with leaving the EU is not measurable.

## **8. Corporate Risks**

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

The Council's key strategic risks are:

- If there was to be slippage in the delivery of the agreed MTFP savings projects, this will require further savings to be made from other areas, which may result in further service reductions and job losses;
- Ongoing Government funding cuts which now extend to at least 2019/20 will continue to have an increasing major impact on all Council services; and
- If the Council were to fail to comply with Central Government's Public Services Network Code of Connection and the Payment Card Industry Data Security Standard criteria for our computer applications, this would put some of the core business processes at risk, such as Revenues and Benefits, which rely on secure transfer of personal data.
- Failure to protect a child from death or serious harm (where service failure is a factor or issue);
- A service failure of Adult Safeguarding leads to death or serious harm to a service user;

- Major Interruption to IT Service Delivery.

## 9. Summary Position

It is clear that the Council's financial and non-financial performance in 2016/17 continues to be good. The revenue outturn with a £11.452m underspend is in line with expectations, capital outturn has been managed to minimise the level of re-profiling required at the year end and the Council has sufficient reserves and balances to provide financial resilience for 2017/18 and future years.

In 2016/17, the Council has faced and dealt successfully with significant change. This trend will continue but the Council is well placed to adapt to the challenges and take advantage of the opportunities offered. There are risks as highlighted above, but there are well established and robust risk management processes in place and, together with robust financial management and reporting, the Council is in a strong position as it moves into 2017/18.

## 10. Receipt of Further Information

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

## 11. Explanation of Accounting Statements

### Main Changes

Following the "Telling the Story" changes to the CIPFA Code of Practice on Local Authority Accounting 2016/17 a number of amendments have been made to the Council's core financial statements and supporting disclosure notes. This includes a simplified Movement in Reserves Statement and a Comprehensive Income and Expenditure Statement (CIES) presented in the Council's reporting format where previously the Net Cost of Services has been reported by SeRCOP classification. In line with International Financial Reporting Standards a full retrospective restatement of the 2015/16 Comprehensive Income and Expenditure Statement has been included within the 2016/17 Statement of Accounts.

### Comprehensive Income and Expenditure Statement (CIES)

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

### Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other 'unusable' reserves. The Surplus or Deficit on the Provision of Services line shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income and Expenditure

Statement. This is different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for council tax setting and dwellings rent setting purposes. The Net Increase/Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

### **Balance Sheet**

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

### **Cash Flow Statement**

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

### **Notes to the Accounts**

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

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

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

On 13 April 2015 the Council's housing stock was transferred to County Durham Housing Group. The HRA disclosures are abbreviated and show only those notes where there were transactions and balances in 2015/16.

## **Collection Fund**

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

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

Shows the operation and membership of the Fund, the expenditure and income during the year and its financial position at 31 March 2017. Following the Accounts are notes providing further information.

## **Annual Governance Statement**

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

## **Glossary of Terms**

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

## **The Council's Responsibilities**

The Council is required to:

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

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

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

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

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

The Corporate Director Resources has also:

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

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

I certify that the Statement of Accounts, which includes the Pension Fund financial statements, presents a true and fair view of the financial position of the Council as at 31 March 2017 and its expenditure and income for the year ended 31 March 2017.

John Hewitt

Corporate Director Resources

29 September 2017

**Certificate of Chairman**

In accordance with Regulation 9 (2) (c) of the Accounts and Audit Regulations 2015, I certify that these Accounts were approved by the Audit Committee at the meeting held on 29 September 2017.

Edward Bell

Chairman of the Audit Committee

Chair of the meeting approving the Accounts

29 September 2017

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

### **Opinion on the Durham County Council financial statements**

We have audited the financial statements of Durham County Council for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, and Collection Fund, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

This report is made solely to the members of Durham County Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Members of Durham County Council, as a body, for our audit work, for this report or for the opinions we have formed.

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

As explained more fully in the Statement of the Corporate Director Resources' Responsibilities, the Corporate Director Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.



## **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Council's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Corporate Director Resources; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the financial position of Durham County Council as at 31 March 2017 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

## **Opinion on other matters**

In our opinion, the information given in the Narrative Report for the financial year for which the financial statements are prepared, is consistent with the financial statements.

## **Matters on which we report by exception**

We report to you if:

- in our opinion the Annual Governance Statement does not comply with Delivering Good Governance in Local Government: Framework (2016);
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

## **Report on the Pension Fund financial statements**

We have audited the Durham County Council Pension Fund financial statements for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014. The Pension Fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

This report is made solely to the members of Durham County Council as a body in accordance with Part 5 of the Local Audit and Accountability Act 2014, and paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Members of Durham County Council, as a body, for our audit work, for this report or for the opinions we have formed.

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

As explained more fully in the Statement of the Corporate Director Resources Responsibilities, the Corporate Director Resources is responsible for the preparation of the Statement of Accounts, which includes the Pension Fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Pension Fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Corporate Director Resources; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Council's Narrative Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## **Opinion on Pension Fund financial statements**

In our opinion the Pension Fund's financial statements:

- give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2017 and the amount and disposition of the fund's assets and

liabilities as at 31 March 2017 other than liabilities to pay pensions and other benefits after the end of the scheme year; and

- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

### **Opinion on other matters**

In our opinion, the information given in the Narrative Report for the financial year for which the financial statements are prepared, is consistent with the financial statements.

### **Conclusion on Durham County Council's arrangements for securing economy, efficiency and effectiveness in the use of resources**

#### **Respective responsibilities of Durham County Council and the auditor**

The Council 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 to review regularly the adequacy and effectiveness of these arrangements.

We are required under section 20 of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

#### **Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources**

We are required to conclude whether the Council has put in place arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We have planned and undertaken our work in accordance with the Code of Audit Practice as issued by the Comptroller and Auditor General, and had regard to relevant guidance. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

## Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General, we are satisfied that in all significant respects, Durham County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

## Certificate

We certify that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the Comptroller and Auditor General.



Mark Kirkham

29 September 2017

For and on behalf of Mazars LLP

Salvus House,

Aykley Heads,

Durham

DH1 5TS



Reporting Code of Practice for Local Authorities (SeRCOP). The 2015/16 comparative figures have been restated to reflect this change. As set out in note 52, there is no net impact on the Cost of Services.

Following a review of the treatment of Trading expenditure and income, the Financing and Investment Income and Expenditure line has been revised to show only the net Trading surplus, instead of gross expenditure and income. As set out in Note 52, there is no impact on Net Expenditure or the Surplus or Deficit on Provision of Services.

2016/17:

	General Fund Balance £000	Earmarked General Fund Reserves £000	Capital Receipts Reserve £000	Capital Grants unapplied Account £000	Total Usable Reserves £000	Unusable Reserves £000	Total Council Reserves £000
<b>Balance at 1 April 2016 brought forward</b>	29,101	241,643	362	524	271,630	296,498	568,128
<b>Movement in Reserves during 2016-17</b>							
Total Comprehensive Income and Expenditure	-59,674	-	-	-	-59,674	-139,443	-199,117
Adjustments between accounting basis and funding basis under regulations (Note 9)	45,478	-	-	-524	44,954	-44,954	-
<b>Net Increase/Decrease in Year before Transfers to Earmarked Reserves</b>	<b>-14,196</b>	<b>-</b>	<b>-</b>	<b>-524</b>	<b>-14,720</b>	<b>-184,397</b>	<b>-199,117</b>
Transfers to/from Earmarked Reserves (Note 10)	8,099	-8,099	-	-	-	-	-
<b>Balance at 31 March 2017 carried forward</b>	<b>23,004</b>	<b>233,544</b>	<b>362</b>	<b>-</b>	<b>256,910</b>	<b>112,101</b>	<b>369,011</b>

2015/16:

	General Fund Balance £000	Earmarked General Fund Reserves £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Capital Grants unapplied Account £000	Total Usable Reserves £000	Unusable Reserves £000	Total Council Reserves £000
<b>Balance at 1 April 2015 brought forward</b>	28,897	214,557	26,078	219	609	270,360	196,187	466,547
<b>Movement in Reserves during 2015-16</b>								
Total Comprehensive Income and Expenditure	-67,444	-	111,180	-	-	43,736	57,845	101,581
Adjustments between accounting basis and funding basis under regulations (Note 9)	71,577	-	-114,101	143	-85	-42,466	42,466	-
<b>Net Increase/Decrease in Year before Transfers to Earmarked Reserves</b>	<b>4,133</b>	<b>-</b>	<b>-2,921</b>	<b>143</b>	<b>-85</b>	<b>1,270</b>	<b>100,311</b>	<b>101,581</b>
Transfers to/from Earmarked Reserves (Note 10)	-3,929	27,086	-23,157	-	-	-	-	-
<b>Balance at 31 March 2016 carried forward</b>	<b>29,101</b>	<b>241,643</b>	<b>-</b>	<b>362</b>	<b>524</b>	<b>271,630</b>	<b>296,498</b>	<b>568,128</b>

<b>31 March 2016</b>		<b>31 March 2017</b>	
<b>£000</b>	<b>Notes</b>	<b>£000</b>	
1,578,946	Property, Plant & Equipment	14	1,616,901
15,445	Heritage Assets	15, 49	15,747
2,267	Investment Property	16	3,694
1,177	Intangible Assets		1,987
12,327	Long Term Investments	17	13,735
21,682	Long Term Debtors	17	23,816
<b>1,631,844 Long Term Assets</b>			<b>1,675,880</b>
156,631	Short Term Investments	17	140,063
6,660	Assets Held for Sale	22	8,604
5,066	Inventories	19	3,908
57,402	Short Term Debtors	20	53,732
38,990	Cash and Cash Equivalents	21	33,340
<b>264,749 Current Assets</b>			<b>239,647</b>
-13,080	Short Term Borrowing	17	-2,879
-107,449	Short Term Creditors	23	-102,318
-3,397	Provisions	24	-7,796
-4,334	Capital Grants Receipts in Advance	38	-3,117
<b>-128,260 Current Liabilities</b>			<b>-116,110</b>
-14,157	Provisions	24	-9,648
-236,221	Long Term Borrowing	17	-256,226
-904,285	Other Long Term Liabilities - Pensions	46	-1,120,277
-45,541	Other Long Term Liabilities - Other	41, 42	-44,255
<b>-1,200,204 Long Term Liabilities</b>			<b>-1,430,406</b>
<b>568,129 Net Assets</b>			<b>369,011</b>
271,630	Usable Reserves	25	256,910
296,499	Unusable Reserves	26	112,101
<b>568,129 Total Reserves</b>			<b>369,011</b>



<b>2015-16</b>		<b>2016-17</b>
<b>£000</b>		<b>£000</b>
-43,736	Net surplus (-) or deficit on the provision of services	59,674
-121,578	Adjustments to net surplus or deficit on the provisions of services for non-cash movements (Note 27)	-134,152
124,027	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities (Note 28)	7,160
<hr/>		
-41,287	Net Cash flows from Operating Activities	-67,318
-5,736	Investing Activities (Note 30)	92,591
81,221	Financing Activities (Note 31)	-19,623
<hr/>		
34,198	Net increase (-) or decrease in cash and cash equivalents	5,650
73,188	Cash and cash equivalents at 1 April	38,990
<hr/>		
<b>38,990</b>	<b>Cash and cash equivalents at 31 March</b>	<b>33,340</b>
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**The values within the financial statements are disclosed with roundings which are appropriate to their individual presentation. Consequently, the tables in the Statement of Accounts may contain rounding differences.**

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## **1. Accounting Policies**

### **1. General Principles**

The Statement of Accounts summarises the Council's transactions for the 2016/17 financial year and its position at the year-end of 31 March 2017. The Council is required by the Accounts and Audit Regulations 2015 to prepare an annual Statement of Accounts. In line with the Regulations, the Statement of Accounts is prepared in accordance with proper accounting practices.

Those practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the Code) and the Service Reporting Code of Practice 2016/17 (SeRCOP), supported by International Financial Reporting Standards (IFRS).

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

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

### **2. Accruals of Income and Expenditure**

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

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Supplies are recorded as expenditure when they are consumed - where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received, rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument, rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet.

Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected. The County Council has a policy of not accruing for manual sundry creditor or sundry debtor provisions for less than £10,000 other than in exceptional circumstances.

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

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

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

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

### **5. Exceptional Items**

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

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

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

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

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

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

Services, support services and trading accounts are debited with the following amounts to record the cost of holding non-current assets during the year:

- Depreciation attributable to the assets used by the relevant service.
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off.
- Amortisation of intangible assets attributable to the service.

The Council is not required to raise Council Tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance.

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

## **8. Employee Benefits**

### **Benefits Payable During Employment**

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees. These are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

### **Termination Benefits**

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits. These benefits are charged on an accruals basis to the Comprehensive Income and Expenditure Statement at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs for restructuring. Where termination

benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the Pension Fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits. These are replaced with debits for the cash paid to the Pension Fund and pensioners and any such amounts payable but unpaid at the year end.

### **Post Employment Benefits**

Employees of the Council are members of three separate pension schemes:

- The Local Government Pension Scheme, administered by Durham County Council.
- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE).
- The NHS Pension Scheme, administered by the NHS Business Services Authority

These schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Council. However, the arrangements for the Teachers' and NHS schemes mean that liabilities for these benefits cannot ordinarily be identified specifically to the Council. The schemes are therefore accounted for as if they were defined contribution schemes and no liability for future payments of benefits is recognised in the Balance Sheet. The Children and Young People's Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year. The Adult and Health Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to the NHS Pension scheme in the year.

### **The Local Government Pension Scheme**

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

- The liabilities of the Durham County Council Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 2.6% (based on the indicative rate of return on high quality corporate bonds, Aon Hewitt GBP Select AA Curve).
- The assets of Durham County Council Pension Fund attributable to the Council are included in the Balance Sheet at their fair value:

1. Quoted securities – current bid price.
2. Unquoted securities – professional estimate.
3. Unquoted securities – current bid price.
4. Property – market value

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

- Service cost, comprising:
  - Current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
  - Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Corporate Costs.
  - Net interest on the net defined benefit liability (asset), i.e. net interest expense for the Council – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period, taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.
  - Gains or losses on settlements and curtailments – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Corporate Costs.
- Remeasurements, comprising:
  - the return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
  - actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
  - Contributions paid to the Durham County Council Pension Fund – cash paid as employer's contributions to the Pension Fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the Pension Fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the Pension Fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

### **Discretionary Benefits**

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

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

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

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

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

## **10. Financial Instruments**

### **Financial Liabilities**

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



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

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

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

## **Financial Assets**

Financial assets are classified into two types:

- Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market.
- Available-for-sale financial assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

## **Loans and Receivables**

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

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

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

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

### **Available-for-Sale Financial Assets**

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

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

- Instruments with quoted market prices – the market price.

- Other instruments with fixed and determinable payments – discounted cash flow analysis.
- Equity shares with no quoted market prices – at cost.

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

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

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

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

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

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

## **11. Foreign Currency Translation**

Where the Council has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts in foreign currency are outstanding at the year-end, they are reconverted at the spot exchange rate at 31 March. Resulting gains or

losses are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

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

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

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

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

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

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

## **13. Heritage Assets**

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

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

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

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

### **Recognition and measurement**

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

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

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

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

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

### **Museum Collections and Artefacts**

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

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

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

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

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

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

### **Civic Regalia and Silverware**

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

### **Geophysical / Archaeological**

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

### **Depreciation**

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

### **Impairment**

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

### **Disposal**

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

financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts.

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

#### **14. Intangible Assets**

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

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

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

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

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

The Code requires local authorities to produce group accounts to reflect significant activities provided to Council Taxpayers by other organisations in which an authority has an interest. The Council has reviewed its interests in companies and other entities that

have the nature of subsidiaries, associates and jointly controlled entities against the criteria for group accounts, as set out in the Code, and has concluded that there are no such material interests that require the preparation of group accounts. In the Council's own single-entity accounts, the interests in companies and other entities are recorded as financial assets at cost, less any provision for losses.

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

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

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

## **17. Investment Property**

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

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

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

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

## **18. Joint Operations**

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



## **19. Leases**

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

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

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

### **The County Council as Lessee**

#### **Finance Leases**

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

Lease payments are apportioned between:

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

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

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

## **Operating Leases**

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

## **The County Council as Lessor**

### **Finance Leases**

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

Lease rentals receivable are apportioned between:

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

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

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

### **Operating Leases**

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the

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

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

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2016/17 (SeRCOP). The total absorption costing principle is used - the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate Costs - costs relating to the Council's status as a multifunctional, democratic organisation and the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

This is a new heading from 2016/17 onwards in the Comprehensive Income and Expenditure Statement, within the net cost of services, to reflect the revised presentation of financial statements as required by the Code of Practice 2016/17. This replaces the previous headings of Corporate and Democratic Core and Non Distributed Costs.

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

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

### **Recognition**

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

### **Measurement**

Assets are initially measured at cost, comprising:

- the purchase price;
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management;

- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

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

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

Donated assets are measured initially at current value. The difference between current value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

Assets are then carried in the Balance Sheet using the following measurement bases:

- Infrastructure, community assets and assets under construction – depreciated historical cost.
- Council offices – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV), except for a few offices that are situated close to the Council’s housing properties, where there is no market for office accommodation, and that are measured at depreciated replacement cost (instant build) as an estimate of current value
- School buildings – current value, but because of their specialist nature, are measured at depreciated replacement cost which is used as an estimate of current value
- Surplus assets – the current value measurement base is fair value, estimated at highest and best use from a market participant’s perspective
- All other assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value.

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

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

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

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

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

All valuations have been undertaken by or under the supervision of a fully qualified Chartered Surveyor (MRICS – Member of the Royal Institution of Chartered Surveyors). The effective date for valuations is 1 April of the financial year and assets are revalued on a five-year rolling programme. All valuations undertaken in 2016/17 were carried out by Council staff. In addition to this rolling programme, assets which have been subject to potentially material change as a result of transactions in any given year will be revalued as and when such changes occur.

### **Impairment**

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

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

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

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

## **Depreciation**

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

Depreciation is calculated on the following bases:

- Dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer up to a maximum of 50 years.
- Vehicles, plant, furniture and equipment – straight line allocation over the useful life of the asset as advised by a suitably qualified officer, mainly up to a maximum of 10 years, however, some specialised items are depreciated over up to 25 years.
- Infrastructure – straight-line allocation over 40 years.
- Surplus Assets – Buildings up to 50 years, Land not depreciated

Where an item of Property, Plant and Equipment has a value greater than £5m and major components greater than 20% of the value of the asset, the components are depreciated separately at rates representative of their useful life.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

## **Disposals and Non-current Assets Held for Sale**

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any losses previously recognised in the Surplus or Deficit on Provision of Services.

Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to Non-current Assets and valued at the lower of their carrying amount before they were classified as held for sale, adjusted for depreciation, amortisation or

revaluations that would have been recognised had they not been classified as Assets Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale. When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

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

## **22. Service Concession Arrangements (Private Finance Initiative (PFI) and Similar Contracts)**

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes, and as ownership of the property, plant and equipment will pass to the Council at the end of the contracts for no additional charge, the Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

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

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

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

- Fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement.
- Finance cost – an interest charge of 10.15% on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- Contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- Payment towards liability – applied to write down the Balance Sheet liability (the profile of write-downs is calculated using the same principles as for a finance lease).
- Lifecycle replacement costs – proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out.

### **23. Provisions**

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

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

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

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



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

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

## **25. Contingent Liabilities**

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

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

## **26. Contingent Assets**

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

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

## **27. Reserves**

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

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

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

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of Council Tax.

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

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

### **30. Schools**

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

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

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

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

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

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

### **31. Collection Fund Statement**

#### **Council Tax Income**

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

#### **Business Rates Income**

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

## **2. Accounting Standards that have been issued but have not yet been adopted**

The Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires the disclosure of information relating to the expected impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of the following new or amended standards within the 2017/18 Code:

- Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investments in Associates and Joint Ventures: Investment Entities – Applying the Consolidation Exception.

The Code requires implementation from 1 April 2017, however, the amendments to these standards do not apply to local authorities as they are not investment entities, therefore there is no impact on the 2016/17 Statement of Accounts.

There are other changes to accounting standards set for adoption in future Codes:

- IFRS 9 Financial Instruments: this new standard replaces IAS 39 from 2018/19 and changes the approach to financial assets and accounting for impairments; its impact is unlikely to be material.

- IFRS 16 Leases: this new standard replaces IAS 17 from 2019/20 and establishes a new model for lessees; this standard is relevant and the impact will need to be assessed and how this will be applied to local authorities.

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

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

- Funding of Local Government -There is a high degree of uncertainty about future levels of funding for local government. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.
- Academy and Foundation Trust Schools - three schools transferred to academy and foundation trust status in 2016/17. At the completion of a statutory process, the governing bodies of the relevant schools have agreed to change from Local Authority maintained schools. The assets are removed from the Council's Balance Sheet and a loss on disposal is recorded in the Comprehensive Income and Expenditure Account at the completion of the statutory process.
- PFI - In 2009/10, the Council signed a Private Finance Initiative contract for the provision of three sets of new school buildings; Sedgefield Community College, Shotton Hall School (now The Academy at Shotton Hall) and Shotton Hall Primary School. The accounting policies for PFI schemes and similar contracts have been applied to the arrangement and the assets are recognised in the balance sheet as they are deemed to fall within the scope of the International Financial Reporting Interpretations Committee (IFRIC) 12. The total net value of land and buildings for these schools is £21.410m, but this does not include assets relating to The Academy at Shotton Hall. Further details can be found in Note 42.
- Accounting for Schools – Balance Sheet Recognition – The Council recognises the land and buildings used by schools in line with the provisions of the Code of Practice. It states that property used by local authority maintained schools should be recognised in accordance with the asset recognition tests relevant to the arrangements that prevail for the property. The Council recognises the schools land and buildings on its Balance Sheet where it directly owns the assets, the school or school Governing Body own the assets or rights to use the assets have been transferred from another entity.

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

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

	Type of School	Nursery Schools	Primary Schools	Secondary Schools	Special Schools	Total
a)	Community	11	138	13	9	171
b)	Voluntary Controlled (VC)	-	15	-	-	15
b)	Voluntary Aided (VA)	-	47	1	-	48
c)	Foundation	-	-	2	-	2
d)	Alternative Provision	-	-	-	1	1
d)	Endowed Parochial	-	1	-	-	1
	<b>Maintained Schools</b>	<b>11</b>	<b>201</b>	<b>16</b>	<b>10</b>	<b>238</b>
e)	Academies	-	14	12	1	27
	<b>Total</b>	<b>11</b>	<b>215</b>	<b>28</b>	<b>11</b>	<b>265</b>

- a) All Community schools are owned by the Council and the land and buildings used by the schools are included on the Council's Balance Sheet.
- b) Legal ownership of VC and VA school land and buildings usually rests with a charity, normally a religious body. VC schools are owned by the Diocese who has granted a licence to the school to use the land and buildings. Under this licence arrangement, the rights of use of the land and buildings have not transferred to the school and thus are not included on the Council's Balance Sheet.
- c) Foundation schools were created to give greater freedom to the Governing Body responsible for school staff appointments and who also set the admission criteria. For a Foundation school, as the school Governing Body has legal ownership of the land and buildings they have been included on the Council's Balance Sheet in line with the Council's judgement.
- d) The Woodlands (Alternative Provision) and Endowed Parochial School are owned by the Council and the land and buildings used are included on the Council's Balance Sheet.
- e) Academies are not considered to be maintained schools in the Council's control. Thus the land and building assets are not owned by the Council and not included on the Council's Balance Sheet.

- Group Accounts – The Council has financial relationships with other related companies, joint ventures and joint arrangements, details of which can be found in Note 39. There are a number of criteria by which the Council must determine whether its interest in such bodies is significant enough to be included in the Council's consolidated accounts. After consideration of these criteria, the Council has determined that the consolidation of related companies would have no material effect on the Council's financial position and therefore it is not necessary to produce Group Accounts for 2016/17.

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

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

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

The items in the Council's Balance Sheet at 31 March 2017 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Property, plant and equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets.	The impact of a change in valuation or useful life would be to affect the carrying value of the asset in the balance sheet and the charge for depreciation or impairment in the CIES.  These changes do not have an impact on the Council's General Fund position as the Council is not required to fund such non-cash charges from council tax receipts.  Accumulated depreciation totalled £292.6m as at 31 March 2017 and a change in methodology resulting in a 1% movement would only change the Balance Sheet by £2.93m.
Property, plant and equipment	Property, plant and equipment (with the exception of infrastructure, community assets, assets	If the actual results differ from the assumptions the value of PPE will be over or understated. This would be adjusted when

Item	Uncertainties	Effect if actual results differ from assumptions
	under construction and small value items of vehicles, plant and equipment) are revalued on a periodic basis and tested annually for indicators of impairment. Judgements are required to make an assessment as to whether there is an indication of impairment. Advice has been provided by valuers employed by the Council.	the assets are next revalued. A 1% change in asset valuation would equate to £16.23m.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements such as the discount rate, future salary increases, mortality expectations, future inflation, and the expected rate of return on the Pension Fund's investments. The Pension Fund engages a firm of specialist actuaries to provide the Council with expert advice about the assumptions to be applied.	The effects on the net pensions liability of changes in individual assumptions can be measured. For instance a 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £51.15m. In order to understand the magnitude of the possible volatility in the balance sheet position and to understand which assumptions are most important in determining the size of the liabilities, it is helpful to understand how sensitive the results are to key assumptions. IAS19 now requires entities to disclose information about the sensitivity of the defined benefit obligation to changes in key assumptions. The results from the sensitivity analysis are disclosed in note 46 and indicate how the figures are sensitive to the assumptions used.
Equal Pay	Provision has been made for the likely payments in respect of Equal Pay settlements in respect of	Payments are likely to be made within 12 months; the provision will be reviewed annually and adjusted accordingly.

Item	Uncertainties	Effect if actual results differ from assumptions
	<p>Schools only. These are provided for in short term provisions and have been included at current prices.</p> <p>There are a number of potential claims in respect of individuals who were identified as potentially being eligible for an Equal Pay settlement but have not yet approached the Council. Due to the uncertainty an amount has been set aside in earmarked reserves rather than in provisions.</p>	<p>The residual settlements made in future years will be reviewed to ensure the adequacy of the balance set aside in earmarked reserves.</p> <p>A change in methodology resulting in a 1% movement would only change the Balance Sheet by £660.</p>
Insurance Provision	<p>The value of provisions that will be used in 2017/18 is uncertain. Based on previous experience, an amount of £2.763m has been classified as short term to reflect the likely use of this provision in 2017/18.</p>	<p>If the short term provision is not used during 2017/18, the annual review of the insurance provision will ensure that an appropriate amount is included in the 2017/18 accounts.</p>
Arrears	<p>At 31 March 2017, the Authority had a balance of debtors of £75.03m. A review of significant balances suggested that an impairment of doubtful debts of 33.20% (£24.91m) was appropriate. However, in the current economic climate it is not certain that such an allowance would be sufficient.</p>	<p>If collection rates were to deteriorate, a doubling of the amount of the impairment of doubtful debts would require an additional £24.91m to be set aside as an allowance.</p>



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## 5. Material Items of Income and Expense

There are no material items of Income and Expenditure to be disclosed separately in the Statement of Accounts in 2016/17.

## 6. Events After the Balance Sheet Date

The Statement of Accounts was authorised for issue by the Corporate Director Resources on 31 May 2017. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2017, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

### Academy Schools

Three local authority schools are due to convert to Academy status during 2017/18 which was a non-adjusting event in 2016/17. This change in status will lead to the removal of these schools from the Balance Sheet in 2017/18 and the loss on disposal will be charged to the Comprehensive Income and Expenditure Statement below the Net Cost of Services. The estimated loss on disposal is £4.257m, which is the carrying value of the assets in the balance sheet.

### Durham County Cricket Club

As part of the all creditor agreement rescue package proposed by the England and Wales Cricket Board (ECB), which was intended to ensure the retention of a financially stable first class county cricket club in County Durham, Cabinet agreed in October 2016 to the conversion of the outstanding balances on the Council's loans totalling £3.740m into redeemable preference shares in a newly formed Community Interest Company (CIC) to run the cricket club.

The final terms were negotiated in June 2017 and the formal legal agreement in respect of the 'Deed of Termination and Capitalisation of Loans' was signed on 30 June 2017.

This change will result in the balance being reclassified as a Long Term Investment rather than a Long Term Debtor in the Balance Sheet in 2017/18. The full financial impact of the change will be reflected in the 2017/18 Statement of Accounts but it is not likely to be material.

## 7. Expenditure and Funding Analysis

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

2015-16				2016-17		
Net Expenditure Chargeable to the General Fund and HRA Balances	Adjustments between Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement		Net Expenditure Chargeable to the General Fund Balance	Adjustments between Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement
£000	£000	£000		£000	£000	£000
144,714	-384	144,330	Adult and Health Services	158,223	-1,385	156,838
71,830	25,260	97,090	Children and Young People's Services	75,388	48,620	124,008
103,412	48,336	151,748	Regeneration and Local Services	98,653	28,213	126,866
13,327	-173	13,154	Resources	13,585	555	14,140
7,538	2,324	9,862	Transformation and Partnerships	9,316	3,514	12,830
4,181	3,430	7,611	Corporate Costs	4,701	942	5,643
2,580	-	2,580	Housing Revenue Account (HRA)*	-	-	-
<b>347,582</b>	<b>78,793</b>	<b>426,375</b>	<b>Net Cost of Services</b>	<b>359,866</b>	<b>80,459</b>	<b>440,325</b>
-390,432	-79,679	-470,111	Other Income and Expenditure	-383,512	2,861	-380,651
41,639	-41,639	-	Adjustments between Funding and Accounting basis outside the CIES	37,842	-37,842	-
<b>-1,211</b>	<b>-42,525</b>	<b>-43,736</b>	<b>Surplus or Deficit</b>	<b>14,196</b>	<b>45,478</b>	<b>59,674</b>
-269,533			Opening General Fund and HRA Balance (including earmarked reserves) at 1 April	-270,744		
-1,211			Less Surplus or Deficit on General Fund and HRA Balance in year	14,196		
<b>-270,744</b>			<b>Closing General Fund Balance (including earmarked reserves) at 31 March</b>	<b>-256,548</b>		

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

## Note to the Expenditure and Funding Analysis

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

2015-16				2016-17				
Adjustments for Capital Purposes	Net change for the Pensions Adjustments	Other Differences	Total Adjustments	Adjustments between Funding and Accounting Basis	Adjustments for Capital Purposes	Net change for the Pensions Adjustments	Other Differences	Total Adjustments
£000	£000	£000	£000		£000	£000	£000	£000
1,251	-1,471	-164	-384	Adult and Health Services	787	-2,175	3	-1,385
29,375	-2,980	-1,135	25,260	Children and Young People's Services	55,396	-3,619	-3,157	48,620
51,881	-3,178	-367	48,336	Regeneration and Local Services	31,635	-3,425	3	28,213
2,215	-2,272	-116	-173	Resources	2,607	-2,049	-3	555
2,718	-373	-21	2,324	Transformation and Partnerships	4,011	-496	-1	3,514
-	3,430	-	3,430	Corporate Costs	-	942	-	942
<b>87,440</b>	<b>-6,844</b>	<b>-1,803</b>	<b>78,793</b>	<b>Net Cost of Services</b>	<b>94,436</b>	<b>-10,822</b>	<b>-3,155</b>	<b>80,459</b>
-108,600	28,921	-	-79,679	Other Income and Expenditure from the Funding Analysis	-26,859	29,720	-	2,861
-40,339	-	-1,300	-41,639	Adjustments between Funding and Accounting basis outside the CIES	-33,987	-	-3,855	-37,842
<b>-61,499</b>	<b>22,077</b>	<b>-3,103</b>	<b>-42,525</b>	<b>Difference between surplus or deficit on General Fund and HRA Balance in year and CIES surplus or deficit</b>	<b>33,590</b>	<b>18,898</b>	<b>-7,010</b>	<b>45,478</b>

### Adjustments for capital purposes

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

### Net Change for the Pensions Adjustments

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

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

### Other Differences

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

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

### Segmental Income

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

<u>2015-16</u>		<u>2016-17</u>
	£000	£000
-39,680	Adult and Health Services	-42,070
-22,579	Children and Young People's Services	-21,618
-41,023	Regeneration and Local Services	-40,774
-9,324	Resources	-8,901
-143	Transformation and Partnerships	-126
-289	Corporate Costs	-354
-1,335	Housing Revenue Account (HRA)*	-
<b>-114,373</b>		<b>-113,843</b>

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

## 8. Expenditure and Income Analysed by Nature

The Council's expenditure and income is analysed as follows. This is made up of expenditure and income both within and outside of the cost of services in the Comprehensive Income and Expenditure Statement, and reconciles to the surplus or deficit on the provision of services.

2015-16		2016-17
£000		£000
	<b>Expenditure</b>	
502,603	Employee benefits expenses	504,123
638,936	Other service expenditure	636,655
102,688	Depreciation, amortisation and other capital charges	103,861
27,475	Precepts and levies	27,442
185,802	Amounts of non-current assets written off on disposal	17,125
15,110	Interest payable	14,212
77,435	Premium payable on repayment of debt	-
<b>1,550,049</b>	<b>Total Expenditure</b>	<b>1,303,418</b>
	<b>Income</b>	
-129,230	Fees, charges and other service income	-128,028
-127,997	Capital receipts	-6,790
-241,588	Council Tax and non domestic rates	-258,547
-1,082,071	Grants and contributions	-834,581
-12,899	Other income	-15,798
<b>-1,593,785</b>	<b>Total Income</b>	<b>-1,243,744</b>
<b>-43,736</b>	<b>Surplus or Deficit on Provision of Services</b>	<b>59,674</b>

## 9. Adjustments Between Accounting Basis and Funding Basis Under Regulations

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

2016/17:

	Usable Reserves			
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Movement in Unusable Reserves £000
<b>Adjustments to Revenue Resources</b>				
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:				
• Pensions Costs (transferred to (or from) the Pensions Reserve)	-18,897	-	-	18,897
• Financial Instruments (transferred to the Financial Instruments Adjustment Account)	122	-	-	-122
• Council Tax and NDR (transfers to or from Collection Fund)	3,733	-	-	-3,733
• Holiday pay (transferred to the Accumulated Absences Reserve)	3,154	-	-	-3,154
• Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital items (these items are charged to the Capital Adjustment Account):				
o Depreciation and amortisation of non-current assets	-58,176	-	-	58,176
o Revaluation and impairment losses on non-current assets, and movements in the fair value of Investment Properties	-29,784	-	-	29,784
o Amounts of non-current assets written off on disposal or sale	-17,105	-	-	17,105
o Revenue expenditure funded from capital under statute	-15,900	-	-	15,900
o Capital grants and contributions credited to the CI&E Statement	46,626	-	-	-46,626
<b>Total Adjustments to Revenue Resources</b>	<b>-86,227</b>	<b>-</b>	<b>-</b>	<b>86,227</b>
<b>Adjustments between Revenue and Capital Resources</b>				
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	6,770	-6,246	-	-524
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)	-8	8	-	-
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	13,589	-	-	-13,589
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	20,398	-	-	-20,398
<b>Total Adjustments between Revenue and Capital Resources</b>	<b>40,749</b>	<b>-6,238</b>	<b>-</b>	<b>-34,511</b>
<b>Adjustments to Capital Resources</b>				
Use of the Capital Receipts Reserve to finance capital expenditure	-	7,648	-	-7,648
Application of capital grants unapplied to finance capital expenditure	-	-	524	-524
Cash payments in relation to deferred capital receipts	-	-1,410	-	1,410
<b>Total Adjustments to Capital Resources</b>	<b>-</b>	<b>6,238</b>	<b>524</b>	<b>-6,762</b>
<b>Total Adjustments</b>	<b>-45,478</b>	<b>-</b>	<b>524</b>	<b>44,954</b>

2015/16:

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

## 10. Transfers to/from Earmarked Reserves

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

	Balance at 1 April 2015 £000	Transfers out 2015-16 £000	Transfers in 2015-16 £000	Balance at 31 March 2016 £000	Transfers out 2016-17 £000	Transfers in 2016-17 £000	Balance at 31 March 2017 £000
<b>General Fund:</b>							
Balances held by schools under a scheme of delegation	24,246	-163	-	24,083	-4,247	-	19,836
Budget Support Reserve	-	-	30,000	30,000	-1,624	14,246	42,622
Business Growth Fund Reserve	913	-97	-	816	-52	-	764
Capital Expenditure Reserve	2,802	-3,802	1,000	-	-	-	-
Cash Limit Reserves	22,363	-15,107	15,044	22,300	-11,597	5,551	16,254
Children's Services Reserve	4,712	-1,328	2,451	5,835	-3,252	2,402	4,985
Continuing Professional Development Reserve	1,035	-	166	1,201	-15	-	1,186
Corporate Reserve - Demographic Pressures	23,600	-23,600	-	-	-	-	-
Culture and Sport Reserve	3,193	-810	672	3,055	-1,776	1,252	2,531
Customer Services Reserve	373	-140	-	233	-23	-	210
Direct Services Reserve	3,193	-741	730	3,182	-2,185	1,608	2,605
DSG Reserve	10,364	-	1,821	12,185	-1,026	-	11,159
Economic Development Reserve	1,486	-913	210	783	-	1,381	2,164
Education Reserve	2,440	-352	1,566	3,654	-399	5,789	9,044
Employability and Training Reserve	458	-229	1,477	1,706	-1,684	103	125
Env. Health and Consumer Protection Reserve	850	-70	34	814	-106	-	708
Equal Pay Reserve	14,116	-4,798	211	9,529	-642	11,253	20,140
Funding and Programmes Management Reserve	140	-	16	156	-	234	390
Housing Regeneration Reserve	410	-112	22	320	-70	841	1,091
Housing Solutions Reserve	867	-19	294	1,142	-121	306	1,327
Housing Stock Transfer Reserve	-	-	1,000	1,000	-1,000	-	-
Human Resources Reserve	65	-	-	65	-57	89	97
Inspire Programme Reserve	-	-	-	-	-	2,664	2,664
Insurance Reserve	15,603	-7,000	1,625	10,228	-2,600	2,363	9,991
Local Council Tax Support Scheme Reserve	1,031	-1,031	-	-	-	-	-
MTFP Redundancy and Early Retirement Reserve	10,881	-7,022	10,000	13,859	-5,849	4,812	12,822
Neighbourhoods AAP Reserve	40	-	8	48	-3	-	45
North Pennines AONB Partnership Reserve	329	-124	-	205	-	123	328
Office Accommodation Capital Reserve	8,000	-	34,481	42,481	-1,836	-	40,645
Office Accommodation Project Support Reserve	1,007	-310	-	697	-620	-	77
Pension Deficit Reserve	-	-	10,000	10,000	-10,000	-	-
Performance Reward Grant Reserve	1,043	-358	-	685	-47	-	638
Planned Delivery Programme (PDP) Reserve	20,000	-20,000	-	-	-	-	-
Planning Reserve	1,423	-174	620	1,869	-573	220	1,516
Public Health Reserve	4,983	-3,734	3,706	4,955	-2,109	590	3,436
REAL Match Fund Programme Reserve	1,344	-50	718	2,012	-457	180	1,735
Resources Corporate Reserve	989	-58	-	931	-438	485	978
Resources DWP Grant Reserve	1,932	-206	308	2,034	-678	325	1,681
Resources Elections Reserve	1,036	-26	-	1,010	-	-	1,010
Resources Housing Benefit Subsidy Reserve	745	-245	-	500	-67	-	433
Resources ICT Reserves	1,130	-372	969	1,727	-1,226	458	959
Resources Land Search Fees Reserve	1,000	-556	-	444	-476	32	-
Resources Legal Expenses Reserve	200	-	-	200	-	-	200
Resources Legal Services Reserve	-	-	154	154	-	-	154
Resources Revenue and Benefits Reserve	-	-	200	200	-	100	300
Resources Single Fraud Incentive Scheme	-	-	257	257	-257	-	-
Resources System Development Reserve	840	-132	166	874	-178	29	725
Restructure Reserve	663	-475	-	188	-74	-	114
Social Care Reserve	13,335	-1,882	1,910	13,363	-7,196	170	6,337
Special Projects Reserve	37	-37	-	-	-	-	-
Strategic Waste Reserve	1,796	-1,660	-	136	-	-	136
T&P AAP/Members Reserve	3,699	-498	405	3,606	-1,124	-	2,482
T&P Grant Reserve	194	-	1,218	1,412	-264	24	1,172
T&P Operational Reserve	124	-8	631	747	-33	176	890
Technical Services Reserve	2,922	-443	1,874	4,353	-1,073	1,351	4,631
Transport Asset Management Programme Reserve	318	-158	-	160	-160	-	-
Transport Reserve	287	-38	-	249	-42	-	207
<b>Total</b>	<b>214,557</b>	<b>-98,878</b>	<b>125,964</b>	<b>241,643</b>	<b>-67,256</b>	<b>59,157</b>	<b>233,544</b>



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The significant earmarked reserves at 31 March 2017, together with a brief explanation of their purpose, were as follows:

**Schools' Revenue Balances**

Surplus or deficit balances of locally managed schools, which are committed to be spent on the education service. The net surplus at 31 March 2017 comprised individual school balances totalling £19.836m, net of loans outstanding of £0.063m.

**Budget Support Reserve**

To enable the Council to protect frontline services for a period and ensure that the Council is able to plan effectively and consult fully on future years' savings plans.

**Cash Limit Reserve**

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

**Children's Services Reserve**

To provide a resource to support the provision of the Children's Services and to improve the service.

**Dedicated Schools Grant and Education Reserve**

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

**Equal Pay Reserve**

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

**Insurance Reserve**

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

**MTFP Redundancy and Early Retirement Reserve**

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

**Office Accommodation Capital Reserve**

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

**Public Health Reserve**

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

**Social Care Reserve**

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

**Technical Services Reserve**

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

**11. Other Operating Expenditure**

2015-16 £000		2016-17 £000
10,921	Parish council precepts	11,513
16,555	Levies	15,929
34	Payments to the Government Housing Capital Receipts Pool	8
57,805	Gains/losses on the disposal of non-current assets	10,334
85,315	<b>Total</b>	37,784

**12. Financing and Investment Income and Expenditure**

2015-16 £000		2016-17 £000
15,110	Interest payable and similar charges	14,212
77,435	Premium payable on repayment of debt (Housing Stock Transfer)	-
28,920	Pensions net interest on the net defined benefit liability	29,720
-4,894	Interest receivable and similar income	-5,852
-	- Impairment of Financial Investments	48
-406	Movement in fair value of investment properties	-1,331
-5,929	Other investment income	-2,409
110,236	<b>Total</b>	34,388

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

2015-16 £000		2016-17 £000
-190,752	Council tax income *	-201,341
-50,836	Non domestic rates	-57,206
-180,607	Non-ringfenced government grants	-158,407
-36,432	Capital grants and contributions	-35,870
-207,035	Government grant in respect of Housing Stock Transfer	-
-665,662	<b>Total</b>	-452,824

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

## 14. Property, Plant and Equipment

Movement on Balance 2016/17:

	Operational				Non-Operational		Total £000
	Land & Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	
<b>Cost or valuation</b>							
At 1 April 2016	1,124,050	132,769	519,567	5,042	54,033	1,267	1,836,727
Additions	42,116	7,398	36,694	305	627	1,427	88,567
Revaluation increases/(decreases)	44,532	-	-15	-	-4,092	-	40,425
Derecognition - disposals	-38,368	-8,734	-	-2	-5,432	-	-52,536
Assets reclassified (to)/from Held for Sale	-	-	-	-	-3,453	-	-3,453
Other reclassifications	-2,120	1	-	1,887	1,186	-1,267	-313
Other movements in cost or valuation	-	-	-	-	-	-	-
<b>At 31 March 2017</b>	<b>1,170,210</b>	<b>131,434</b>	<b>556,246</b>	<b>7,232</b>	<b>42,869</b>	<b>1,427</b>	<b>1,909,417</b>
<b>Accumulated Depreciation and Impairment</b>							
At 1 April 2016	-40,769	-94,802	-121,973	-88	-150	-	-257,782
Depreciation charge	-32,567	-11,368	-13,494	-	-234	-	-57,663
Depreciation written out on revaluation	20,910	-	-	-	221	-	21,131
Impairment losses/(reversals)	-34,251	-	-	-	-63	-	-34,314
Derecognition - disposals	27,552	8,451	-	-	108	-	36,111
Assets reclassified (to)/from Held for Sale	-	-	-	-	1	-	1
Other reclassifications	93	-	-	-	-93	-	-
Other movements in cost or valuation	-	-	-	-	-	-	-
<b>At 31 March 2017</b>	<b>-59,032</b>	<b>-97,719</b>	<b>-135,467</b>	<b>-88</b>	<b>-210</b>	<b>-</b>	<b>-292,516</b>
<b>Net Book Value</b>							
At 31 March 2017	1,111,178	33,715	420,779	7,144	42,659	1,427	1,616,901
At 31 March 2016	1,083,281	37,967	397,594	4,954	53,883	1,267	1,578,945
The Revaluations / Impairments above:							
Revaluation	44,532	-	-15	-	-4,092	-	40,425
Depreciation written out	20,910	-	-	-	221	-	21,131
Impairment losses/(reversals)	-34,251	-	-	-	-63	-	-34,314
	<b>31,191</b>	<b>-</b>	<b>-15</b>	<b>-</b>	<b>-3,934</b>	<b>-</b>	<b>27,242</b>
Are recognised as follows:							
Revaluation / depreciation in the Revaluation Reserve	82,539	-	-	-	-1,312	-	81,227
Revaluation / depreciation in the Surplus/Deficit on the Provision of Services	-17,097	-	-15	-	-2,559	-	-19,671
Impairment losses in the Revaluation Reserve	-23,184	-	-	-	-2	-	-23,186
Impairment losses in the Surplus/Deficit on the Provision of Services	-11,067	-	-	-	-61	-	-11,128
	<b>31,191</b>	<b>-</b>	<b>-15</b>	<b>-</b>	<b>-3,934</b>	<b>-</b>	<b>27,242</b>

## Comparative Movements in 2015/16:

	Operational					Non-Operational		Total £000
	Council Dwellings £000	Land & Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	
<b>Cost or valuation</b>								
At 1 April 2015	114,353	1,121,819	125,990	488,709	2,864	81,377	29,880	1,964,991
Additions	-	32,852	12,510	30,885	2,176	1	10,042	88,466
Revaluation increases/(decreases)	-	-4,738	7	-27	-	-3,952	-	-8,709
Derecognition - disposals	-114,282	-73,077	-5,739	-	-	-7,197	-	-200,294
Assets reclassified (to)/from Held for Sale	-	-	-	-	-	-8,079	-	-8,079
Other reclassifications	-71	47,195	-	-	2	-8,118	-38,655	353
Other movements in cost or valuation	-	-	-	-	-	-	-	-
<b>At 31 March 2016</b>	-	1,124,050	132,769	519,567	5,042	54,033	1,267	1,836,727
<b>Accumulated Depreciation and Impairment</b>								
At 1 April 2015	-	-19,223	-89,336	-109,323	-88	-601	-	-218,571
Depreciation charge	-	-31,108	-10,849	-12,650	-	-302	-	-54,908
Depreciation written out on revaluation	-	8,368	-	-	-	423	-	8,790
Impairment losses/(reversals)	-	-13,405	-23	-	-	-34	-	-13,462
Derecognition - disposals	-	14,669	5,406	-	-	208	-	20,283
Other reclassifications	-	-70	-	-	-	86	-	16
Other movements in cost or valuation	-	-	-	-	-	70	-	70
<b>At 31 March 2016</b>	-	-40,769	-94,802	-121,973	-88	-150	-	-257,782
<b>Net Book Value</b>								
At 31 March 2016	-	1,083,282	37,967	397,594	4,953	53,883	1,267	1,578,945
At 31 March 2015	114,353	1,102,596	36,654	379,386	2,775	80,776	29,880	1,746,420
The Revaluations / Impairments above:								
Revaluation	-	-4,738	7	-27	-	-3,952	-	-8,709
Depreciation written out	-	8,368	-	-	-	423	-	8,790
Impairment losses/(reversals)	-	-13,405	-23	-	-	-34	-	-13,462
	-	<b>-9,775</b>	<b>-16</b>	<b>-27</b>	-	<b>-3,564</b>	-	<b>-13,381</b>
Are recognised as follows:								
Revaluation / depreciation in the Revaluation Reserve	-	17,036	-	-	-	-2,726	-	14,310
Revaluation / depreciation in the Surplus/Deficit on the Provision of Services	-	-13,406	7	-27	-	-804	-	-14,230
Impairment losses in the Revaluation Reserve	-	-10,568	-	-	-	-21	-	-10,589
Impairment losses in the Surplus/Deficit on the Provision of Services	-	-2,837	-23	-	-	-13	-	-2,873
	-	<b>-9,775</b>	<b>-16</b>	<b>-27</b>	-	<b>-3,564</b>	-	<b>-13,381</b>

## Depreciation

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

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

## Surplus Property

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

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

When the fair values cannot be measured based on quoted prices in active markets for identical properties (i.e. Level 1 inputs), their fair value is measured using valuation techniques (e.g. quoted prices for similar properties or the discounted cash flow model). Where possible, the inputs to these valuation techniques are based on observable data but where this is not possible judgement is required in establishing fair values. These judgements typically include considerations such as uncertainty and risk. However, changes in the assumptions used could affect the fair value of the Council's assets.

The fair value for the above properties at 31 March 2017 (£42.659m) has been based on the market approach using current market conditions and recent sales prices and other relevant information for similar assets in the local area. Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs are significant, leading to the properties being categorised at Level 2 in the fair value hierarchy.

## Capital Commitments

At 31 March 2017 the Council had entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2016/17 and future years budgeted to cost £20.114m. Similar commitments at 31 March 2016 were £20.224m. The commitments are:

- |                                   |         |
|-----------------------------------|---------|
| • Thornley Waste Transfer Station | £0.543m |
| • Digital Durham                  | £4.493m |
| • Forrest Park                    | £2.136m |
| • NET Park Explorer Village       | £5.462m |

• NET Park Infrastructure Phase 3	£2.560m
• Schools Projects	£2.758m
• Building Schools for the Future	£2.162m

## 15. Heritage Assets

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

	Museum Collection and Artefacts £000	Artwork, Public Art and Sculptures £000	Monuments, Statues and Historic Buildings £000	Civic Regalia and Silverware £000	Total Assets £000
<b>Cost or valuation</b>					
At 1 April 2015	9,061	1,024	4,528	846	15,459
Additions	-	-	-	-	-
Disposals	-	-	-	-	-
Revaluations	-	-1	1	-	-
Impairment Losses/(reversals) recognised in the Revaluation Reserve	-	-	-	-	-
Impairment Losses/(reversals) recognised in Surplus or Deficit on the Provision of Services	-	-	-	-	-
Depreciation	-	-	-	-	-
Assets reclassified (to)/from Property Plant and Equipment	-	-	-15	-	-15
Other reclassifications	-108	-204	-	312	-
<b>At 31 March 2016</b>	<b>8,953</b>	<b>819</b>	<b>4,514</b>	<b>1,158</b>	<b>15,444</b>
<b>Cost or valuation</b>					
At 1 April 2016	8,953	819	4,514	1,158	15,444
Additions	20	4	91	-	115
Disposals	-	-	-	-	-
Revaluations	-	-	-	-	-
Impairment Losses/(reversals) recognised in the Revaluation Reserve	-	-	-	-	-
Impairment Losses/(reversals) recognised in Surplus or Deficit on the Provision of Services	-	-	-	-	-
Depreciation	-	-	-	-	-
Assets reclassified (to)/from Property Plant and Equipment	-12	-	199	-	187
Other reclassifications	-	-	-	-	-
<b>At 31 March 2017</b>	<b>8,961</b>	<b>823</b>	<b>4,804</b>	<b>1,158</b>	<b>15,746</b>

### Museum Collections and Artefacts

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

### Artwork, including Public Art and Sculptures

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

### Monuments, Statues and Historic Buildings

Where monuments, statues and historic buildings are recognised on the balance sheet they are reported at insurance value, where available, otherwise at existing use value or at cost.

### Civic Regalia and Silverware

Civic regalia and silverware are recorded at insurance value, where available, or the amount at which they have been valued by professional valuers.

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

## 16. Investment Properties

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

2015-16 £000	2016-17 £000
-776 Rental Income from Investment Property	-1,891
805 Direct Operating Expenses arising from Investment property	1,680
<u>29 Net (-) Gain / Loss</u>	<u>-211</u>

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

2015-16 £000	2016-17 £000
3,743 Balance at start of the year	2,266
Additions:	
- Enhancements	-
-1,575 Disposals	-
437 Net gains/losses from fair value adjustments	1,302
Transfers:	
-339 To/from Property, Plant and Equipment	125
<u>2,266 Balance at end of the year</u>	<u>3,693</u>

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

The fair value for the above properties at 31 March 2017 (£3.693m) has been based on the market approach using current market conditions and recent sales prices and other relevant information for similar assets in the local area. Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs are significant, leading to the properties being categorised at Level 2 in the fair value hierarchy.

## 17. Financial Instruments

### Categories of Financial Instruments

The borrowings and investments, debtors and creditors, and other long term liabilities, disclosed in the Balance Sheet are made up of the following categories of financial instruments:

2015-16 (Restated)			2016-17	
Long-term £000	Current £000		Long-term £000	Current £000
<b>Investments:</b>				
19	156,631	Loans and receivables	13	140,063
-	38,990	Cash and cash equivalents	-	33,340
12,308	-	Available-for-sale financial assets	13,725	-
<u>12,327</u>	<u>195,621</u>	<b>Total Investments</b>	<u>13,738</u>	<u>173,403</u>
<b>Debtors:</b>				
21,682	41,494	Loans and receivables	23,816	38,809
<u>21,682</u>	<u>41,494</u>	<b>Total Debtors</b>	<u>23,816</u>	<u>38,809</u>
<b>Borrowings:</b>				
-236,221	-13,081	Financial Liabilities at amortised cost	-256,226	-2,880
<u>-236,221</u>	<u>-13,081</u>	<b>Total Borrowings</b>	<u>-256,226</u>	<u>-2,880</u>
<b>Other Long term Liabilities:</b>				
-45,541	-3,762	PFI and finance lease liabilities at amortised cost	-44,254	-3,623
<u>-45,541</u>	<u>-3,762</u>	<b>Total other long term liabilities:</b>	<u>-44,254</u>	<u>-3,623</u>
<b>Creditors:</b>				
-	-79,220	Financial liabilities at amortised cost	-	-67,706
-	-	Financial liabilities carried at contract amount	-	-
<u>-</u>	<u>-79,220</u>	<b>Total Creditors</b>	<u>-</u>	<u>-67,706</u>

In addition to the above categories of financial instruments, cash and cash equivalents are also financial instruments as defined by International Accounting Standard (IAS) 32. Further details can be found in Note 21.



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

### Long Term Debtors

The value of long term debtors at 31<sup>st</sup> March 2017 of £23.8m (£21.6m 31<sup>st</sup> March 2016) includes the following:

<b>2015-16</b>	<b>2016-17</b>
<b>£000</b>	<b>£000</b>
2,910 Chapter Homes	5,850
3,649 Durham County Cricket Club	3,649
9,385 Newcastle International Airport	9,385
1,194 Independent sector care providers	1,161
2,454 Care placement deferred income	1,903
2,090 Other	1,868
<u>21,682</u> <b>Total</b>	<u>23,816</u>

### Soft Loans

The Council will sometimes make loans at less than market rates, where a service objective justifies making a concession. The Code requires the discounted interest rate to be recognised as a reduction in the fair value of the asset when measured for the first time. This treatment reflects the economic substance of the transaction, i.e. the Council is locking itself into an arrangement where it will incur an effective loss on interest receivable over the life of the instrument.

### Loans to Voluntary Organisations

The Council has made a number of loans to voluntary organisations at less than market rates (soft loans). The value of soft loans issued by the Council at 31 March 2017 was £0.061m (31 March 2016 £0.061m). They are not considered to be material.

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

### Employee Car Loans

The Council made loans for car purchase to 21 employees. These employees are in posts that require them to drive regularly on the Council's business. Interest is charged on the loans based on the emissions of the vehicle. At the current level of interest rates, the Council assesses that the rate for such loans are no longer less than market rates. The scheme is no longer available to employees.

The value of soft loans issued by the Council at 31 March 2017 was £0.001m (31 March 2016 £0.023m).

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

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

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

At 31 March 2017, the value of soft loans received by the Council was £0.024m (31 March 2016, nil).

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

### **Reclassifications**

There have been no reclassifications for the financial year 2016/17.

## Income, Expense, Gains and Losses

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

2015-16					2016-17					
Financial Liabilities measured at amortised cost	Financial Assets: Loans and receivables	Financial Assets: Available for sale	Assets and Liabilities at Fair Value through Profit and Loss	Total		Financial Liabilities measured at amortised cost	Financial Assets: Loans and receivables	Financial Assets: Available for sale	Assets and Liabilities at Fair Value through Profit and Loss	Total
£000	£000	£000	£000	£000		£000	£000	£000	£000	£000
92,545	-	-	-	92,545	Interest expense	14,212	-	-	-	14,212
-	-	-	-	-	Impairment losses	-	-	-	-	-
92,545	-	-	-	92,545	<b>Total expense in Surplus or Deficit on the Provision of Services</b>	14,212	-	-	-	14,212
-	-4,894	-	-	-4,894	Interest income	-	-5,852	-	-	-5,852
-	-	-	-	-	Interest income accrued on impaired financial assets	-	-	-	-	-
-	-4,894	-	-	-4,894	<b>Total income in Surplus or Deficit on the Provision of Services</b>	-	-5,852	-	-	-5,852
92,545	-4,894	-	-	87,651	<b>Net gain/(loss) for the year</b>	14,212	-5,852	-	-	8,360

## Fair Values of Assets and Liabilities

Financial liabilities and financial assets represented by loans and receivables are carried on the balance sheet at amortised cost (in long term assets/liabilities with accrued interest in current assets/liabilities). Their fair value can be assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments (level 2), using the following assumptions:

- For loans from the PWLB and other loans payable, new borrowing rates from the PWLB have been applied to provide the fair value under PWLB debt redemption procedures;
- For loans receivable, prevailing benchmark market rates have been used to provide the fair value;
- No early repayment or impairment is recognised;
- Where an instrument has a maturity of less than 12 months, or is a trade or other receivable, the fair value is taken to be the carrying amount or the billed amount;

- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values calculated are as follows:

<b>31 March 2016</b>			<b>31 March 2017</b>		
Carrying Amount £000	Fair Value £000		Carrying Amount £000	Fair Value £000	
-193,983	-224,988	PWLB borrowing	-203,981	-241,049	
-51,639	-63,398	Non-PWLB borrowing	-51,651	-76,614	
-10,002	-10,002	Short term borrowing	-2	-2	
-82,982	-82,982	Short term creditors	-71,329	-71,329	
-2,833	-2,833	Short term finance lease liability	-2,666	-2,666	
-	-	Long term creditors	-	-	
-5,411	-5,411	Long term finance lease liability	-5,082	-5,082	
<b>-346,850</b>	<b>-389,614</b>	<b>Total Liabilities (excluding PFI)</b>	<b>-334,711</b>	<b>-396,742</b>	

The financial borrowings shown in the table above are held with PWLB and market lenders. All of these investments and borrowings were not quoted on an active market and a Level 1 valuation is not available. To provide a fair value which provides a comparison to the carrying amount, we have used a financial model valuation provided by Capita Asset Services. This valuation applies the Net Present Value approach, which provides an estimate of the value of payments in the future in today's terms as at the balance sheet date. This is a widely accepted valuation technique commonly used by the public sector. Our accounting policy uses new borrowing rates to discount the future cash flows.

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

This shows a notional future loss (based on economic conditions at 31 March 2017) arising from a commitment to pay interest to lenders above current market rates.

The fair value of Public Works Loan Board (PWLB) loans of £241.049m measures the economic effect of the terms agreed with the PWLB compared with estimates of the terms that would be offered for market transactions undertaken at the Balance Sheet date. The difference between the carrying amount and the fair value measures the additional interest that the authority will pay over the remaining terms of the loans under the agreements with the PWLB, against what would be paid if the loans were at prevailing market rates.

However, the authority has a continuing ability to borrow at concessionary rates from the PWLB rather than from the markets. A supplementary measure of the additional interest that the authority will pay as a result of its PWLB commitments for fixed rate loans is to compare the terms of these loans with the new borrowing rates available from the PWLB. If a value is calculated on this basis, the carrying amount of £203.981m would be valued at

£241.049m. But, if the authority were to seek to avoid the projected loss by repaying the loans to the PWLB, the PWLB would raise a penalty charge for early redemption in addition to charging a premium for the additional interest that will not now be paid. The exit price for the PWLB loans including the penalty charge would be £263.820m.

<b>31 March 2016</b>			<b>31 March 2017</b>		
Carrying Amount £000	Fair Value £000		Carrying Amount £000	Fair Value £000	
156,631	156,631	Short term investments	140,063	140,063	
19	19	Long term investments	13	13	
41,494	41,494	Short term debtors	38,809	38,809	
21,682	21,682	Long term debtors	23,816	23,816	
<b>219,826</b>	<b>219,826</b>	<b>Total Loans and Receivables</b>	<b>202,701</b>	<b>202,701</b>	

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

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

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

### Equity Shareholdings

The Authority's equity shareholdings are shown in the table below– the shares in these companies are not traded in an active market and fair value of £13.725m has been based on valuation techniques that are not based on observable current market transactions or available market data. The valuation has been made at cost as there is no intention to sell.

<b>Financial assets measured at fair value</b>					
	Input level in fair value hierarchy	Valuation technique used to measure fair value	As at 31 March 2017 £000	As at 31 March 2016 £000	
Recurring fair value measurements					
Equity shareholding in Newcastle International Airport Ltd.	Level 2	Inputs other than quoted prices in active markets that are observable for the asset	10,558	10,558	
Equity shareholding in Durham Tees Valley Airport Ltd.	Level 3	Valued at cost	-	-	
Equity shareholding in Chapter Homes.	Level 3	Valued at cost	1,715	450	
Equity shareholding in Polyphotonix.	Level 3	Valued at cost	300	300	
Equity shareholding in Forrest Park (Newton Aycliffe).	Level 3	Valued at cost	1,000	1,000	
Equity shareholding in Atom Bank.	Level 3	Valued at cost	152	-	
<b>Total</b>			<b>13,725</b>	<b>12,308</b>	

### Transfers between Levels of the Fair Value Hierarchy

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

### Changes in the Valuation Technique

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

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

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

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

### Overall Procedures for Managing Risk

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

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

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

- by formally adopting the requirements of the CIPFA Treasury Management Code of Practice;
- by the adoption of a Treasury Policy Statement and treasury management clauses within its financial regulations/standing orders/constitution;
- by approving annually in advance prudential and treasury indicators for the following three years limiting:
  - The Council's overall borrowing;
  - Its maximum and minimum exposures to fixed and variable rates;
  - Its maximum and minimum exposures to the maturity structure of its debt;
  - Its maximum annual exposures to investments maturing beyond a year.
- by approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investment counterparties in compliance with Government guidance.

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

The annual Treasury Management Strategy which incorporates the prudential indicators was approved by Council on 24 February 2016 and updated on 7 December 2016 and is available on the Council's website.

The key issues within the strategy were:

- The Authorised Limit for 2016/17 was set at £552m. This is the maximum limit of external borrowings or other long term liabilities.
- The Operational Boundary was set at £499m. This is the expected level of debt and other long term liabilities during the year.
- The maximum amounts of fixed and variable interest rate exposure were set at 100% and 30% based on the Council's net debt.

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

## **Credit Risk**

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

This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, in accordance with the Fitch, Moody's and Standard and Poor's Credit Ratings Services. The Annual Investment Strategy also considers maximum amounts and time limits in respect of each financial institution. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined above. Additional selection criteria are also applied after these initial criteria are applied. Details of the Investment Strategy can be found on the Council's website.

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

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

The Council's maximum exposure to credit risk in relation to its investments in banks and building societies of £174.630m cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk that deposits may be irrecoverable applies to all of the Council's deposits, but there was no evidence at the 31 March 2017 that this was likely to be the case.

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

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



The Council does not generally allow credit for customers, although £18.306m of the £55.475m balance is past its due date for payment. The amount past its due date for payment can be analysed by age as follows:

<b>31 March 2016</b>		<b>31 March 2017</b>
<b>£000</b>		<b>£000</b>
13,527	Less than three months	12,205
873	Between three and six months	2,299
1,457	Between six months and one year	1,239
2,790	More than one year	2,563
<u>18,647</u>	<b>Total</b>	<u>18,306</u>

The Council initiates a legal charge on property where, for instance, clients require the assistance of social services but cannot afford to pay immediately. The total collateral at 31 March 2017 was £2.858m.

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

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

The only outstanding balance as at 31 March 2017 is in relation to the investment with Kaupthing Singer and Friedlander Ltd (KSF). All monies with KSF are currently subject to the respective administration and receivership processes. The Council's recovery position at 31 March 2017 is that 84.25% of the outstanding balance has been repaid. 86%-86.5% recovery is anticipated in the long run.

### **Liquidity Risk**

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

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

## Refinancing and Maturity Risk

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

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

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

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

<b>31 March 2016</b>		<b>31 March 2017</b>
<b>£000</b>		<b>£000</b>
10,002	Less than one year	7
2	Between one and two years	10,002
32,008	Between two and five years	22,028
62,621	Between five and ten years	62,617
89,895	Between ten and fifteen years	89,887
4,004	Between fifteen and twenty years	4,002
0	Between twenty and twenty five years	0
47,090	More than twenty five years	67,090
<u>245,622</u>	<b>Total</b>	<u>255,633</u>

## Market Risk

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

- borrowings at variable rates – the interest expense charged to the Comprehensive Income and Expenditure Statement will rise.
- borrowings at fixed rates – the fair value of the liabilities borrowings will fall (no impact on revenue balances);

- investments at variable rates – the interest income credited to the Surplus or Deficit on the Provision of Services will rise
- investments at fixed rates – the fair value of the assets will fall (no impact on revenue balances).

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

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

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

According to this assessment strategy, at 31 March 2017, if interest rates had been 1% higher with all other variables held constant, the financial effect would be a decrease of £34.480m in the fair value of fixed rate borrowings, although this would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure.

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

### **Price Risk**

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

However, the Council does have shareholdings to the value of £13.725m (£12.308m in 2015/16) in organisations that are not listed on the stock exchange. The Council is therefore not exposed to losses arising from the movement in the price of shares, but is exposed to loss from revaluations of these shares.

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

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

31 March 2016				31 March 2017		
Unquoted Shares £000	Other £000	Total £000		Unquoted Shares £000	Other £000	Total £000
10,558	-	10,558	Opening balance	12,308	-	12,308
-	-	-	Transfers into Level 3	-	-	-
-	-	-	Total gains and losses for the period	-	-	-
-	-	-	Included in Surplus or Deficit on the Provision of Services	-	-	-
-	-	-	Included in Other Comprehensive Income and Expenditure	-	-	-
1,750	-	1,750	Additions	1,417	-	1,417
-	-	-	Disposals	-	-	-
<b>12,308</b>	<b>-</b>	<b>12,308</b>	<b>Closing Balance</b>	<b>13,725</b>	<b>-</b>	<b>13,725</b>

## 19. Inventories

	Balance outstanding at start of year £000	Purchases £000	Recognised as an expense in the year £000	Adjustment for internal inventories £000	Reversals of write-offs in previous years £000	Balance outstanding at year-end £000
<b>Year to 31 March 2017</b>						
Consumable Stores	3,878	13,763	-14,856	-	-	2,785
Maintenance Materials	420	278	-248	-	-	450
Client Services Work in Progress	318	342	-562	-	-	98
Rechargeable Works	450	576	-451	-	-	575
<b>Total</b>	<b>5,066</b>	<b>14,959</b>	<b>-16,117</b>	<b>-</b>	<b>-</b>	<b>3,908</b>
<b>Year to 31 March 2016</b>						
Consumable Stores	2,918	10,567	-9,607	-	-	3,878
Maintenance Materials	428	915	-923	-	-	420
Client Services Work in Progress	-44	631	-269	-	-	318
Rechargeable Works	265	459	-274	-	-	450
<b>Total</b>	<b>3,567</b>	<b>12,572</b>	<b>-11,073</b>	<b>-</b>	<b>-</b>	<b>5,066</b>

**20. Short Term Debtors**

<b>2015-16</b>	<b>2016-17</b>
<b>£000</b>	<b>£000</b>
10,923 Central government bodies	11,158
11,379 Other local authorities	5,455
2,037 NHS bodies	2,941
- Public corporations and trading funds	-
55,755 Other entities and individuals	55,475
-25,802 Less: Impairment Allowance	-24,913
54,292	50,116
3,110 Payments in advance	3,616
<b>57,402 Total</b>	<b>53,732</b>

**21. Cash and Cash Equivalents**

<b>2015-16</b>	<b>2016-17</b>
<b>£000</b>	<b>£000</b>
613 Cash at bank	515
-436 Overdraft	-1,953
37,901 Cash held on demand (call accounts)	24,340
912 Deposits held for liquidity purposes	10,438
<b>38,990 Cash and Cash Equivalents balance</b>	<b>33,340</b>

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

<b>2015-16</b>	<b>2016-17</b>
<b>£000</b>	<b>£000</b>
3,231 <b>Balance outstanding at start of year</b>	6,660
Assets newly classified as held for sale:	
8,005 Property, Plant and Equipment	8,203
-368 Revaluations	-823
Assets declassified as Held for Sale:	
- Property, Plant and Equipment	-4,752
-4,208 Assets sold	-684
<b>6,660 Balance outstanding at year-end</b>	<b>8,604</b>

Assets Held For Sale are measured at the lower of carrying amount and fair value, less costs to sell, and depreciation on these assets should cease.

The fair value for the above properties at 31 March 2017 (£8.604m) has been based on the market approach using current market conditions and recent sales prices and other relevant information for similar assets in the local area. Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs are significant, leading to the properties being categorised at Level 2 in the fair value hierarchy.

Assets Held For Sale are also valued at market value using a combination of comparable method, investment method and/or development method to arrive at an opinion of value. If

the asset is specialised and is a trading property then the valuer could also use the accounts method.

## 23. Short Term Creditors

2015-16 £000		2016-17 £000
-25,206	Central government bodies	-24,880
-1,516	Other local authorities	-1,341
-2,211	NHS bodies	-1,084
-	Public corporations and trading funds	-
-70,711	Other entities and individuals	-66,035
-99,644		-93,340
-7,805	Receipts in Advance	-8,978
-107,449	<b>Total creditors</b>	-102,318

## 24. Provisions

The provisions at 31 March 2017 were as follows:

### Insurance Provision

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

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

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

### Equal Pay

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

### NDR Appeals

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

### Other

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

	Insurance £000	Equal Pay £000	NDR Appeals £000	Other Provisions £000	Total £000
<b>Balance at 1 April 2016</b>	8,475	74	8,941	64	17,554
Additional provisions made in 2016-17	4,809	-	3,618	-	8,427
Amounts used in 2016-17	-1,274	-8	-3,640	-	-4,922
Unused amounts reversed in 2016-17	-3,551	-	-	-64	-3,615
<b>Balance at 31 March 2017</b>	<b>8,459</b>	<b>66</b>	<b>8,919</b>	<b>-</b>	<b>17,444</b>
<b>As shown in Balance Sheet</b>					
Long Term Provisions	5,696	-	3,952	-	9,648
Short Term Provisions	2,763	66	4,967	-	7,796
<b>Balance at 31 March 2017</b>	<b>8,459</b>	<b>66</b>	<b>8,919</b>	<b>-</b>	<b>17,444</b>

## 25. Usable Reserves

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

31 March 2016 £000	31 March 2017 £000
362 Usable Capital Receipts Reserve	362
524 Capital Grants and Contributions Unapplied	-
29,101 General Fund Balance	23,004
241,643 Earmarked Reserves	233,544
<b>271,630 Total</b>	<b>256,910</b>

### Usable Capital Receipts Reserve

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

### Capital Grants and Contributions Unapplied

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

### General Fund Balance

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

### Earmarked Reserves

Earmarked Reserves are shown in more detail in Note 10 and are resources set aside for future spending plans.

## 26. Unusable Reserves

<b>31 March 2016</b>		<b>31 March 2017</b>
<b>£000</b>		<b>£000</b>
504,364	Revaluation Reserve	534,500
694,829	Capital Adjustment Account	690,012
-1,960	Financial Instruments Adjustment Account	-1,838
4,125	Deferred Capital Receipt	3,238
-13,233	Short Term Accumulating Absences Account	-10,078
-904,286	Pensions Reserve	-1,120,277
10,280	Available for Sale Financial Instruments Reserve	10,432
2,380	Collection Fund	6,112
<b>296,499</b>	<b>Total</b>	<b>112,101</b>

### Revaluation Reserve

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

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

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

<b>2015-16</b>		<b>2016-17</b>
<b>£000</b>		<b>£000</b>
539,632	<b>Balance at 1 April</b>	504,364
48,371	Upward revaluation of assets	120,274
	Downward revaluation of assets and impairment losses not charged to the	
-44,618	Surplus/Deficit on the Provision of Services	-62,774
	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or	
3,753	Deficit on the Provision of Services	57,500
-16,438	Difference between fair value depreciation and historical cost depreciation	-17,273
-22,583	Accumulated gains on assets sold or scrapped	-10,091
-39,021	Amount written off to the Capital Adjustment Account	-27,364
<b>504,364</b>	<b>Balance at 31 March</b>	<b>534,500</b>



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**Capital Adjustment Account**

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

The Account contains accumulated gains and losses on Investment Properties.

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

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

<b>2015-16</b>	<b>2016-17</b>
<b>£000</b>	<b>£000</b>
597,603 <b>Balance at 1 April</b>	694,829
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
-57,732 - Charges for depreciation and impairment of non-current assets	-68,809
-14,648 - Revaluation losses on Property, Plant and Equipment	-19,970
-846 - Amortisation of intangible assets	-512
-29,868 - Revenue expenditure funded from capital under statute	-15,900
-185,802 - Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	-17,105
-288,896	-122,296
39,022 Adjusting amounts written out of the Revaluation Reserve	27,364
-249,874 Net written out amount of the cost of non-current assets consumed in the year	-94,932
Capital financing applied in the year:	
10,183 - Use of Capital Receipts Reserve to finance new capital expenditure	7,648
114,400 - Use of Capital Receipts Reserve to repay debt - Housing Stock Transfer	-
52,087 - Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	46,626
129,600 Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement to repay debt - Housing Stock Transfer	-
85 Application of grants and contributions to capital financing from the Capital Grants Unapplied account	524
16,569 - Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	13,589
23,770 - Capital expenditure charged against the General Fund and HRA balances	20,397
346,694	88,784
406 Movements in the fair value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	1,331
694,829 <b>Balance at 31 March</b>	690,012

### Deferred Capital Receipts Reserve

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

<b>2015-16</b>	<b>2016-17</b>
<b>£000</b>	<b>£000</b>
888 <b>Balance at 1 April</b>	4,125
3,970 Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	524
-733 Transfer to the Capital Receipts Reserve upon receipt of cash	-1,411
4,125 <b>Balance at 31 March</b>	3,238

## Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

2015-16 £000		2016-17 £000
-15,035	<b>Balance at 1 April</b>	-13,233
15,035	Settlement or cancellation of accrual made at the end of the preceding year	13,233
-13,233	Amounts accrued at the end of the current year	-10,078
1,802	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	3,155
<u>-13,233</u>	<b>Balance at 31 March</b>	<u>-10,078</u>

## Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds, or eventually pay any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid. Further detail can be found in Note 46.

2015-16 £000		2016-17 £000
-936,301	<b>Balance at 1 April</b>	-904,285
54,480	Remeasurements of the net defined benefit liability	-197,240
-389	Difference between Actuary's estimate and Actual Employers' Pension Contributions	145
-83,850	Reversals of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	-81,200
61,775	Employer's pensions contributions and direct payments to pensioners payable in the year	62,303
<u>-904,285</u>	<b>Balance at 31 March</b>	<u>-1,120,277</u>

## Available for Sale Financial Instruments Reserve

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

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

2015-16 £000	2016-17 £000
10,280 <b>Balance at 1 April</b>	10,280
- Transfer of historic Available for Sale balance to Available for Sale Reserve	-
- Upward revaluation of investments	152
- Downward revaluation of investments not charged to the Surplus/Deficit on the Provision of Services	-
10,280	10,432
- Accumulated gains on assets sold and maturing assets written out to the Comprehensive Income and Expenditure Statement as part of Other Investment Income	-
10,280 <b>Balance at 31 March</b>	10,432

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

2015-16 £000	2016-17 £000
-54,908 Depreciation	-57,664
-17,472 Impairment and downward revaluation	-30,868
-846 Amortisations	-512
0 Impairment of Icelandic assets	-48
-1,802 Transfer to/from Accumulated Absences account	-3,155
-2,469 Increase/decrease in the provision for bad debts	-78
-5,018 Increase/decrease in creditors	-1,976
-4,478 Increase/decrease in debtors	1,614
1,499 Increase/decrease in inventory	1,158
-22,075 Pension liability	-18,897
-71,520 Carrying amount of non-current assets sold	-17,105
57,512 Other non-cash items	-6,621
-121,578	-134,152

## 28. Cash Flow Statement – Adjustments for items included in net surplus or deficit on the provision of services that are investing and financing activities

2015-16 £000		2016-17 £000
124,027	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	-7,160
124,027	<b>Net cash flows from investing activities</b>	-7,160

## 29. Cash Flow Statement – Cash Flows from Interest and Dividends Received and Paid Included in Operating Activities

The cash flows for operating activities include the following items:

2015-16 £000		2016-17 £000
14,176	Interest paid	14,212
-4,674	Interest received	-6,240
-	- Dividends received	-
9,502	<b>Net cash flows from operating activities</b>	7,972

## 30. Cash Flow Statement – Investing Activities

2015-16 £000		2016-17 £000
90,925	Purchase of property, plant and equipment, investment property and intangible assets	85,754
549,213	Purchase of short-term (not considered to be cash equivalents) and long-term investments	420,583
4,245	Other payments for investing activities - external trading	3,065
-124,027	Proceeds from the sale of property, plant and equipment, non-current assets held for sale, investment property and intangible assets	-7,160
-494,275	Proceeds from short-term (not considered to be cash equivalents) and long-term investments	-405,424
-31,817	Other receipts from investing activities (inc. external trading)	-4,227
-5,736	<b>Net cash flows from investing activities</b>	92,591

## 31. Cash Flow Statement – Financing Activities

2015-16 £000		2016-17 £000
-	- Cash receipts of short-term and long-term borrowing	-20,000
-8,969	Other receipts from financing activities	-10,055
8,038	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	432
82,152	Repayments of short-term and long-term borrowing	10,000
-	- Other payments for financing activities	-
81,221	<b>Net cash flows from financing activities</b>	-19,623

## 32. Trading Operations

The surplus for the year on trading operations relating to Direct Services and Technical Design Services is charged as Financing and Investment Income and Expenditure - Other investment income (see Note 12). The summary revenue account for these services is shown below.

	2014-15	2015-16	2016-17
	£000	£000	£000
<b><u>Highways Operations</u></b>			
Turnover	-46,581	-40,958	-46,356
Expenditure	38,199	34,501	43,412
Surplus(-)/Deficit	<u>-8,382</u>	<u>-6,457</u>	<u>-2,944</u>

The Council runs a Highways Services trading operation which maintains the network of roads, footpaths and street lighting throughout the County. The service also undertakes major road works and the maintenance of transport and bridge structures, as well as carrying out various infrastructure works for external bodies. The design and build elements of transport related schemes is included in the trading area. The trading objective of the team is to meet the net cash limit target as set. The cumulative surplus over the last three financial years: £17.783m

### Fleet

The Council operates an in house Fleet Management Service which has the direct responsibility for the management and safeguarding of the Council's Operators Licence along with the responsibility of the safe and cost effective maintenance and procurement of the Council's circa 1,000 vehicles. Whilst the objective of the service is to only recover the actual capital cost and maintenance of the fleet, the service also undertakes taxi vehicle examinations along with maintenance work for external bodies through Service level agreements. The cumulative deficit over the last three financial years: £2.081m

Turnover	-16,532	-14,806	-14,489
Expenditure	17,153	15,324	15,431
Surplus(-)/Deficit	<u>621</u>	<u>518</u>	<u>942</u>

### Depots

The Council operates from five main strategic depots and two satellite depots covering the County of Durham. The depots along with possessing vehicle maintenance facilities provide operational bases to front line services for the Authority. The service also lets depot accommodation to external bodies. The trading objective is to meet the net cash limit target as set. The cumulative deficit over the last three financial years : £1.086m

Turnover	-2,261	-2,161	-2,233
Expenditure	1,882	3,379	2,480
Surplus(-)/Deficit	<u>-379</u>	<u>1,218</u>	<u>247</u>

	2014-15	2015-16	2016-17
	£000	£000	£000

**Buildings Repairs & Maintenance and Construction**

The Council runs a 'Building Services' team which procures, maintains buildings and constructs major and minor projects on behalf of all Five Directorates within Durham County Council as well as a wide range of other service users. 'Building Services' also complete and carry out work for external bodies both private and public. The in-house team demonstrates Value for Money by delivering services on time, within cost and to the required standard using a combination of directly employed staff and supply chain partners. The costs of services is benchmarked with other Local Authorities and as the 'Building Services' organisation continues to improve its outputs, the hourly rates for tradesmen have fallen from the levels previously. The trading objective of the team is to meet the net cash limit target as set. The cumulative surplus over the last three financial years: £3.346m

Turnover	-24,527	-23,387	-23,115
Expenditure	22,853	22,225	22,605
Surplus(-)/Deficit	<u>-1,674</u>	<u>-1,162</u>	<u>-510</u>

**Housing Maintenance**

The Council provided a housing repairs and maintenance service on behalf of Durham City Homes until 13 April 2015 when the housing stock was transferred to County Durham Housing Group. The Durham Housing Maintenance Team procured services, maintained tenant's homes and carried out decent homes' improvements to approximately 6,100 homes. The trading objective of the team was to meet the net cash limit target as set. The cumulative deficit over the last three financial years: £0.022m

Turnover	-9,707	-60	0
Expenditure	9,570	219	0
Surplus(-)/Deficit	<u>-137</u>	<u>159</u>	<u>0</u>

**Cleaning Services**

The Council runs a Building Cleaning Service which procures services and maintains buildings, working across the entire portfolio of Durham County Council's buildings. The Building Cleaning Services also undertake works on behalf of a number of service users both internal and external to Durham County Council. The costs of services are benchmarked with other Local Authority providers from across the UK. The trading objective of the team is to meet the net cash limit target set. The cumulative surplus over the last three financial years £0.327m

Turnover	-2,820	-2,126	-2,258
Expenditure	2,589	2,013	2,275
Surplus(-)/Deficit	<u>-231</u>	<u>-113</u>	<u>17</u>

**Catering Services**

The Council runs a Catering Service which procures goods and services, and provides both canteen services and an event catering service. These services are available to both internal and external bodies. The in-house team demonstrates Value for Money having been awarded the catering for Durham County Council following a competitive tender. Services are provided using a combination of directly employed staff and Agency Workers. The trading objective of the team is to meet the net cash limit target as set. The cumulative deficit over the last three financial years £0.257m

Turnover	-547	-623	-879
Expenditure	681	704	921
Surplus(-)/Deficit	<u>134</u>	<u>81</u>	<u>42</u>

Trading operations are incorporated into the Comprehensive Income and Expenditure Statement. Some are an integral part of one of the Council's services to the public (e.g. highways), whilst others are support services to the Council's services to the public (e.g. schools catering). The expenditure of these operations is allocated or recharged to headings in the Net Operating Expenditure or Continuing Operations. Only a residual amount of the net surplus on trading operations is charged as Financing and Investment Income and Expenditure (see Note 12).

### 33. Agency Services

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

In 2016/17 £7.736m (£9.193m (restated) in 2015/16) was received for the following services: Finance, Information and Communications Technology, Human Resources, Legal Advice and Support, Inspections and Subject Reviews, Cleaning, Care Connect, Ground Maintenance and Crematorium Services.

The decrease in Agency Services from 2015/16 to 2016/17 is mainly due to the decrease in services provided to Registered Social Landlords.

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

### 34. Members' Allowances

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

<b>2015-16</b>		<b>2016-17</b>
<b>£000</b>		<b>£000</b>
1,667	Basic Allowance	1,667
284	Special Responsibility Allowance	285
7	Broadband Allowance	7
79	Expenses	72
2,037	<b>Total</b>	2,031



### 35. Officers' Remuneration

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

Name	Period	Salary, Fees and Allowances £	Bonuses £	Expenses Allowances £	Compensation for Loss of Office £	Pensions Contribution £	Total £
Chief Executive - Terry Collins (from 1/2/2016)	2016-17	186,850	-	-	-	21,488	208,338
	2015-16	30,833	-	-	-	4,255	35,088
Chief Executive - George Garlick (to 31/01/2016)	2015-16	168,590	-	142	-	-	168,732
Corporate Director - Resources (to 31/5/2016)	2016-17	23,567	-	3	-	-	23,570
	2015-16	140,000	-	579	-	-	140,579
Interim Corporate Director - Resources (1/6/2016 to 17/10/2016)	2016-17	53,595	-	-	-	7,396	60,991
	2015-16	-	-	-	-	-	-
Corporate Director - Resources (from 18/10/2016)	2016-17	64,238	-	-	-	8,865	73,103
	2015-16	-	-	-	-	-	-
Corporate Director - Children and Adults Services (to 31/08/2016)	2016-17	58,917	-	-	-	8,131	67,047
	2015-16	140,000	-	3	-	19,320	159,323
Corporate Director - Children and Young Peoples Services - (from 29/03/2017)	2016-17	-	-	-	-	-	-
	2015-16	-	-	-	-	-	-
Interim Corporate Director - Adult, Wellbeing and Health Services (from 25/7/2016 to 13/10/2016)	2016-17	31,169	-	-	-	4,301	35,470
	2015-16	-	-	-	-	-	-
Corporate Director - Adult, Wellbeing and Health Services (from 14/10/2016)	2016-17	65,759	-	-	-	9,075	74,833
	2015-16	-	-	-	-	-	-
Corporate Director - Neighbourhood Services (to 31/1/2016)	2016-17	-	-	-	-	-	-
	2015-16	116,667	-	-	-	16,100	132,767
Interim Corporate Director - Neighbourhood Services (from 1/2/2016 to 30/09/2016)	2016-17	70,700	-	-	-	9,757	80,457
	2015-16	23,333	-	-	-	3,220	26,553
Corporate Director - Regeneration and Economic Development (to 30/9/2016)	2016-17	70,700	-	-	-	9,757	80,457
	2015-16	140,000	-	115	-	19,320	159,435
Corporate Director - Regeneration and Local Services (from 1/10/2016)	2016-17	70,700	-	-	-	9,757	80,457
	2015-16	-	-	-	-	-	-
Assistant Chief Executive (to 30/9/2016)	2016-17	60,600	-	-	-	8,363	68,963
	2015-16	120,000	-	-	-	16,560	136,560
Director - Transformation and Partnerships (from 1/10/2016)	2016-17	60,600	-	-	-	8,363	68,963
	2015-16	-	-	-	-	-	-
Head of Legal and Democratic Services (Monitoring Officer)	2016-17	111,100	-	-	-	15,612	126,712
	2015-16	110,000	-	-	-	14,888	124,888

The Council's employees receiving more than £50,000 remuneration for the year (excluding employer's pension contributions) were paid the following amounts (this table excludes details of the senior employees, shown in the previous table):

The 'Other Staff' column in the table below includes employees which provide educational support services within schools. Of the 191 'Other Staff' in 2016/17 there are 4 employees paid on Leadership Teacher grades and 40 employees paid on Soulbury grades. The costs associated with providing the educational support services are recovered through Service Level Agreements from schools within Durham County and also a number of schools outside of the Durham area.

Remuneration band	2015-16 Number of Employees			2016-17 Number of Employees		
	School Staff	Other Staff	Total	School Staff	Other Staff	Total
£50,000 - £54,999	102	72	174	112	81	193
£55,000 - £59,999	117	27	144	96	34	130
£60,000 - £64,999	39	16	55	48	26	74
£65,000 - £69,999	24	11	35	34	16	50
£70,000 - £74,999	10	7	17	9	3	12
£75,000 - £79,999	2	10	12	6	9	15
£80,000 - £84,999	4	6	10	1	4	5
£85,000 - £89,999	4	6	10	2	2	4
£90,000 - £94,999	2	2	4	4	-	4
£95,000 - £99,999	5	7	12	1	5	6
£100,000 - £104,999	1	1	2	1	2	3
£105,000 - £109,999	-	3	3	2	1	3
£110,000 - £114,999	-	6	6	1	5	6
£115,000 - £119,999	-	1	1	-	2	2
£120,000 - £124,999	-	1	1	-	-	-
£125,000 - £129,999	-	-	-	-	1	1
£130,000 - £134,999	-	-	-	-	-	-
£135,000 - £139,999	-	1	1	-	-	-
	310	177	487	317	191	508

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

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

(a) Exit package cost band (including special payments)	(b) Number of compulsory redundancies		(c) Number of other departures agreed		(d) Total number of exit packages by cost band [(b) + (c)]		(e) Total cost of exit packages in each band	
	2015-16	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16 £000	2016-17 £000
£0 - £20,000	30	48	80	139	110	187	978	902
£20,001 - £40,000	3	5	40	36	43	41	1,275	1,194
£40,001 - £60,000	1	1	20	17	21	18	1,000	875
£60,001 - £80,000	1	-	11	18	12	18	874	1,224
£80,001 - £100,000	-	-	10	18	10	18	910	1,629
£100,001 - £150,000	1	-	15	12	16	12	1,928	1,395
£150,001 - £250,000	-	-	4	1	4	1	799	156
<b>Total</b>	<b>36</b>	<b>54</b>	<b>180</b>	<b>241</b>	<b>216</b>	<b>295</b>	<b>7,764</b>	<b>7,375</b>

### 36. External Audit Costs

The Council has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections and to non-audit services provided by the Council's external auditors. The appointed auditor for 2015/16 and 2016/17 is Mazars LLP.

2015-16 £000	2016-17 £000
251 Fees payable with regard to external audit services carried out by the appointed auditor for the year	251
20 Fees payable in the year for the certification of grant claims and returns by the appointed auditor for Public Sector Appointments Ltd (PSAA)	24
7 Fees payable in the year for other services carried out by the appointed auditor not on behalf of PSAA	5
<b>278 Total</b>	<b>280</b>

### 37. Dedicated Schools Grant

The Council's expenditure on schools is funded primarily by grant monies provided by the Department for Education; the Dedicated Schools Grant (DSG). An element of DSG is recouped by the Department to fund academy schools in the Council's area. DSG is ringfenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance and Early Years (England) Regulations 2014. 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 2016/17 are as follows:

	<b>Central Expenditure £000</b>	<b>ISB £000</b>	<b>Total £000</b>
A Final DSG for 2016/17 before Academy Recoupment			355,876
B Academy figure recouped for 2016/17			<u>77,592</u>
C Total DSG after Academy Recoupment for 2016/17			278,284
Plus			
D Brought forward from 2015/16			12,185
Less			
E Carry forward to 2017/18 agreed in advance			<u>10,033</u>
F Agreed initial budgeted distribution in 2016/17	34,437	245,999	280,436
G In year adjustments	-14,729	14,430	-299
H Final budgeted distribution for 2016/17	<u>19,708</u>	<u>260,429</u>	<u>280,137</u>
Less			
I Actual central expenditure	18,873		18,873
Less			
J Actual ISB deployed to schools		260,138	260,138
Plus			
K Local authority contribution for 2016/17	-	-	-
L Carry forward to 2017/18	<u>835</u>	<u>291</u>	<u>11,159</u> *

\* Total carry-forward (£11.159m) is the carry forward on central expenditure (L) (£0.835m) plus carry forward on ISB (L) (£0.291m) plus carry forward 2017/18 already agreed (E) (£10.033m).

A: Final DSG figure before any amount has been recouped from the Council excluding the January 2017 early years block adjustment.

B: Figure recouped from the Council in 2016/17 by the DfE for the conversion of maintained schools into Academies.

C: Total figure after EFA Academy recoupment for 2016/17.

D: Figure brought forward from 2015/16 as agreed with the Department.

- E: Any amount which the Council decided after consultation with the Schools Forum to carry forward to 2017/18 rather than distribute in 2016/17 – this may be the difference between estimated and final DSG for 2016/17, or a figure (positive or negative) brought forward from 2015/16 which the authority is carrying forward again.
- F: Budgeted distribution of DSG, adjusted for carry-forward, as agreed with the Schools Forum.
- G: Changes to the initial distribution, for example, adjustments for exclusions or final early years block adjustment.
- H: Budgeted distribution of DSG as at the end of the financial year.
- I: Actual amount of central expenditure items in 2016/17.
- J: Amount of ISB actually distributed to schools (ISB is regarded for DSG purposes as spent by the Council once it is deployed to schools' budget shares).
- K: Any contribution from the local authority in 2016/17 which will have the effect of substituting for DSG in funding the Schools Budget.
- L: Carry forward to 2017/18:
- For central expenditure, difference between final budgeted distribution of DSG (H) and actual expenditure (I), plus any local authority contribution (K).
  - For ISB, difference between final budgeted distribution (H) and amount actually deployed to schools (J) plus any local authority contribution (K).
  - Total is carry-forward on central expenditure (L) less carry forward on ISB (L) plus carry forward 2017/18 already agreed (E).

### 38. Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2016-17:

2015-16 £000		2016-17 £000
<b>Credited to Taxation and Non Specific Grant Income:</b>		
Non Ring-fenced Government Grants:		
-100,240	- Revenue Support Grant	-77,144
-60,491	- Top Up Grant	-60,995
-5,173	- Section 31 Grants	-4,400
-6,006	- Education Funding Agency Grant	-5,419
-8,323	- New Homes Bonus Scheme Grant	-10,182
-374	- New Homes Bonus Scheme Topslice Reimbursement	-267
-36,432	Capital Grants and Contributions	-35,870
-207,035	Government Grant in respect of Housing Stock Transfer	-
-424,074		-194,277

## Grant and Contribution Income Credited to Services

2015-16 £000 (restated)		2016-17 £000
<b>Credited to Services:</b>		
-550	Arts Council Eng - NE	-424
-170	Arts Projects	-31
-43	Asylum Seekers Grant	-235
-23,763	Clinical Commissioning Groups-Better Care Fund	-23,300
-379	Darlington Borough Council	-346
-2,605	DCSF Grant	-545
-282,206	Dedicated Schools Grant (DSG)	-277,985
-309	DEFRA Grant	-309
-897	Department of Health Grant	-744
-5,508	Department for Transport Grant	-72
-982	Discretionary Housing Payment Grant	-1,187
-514	Durham Police and Crime Commissioner	-496
-321	Education Authorities-other	-395
-9,681	Education Funding Agency	-9,647
-534	Educational Visits	-625
-32	ERDF Grant	-1,576
-1,095	Heritage Lottery Fund Grant	-1,213
-2,900	Housing Benefit - Admin Grant	-2,482
-175,072	Housing Benefit Grant - Rent Allowance	-177,960
-575	Housing Benefit Grant - Rent Rebate	-408
-874	LCTSS - Administration Grant	-984
-137	Natural England	-62
-6,573	NHS - Care Costs	-7,266
-417	NHS - Integrated Services	-
-2,155	NHS - Joint Arrangements	-1,837
-601	NNDR Cost of Collection Allowance	-600
-16,076	North East Combined Authority	-15,474
-756	Other Local Authorities	-783
-5,519	PFI Grants	-5,519
-47,538	Public Health Grant	-51,246
-20,961	Pupil Premium Grant	-20,435
-2,672	Skills Funding Agency	-2,897
-1,400	Transformation Challenge Award Grant	-
-691	Youth Offending Teams Grant	-610
-27,792	Other Grants and Contributions	-22,175
-642,298		-629,868

## Capital Grants and Contributions Receipts in Advance

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

<u>2015-16</u>			<u>2016-17</u>	
Long Term Liabilities £000	Short Term Liabilities £000		Long Term Liabilities £000	Short Term Liabilities £000
<b>Capital Grants and Contributions Receipts in Advance</b>				
-	-91	Broadband Delivery UK	-	-452
-	-	County Durham Housing Group Limited	-	-107
-	-	Darlington Borough Council	-	-104
-	-408	Department for Transport - Highways	-	-
-	-146	Education Funding Agency	-	-1,592
-	-90	Environment Agency	-	-
-	-55	Heritage Lottery Fund Grant - Wharton Park	-	-
-	-25	Living Streets	-	-
-	-	Middlesbrough Council	-	-63
-	-498	North East Combined Authority	-	-26
-	-200	Public Health England	-	-200
-	-	Redcar and Cleveland Borough Council	-	-170
-	-	Stockton Borough Council	-	-156
-	-126	Sunderland City Council	-	-134
-	-307	Sustrans	-	-
-	-2,388	Other	-	-113
-	-4,334	<b>Total Capital Grants and Contributions Receipts in Advance</b>	-	-3,117

## 39. Related Parties

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

### Central Government

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

## Members

Members of the County Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2016/17 is shown in Note 34.

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

The local environmental projects, youth groups and community associations, in which members are involved, received grant funding to the value of £0.381m in 2016/17 (£0.318m in 2015/16). In all instances, the grants were made with proper consideration of declarations of interest. The relevant members did not take part in any discussion or decision relating to the grants. Members are also involved in:

- the Citizen Advice Bureau (CAB) delivering advice services across the county, which received financial support to the value of £0.924m in 2016/17 (£0.725m in 2015/16)
- VISIT County Durham, the tourism management board for County Durham for which there were transactions to the value of £0.015m in 2016/17 (£0.027m in 2015/16) with the Council.
- Groundwork North East, carrying out environmental works for which there were transactions of £0.451m in 2016/17 (£0.339m in 2015/16).
- Durham Community Action, formerly Durham Rural Community Council, providing support to communities throughout County Durham £0.318m in 2016/17 (£0.353m in 2015/16)
- Consett YMCA for work done with various schools including the Pupil Referral Unit £0.214m in 2016/17 (£0.113m in 2015/16)
- The Bowes Museum for services to schools £0.273m in 2016/17 (£0.311m in 2015/16)
- Leisureworks £1.285m in 2016/17 (£1.927m in 2015/16)
- County Durham Sport £0.036m in 2016/17 (Nil in 2015/16)
- Durham Christian Partnership £0.022m in 2016/17 (£0.007m in 2015/16)
- Cornforth Partnership £0.126m in 2016/17 (£0.149m in 2015/16)
- Crook Community Leisure £0.168m in 2016/17 (£0.006m in 2015/16)
- Glebe Centre £0.019m in 2016/17 (£0.029m in 2015/16)

During 2016/17, works and services to the value of £0.056m (£0.041m in 2015/16) were commissioned from companies in which some members had an interest. Contracts were entered into in full compliance with the Council's Standing Orders.



## Chief Officers

Chief Officers of the Council are also required to complete a Related Party Declaration. It should be noted that the following declarations have been made:

Chief Officer	Related party declaration
Chief Executive	Director of Durham Regatta
Corporate Director - Regeneration and Economic Development	Director of North East Enterprise Company Limited Director of VISIT County Durham Director of Durham Villages Regeneration Limited

No further declarations were identified.

## Entities Controlled or Significantly Influenced by the Council

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

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

### Chapter Homes

Chapter Homes Durham Limited was established as a private company limited by shares on 10 August 2015 and is owned 100% by Durham County Council. The Company has been established as a trading company to develop Council owned land for market housing sale and private market rent to generate revenue income, capital receipts and contribute to housing regeneration in County Durham. Construction work commenced in January 2016 on the first pilot site at Newton Aycliffe. In the initial period between 10 August 2015 to 31 March 2016, Chapter Homes Durham Limited had no turnover, made a loss before taxation of £0.035m and a loss of £0.035m after taxation, no dividend was paid, Chapter Homes had net assets of £0.415m (made up of current assets of £3.625m, less liabilities of £3.210m).

The unaudited draft company accounts for the full year 2016/17 have been prepared, in 2016/17 Chapter Homes Durham Limited had turnover of £1.023m, made a profit before taxation of £0.158m, no taxation has yet been determined, no dividend was paid, Chapter Homes had net assets of £1.838m (made up of fixed assets £0.390m, current assets of £9.226m, less creditor liabilities of £7.778m).

### Forrest Park (Newton Aycliffe) Limited

This is a joint venture arrangement of which the Council owns 51% of the share capital of the Company. The Company has been established to develop Forrest Park as a prime

location for manufacturing, logistics and administration. The aims of the Company will be to develop the site and maximise economic benefits from the commercial developments. The Company was established on 31 March 2016 and its first statement of accounts for the period ending 31 March 2017 are not yet finalised, the draft unaudited management information show initial losses of £0.009m before taxation and losses of £0.098m after taxation. The net assets of the company total £1.902m at 31 March 2017.

### **Durham Villages Regeneration Limited**

This is a joint venture arrangement of which the Council has 50% of the voting rights of the Company and 49% of the share capital. The Company operates as a public-private partnership formed to regenerate communities. The Company's principal activities during the year were private house building and property development. The Company accounts for 2016/17 are not yet available, however the draft unaudited management account show at 31 March 2017 Durham Villages Regeneration Limited made an operating profit before taxation of £0.684m for 2016/17 (2015/16 £0.603m) and estimated £0.547m for 2016/17 after taxation (2015/16 £0.482m).

### **Central Durham Crematorium**

The Central Durham Crematorium was built in 1960 and is overseen by the Central Durham Crematorium Joint Committee, comprising Durham County Council and Spennymoor Town Council. The net assets of the crematorium at 31 March 2017 are £3.200m (31 March 2016: £3.161m). Durham County Council is the administrative body and employing authority for the crematorium.

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

### **Mountsett Crematorium**

The Mountsett Crematorium was built in 1964 and is overseen by the Mountsett Crematorium Joint Committee, comprising Durham County Council and Gateshead Council. The net assets of the crematorium at 31 March 2017 are £1.523m (31 March 2016: £1.243m). Durham County Council is the administrative body and employing authority for the crematorium.

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

### **Service Direct NewCo Limited**

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

services. Durham County Council owns 100% of NewCo, which began trading in 2007/08. The draft unaudited company accounts for 2016/17 for the financial year 2016/17 show Service Direct NewCo Limited had £1.161m turnover (2015/16 £1.408m), £0.001m operating profits before taxation (£0.002m 2015/16) and £0.001m profit after taxation (£0.001m 2015/16), no dividend was paid, and had net assets of £0.014m (2015/16 £0.013m), (made up of current assets of £0.018m (2015/16 £0.067m), less current liabilities of £0.004m (2015/16 £0.054m).

### **NIAL Holdings Limited**

Under the Airport Act 1986, Newcastle International Airport Limited (NIAL) was formed and seven local authorities were allocated shares in consideration for all the property, rights and liabilities that were transferred into the new company. On 4 May 2001, the seven local authority shareholders of NIAL (the "LA7") created NIAL Holdings Limited, which is 51% owned by LA7 and 49% owned by AMP Capital Investors Limited following their purchase on 16<sup>th</sup> November 2012. The 51% holding is held in the Newcastle Airport Local Authority Holding Company Limited (NALAHCL), a company wholly owned by the seven authorities. NALAHCL has a called up share capital of 10,000 shares with a nominal value of £1 each. The Council holds a 12.15% interest in NALAHCL, valued at £10.558m. The shares are not held for trading outside of the LA7.

The valuation of the holding is reviewed each year to consider whether any events have occurred which would materially change the valuation. The last valuation is based on the sale of shares to AMP Capital Investors Limited in 2012. As no such events have occurred during 2016/17 the valuation has remained unchanged.

Through its shares in NALAHCL the Council has an effective shareholding of 6.20% in NIAL (and the group companies of NIAL Group Limited and NIAL Holdings Limited). The principal activity of NIAL (registered number 2077766) is the provision of landing services for both commercial and freight operators. A dividend of £2.664m was received for the year ended 31 December 2016 (nil for the year ended 31 December 2015).

Members of the LA7 entered into a loan agreement with NIAL Group Limited in 2012/13, issuing £67.665m shareholder loan notes (of which DCC shareholder loan notes share is £9.385m). The loan notes will be repayable in 2032 with interest being received up to that date on a 6 monthly basis. Otherwise there are no outstanding balances owed to or from NIAL at the end of the year.

NIAL Group Limited made a loss before tax of £2.266m and a loss after tax of £0.499m for the year ended 31 December 2016. In the previous year, the Group made a profit before tax of £2.300m and a profit after tax of £4.556m.

### **Durham Tees Valley Airport Limited**

The Council holds 1.45% of the total shareholding in Durham Tees Valley Airport. For the year ended 31 March 2016, Durham Tees Valley Airport Limited made a loss before

taxation of £3.302m (loss of £2.104m for year ended 31 March 2015) and a loss of £2.590m after taxation (loss of £1.262m for year ended 31 March 2015). The Company accounts for 2016/17 are not yet available.

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

### **Beamish Museum Companies**

The Joint Committee was responsible for the assets of the Museum and made all decisions on capital schemes and procuring grants for capital development. However, the Joint Committee was dissolved with effect from 1 April 2014, in accordance with the agreed recommendations made by the Joint Committee at its final meeting held on 28 March 2014. The main impact from this saw the Joint Committee's net assets transfer to Beamish Museum (BM) on 1 April 2014. Beamish Museum was established in 1970 and the Council has been a constituent member Authority of Beamish North of England Open Air Museum since its inception. The Council made a contribution of £20,000 towards the running costs of the Museum in 2016/17 (£20,000 in 2015/16).

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

Durham County Council administers the Durham County Council Pension Fund on behalf of 115 bodies, including borough, parish and town councils, colleges, academy schools, statutory bodies and admitted bodies. During 2016/17, the Pension Fund had an average balance of £21.368m (£51.288m in 2015/16) of surplus cash deposited with the Council. In 2016/17 the Council paid the fund a total of £0.069m (£0.223m in 2015/16) in interest on these deposits.

### **Durham County Cricket Club**

The Council has a number of loans with Durham County Cricket Club and the value of principal outstanding as at 31 March 2017 amounts to £3.740m (£3.829m as at 31 March 2016). The Council was represented on the Board of the Cricket Club by the Head of Corporate Finance and Commercial Services as an observer in an advisory role and as such had no voting rights.

## **40. Capital Expenditure and Capital Financing**

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

2015-16 £000 (restated)		2016-17 £000
636,459	<b>Opening Capital Financing Requirement</b>	410,407
	Capital investment:	
83,179	Property, Plant and Equipment	85,603
5,298	Property, Plant and Equipment - Finance Leases	2,968
-	Heritage Assets	111
274	Intangible Assets	1,322
2,100	Acquisition of share and loan capital	4,205
29,868	Revenue Expenditure Funded from Capital under Statute	15,900
	Sources of finance:	
-10,260	Capital receipts	-7,739
-114,400	Capital receipts to repay debt (stock transfer)	-
-129,600	Overhanging debt grant (stock transfer)	-
-52,172	Government grants and other contributions	-47,150
	Sums set aside from revenue:	
-23,770	- Direct revenue financing	-20,397
-16,569	- Minimum Revenue Provision	-13,589
410,407	<b>Closing Capital Financing Requirement</b>	431,641
	<b>Explanation of movements in year</b>	
-9,812	Increase/(decrease) in underlying need to borrow (supported by government financial assistance)	-5,886
-221,538	Increase/(decrease) in underlying need to borrow (unsupported by government financial assistance)	24,152
5,298	Assets acquired under finance leases	2,968
-226,052	<b>Increase/(decrease) in Capital Financing Requirement</b>	21,234

2015/16 comparative figures have been restated to show the acquisition of loan capital separately, rather than under the Revenue Expenditure Funded from Capital under Statute line.

## 41. Leases

### Council as Lessee

#### Finance leases

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

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

31 March 2016 £000		31 March 2017 £000
	- Other Land and Buildings	-
10,926	Vehicles, Plant, Furniture and Equipment	10,785
10,926		10,785

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

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

<b>31 March 2016</b>		<b>31 March 2017</b>
<b>£000</b>		<b>£000</b>
	Finance lease liabilities (net present value of minimum lease payments):	
2,833	Current	2,666
5,411	Non-Current	5,082
618	Finance costs payable in future years	537
<u>8,862</u>	<b>Minimum lease payments</b>	<u>8,285</u>

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

<b>31 March 2016</b>			<b>31 March 2017</b>		
Minimum Lease Payments £000	Finance Lease Liabilities £000		Minimum Lease Payments £000	Finance Lease Liabilities £000	
3,091	2,833	Not later than one year	2,914	2,666	
5,586	5,232	Later than one year and not later than five years	5,348	5,059	
185	179	Later than five years	23	23	
<u>8,862</u>	<u>8,244</u>		<u>8,285</u>	<u>7,748</u>	

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

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

### *Operating Leases*

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

<b>31 March 2016</b>		<b>31 March 2017</b>
<b>£000</b>		<b>£000</b>
998	Not later than one year	996
2,693	Later than one year and not later than five years	2,400
3,723	Later than five years	3,259
<u>7,414</u>		<u>6,655</u>

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

31 March 2016 £000		31 March 2017 £000
1,806	Minimum lease payments	1,806
-2,406	Sublease payments receivable	-2,478
<u>-600</u>		<u>-672</u>

## Council as Lessor

### *Finance Leases*

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

### *Operating leases*

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

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

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

31 March 2016 £000		31 March 2017 £000
2,813	Not later than one year	2,792
4,738	Later than one year and not later than five years	4,137
7,414	Later than five years	5,834
<u>14,965</u>		<u>12,763</u>

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

In 2016/17 no rents were received by the authority in respect of contingent rents (2015/16 Nil).

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

### **Schools**

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

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

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

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

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

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

The assets associated with PFI schools that have transferred to academy status (Shotton Hall) are not reflected in the Council's balance sheet as the assets were written out in 2010/11.

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

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



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

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

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

### Value of Assets

31 March 2016 £000 (restated)		31 March 2017 £000
18,516	Net book value at 1 April	18,492
380	Additions	1,474
-404	Depreciation	-431
-	Revaluations	91
18,492	Net book value at 31 March	19,626

2015/16 comparative figures have been restated to show additions which were added to the Asset Register after the 2015/16 Statement of Accounts had been produced.

In addition to the net book value of £19.626m in respect of the PFI assets, the balance sheet also includes the value of the land on which the schools are built. The value of the land is £1.783m and the total net value of land and buildings for these schools carried forward is £21.410m.

### Value of Liabilities

The assets included in the Balance Sheet are offset by a liability equal to the initial value of the assets financed by contractor. This liability is written-down over the life of the contract by charging part of the annual payments to the contractor against the liability.

Movements in the values in 2016/17 are summarised below:

31 March 2016 £000		31 March 2017 £000
41,860	Balance outstanding at start of year	41,060
-800	Payments during the year	-929
41,060	Balance outstanding at year-end	40,131

## Estimates of Future Payments Due

	Payments for Services £000	Reimbursement of Capital Expenditure £000	Interest £000	Total £000
Payable in 2017-18	2,354	957	4,071	7,382
Payable within two to five years	10,634	4,276	15,283	30,193
Payable within six to ten years	14,747	8,496	16,116	39,359
Payable within eleven to fifteen years	18,058	12,270	11,052	41,380
Payable within sixteen to twenty years	14,822	14,132	3,661	32,615
<b>Total</b>	<b>60,615</b>	<b>40,131</b>	<b>50,183</b>	<b>150,929</b>

Contract payments are partially linked to inflation as measured by the RPIX index (all items excluding Mortgage Interest Payments). These estimates assume that after 2016/17 RPIX increases at 2.5% a year for the remainder of the contract.

Other reasons why costs might vary in future years are:

- The provision of facilities management (FM) services is subject to benchmarking and / or market testing every five years. Payments to the contractor will be adjusted to reflect the outcome of these exercises, which could reduce or increase costs.
- Once PFI contracts are operational it is sometimes possible to 're-finance' the contract which reduces the cost of borrowing incurred by the contractor. The contractor provides for the Council to receive some of the savings arising from re-financing. Re-financing is only possible if market conditions allow. The Council is currently considering options in relation to re-financing the PFI contract.

### 43. Impairment and Revaluation Losses

The value of the Council's assets has been reduced by £99.167m in 2016/17 (£67.416m in 2015/16), charged partly to services in the Comprehensive Income and Expenditure Statement (CIES) and partly to the Revaluation Reserve. This reduction includes both the consumption of economic benefits and also revaluation losses due to the downturn in the economy.

### 44. Termination Benefits

The Council terminated the contracts of a number of employees in 2016/17. The value of the redundancy payments charged to services in 2016/17 was £3.452m and in 2015/16 was £4.349m. The table below analyses the payments made in the relevant financial years. The majority of the payments made in 2016/17 were due to the rationalisation of services within the Council.

2015-16 £000 (restated)		2016-17 £000
1,398	Adult and Health Services	1,226
1,007	Children and Young People's Services	1,117
931	Regeneration and Local Services	687
964	Resources	279
38	Transformation and Partnerships	83
11	Financing and Investment Income and Expenditure (Trading)	60
4,349	<b>Total</b>	3,452

The Code now requires the service analysis in the CIES to be based on the organisational structure under which the Council operates and manages its services. Previously the presentation was based on the service expenditure analysis set out in CIPFA's Service Reporting Code of Practice for Local Authorities (SeRCOP). The 2015/16 comparative figures have been restated to reflect this change.

In addition to the above redundancy payments, the pension enhancement value in 2016/17 was £3.471m and in 2015/16 was £3.953m.

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

### Teachers' Pension Scheme

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

The Scheme is technically a defined benefit scheme. However, the Scheme is unfunded and the Department for Education uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. The Council is not able to identify its share of the underlying financial position and performance of the Scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2016/17, the Council paid £19.181m to Teachers' Pensions in respect of teachers' retirement benefits, representing 16.48% of pensionable pay (2015/16: £18.408m, 14.1% to 31 August 2015 and 16.48% from 1 September 2015). There were no contributions remaining payable at the year-end.

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. The costs are accounted for on a defined benefit basis and detailed in Note 46.

## **NHS Pension Scheme**

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

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

In 2016/17, the Council paid £0.107m to the NHS Pension Scheme in respect of former NHS staff retirement benefits, representing 14.3% of pensionable pay (£0.148m and 14.3% in 2015/16). There were no contributions remaining payable at the year end.

## **46. Defined Benefit Pension Schemes**

### **Participation in Pension Schemes**

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

The Council participates in two post-employment schemes:

- The Local Government Pension Scheme (LGPS), administered locally by Durham County Council – this is a funded defined benefit career average revalued earnings scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.
- Arrangements for the award of discretionary post-retirement benefits upon early retirement – this is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pensions liabilities, and cash has to be generated to meet actual pensions payments as they eventually fall due.

The Durham County Council Pension Fund is operated under the regulatory framework for the LGPS and responsibility for the Pension Fund has been delegated from Durham County Council to the Pension Fund Committee. The Corporate Director Resources has a statutory duty to ensure the Pension Fund remains solvent and is administered effectively, adhering to the LGPS regulations in order to meet any current and future liabilities. The

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Pension Fund has seven investment managers who are appointed by the committee to invest the Fund's assets in compliance with constraints imposed by the Fund's Statement of Investment Principles (superceded by the Investment Strategy Statement with effect from 1 April 2017) and in compliance with applicable legislation. Further information on Durham County Council's Pension Fund can be found in the Pension Fund Accounts later in this document.

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

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

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

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

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

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

2015-16			2016-17	
Local Government Pension Scheme £000	Discretionary Benefits Arrangements £000		Local Government Pension Scheme £000	Discretionary Benefits Arrangements £000
		Cost of services:		
		Service cost comprising:		
51,120	-	- Current service cost	50,170	-
3,810	-	- Past service cost (including curtailments)	1,310	-
		Financing and Investment Income and Expenditure:		
26,650	2,270	- Net interest on net defined benefit liability	27,450	2,270
81,580	2,270	Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	78,930	2,270
		Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement:		
		Remeasurement of the net defined benefit liability comprising:		
60,960	-	- Return on plan assets (excluding the amount included in the net interest expense)	-181,850	-
-90,200	-1,760	- Actuarial gains and losses due to changes in financial assumptions	489,500	4,970
-	-	- Actuarial gains and losses due to changes in demographic assumptions	-7,810	-10
-22,200	-1,280	- Actuarial gains and losses due to liability experience	-107,040	-520
30,140	-770	Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	271,730	6,710
		<b>Movement in Reserves Statement</b>		
-81,580	-2,270	Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post employment benefits in accordance with the Code	-78,930	-2,270
		Actual amount charged against the General Fund Balance for pensions in the year:		
56,096	-	- Employer's contributions payable to the scheme	56,783	-
-	5,679	- Direct retirement benefits payable to pensioners	-	5,520

## Pensions Assets and Liabilities Recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the Council's obligation in respect of its defined benefit plans is as follows:

2015-16			2016-17		
Funded Liabilities: Local Government Pension Scheme £000	Unfunded Liabilities: Discretionary Benefits Arrangements £000		Funded Liabilities: Local Government Pension Scheme £000	Unfunded Liabilities: Discretionary Benefits Arrangements £000	
-2,402,560	-69,590	Present value of the defined benefit obligation	-2,837,520	-70,370	
1,568,010	-	Fair value of plan assets	1,786,040	-	
-834,550	-69,590	<b>Net liability arising from defined benefit obligation</b>	-1,051,480	-70,370	
-215	69	Difference between actuaries' figures and actual contributions	1,983	-410	
<b>-834,765</b>	<b>-69,521</b>	<b>Adjusted Total *</b>	<b>-1,049,497</b>	<b>-70,780</b>	

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

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

2015-16			2016-17		
Funded Liabilities: Local Government Pension Scheme £000	Unfunded Liabilities: Discretionary Benefits Arrangements £000		Funded Liabilities: Local Government Pension Scheme £000	Unfunded Liabilities: Discretionary Benefits Arrangements £000	
1,594,560	-	<b>Opening fair value of scheme assets</b>	1,568,010	-	
50,780	-	Interest Income	53,040	-	
-60,960	-	Remeasurement gain/loss (-)	181,850	-	
56,310	5,610	Contributions from employer	54,800	5,930	
14,050	-	Contributions from employees into the scheme	14,210	-	
-86,730	-5,610	Benefits paid	-85,870	-5,930	
<b>1,568,010</b>	<b>-</b>	<b>Closing fair value of scheme assets</b>	<b>1,786,040</b>	<b>-</b>	

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

2015-16			2016-17		
Funded Liabilities: Local Government Pension Scheme £000	Unfunded Liabilities: Discretionary Benefits Arrangements £000		Funded Liabilities: Local Government Pension Scheme £000	Unfunded Liabilities: Discretionary Benefits Arrangements £000	
2,455,280	75,970	<b>Opening balance at 1 April</b>	2,402,560	69,590	
51,120	-	Current service cost	50,170	-	
77,430	2,270	Interest cost	80,490	2,270	
14,050	-	Contributions by scheme participants	14,210	-	
		Remeasurement gains (-) and losses:			
-90,200	-1,760	Actuarial gains and losses due to changes in financial assumptions	489,500	4,970	
-	-	Actuarial gains and losses due to changes in demographic assumptions	-7,810	-10	
-22,200	-1,280	Actuarial gains and losses due to liability	-107,040	-520	
3,810	-	Past service cost (including curtailments)	1,310	-	
-86,730	-5,610	Benefits paid	-85,870	-5,930	
<b>2,402,560</b>	<b>69,590</b>	<b>Closing balance at 31 March</b>	<b>2,837,520</b>	<b>70,370</b>	

### Local Government Pension Scheme Assets comprised:

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

31 March 2016			31 March 2017			
Fair Value of scheme assets £000			Fair Value of scheme assets £000			
Quoted	Unquoted	Total		Quoted	Unquoted	Total
639,748	-	639,748	Equity investments	843,011	-	843,011
20,384	105,057	125,441	Property	21,432	112,521	133,953
407,683	94,081	501,764	Government bonds	484,017	96,446	580,463
-	141,121	141,121	Corporate bonds	-	146,455	146,455
159,937	-	159,937	Cash	82,158	-	82,158
<b>1,227,752</b>	<b>340,259</b>	<b>1,568,011</b>	<b>Total</b>	<b>1,430,618</b>	<b>355,422</b>	<b>1,786,040</b>

### Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Both the Local Government Pension Scheme and Discretionary Benefits liabilities have been assessed by Aon Hewitt Limited, an independent firm of actuaries; estimates for the County Council Fund being based on the latest full valuation of the scheme as at 31 March 2016.



The principal assumptions used by the actuary have been:

2015-16		2016-17	
Local Government Pension Scheme	Discretionary Benefits Arrangements	Local Government Pension Scheme	Discretionary Benefits Arrangements
<b>Mortality assumptions:</b>			
Longevity at 65 for current pensioners:			
22.7	22.7 - Men	23.2	23.2
25.2	25.2 - Women	24.9	24.9
Longevity at 65 for future pensioners:			
24.9	n/a - Men	25.4	n/a
27.5	n/a - Women	27.2	n/a
<b>Principal financial assumptions (% per annum)</b>			
2.9	2.9 - Rate of inflation (RPI)	3.1	3.1
1.8	1.8 - Rate of inflation (CPI)	2.0	2.0
3.3	n/a - Rate of increase in salaries	3.5	n/a
1.8	1.8 - Rate of increase in pensions	2.0	2.0
3.4	3.4 - Rate for discounting scheme liabilities	2.6	2.6

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below are based on reasonably possible changes to the assumptions occurring at the end of the reporting period and assume for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit cost method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in 2015/16.

The approximate impact of changing the key assumptions on the present value of the funded defined benefit obligation as at 31 March 2017 and the projected service cost for the year ending 31 March 2018 is set out below:

**Discount rate assumption**

Adjustment to discount rate	+ 0.1% per annum	Base Figure	- 0.1% per annum
Present value of total obligation (£000)	2,786,370	2,837,520	2,889,610
Change in present value of total obligation	-1.8%		1.8%
Projected service cost (£000)	67,700	69,790	71,940
Approximate change in projected service cost	-3.0%		3.1%

**Rate of general increase in salaries**

Adjustment to salary increase rate	+ 0.1% per annum	Base Figure	- 0.1% per annum
Present value of total obligation (£000)	2,850,840	2,837,520	2,824,360
Change in present value of total obligation	0.5%		-0.5%
Projected service cost (£000)	69,790	69,790	69,790
Approximate change in projected service cost	0.0%		0.0%

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

Adjustment to pension increase rate	+ 0.1% per annum	Base Figure	- 0.1% per annum
Present value of total obligation (£000)	2,876,190	2,837,520	2,799,420
Change in present value of total obligation	1.4%		-1.3%
Projected service cost (£000)	71,940	69,790	67,700
Approximate change in projected service cost	3.1%		-3.0%

**Post retirement mortality assumption**

Adjustment to mortality age rating assumption *	- 1 year	Base Figure	+ 1 year
Present value of total obligation (£000)	2,921,610	2,837,520	2,753,960
Change in present value of total obligation	3.0%		-2.9%
Projected service cost (£000)	72,310	69,790	67,290
Approximate change in projected service cost	3.6%		-3.6%

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

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

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The Council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over 21 years from 1 April 2017. Funding levels are monitored on an annual basis.

The scheme will need to take account of the national changes to the scheme under the Public Pensions Services Act 2013. Under the Act, the Local Government Pension Scheme in England and Wales and other main existing public service schemes may not provide benefits in relation to service after 31 March 2014 (or service after 31 March 2015

for other main existing public service pension schemes in England and Wales). The Act provides for scheme regulations to be made within a common framework, to establish new career average revalued earnings schemes to pay pensions and other benefits to certain public servants.

The Council anticipates paying £98.640m contributions to the scheme in 2017/18 (£54.780m in 2016/17). This includes a £40.500m advance payment in April 2017 in respect of amounts due from 2017/18 to 2019/20 (£nil advance payment paid in 2016/17). The advance payment will be held on the Balance Sheet and the charge will be released to the Comprehensive Income and Expenditure Statement in 2018/19 and 2019/20.

The weighted average duration of the defined benefit obligation for scheme members is 18.2 years at 31 March 2017 (18.1 years at 31 March 2016).

## **47. Contingent Liabilities**

### **a) Job Evaluation**

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

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

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

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

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

### **d) Grievance Claims**

The council has received multiple grievances from a Trade Union over potential discriminatory impact in relation to terms and conditions of employment of some employees. They may escalate to formal claims based upon loss of salary over a period of time.

**e) Employment Disputes**

The Council is currently in discussions with HM Revenue and Customs regarding the treatment for income tax liability on settlement payments. These are settlements of staffing disputes such as unfair dismissal, constructive dismissal, discrimination or breach of contract.

**f) Municipal Mutual Insurance**

Historically, the Municipal Mutual Insurance Company (MMI) was the principal provider of insurance to the Council. In the early 1990's it became clear that MMI was in danger of becoming insolvent. It was determined that MMI would close to new business and there would be an orderly run down of all the existing and prospective claims. The Council signed up to this agreement and as remaining assets have proven to be insufficient to cover potential future liabilities, the Scheme of Arrangement was invoked on 13 November 2012. At the current time, the Council's maximum potential liability that can be clawed back is £6.7m.

The Council's Insurance Adviser initially recommended that adequate provision should be held against future calls in the range of 25% to 30%. As at 31 March 2015 the Council provided for 28% (£0.774m) of the value of the total potential liability in the Scheme of Arrangement, after the levy payments totaling £0.856m were made in 2013/14 and 2014/15. However, during 2015/16 a further levy of £0.616m was paid and as a result of a further deterioration in the MMI balance sheet it was felt prudent to increase the provision to 34% of the outstanding liability net of the levy payments made to date. As no further contradictory advice was received from our Insurance Advisors during 2016/17, the liability was again provided for at 34%. As the provision is not for the total amount of the potential liability, there is the possibility of future claims, the Council considers there to be a contingent liability as it has no certainty about the timing or the amount of any future liability.

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

**g) Closed Landfill Sites**

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

order for works to sites. As the full value and timing of this liability remains uncertain, it has been included in the accounts as a contingent liability.

#### **h) Joint Stocks Phase 1 and Phase 2 Landfill Site**

The Environment Agency is the regulator of the Landfill site as described in the Environmental Permitting (England and Wales) Regulations 2010. Under these regulations a Permit to operate this landfill site was transferred to the Council following the liquidation of Premier Waste on 31 May 2013. The Council became responsible for managing the site's Environmental Permit from 1 June 2013 and has allocated resources within its MTFP to restore and maintain the facility, which is no longer operational. Capping and restoration works to Phase 2 were completed to the Environment Agency's satisfaction in May 2015. Soil importation is progressing slowly due to availability and ability to secure soils within the County as part of the final Phase 1 works. It is anticipated Phase 1 works will be split into two parts, the first commencing in March 2018/19 subject to having sufficient soils and a successful procurement. A performance deed has been established to ensure that the Environment Agency has the resources to meet the legal obligations associated with the site in the event that the Council fails to do so. The amount secured by this deed is £4.25m for the first year which is reviewable annually and subject to RPIJ (Jevons) increases. The most recent review by the Environment Agency actually took place in April 2017 resulting in an increase of the provision to £5.108m. This provision will stabilise and gradually diminish over the next 60 years as the liability reduces. The Council has no immediate financial liability as a payment under the performance deed would only be required if the Council failed to meet its legal requirements. At the current time it is considered unlikely that the Council will fail to meet its obligations in the future therefore it has been included in the accounts as a contingent liability.

#### **i) Tribunal and Court Claims**

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

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

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

## **48. Contingent Assets**

### **a) LSVT - VAT Shelter**

The Council and CDHG have entered into a VAT shelter arrangement to enable CDHG to reclaim VAT on future improvement works to the transferred stock. This scheme has been devised and implemented in nearly all stock transfers since 2003 and has approval from HMRC and the Government. Based on development works of £319m and adjusting for VAT on disabled adaptations works, the Council is entitled to a 50% share of VAT recovered by CDHG from this VAT shelter arrangement. The estimated proceeds are £29.25m for the Council over a 15 year period ending on 31 March 2030.

### **b) VAT claims**

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

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

This includes:

- Museum exhibits owned by or on long-term loan to the Council at Killhope Lead Mining Museum, Durham Town Hall and Shildon Locomotion Museum (excluding items belonging to the National Railway Museum). The museums are open to the public. Killhope holds the national collection of spar boxes, ornate mineral creations developed by miners in the North Pennines. Further details of the collections can be found on the museums' websites.
- Artefacts held by the Council's Learning Resources service. These items are not on public display but are available for schools and other educational establishments to borrow via an online catalogue.
- Items held by Durham County Record Office, including documents, photographs, films and sound recordings. Public access to the record office is by appointment and an online catalogue is available. The records are stored securely with appropriate temperature and humidity control. These items are not recognised on the Balance Sheet as they have no separate insurance values.
- Books of remembrance and miners banners held in civic buildings

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

This includes items of art, including paintings and murals, many of which are open to the public, and public art and sculptures around the county which are publicly accessible. A number of public artworks are not recorded on the Balance Sheet as they have no insurance value and there is no recent cost information available.

Items of art in the public and administrative areas of civic buildings are not recorded on the Balance Sheet as their insurance value cannot be separately distinguished from the buildings and contents insurance values.

Paintings held at Durham Town Hall and by Durham Learning Resources are included in the Museum Collections category above.

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

This includes war and colliery memorials, statues and non-operational historic buildings around the county, which are all publicly accessible. Included here are the historic buildings at Killhope Lead Mining Museum, although they could also be classed as museum exhibits.

A number of monuments and statues are not recorded on the Balance Sheet as they have no insurance value.

### **Civic Regalia and Silverware**

This includes civic chains, badges of office and silverware used for civic purposes. These items are held in safe storage when they are not being used for official purposes.

### **Geophysical / Archaeological**

This includes pit wheel sites around the county and excavations at Binchester Roman Fort (the Council is the guardian of the site). They are not recorded on the Balance Sheet, as they have no insurance value and the land has no cost or market value. Binchester is open to the public from Easter Saturday until the end of September. The pit wheel sites are publicly accessible.

Various archaeological items found around the county are on deposit at Bowes Museum, Barnard Castle. They are not recognised as heritage assets by the Council as they are held by the museum.

### **Preservation and Management**

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

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

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

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

## 50. Exceptional Items

There are no exceptional items in 2016/17.

## 51. Pooled Budget – Better Care Fund

The Council has entered into a Pooled Budget arrangement under the Better Care Fund (BCF) Agreement for Health and Social Care initiatives.

The BCF was introduced by the Government on 1 April 2015 and the Pooled Budget arrangement supports the BCF vision of improving the health and wellbeing of the people of County Durham and reducing health inequalities.

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

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

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

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

31 March 2016 £000	31 March 2017 £000
<b>Funding Provided to BCF</b>	
4,542 Local Authority (capital)	5,653
39,193 CCGs	38,926
<b>43,735</b>	<b>44,579</b>
<b>Expenditure met from BCF</b>	
23,762 Local Authority (revenue)	24,064
4,542 Local Authority (capital)	4,890
15,431 CCGs	15,625
<b>43,735</b>	<b>44,579</b>
<b>- Net surplus on pooled budget</b>	<b>-</b>
<b>- Authority share of the net surplus arising from pooled budget</b>	<b>-</b>



## 52. Prior Period Adjustments (PPAs)

### Comparator Restatement – Comprehensive Income and Expenditure Statement

The Code now requires the service analysis in the Comprehensive Income and Expenditure Statement (CIES) to be based on the organisational structure under which the Council operates and manages its services. Previously the presentation was based on the service expenditure analysis set out in CIPFA's Service Reporting Code of Practice for Local Authorities (SeRCOP). The 2015/16 comparative figures have been restated to reflect this change. As part of this restatement process, it was discovered that gross expenditure and gross income had both been overstated by £16.111m in respect of the methodology for grossing up central support recharges. There is no net impact on the Cost of Services of either the revised service presentation or the overstatement. The restatement only affects the CIES and the service presentation of Note 44 (Termination Benefits).

Following a review of the treatment of Trading expenditure and income, the Financing and Investment Income and Expenditure line of the CIES has been revised to show only the net Trading surplus, instead of gross expenditure and income. The Trading surplus is now presented as follows:

	<b>Gross Expenditure</b>	<b>Gross Income</b>	<b>Net Expenditure</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Trading, as reported	78,192	-84,121	-5,929
Adjustment	-78,192	78,192	-
Trading, restated	-	-5,929	-5,929

There is no impact on Net Expenditure or the Surplus or Deficit on Provision of Services.

The impact on the CIES of the above adjustments is as follows:

		<b>Gross Expenditure</b>	<b>Gross Income</b>	<b>Net Expenditure</b>
		<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Cost of Services</b>	As reported	1,231,351	-804,976	426,375
	Adjustment	-16,111	16,111	-
	Restated	1,215,240	-788,865	426,375
<b>Financing and Investment Income and Expenditure</b>	As reported	199,671	-89,435	110,236
	Adjustment	-78,192	78,192	-
	Restated	121,479	-11,243	110,236

The Council transferred its stock on 13 April 2015 and details can be found on the Council's website in the Statement of Accounts 2015/16.

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

## Income and Expenditure Account

2015-16		2016-17		
£000		Council Tax £000	NNDR £000	Total £000
<b>Income</b>				
-227,357	Council Tax due from Taxpayers	-238,796	-	-238,796
-116,611	Income from Business Ratepayers	-	-118,188	-118,188
-	Recovery of Previous Year's Estimated Deficit	-	-	-
-	Central Government	-	-3,346	-3,346
-	Durham County Council	-	-3,279	-3,279
-	County Durham & Darlington Fire & Rescue Authority	-	-67	-67
-343,968	Total Income	-238,796	-124,880	-363,676
<b>Expenditure</b>				
<b>Precepts and Demands</b>				
185,055	Durham County Council	197,311	-	197,311
21,235	Durham Police and Crime Commissioner	22,219	-	22,219
12,261	County Durham & Darlington Fire & Rescue Authority	12,822	-	12,822
<b>Payment of Previous Year's Surplus</b>				
510	Central Government	-	-	-
500	Durham County Council	5,896	-	5,896
-	Durham Police and Crime Commissioner	719	-	719
10	County Durham & Darlington Fire & Rescue Authority	416	-	416
<b>Business Rates</b>				
55,916	Payment to Central Government	-	55,918	55,918
1,118	Payment to County Durham and Darlington Fire & Rescue Authority	-	1,118	1,118
54,810	Payment to Durham County Council, including Renewable Energy	-	54,842	54,842
-	Payment to Durham County Council, Renewable Energy - Prior year's surplus	-	42	42
601	Costs of Collection - Business Rates	-	600	600
<b>Bad &amp; Doubtful Debts</b>				
3,125	Write Offs	2,162	1,891	4,053
647	Change in Provision for Bad Debts	-497	-899	-1,396
10,563	Provision for Appeals	-	-46	-46
346,351	Total Expenditure	241,048	113,466	354,514
2,383	Movement on Fund Balance	2,252	-11,414	-9,162
-2,015	Surplus(-) /Deficit on Fund Brought Forward	-7,281	7,649	368
<b>368</b>	<b>Fund Balance Carried Forward</b>	<b>-5,029</b>	<b>-3,765</b>	<b>-8,794</b>
<b>Allocated to :</b>				
-2,337	Durham County Council	-4,237	-1,816	-6,053
3,101	Durham Police and Crime Commissioner	-502	-	-502
-354	County Durham and Darlington Fire & Rescue Authority	-290	-37	-327
-	Central Government	-	-1,853	-1,853
-42	Durham County Council - Renewable Energy	-	-59	-59
<b>368</b>		<b>-5,029</b>	<b>-3,765</b>	<b>-8,794</b>

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## Notes to the Collection Fund Accounts

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

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

### ii. Council Tax

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

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

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

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

Collection Fund

Property Value	Council Band	Number of Properties	Proportion of Band 'D'	Band 'D' Equivalent
Up to £ 40,000	Band A	143,525	6/9ths	95,683
Over £ 40,000 up to £ 52,000	Band B	30,849	7/9ths	23,994
Over £ 52,000 up to £ 68,000	Band C	29,273	8/9ths	26,020
Over £ 68,000 up to £ 88,000	Band D	20,168	9/9ths	20,168
Over £ 88,000 up to £120,000	Band E	9,827	11/9ths	12,011
Over £120,000 up to £160,000	Band F	3,819	13/9ths	5,516
Over £160,000 up to £320,000	Band G	2,078	15/9ths	3,463
Over £320,000	Band H	267	18/9ths	534
		239,806		187,389
Net effect of discounts, reliefs, exemptions and premiums				53,496.6
<b>Chargeable Properties (Taxbase) 2016/17:</b>				<b>133,892.4</b>

The Council Tax Base for 2015/16 was 130,493.0

In 2016/17, the Band D charge was £1,649.38 (£1,591.12 2015/16) made up of Durham County Council £1,387.67 (£1,334.43 2015/16), Durham Police Authority £165.95 (£162.73 2015/16) and County Durham and Darlington Fire and Rescue Authority £95.76 (£93.96 2015/16). In addition, Band D Town and Parish precepts between £0 and £294.90 (£0 and £297.88 2015/16) are chargeable and there are some areas with no Town or Parish Council.

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

The Collection Fund - Council Tax estimated a £2.578m surplus for 2016/17, which will be distributed to major preceptors during 2017/18. At 31 March 2017, the actual outturn was a surplus of £5.029m (surplus of £7.281m at 31 March 2016).

### Provision for Bad Debts

Each year the provision made for uncollectable amounts on Council Tax is revised by examining the aged debt analysis and applying the basis outlined below:

Arrears at 31 March 2017 have been analysed by age of debt and stage of recovery action being taken. These have been put into three broad categories:

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

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

Category of Arrears	Year	Percentage provision applied
Category 1- No reminders yet sent	2016/17	20%
	2015/16	50%
	2014/15 and older	100%
Category 2- First, second or final reminder	2016/17	40%
	2015/16	65%
	2014/15 and older	100%
Category 3- Summons etc	2016/17	55%
	2015/16	90%
	2014/15 and older	100%

At 31 March 2017, the calculated provision of £18.679m covered 79% of arrears (£19.177m, 78% at 31 March 2016).

### Collection Fund – Council Tax Balance

The Collection Fund - Council Tax balance at 31 March 2017 amounted to a surplus of £5.029m (surplus of £7.281m at 31 March 2016).

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

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

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

Authority	Year end Surplus (-) / Deficit on Collection Fund - Council £000	Provision for Bad Debts - Council Tax £000	Council Tax Arrears £000	Council Tax Overpayments and Prepayments £000
Durham County Council	-4,237	-15,764	19,878	-3,259
Durham Police and Crime Commissioner	-502	-1,849	2,332	-382
County Durham & Darlington Fire & Rescue Authority	-290	-1,066	1,345	-221
<b>Total Allocated</b>	<b>-5,029</b>	<b>-18,679</b>	<b>23,555</b>	<b>-3,862</b>

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

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

In 2016/17, the general multiplier was £0.497 (£0.493 in 2015/16) and the small business multiplier was £0.484 (£0.480 in 2015/16). The total non-domestic rateable value for Durham County Council at 31 March 2017 was £306.544m (Valuation Office Agency (VOA) schedule dated 24 March 2017) (£307.581m at 31 March 2016).

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

The business rates due to be paid over during 2016/17 were estimated before the start of the year on the NNDR1, a statutory document submitted in January 2016. In addition, during 2016/17, the estimated surplus for 2015/16 was paid to shareholders as shown on the Income and Expenditure Account.

The estimated outturn for 2016/17 was included on the NNDR1 for 2017/18, submitted in January 2017. This predicted a surplus of £1.696m (deficit £6.692m estimated for 2015/16) of which Durham County Council's share would be £0.831m (deficit of £3.279m for 2015/16). Any estimated surplus or deficit is either paid to or recovered from each shareholder in the following financial year. The difference between the estimated outturn and the actual at 31 March is carried forward and taken into account in a future financial year. At 31 March 2017, the actual outturn was a surplus of £3.706m (deficit of £7.691m in 2015/16). In addition, income from Renewable Energy amounted to £0.100m (£0.042m in 2015/16).

#### **Provision for Bad debts**

Each year the provision made for uncollectable amounts on Business Rates is revised by examining the aged debt analysis and applying the basis outlined below:



Arrears at 31 March 2017 have been analysed by age of debt and stage of recovery action being taken. These have been put into three broad categories:

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

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

Category of Arrears	Year	Percentage provision applied
Category 1- No reminders yet sent	2016/17	20%
	2015/16	50%
	2014/15 and older	100%
Category 2- First, second or final reminder	2016/17	40%
	2015/16	65%
	2014/15 and older	100%
Category 3- Summons etc	2016/17	55%
	2015/16	90%
	2014/15 and older	100%

At 31 March 2017, the calculated provision of £4.159m covered 71% of arrears (£5.057m, 73% at 31 March 2016).

### Provision for Appeals

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

At 31 March 2017, the provision for Appeals was estimated at £18.201m (£18.247m at 31 March 2016).

**Collection Fund Balance - Business Rates**

The Collection Fund – Business Rates balance at 31 March 2017 amounted to a surplus of £3.706m (deficit of £7.691m at 31 March 2016).

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

The following table shows how Business Rates balances have been allocated at 31 March 2017.

<b>Authority</b>	<b>Year-end Surplus (-)/ Deficit on Collection Fund - NNDR £000</b>	<b>Provision for Bad Debts - NNDR £000</b>	<b>Business Rates Arrears £000</b>	<b>Business Rates Overpayments and Prepayments £000</b>	<b>Provision for Appeals £000</b>
Durham County Council	-1,816	-2,038	2,861	-1,109	-8,919
Central Government	-1,853	-2,079	2,919	-1,132	-9,101
County Durham & Darlington Fire & Rescue Authority	-37	-42	58	-22	-182
<b>Total Allocated</b>	<b>-3,706</b>	<b>-4,159</b>	<b>5,838</b>	<b>-2,263</b>	<b>-18,202</b>

## Fund Account

2015-16				2016-17	
£000	£000		Notes	£000	£000
<b>DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED IN THE FUND</b>					
-112,035		Contributions receivable	7	-106,715	
-3,680		Transfers in from other pension funds	8	-4,974	
-5		Other income		-3	
	-115,720				-111,692
110,422		Benefits payable	9	114,152	
5,273		Payments to and on account of leavers	10	7,270	
	115,695				121,422
	<b>-25</b>	<b>Net withdrawals/ -additions from dealings with members, employers and others</b>			<b>9,730</b>
	11,490	<b>Management expenses</b>	11		11,877
<b>RETURN ON INVESTMENTS</b>					
-22,662		Investment income	12	-26,122	
24,955		Profit and losses on disposal of investments and change in market value of investments	14	-366,723	
	<b>2,293</b>	<b>Net returns on investments</b>			<b>-392,845</b>
	<b>13,758</b>	<b>NET -INCREASE/ DECREASE IN THE NET ASSETS AVAILABLE FOR BENEFITS DURING THE YEAR</b>			<b>-371,238</b>

**Net Assets Statement**

2015-16		2016-17			
£000	£000	Notes	£000	£000	
<b>INVESTMENT ASSETS</b>					
211,866		Equities	14	282,942	
519,293		Bonds	14	580,729	
<u>1,487,500</u>	2,218,659	Pooled investment vehicles	14	<u>1,778,540</u>	2,642,211
349		Loans	14	327	
Other cash deposits:					
79,484		Fund Managers	14	31,491	
17,217		Short term investments	14	8,431	
<u>12,880</u>	<u>109,930</u>	Derivative contracts	14	<u>4,524</u>	<u>44,773</u>
	2,328,589				2,686,984
<b>Other Investment Assets</b>					
1,925		Dividend accruals	14,17	1,766	
368		Tax recovery	14,17	480	
<u>13,388</u>	<u>15,681</u>	Other investment balances	14,17	<u>3,230</u>	<u>5,476</u>
<b>2,344,270</b>	<b>Total Investment Assets</b>			<b>2,692,460</b>	
<b>INVESTMENT LIABILITIES</b>					
-17,785		Derivative contracts	14	-2,989	
<u>-9,734</u>		Other investment balances	18	<u>-1,981</u>	
<b>-27,519</b>	<b>Total Investment Liabilities</b>			<b>-4,970</b>	
<b>2,316,751</b>	<b>NET INVESTMENT ASSETS</b>			<b>2,687,490</b>	
833	<b>Long Term Assets</b>	17		625	
<b>Current assets</b>					
8,563		Contributions due from employers	17	9,091	
<u>1,185</u>		Other current assets	17	<u>1,716</u>	
	9,748			10,807	
<b>Current liabilities</b>					
<u>-6,115</u>		Current liabilities	18	<u>-6,467</u>	
	-6,115			-6,467	
<b>2,321,217</b>	<b>NET ASSETS OF THE FUND AVAILABLE TO PAY BENEFITS AT 31 MARCH</b>			<b>2,692,455</b>	

The Pension Fund's accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the reported accounting period. The actuarial present value of promised retirement benefits, which does take account of such obligations, is disclosed in Note 23.

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

## 1. Fund Operation and Membership

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

- Public Services Pensions Act 2013
- LGPS Regulations 2013 (as amended)
- LGPS (Transitional Provisions, Savings and Amendments) Regulations 2014 (as amended)
- LGPS (Management and Investment of Funds) Regulations 2016

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

The Corporate Director Resources is responsible for the administration of the Pension Fund. He is assisted by the Pensions Administration and Pension Fund Accounting teams in his statutory duty to ensure the Pension Fund is administered effectively and remains solvent.

The Fund was established in 1974 to cover the future pension entitlement of all eligible employees of the County Council and former District Councils. The Fund excludes provision for teachers, police officers and firefighters for whom separate pension arrangements exist. A number of other scheduled and admitted bodies also participate in the Scheme.

The LGPS is a defined benefit occupational pension scheme to provide pensions benefits for pensionable employees of participating bodies. On retirement contributors receive annual pensions and where applicable lump sum payments. Entitlement to these benefits arises mainly on the grounds of reaching retirement age and retirement through early retirement schemes or being made redundant. Contributors who leave and who are not immediately entitled to these benefits may have their pension rights transferred or preserved until reaching retirement age.

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

	2012/13	2013/14	2014/15	2015/16	2016/17
Contributing Members	16,837	17,454	18,011	18,530	18,630
Pensioners in Payment	16,386	16,700	17,193	17,715	18,139
Pensioners Deferred	12,211	13,040	13,165	14,451	15,104

In comparison to the figures reported at 31 March 2016, the number of pensionable employees in the Fund at 31 March 2017 has increased by 100, the number of pensioners has increased by 424 and deferred pensioners have increased by 653.

Contributions represent the total amounts receivable from:

- employing authorities (of which there were 115 at 31 March 2017), at a rate determined by the Fund's Actuary, and
- pensionable employees, at a rate set by statute.

The Fund's total benefits and contributions are summarised in the following table:

2015-16			2016-17	
Benefits	Contributions		Benefits	Contributions
£000	£000		£000	£000
83,286	-70,340	Administering Authority	86,173	-71,078
20,567	-34,000	Scheduled Bodies	22,158	-28,273
6,569	-7,695	Admission Bodies	5,821	-7,364
<b>110,422</b>	<b>-112,035</b>		<b>114,152</b>	<b>-106,715</b>

## 2. Basis of Preparation

The Pension Fund accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), which is based upon International Financial Reporting Standards (IFRS) as amended for the UK public sector.

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

The financial statements summarise the transactions and the net assets of the Pension Fund available to pay pension benefits. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial valuations of the Fund, which do take account of such obligations, are carried out every three years. The Actuary completed a valuation during 2016/17, the results of which determined the contribution rates effective from 1 April 2017 to 31 March 2020. Details of the latest valuation are included in Note 22.

## 3. Statement of Accounting Policies

### Significant Accounting Policies

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

### *Fund Account*

#### Contributions receivable

Contribution income is categorised and recognised as follows:

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

#### Transfers to and from other schemes

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

Individual transfer values paid and received are accounted for on a cash basis as the amount payable or receivable is not determined until payment is made and accepted by the recipient. Bulk (Group) transfers out and in are accounted for in full in the year in which the transfer value is agreed by Durham County Council Pension Fund.

### **Pension benefits payable**

Pension benefits are recognised and recorded in the accounting records and reported in the financial statements as an expense in the period to which the benefit relates. Any amounts due, but yet to be paid, are disclosed in the Net Assets Statement as current liabilities.

### **Management expenses**

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

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

Fees of the external Investment Managers and Custodian are agreed in the respective mandates governing their appointments. Note 11 provides further information regarding the basis of Investment Managers' Fees. Where an Investment Manager's fee note has not been received by the balance sheet date, an estimate based upon the market value of their mandate as at the end of the financial year is used for inclusion in the Fund Account.

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

### **Investment income**

Investment income is accounted for as follows:

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



- changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/ losses during the year.

## **Taxation**

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

## ***Net Assets Statement***

### **Valuation of Investments**

Investments are included in the accounts at their fair value as at the reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

An investment asset is recognised in the Net Assets Statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes to the fair value of the asset are recognised by the Fund. The values of investments as shown in the Net Assets Statement have been determined as follows:

- Quoted equity securities traded on an exchange are accounted for on a bid market price basis, where Investment Managers provide valuations in this manner;
- Fixed interest securities traded on an exchange are accounted for at bid market price where Investment Managers provide valuations in this manner;
- Index linked securities are valued at bid market value where Investment Managers provide valuations in this manner;
- Unitised managed funds are valued at the closing bid price if bid and offer prices are reported by the relevant exchange and in the Investment Manager's valuation report. Single priced unitised managed funds are valued at the reported price;
- Unitised, unquoted managed property funds are valued at the net asset value adjusted for cash flows or a single price advised by the fund manager;
- Unquoted equity investments are included based on an estimated price of the investments held. Investment Managers use valuation techniques to establish a price at the year end date based on an arm's length exchange given normal business considerations;
- Derivative contracts outstanding at the year end are included in the Net Assets Statement at fair value (as provided by Investment Managers) and gains and

losses arising are recognised in the Fund Account as at 31 March. The value of foreign currency contracts is based on market forward exchange rates at the reporting date. The value of all other derivative contracts is determined using exchange prices at the reporting date.

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

### **Cash and Cash Equivalents**

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

### **Contingent Assets**

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

### **Investment transactions**

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

### **Acquisition costs of investments**

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

### **Financial liabilities**

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

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

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

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

The Fund provides an additional voluntary contribution (AVC) scheme for its members, the assets of which are invested separately from those of the Fund. In accordance with LGPS Regulations, AVCs are not recognised as income or assets in the Pension Fund Accounts, however a summary of the scheme and transactions are disclosed in Note 19 to these accounts.

If, however, AVCs are used to purchase extra years' service from the Pension Fund, this is recognised as contribution income in the Fund's accounts on an accruals basis. Amounts received in this way can be found in Note 7 as additional contributions from members.

### **Prior Period Adjustments**

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period. Disclosure notes have been provided within the notes to the accounts for all prior period restatements. There has been no impact on the Fund Account or value of the net assets of the Fund available to available to pay benefits.

### **Events After the Reporting Period**

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

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

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

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

The preparation of the statements in accordance with the Code of Practice on Local Authority Accounting requires management to make judgements, estimates and assumptions which affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. In applying the policies, the Pension Fund has to make certain judgements about complex transactions, or those involving uncertainty. Those with most significant effect are:

- the fair value of unquoted investments is highly subjective and based upon forward looking estimates and judgements involving many factors. The valuations of unquoted investments disclosed in the Net Assets Statement are based on the latest investor reports and financial statements provided by the fund managers of the underlying funds.
- the pension fund liability is calculated every three years by the appointed actuary. Assumptions underpinning the valuations are agreed with the actuary; the estimate is subject to significant variances based on changes to the underlying assumptions.

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

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

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

Item	Uncertainties	Effect if actual differs from assumptions
Actuarial Valuation	Estimation of the net liability to pay pensions depends on a number of complex judgements including the discount rate used, the salary increase projections, expected changes in retirement ages, mortality rates and returns on pension fund assets. A firm of actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied. Note 22 summarises the results of the actuarial valuation.	The Actuary calculated the funding ratio to be 81% as at 31 March 2016 (the last triennial valuation). If the following figures were to differ from the assumptions used in the calculation, there would be a reduction in the funding ratio to: <ul style="list-style-type: none"> <li>- 75% if life expectancy increases by 3 years</li> <li>- 67% if discount rate falls by 1%</li> <li>- 67% if inflation increases by 1%</li> <li>- 68% if equities fall by 25%</li> <li>- 78% if pensionable pay increases by 1%</li> </ul>
Fair Value of Investments	The Accounts are as at 31 March 2017 and all the investments held by the fund are valued as at that date using the best estimate possible of 'fair value', as detailed in 'Significant Accounting Policies - Valuation of Investments'.	The use of estimates for investment values is greatest for those assets classified at Level 3 which means there is a risk that these investments may be over/ under-stated in the accounts. The total value of Level 3 investments (explained in Note 15) is £165.4m at 31/3/17 (£154.1m at 31/3/16). In line with the market risk section within Note 16, there is a risk that the value of the Fund may be over/ under stated in the accounts by £23.99m (£21.73m at 31/3/16).

## 6. Post Net Assets Statement (Balance Sheet) Event

There have been no events after 31 March 2017 which require any adjustments to be made to these accounts.

## 7. Contributions Receivable

2015-16 £000		2016-17 £000
	<b>Employer contributions:</b>	
-49,770	Normal	-49,580
-6,400	Augmentation	-5,797
-32,827	Deficit funding	-28,059
	<b>Member contributions:</b>	
-22,929	Normal	-23,191
-109	Additional contributions	-88
<b>-112,035</b>		<b>-106,715</b>
-70,340	Administering Authority	-71,078
-34,000	Scheduled Bodies	-28,273
-7,695	Admission Bodies	-7,364
<b>-112,035</b>		<b>-106,715</b>

## 8. Transfers in From Other Pension Funds

2015-16 £000		2016-17 £000
-3,680	Individual Transfers	-4,974
<b>-3,680</b>		<b>-4,974</b>

## 9. Benefits Payable

2015-16 £000		2016-17 £000
90,708	Pensions	93,285
22,514	Commutations and lump sum retirement benefits	23,344
2,035	Lump sum death benefits	2,167
-4,835	Recharged benefits	-4,644
<b>110,422</b>		<b>114,152</b>
83,286	Administering Authority	86,173
20,567	Scheduled Bodies	22,158
6,569	Admission Bodies	5,821
<b>110,422</b>		<b>114,152</b>

## 10. Payments To and On Account of Leavers

2015-16		2016-17
£000		£000
153	Refunds to members leaving service	297
61	Payments for members joining state scheme	75
5,059	Individual transfers to other schemes	6,329
-	Group transfers to other schemes	569
<b>5,273</b>		<b>7,270</b>

## 11. Management Expenses

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

Investment management expenses include any expenses in relation to the management of the pension fund assets. Investment manager fees are based on the value of assets under management. A performance related fee, derived from a base fee plus a percentage of out-performance, is paid to three of the Fund's investment managers; an ad-valorem fee is payable to the other managers.

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

2015-16		2016-17
£000		£000
854	Administration expenses	905
9,962	Investment Management expenses	10,330
674	Oversight and Governance costs	642
<b>11,490</b>		<b>11,877</b>

Included within oversight and governance costs is the external audit fee payable to Mazars LLP in 2016/17 of £0.026m (£0.026m in 2015/16). No fees have been paid to Mazars in 2016/17 in respect of non-audit work

## 12. Investment Income

2015-16 £000		2016-17 £000
-5,089	Interest from bonds	-5,620
-6,860	Dividends from equities	-7,071
-102	Interest on cash deposits	-48
-10,611	Income from pooled investment vehicles	-13,383
<u>-22,662</u>		<u>-26,122</u>

## 13. Taxation

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

- **United Kingdom Income Tax**

The Fund is an exempt approved Fund under Section 1(1) Schedule 36 of the Finance Act 2004, and is therefore not liable to UK income tax on interest, dividends and property income, or to capital gains tax.

- **Value Added Tax**

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

- **Foreign Withholding Tax**

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

## 14. Investments

### Analysis by Investment Manager

The following Investment Managers were employed during 2016/17 to manage the Pension Fund's assets:

- Aberdeen Asset Management Limited (Aberdeen)
- AB (Formerly AllianceBernstein Limited)
- Bank of New York Mellon Investment Management EMEA Limited (BNYM)
- BlackRock Investment Management UK Limited (BlackRock)
- CB Richard Ellis Collective Investors Limited (CBRE)
- Mondrian Investment Partners Limited (Mondrian)
- Royal London Asset Management (RLAM)

The long-term strategic allocation as at 31 March was as follows:

31 March 2016	Investment Manager	Asset Class	31 March 2017
%			%
15	Aberdeen	Global equities	15
15	AB	Global Bonds	15
15	BNYM	Global equities	15
20	BlackRock	Dynamic Asset Allocation	20
8	CBRE	Global property	8
7	Mondrian	Emerging Market Equities	7
20	RLAM	Investment grade sterling bonds	20
<b>100</b>			<b>100</b>

The actual allocations vary slightly from the long-term strategic allocations due to market movements. The actual market values of investments held by each Investment Manager as at 31 March were as follows :

31-Mar-16			31-Mar-17	
£000	%	Investment Manager	£000	%
339,124	14.79	Aberdeen	440,069	16.45
341,874	14.91	AB	357,972	13.38
364,837	15.91	BNYM	444,824	16.63
198	0.01	Barings	-	-
437,984	19.10	BlackRock	489,644	18.30
187,755	8.18	CBRE	216,266	8.09
152,726	6.66	Mondrian	197,224	7.37
28	-	Other - NEL	-	-
468,712	20.44	RLAM	529,238	19.78
<b>2,293,238</b>	<b>100.00</b>		<b>2,675,237</b>	<b>100.00</b>

The totals in the above table include all assets held by Investment Managers on behalf of the Fund, including cash and derivatives. The total as at 31 March 2017 excludes loans of £0.327m, cash invested by the administering authority of £8.431m, other investment assets of £5.476m and other investment liabilities of £1.981m (£0.349m, £17.217m, £15.681m and £9.734m respectively as at 31 March 2016).

Of the total value of net investment assets reported in the Net Assets Statement as at 31 March 2017, £2.675m (99.54%) is invested through Investment Managers (£2.293m or 98.99% at 31 March 2016).



**Reconciliation of Movements in Investments 2016/17**

Investment category	Value at 31 March 2016	Purchases at cost	Sales proceeds	Change in market value	Value at 31 March 2017
	£000	£000	£000	£000	£000
Equities	211,866	124,863	-107,999	54,212	282,942
Bonds	519,293	2,714,495	-2,756,492	103,433	580,729
Pooled investment vehicles	1,487,500	233,241	-203,684	261,483	1,778,540
	2,218,659	3,072,599	-3,068,175	419,128	2,642,211
Derivative contracts:					
Futures, margins & options	-691	28,754	-20,561	-6,768	734
Forward foreign currency	-4,214	139,497	-90,544	-43,938	801
	<b>2,213,754</b>	<b>3,240,850</b>	<b>-3,179,280</b>	<b>368,422</b>	<b>2,643,746</b>
Other investment balances:					
Loans	349				327
Other cash deposits	96,701			-1,699	39,922
Dividend accruals	1,925				1,766
Tax recovery	368				480
Other investment balances	3,654				1,249
<b>Net Investment Assets</b>	<b>2,316,751</b>			<b>366,723</b>	<b>2,687,490</b>

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

**Reconciliation of Movements in Investments 2015/16**

Investment category	Value at 31 March 2015	Purchases at cost	Sales proceeds	Change in market value	Value at 31 March 2016
	£000	£000	£000	£000	£000
Equities	234,213	103,326	-105,533	-20,140	211,866
Bonds	564,765	2,025,849	-2,077,720	6,399	519,293
Pooled investment vehicles	1,392,430	228,960	-142,369	8,479	1,487,500
	2,191,408	2,358,135	-2,325,622	-5,262	2,218,659
Derivative contracts:					
Futures, margins & options	3,102	41,841	-38,621	-7,013	-691
Forward foreign currency	-3,877	70,728	-56,678	-14,387	-4,214
	<b>2,190,633</b>	<b>2,470,704</b>	<b>-2,420,921</b>	<b>-26,662</b>	<b>2,213,754</b>
Other investment balances:					
Loans	375				349
Other cash deposits	165,402			1,707	96,701
Dividend accruals	1,815				1,925
Tax recovery	276				368
Other investment balances	-25,294				3,654
<b>Net Investment Assets</b>	<b>2,333,207</b>			<b>-24,955</b>	<b>2,316,751</b>

The 2015/16 note has been restated to include omitted Forward Foreign Currency transactions. The total Change in Market Value remains unchanged

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

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

### Analysis of Investments

2015-16 (Restated)			2016-17	
£000	£000		£000	£000
<b>ASSETS INVESTED THROUGH FUND MANAGERS</b>				
<b>Bonds</b>				
466,549		UK - Public sector - quoted	511,012	
33,455		Overseas - Public sector - quoted	69,717	
19,289		Overseas - Corporate - quoted	-	
	519,293			580,729
<b>Equities</b>				
41,520		UK quoted	45,087	
28		UK unquoted	-	
170,318		Overseas quoted	237,855	
	211,866			282,942
<b>Pooled Investment Vehicles</b>				
80,400		Managed funds - non property - UK quoted	113,196	
1,221,371		Managed funds - non property - overseas quoted	1,465,519	
1,815		Unit Trusts - property - UK quoted	2,086	
32,729		Unit Trusts - property - UK unquoted	23,510	
29,804		Unit Trusts - property - Overseas quoted	32,289	
121,381		Unit Trusts - property - Overseas unquoted	141,940	
	1,487,500			1,778,540
<b>Derivative Contracts</b>				
12,880		Assets	4,524	
-17,785		Liabilities	-2,989	
	-4,905			1,535
79,484	79,484	<b>Fund Managers' cash</b>	31,491	31,491
<b>2,293,238</b>		<b>NET ASSETS INVESTED THROUGH FUND MANAGERS</b>	<b>2,675,237</b>	
<b>OTHER INVESTMENT BALANCES</b>				
17,217		Short term investments (via DCC Treasury Management)	8,431	
349		Loans	327	
15,681		Other investment assets	5,476	
-9,734		Other investment liabilities	-1,981	
<b>2,316,751</b>		<b>NET INVESTMENT ASSETS</b>	<b>2,687,490</b>	

The 2015-16 Pooled Investment Vehicles figures have been restated to show the reclassification of £341.874m from Managed funds - non property - overseas unquoted to

Managed funds - non property - overseas quoted following additional information received from our Fund Managers. The total remains unchanged.

## Analysis of Derivatives

### Objectives and policies for holding derivatives

Derivatives are financial instruments that derive their value from the price or rate of some underlying item. Underlying items include equities, bonds, commodities, interest rates, exchange rates and stock market indices.

The Fund uses derivatives to manage its exposure to specific risks arising from its investment activities. Derivatives may be used to gain exposure to an asset more efficiently than holding the underlying asset or hedge against the risk of adverse currency movement on the Fund's investments. The use of derivatives is managed in line with the investment management agreement agreed between the Pension Fund and its Investment Managers.

A summary of the derivative contracts held by the Pension Fund is provided in the following table:

2015-16		Derivative Contracts	2016-17	
£000	£000		£000	£000
		<b>Forward foreign currency</b>		
8,399		Assets	2,671	
<u>-12,613</u>		Liabilities	<u>-1,870</u>	
	-4,214	<b>Net Forward foreign currency</b>		801
		<b>Futures</b>		
1,232		Assets	585	
<u>-1,388</u>		Liabilities	<u>-155</u>	
	-156	<b>Net Futures</b>		430
		<b>Options</b>		
3,249		Assets	1,268	
<u>-3,784</u>		Liabilities	<u>-964</u>	
	-535	<b>Net Options</b>		304
	<u><u>-4,905</u></u>	<b>Net market value of derivative contracts</b>		<u><u>1,535</u></u>

The Pension Fund invests in the following types of derivatives:

#### i. Forward Foreign Currency Contracts

Currency is bought and sold by investment managers for future settlement at a predetermined exchange rate. Such contracts are used to hedge against the risk of adverse currency movements on the Fund's investments.

The following tables list all of the forward foreign currency contracts held by the investment managers (BlackRock, CBRE and Royal London) on 31 March 2017 and 31 March 2016.

Settlement	Currency bought	Local Value	Currency sold	Local Value	Asset Value £000	Liability Value £000
1 to 3 mths	USD	1,470,000	AUD	-1,914,703	9	
1 to 3 mths	USD	1,210,000	BRL	-3,802,062	25	
1 to 3 mths	USD	10,850,000	CAD	-14,150,896	184	
1 to 3 mths	USD	8,120,000	CHF	-8,058,126	31	
1 to 3 mths	USD	6,200,000	CLP	-3,990,940,000	152	
1 to 3 mths	GBP	49,018,213	EUR	-57,120,000	88	
1 to 3 mths	EUR	2,200,000	GBP	-1,915,903		-31
1 to 3 mths	SEK	27,573,779	EUR	-2,920,000		-28
1 to 3 mths	EUR	41,860,000	USD	-44,711,085	157	
1 to 3 mths	GBP	3,358,132	JPY	-470,000,000		-18
1 to 3 mths	GBP	5,150,000	PLN	-26,102,260		-107
1 to 3 mths	GBP	2,200,966	TRY	-10,380,000		-32
1 to 3 mths	GBP	1,585,000	USD	-1,973,404	9	
1 to 3 mths	GBP	40,444,159	USD	-50,355,000	236	
1 to 3 mths	GBP	1,585,000	USD	-1,973,420	9	
1 to 3 mths	GBP	40,443,834	USD	-50,355,000	236	
1 to 3 mths	GBP	1,590,000	USD	-1,980,459	9	
1 to 3 mths	GBP	40,423,195	USD	-50,350,000	219	
1 to 3 mths	USD	13,000,000	GBP	-10,619,874		-240
1 to 3 mths	USD	1,000,000	GBP	-801,852		-3
1 to 3 mths	USD	2,200,000	HKD	-17,052,792	2	
1 to 3 mths	IDR	21,845,700,000	USD	-1,620,000	9	
1 to 3 mths	INR	122,491,750	USD	-1,810,000	55	
1 to 3 mths	USD	1,200,000	KRW	-1,365,468,000		-18
1 to 3 mths	KRW	1,370,820,000	USD	-1,200,000	22	
1 to 3 mths	USD	10,210,000	MXN	-210,977,092		-703
1 to 3 mths	MYR	10,822,105	USD	-2,410,000	16	
1 to 3 mths	PHP	283,052,150	USD	-5,615,000		-3
1 to 3 mths	USD	1,660,000	SGD	-2,352,094		-19
1 to 3 mths	SGD	850,726	USD	-600,000	7	
1 to 3 mths	USD	3,880,000	THB	-135,889,240		-65
1 to 3 mths	USD	6,630,000	TRY	-24,967,917		-77
1 to 3 mths	USD	11,370,000	TWD	-347,626,380		-78
1 to 3 mths	AUD	11,299,503	GBP	-6,862,949		-3
1 to 3 mths	EUR	34,743,034	GBP	-30,033,616	263	
1 to 3 mths	USD	87,011,920	GBP	-69,340,495		-97
1 to 3 mths	JPY	1,889,517,790	GBP	-13,570,223		-6
1 to 3 mths	AUD	5,355,688	GBP	-3,252,870		-1
1 to 3 mths	USD	895,848	GBP	-713,908		-1
1 to 3 mths	JPY	164,020,249	GBP	-1,177,968		-1
1 to 3 mths	EUR	3,787,663	GBP	-3,274,245	28	
1 to 3 mths	USD	177,005	GBP	-141,057	-	
1 to 3 mths	DKK	16,843,346	GBP	-1,954,211	13	
1 to 3 mths	SEK	12,750,547	GBP	-1,157,457	13	
1 to 3 mths	JPY	972,939,089	GBP	-6,987,497		-3
1 to 3 mths	USD	2,510,935	GBP	-2,000,984		-3
1 to 3 mths	GBP	6,518,048	AUD	-10,486,913	139	
1 to 3 mths	GBP	2,897,543	CAD	-4,740,597	57	
1 to 3 mths	GBP	1,813,142	EUR	-2,086,806	25	
1 to 3 mths	GBP	2,221,207	USD	-2,711,838	56	
1 to 3 mths	GBP	8,875,167	USD	-10,812,261	244	
1 to 3 mths	GBP	837,978	EUR	-962,538	13	
1 to 3 mths	GBP	3,208,536	USD	-3,907,054	90	
1 to 3 mths	GBP	2,128,388	USD	-2,597,235	55	
1 to 3 mths	GBP	1,187,053	CAD	-1,951,331	18	
1 to 3 mths	GBP	1,200,107	USD	-1,469,644	27	
1 to 3 mths	GBP	1,921,738	USD	-2,352,067	44	
1 to 3 mths	USD	1,584,001	GBP	-1,293,520		-29
1 to 3 mths	USD	9,553,117	GBP	-7,714,928		-88
1 to 3 mths	USD	2,020,893	GBP	-1,630,774		-17

Notes to Durham County Council Pension Fund Accounts

Settlement	Currency bought	Local Value	Currency sold	Local Value	Asset Value £000	Liability Value £000
1 to 3 mths	USD	3,397,540	GBP	-2,738,373		-26
1 to 3 mths	CAD	3,404,106	GBP	-2,055,502		-16
1 to 3 mths	USD	5,756,705	GBP	-4,601,767		-6
1 to 3 mths	AUD	6,214,777	GBP	-3,804,205		-24
1 to 3 mths	USD	1,292,779	GBP	-1,034,930		-3
1 to 3 mths	GBP	9,094,175	EUR	-10,514,712	86	
1 to 3 mths	GBP	1,047,287	EUR	-1,209,613	11	
1 to 3 mths	GBP	7,377,220	USD	-9,232,590	6	
1 to 3 mths	USD	1,943,815	GBP	-1,543,862	8	
1 to 3 mths	AUD	4,515,187	GBP	-2,769,556		-23
1 to 3 mths	EUR	4,941,538	GBP	-4,285,455		-52
1 to 3 mths	EUR	4,654,606	GBP	-4,036,618		-49

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**2,671                      -1,870**

**Net forward foreign currency contracts at 31 March 2017**

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**801**

Settlement	Currency bought	Local Value	Currency sold	Local Value	Asset Value £000	Liability Value £000
0 to 1 mth	USD	6,570,000	BRL	-27,597,285		-842
0 to 1 mth	USD	1,625,000	BRL	-6,082,375		-62
0 to 1 mth	USD	1,625,000	BRL	-6,113,250		-68
0 to 1 mth	USD	1,565,000	BRL	-5,874,228		-63
0 to 1 mth	USD	1,435,000	BRL	-5,419,995		-65
0 to 1 mth	USD	3,410,000	BRL	-12,484,010		-76
0 to 1 mth	USD	800,000	BRL	-2,935,920		-19
0 to 1 mth	USD	800,000	BRL	-2,938,000		-20
0 to 1 mth	USD	1,190,000	BRL	-4,366,705		-29
0 to 1 mth	GBP	11,514,280	CAD	-23,200,000		-965
0 to 1 mth	CAD	19,007,137	USD	-13,480,000	845	
0 to 1 mth	GBP	2,208,084	CHF	-3,200,000		-117
0 to 1 mth	USD	12,960,000	CHF	-13,082,291		-489
0 to 1 mth	USD	6,400,000	CNH	-42,732,800		-151
1 to 3 mths	USD	3,690,000	CNH	-24,261,750		-37
1 to 3 mths	USD	2,460,000	CNH	-16,188,030		-26
1 to 3 mths	USD	2,460,000	CNH	-16,195,410		-27
1 to 3 mths	USD	1,230,000	CNH	-8,086,020		-12
1 to 3 mths	USD	2,460,000	CNH	-16,164,660		-24
1 to 3 mths	USD	6,200,000	CNH	-40,771,200		-63
0 to 1 mth	CZK	2,738,908	EUR	-101,354		-
0 to 1 mth	CZK	3,652,185	EUR	-135,139		-
0 to 1 mth	CZK	19,322,232	EUR	-715,000		-1
0 to 1 mth	CZK	19,454,429	EUR	-720,000		-1
0 to 1 mth	CZK	23,781,208	EUR	-880,000		-1
0 to 1 mth	CZK	34,317,940	EUR	-1,270,000		-1
0 to 1 mth	CZK	37,155,250	EUR	-1,375,000		-1
0 to 1 mth	CZK	14,956,854	EUR	-553,507		-
0 to 1 mth	GBP	35,896,878	EUR	-47,110,000		-1,457
0 to 1 mth	EUR	1,263,686	GBP	-983,375	19	
0 to 1 mth	EUR	718,330	GBP	-558,678	11	
0 to 1 mth	EUR	3,447,984	GBP	-2,678,287	56	
0 to 1 mth	PLN	1,283,346	EUR	-284,341	14	
0 to 1 mth	PLN	10,243,901	EUR	-2,271,318	114	
0 to 1 mth	PLN	1,283,203	EUR	-284,341	14	
0 to 1 mth	EUR	444,157	PLN	-1,995,053		-21
0 to 1 mth	EUR	465,803	PLN	-2,087,475		-21
0 to 1 mth	EUR	310,535	PLN	-1,392,207		-14
0 to 1 mth	EUR	660,000	PLN	-2,952,774		-29
0 to 1 mth	EUR	959,505	PLN	-4,295,190		-42
0 to 1 mth	EUR	405,368	PLN	-1,790,838		-13
0 to 1 mth	EUR	1,621,472	PLN	-7,165,448		-54
0 to 1 mth	EUR	1,690,349	PLN	-7,467,660		-56
0 to 1 mth	EUR	1,782,810	PLN	-7,874,719		-58
0 to 1 mth	USD	7,780,766	EUR	-7,118,116		-231
0 to 1 mth	USD	4,462,079	EUR	-4,081,884		-132
0 to 1 mth	EUR	12,680,000	USD	-13,866,975	406	
0 to 1 mth	EUR	11,539,165	USD	-12,610,000	376	
0 to 1 mth	USD	1,773,157	EUR	-1,614,764		-47
0 to 1 mth	USD	3,545,863	EUR	-3,229,527		-94
0 to 1 mth	USD	829,829	EUR	-755,709		-22
0 to 1 mth	JPY	7,232,000,000	GBP	-42,614,750	2,158	
0 to 1 mth	GBP	123,931,734	USD	-177,890,000	166	
0 to 1 mth	USD	10,500,000	GBP	-7,229,025	76	
0 to 1 mth	GBP	4,192,931	USD	-6,000,000	18	
0 to 1 mth	USD	5,227,126	GBP	-3,654,996		-18
0 to 1 mth	USD	7,019,027	GBP	-4,905,004		-22
0 to 1 mth	GBP	900,000	ZAR	-21,420,270		-113
0 to 1 mth	GBP	4,300,000	ZAR	-102,276,317		-535
0 to 1 mth	ZAR	39,954,031	GBP	-1,785,157	104	

Notes to Durham County Council Pension Fund Accounts

Settlement	Currency bought	Local Value	Currency sold	Local Value	Asset Value £000	Liability Value £000
0 to 1 mth	ZAR	39,353,824	GBP	-1,759,095	101	
0 to 1 mth	ZAR	20,855,035	GBP	-931,404	55	
0 to 1 mth	ZAR	16,097,274	GBP	-724,344	37	
0 to 1 mth	INR	207,552,500	USD	-3,050,000	58	
0 to 1 mth	INR	83,057,600	USD	-1,220,000	24	
0 to 1 mth	INR	83,057,600	USD	-1,220,000	24	
0 to 1 mth	INR	16,053,953	USD	-235,983	4	
0 to 1 mth	INR	21,364,431	USD	-314,017	6	
0 to 1 mth	INR	128,707,431	USD	-1,890,000	37	
0 to 1 mth	INR	41,482,440	USD	-610,000	11	
0 to 1 mth	INR	124,513,200	USD	-1,830,000	35	
0 to 1 mth	INR	41,443,400	USD	-610,000	11	
0 to 1 mth	INR	20,730,850	USD	-305,000	6	
0 to 1 mth	INR	62,172,420	USD	-915,000	17	
0 to 1 mth	USD	55,640,000	JPY	-6,596,711,784		-2,128
0 to 1 mth	USD	6,843,881	JPY	-769,362,681		-1
0 to 1 mth	USD	4,856,119	JPY	-546,064,119		-2
0 to 1 mth	USD	4,090,000	JPY	-462,979,820		-21
0 to 1 mth	USD	8,310,000	JPY	-940,440,190		-41
0 to 1 mth	USD	6,200,000	JPY	-703,700,000		-43
0 to 1 mth	USD	10,035,779	KRW	-12,036,411,784		-357
0 to 1 mth	USD	3,330,000	KRW	-3,981,847,500		-111
0 to 1 mth	USD	1,150,000	KRW	-1,375,630,000		-39
0 to 1 mth	USD	1,150,000	KRW	-1,378,562,500		-41
0 to 1 mth	USD	770,000	KRW	-926,002,000		-29
0 to 1 mth	KRW	5,182,160,000	USD	-4,220,000	224	
0 to 1 mth	KRW	5,173,604,234	USD	-4,215,779	222	
0 to 1 mth	USD	7,800,000	KRW	-9,406,800,000		-309
0 to 1 mth	MXN	122,315,661	USD	-6,570,000	393	
0 to 1 mth	MXN	29,237,608	USD	-1,550,000	108	
0 to 1 mth	MXN	17,550,681	USD	-930,000	65	
0 to 1 mth	MXN	12,820,205	USD	-676,640	50	
0 to 1 mth	MXN	6,401,019	USD	-338,320	24	
0 to 1 mth	MXN	6,412,860	USD	-338,320	25	
0 to 1 mth	MXN	6,024,034	USD	-320,000	22	
0 to 1 mth	MXN	38,566,328	USD	-2,046,719	141	
0 to 1 mth	USD	1,550,000	MXN	-27,764,375		-48
0 to 1 mth	USD	1,550,000	MXN	-27,786,385		-49
0 to 1 mth	USD	166,177	MXN	-2,985,357		-6
0 to 1 mth	USD	2,185,585	MXN	-39,203,448		-70
0 to 1 mth	USD	336,244	MXN	-6,023,506		-10
0 to 1 mth	USD	411,994	MXN	-7,373,570		-13
0 to 1 mth	USD	1,550,000	MYR	-6,491,400		-83
0 to 1 mth	USD	930,000	MYR	-3,908,790		-52
0 to 1 mth	USD	1,240,000	MYR	-5,246,440		-76
0 to 1 mth	USD	310,000	MYR	-1,311,610		-19
0 to 1 mth	USD	310,000	MYR	-1,308,200		-18
0 to 1 mth	USD	1,860,000	MYR	-7,863,150		-113
0 to 1 mth	MYR	10,423,440	USD	-2,480,000	139	
0 to 1 mth	MYR	9,109,660	USD	-2,170,000	120	
0 to 1 mth	MYR	6,513,875	USD	-1,550,000	87	
0 to 1 mth	PHP	627,393,600	USD	-12,960,000	484	
0 to 1 mth	USD	3,293,288	PHP	-153,697,751		-36
0 to 1 mth	USD	3,186,712	PHP	-149,201,856		-42
0 to 1 mth	USD	3,240,000	PHP	-151,729,200		-43
0 to 1 mth	USD	3,240,000	PHP	-151,777,800		-44
0 to 1 mth	USD	2,800,000	SGD	-4,005,120		-121
0 to 1 mth	USD	6,900,000	SGD	-9,879,627		-304
0 to 1 mth	USD	1,500,000	TRY	-4,612,346		-94
0 to 1 mth	USD	1,500,000	TRY	-4,607,025		-93
0 to 1 mth	USD	6,600,000	TRY	-20,239,560		-400
0 to 1 mth	USD	6,200,000	TRY	-17,919,308		-106



Settlement	Currency bought	Local Value	Currency sold	Local Value	Asset Value £000	Liability Value £000
0 to 1 mth	USD	1,680,000	TWD	-56,280,000		-48
0 to 1 mth	USD	13,520,000	TWD	-454,069,200		-413
0 to 1 mth	USD	3,390,000	TWD	-112,209,000		-68
0 to 1 mth	USD	1,345,000	TWD	-44,707,800		-31
0 to 1 mth	USD	1,665,000	TWD	-55,394,550		-39
0 to 1 mth	TWD	179,722,800	USD	-5,400,000	130	
0 to 1 mth	TWD	179,604,000	USD	-5,400,000	127	
0 to 1 mth	USD	3,410,000	TWD	-111,728,650		-44
0 to 1 mth	USD	1,650,000	TWD	-54,095,250		-22
0 to 1 mth	USD	2,090,000	TWD	-68,572,900		-29
0 to 1 mth	USD	3,850,000	TWD	-126,434,000		-55
0 to 1 mth	TWD	350,217,000	USD	-10,900,000		-10
0 to 1 mth	TWD	351,198,000	USD	-10,900,000	11	
1 to 3 mths	USD	10,900,000	TWD	-349,879,100		-
1 to 3 mths	USD	10,900,000	TWD	-351,034,500		-25
1 to 3 mths	AUD	10,869,651	GBP	-5,717,559		-75
1 to 3 mths	EUR	40,824,558	GBP	-32,071,773		-373
1 to 3 mths	USD	91,045,309	GBP	-64,420,370	1,095	
1 to 3 mths	JPY	1,325,912,724	GBP	-8,281,778	55	
1 to 3 mths	MYR	18,690,782	GBP	-3,179,245		-177
1 to 3 mths	AUD	4,408,489	GBP	-2,318,915		-30
1 to 3 mths	USD	572,793	GBP	-405,288	7	
1 to 3 mths	JPY	604,551,839	GBP	-3,776,089	25	
1 to 3 mths	CNY	11,948,588	GBP	-1,287,772	7	
1 to 3 mths	EUR	6,423,145	GBP	-5,046,023		-59
1 to 3 mths	GBP	2,924,865	AUD	-5,478,896	4	
1 to 3 mths	GBP	3,169,203	SEK	-36,991,710		-14
1 to 3 mths	SEK	36,190,874	GBP	-3,084,980	29	
1 to 3 mths	AUD	2,194,000	GBP	-1,167,386	2	
					<b>8,399</b>	<b>-12,613</b>
<b>Net forward foreign currency contracts at 31 March 2016</b>						<b>-4,214</b>

**ii. Futures**

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

	Expires	Product Description	Currency	Market Value at 31 March 17	
				£000	£000
<b>Assets</b>					
Overseas equity	1 to 3 mths	S&P500 EMINI JUN 17	EUR	539	
Overseas equity	1 to 3 mths	EURO STOXX 50 JUN 17	USD	46	
<b>Total assets</b>					<b>585</b>
<b>Liabilities</b>					
UK equity	1 to 3 mths	FTSE 100 INDEX JUN 17	GBP	-34	
Overseas equity	1 to 3 mths	EURO STOXX BANK JUN 17	EUR	-58	
Overseas equity	1 to 3 mths	STOXX 600 HEALTH JUN 17	EUR	-63	
<b>Total liabilities</b>					<b>-155</b>
<b>Net Futures Contracts at 31 March 2017</b>					<b>430</b>

	Expires	Product Description	Currency	Market Value at 31 March 16	
				£000	£000
<b>Assets</b>					
Overseas fixed interest	1 to 3 mths	AUST 10YR BOND JUN 16 15/6/2016	AUD	858	
Overseas equity	1 to 3 mths	E-MINI CONSUMER STAPLES JUN 16	USD	170	
Overseas equity	1 to 3 mths	S&P500 EMINI JUN 16	USD	204	
<b>Total assets</b>					<b>1,232</b>
<b>Liabilities</b>					
Overseas equity	1 to 3 mths	E-MINI UTILITIES SELECT SECTOR JUN	USD	-403	
Overseas equity	1 to 3 mths	STOXX 600 INDUS JUN 16	EUR	-742	
Overseas fixed interest	1 to 3 mths	US ULTRA T-BOND JUN 16 21/6/2016	USD	-243	
<b>Total liabilities</b>					<b>-1,388</b>
<b>Net Futures Contracts at 31 March 2016</b>					<b>-156</b>

**iii. Options**

In order to benefit from potentially greater returns available from investing in equities whilst minimising the risk of loss of value through adverse equity price movements, the Fund, via Blackrock, has bought a number of equity option contracts. These option contracts are to protect it from falls in value in the main markets in which it is invested.

Type	Expires	Product Description	Currency	Market Value at 31 March 17 £000
<b>Assets</b>				
Overseas equity	1 to 3 mths	S&P 500 INDEX 19/05/2017 P @ 2300.000	USD	419
Overseas fixed interest	Less than 1 year	USD C CNH P @7.000000 EO	USD	188
UK equity	1 to 3 mths	FTSE 100 INDEX 16/06/2017 P @ 6900.000	GBP	179
Overseas equity	1 to 3 mths	EURO STOXX 50 INDEX 16/06/2017 P @ 3150.000	EUR	168
Overseas equity	1 to 3 mths	EURO STOXX 50 INDEX 16/06/2017 C @ 3725.000	EUR	98
Overseas equity	Less than 1 year	EURO STOXX 50 INDEX 15/12/2017 C @ 4000.000	EUR	96
Overseas equity	Less than 1 year	S&P 500 INDEX 15/12/2017 P @ 2000.000	USD	87
Overseas fixed interest	Less than 1 year	USD P CNH C @6.600000 EO	USD	17
UK fixed interest	1 to 3 mths	GBP C USD P @1.300000 EO	GBP	8
UK fixed interest	1 to 3 mths	GBP C USD P @1.300000 EO	GBP	4
UK fixed interest	1 to 3 mths	GBP C USD P @1.300000 EO	GBP	4
<b>Total assets</b>				<b>1,268</b>
<b>Liabilities</b>				
Overseas fixed interest	Less than 1 year	USD P CNH C @6.600000 EO	USD	-17
Overseas equity	Less than 1 year	S&P 500 INDEX 15/12/2017 P @ 1875.000	USD	-55
Overseas equity	1 to 3 mths	EURO STOXX BANKS 16/06/2017 C @ 140.000	EUR	-81
UK equity	1 to 3 mths	FTSE 100 INDEX 16/06/2017 P @ 6600.000	GBP	-82
Overseas equity	1 to 3 mths	EURO STOXX 50 INDEX 16/06/2017 P @ 3000.000	EUR	-87
Overseas fixed interest	Less than 1 year	USD C CNH P @7.000000 EO	USD	-188
UK equity	1 to 3 mths	FTSE 100 INDEX 16/06/2017 C @ 7300.000	GBP	-454
<b>Total liabilities</b>				<b>-964</b>
<b>Net Options at 31 March 2017</b>				<b>304</b>

Type	Expires	Product Description	Currency	Market Value at 31 March 16 £000
<b>Assets</b>				
Overseas equity	1 to 3 mths	EURO STOXX 50 INDEX 01-JAN-2050 17/6/2016 C @ 2925.000	EUR	930
Overseas equity	1 to 3 mths	EURO STOXX 50 INDEX 01-JAN-2050 17/6/2016 P @ 2925.000	EUR	518
Overseas equity	1 to 5 years	S&P 500 INDEX 15/12/2017 P @	USD	491
Overseas equity	1 to 3 mths	S&P 500 INDEX 17/6/2016 C @ 2075.000	USD	450
Overseas equity	1 to 3 mths	MSCI EMERGING MARKETS INDEX 23/5/2016 C @ 875.000	USD	351
UK equity	1 to 3 mths	FTSE 100 INDEX 20/5/2016 P @	GBP	204
Overseas equity	1 to 3 mths	SPX VOLATILITY INDEX UX 01-JAN-2050 18/5/2016 C @ 23.000	USD	183
Overseas equity	1 to 5 years	EURO STOXX 50 INDEX 01-JAN-2050 15/12/2017 C @ 4000.000	EUR	90
Overseas fixed interest	0 to 1 mth	APR16 EDM7 P @ 98.75	USD	13
Overseas fixed interest	1 to 3 mths	USD C SGD P @1.420000 EO	USD	9
Overseas fixed interest	3 to 6 months	EUR P CZK C @25.75000 EO	EUR	8
Overseas fixed interest	3 to 6 months	EUR P CZK C @25.75000 EO	EUR	2
<b>Total assets</b>				<b>3,249</b>
<b>Liabilities</b>				
Overseas fixed interest	1 to 3 mths	USD C SGD P @1.450000 EO	USD	-1
Overseas equity	0 to 1 mth	EURO STOXX 50 INDEX 01-JAN-2050 15/4/2016 C @ 3100.000	EUR	-35
UK equity	1 to 3 mths	FTSE 100 INDEX 20/5/2016 P @	GBP	-60
Overseas equity	1 to 3 mths	MSCI EMERGING MARKETS INDEX 23/5/2016 C @ 925.000	USD	-111
Overseas equity	1 to 3 mths	EURO STOXX UTILITIES (PRICE) INDEX 17/6/2016 P @ 235.000	EUR	-143
Overseas equity	1 to 3 mths	EURO STOXX 50 INDEX 01-JAN-2050 17/6/2016 C @ 3200.000	EUR	-153
Overseas equity	1 to 3 mths	SPX VOLATILITY INDEX UX 01-JAN-2050 18/5/2016 C @ 30.000	USD	-155
Overseas equity	1 to 3 mths	EURO STOXX 50 INDEX 01-JAN-2050 17/6/2016 P @ 2975.000	EUR	-207
Overseas equity	1 to 3 mths	EURO STOXX 50 INDEX 01-JAN-2050 17/6/2016 P @ 2800.000	EUR	-325
Overseas equity	1 to 5 years	S&P 500 INDEX 15/12/2017 P @ 1875.000	USD	-372
Overseas equity	1 to 3 mths	S&P 500 INDEX 17/6/2016 C @ 1875.000	USD	-2,222
<b>Total liabilities</b>				<b>-3,784</b>
<b>Net Options at 31 March 2016</b>				<b>-535</b>

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

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

Name of Fund	Investment Manager	At 31 March 2017		At 31 March 2016	
		£m	%	£m	%
BNYM Long Term Global Equity	BNY Mellon	444.82	16.52	364.84	15.72
AAM L and P World Equity	Aberdeen	440.07	16.34	339.12	14.61
Diversified Yield Plus	AB	357.97	13.30	341.87	14.73

Single investments with a market value exceeding 5% of their type of asset are listed as follows:

### At 31 March 2017

Holding	Investment Manager	£000	%
<b>Bonds</b>			
UK Treasury 0.75% IL Gilt 22/11/47	Royal London	50,729	8.74
UK Treasury 2% IL 26/01/2035	Royal London	35,718	6.15
UK Treasury 1.25% IL Gilt 22/11/2055	Royal London	35,048	6.04
UK Treasury 0.125% IL 22/03/2068	Royal London	34,946	6.02
UK Treasury 0.375% IL 22/03/2062	Royal London	29,470	5.07
UK Treasury Gilt 0.125% IL 22/11/2036	Royal London	29,201	5.03

### Pooled Investment Vehicles

BNYM Long Term Global Equity	BNY Mellon	444,824	25.01
AAM L and P World Equity	Aberdeen	440,069	24.74
Diversified Yield Plus	AB	357,972	20.13
ICS INS GBP LIQ AGENCY DIS	BlackRock	110,616	6.22
BGF GLOBAL CORP BND X4RF GBP HDG	BlackRock	96,251	5.41

**At 31 March 2016**

<b>Holding</b>	<b>Investment Manager</b>	<b>£000</b>	<b>%</b>
<b>Bonds</b>			
UK Treasury 0.625% IL 22/11/2042	Royal London	37,989	7.32
UK Treasury 1.25% IL 22/11/2032	Royal London	35,829	6.90
UK Treasury 0.5% IL Gilt 22/03/2050	Royal London	35,727	6.88
UK Treasury 2.5% IL 17/07/24	Royal London	32,874	6.33
UK Treasury 0.625% IL 22/03/2040	Royal London	30,223	5.82
<b>Equities</b>			
ISHARES GOLD TRUST	BlackRock	17,363	8.20
<b>Pooled Investment Vehicles</b>			
BNYM Long Term Global Equity	BNYM	364,837	24.53
Diversified Yield Plus	AB	341,874	22.98
AAM L and P World Equity	Aberdeen	339,124	22.80
BGF GLOBAL CORP BND X4RF GBP HDG	BlackRock	108,805	7.31
ICS INS GBP LIQ AGENCY DIS	BlackRock	77,739	5.23

## 15. Financial Instruments

### Classification of Financial Instruments

Accounting policies describe how different asset classes of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities by category and Net Assets Statement heading:

2015-16 (Restated)			2016-17		
Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost	Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost
£000	£000	£000	£000	£000	£000
<b>Financial assets</b>					
211,866			282,942		
519,293			580,729		
1,487,500			1,778,540		
12,880			4,524		
	349			327	
	79,484			31,491	
	17,217			8,431	
	15,681			5,476	
	10,581			11,432	
2,231,539	123,312	-	2,646,735	57,157	-
<b>Financial liabilities</b>					
-17,785			-2,989		
		-15,849			-8,448
-17,785	-	-15,849	-2,989	-	-8,448
<b>2,213,754</b>	<b>123,312</b>	<b>-15,849</b>	<b>2,643,746</b>	<b>57,157</b>	<b>-8,448</b>
<b>2,321,217</b>			<b>2,692,455</b>		
<b>Net Assets at 31 March</b>					

The 2015-16 figures have been restated to re-categorise Other investment Assets as Loans and Receivables and Creditors as Financial Liabilities at Amortised Cost in accordance with the FRS39. The Net Assets total remains unchanged.

### Net Gains and Losses on Financial Instruments

31 March 2016 £000 (Restated)		31 March 2017 £000
<b>Financial Assets</b>		
-26,662	Fair Value through profit and loss	368,422
1,707	Loans and receivables	-1,699
<b>Financial Liabilities</b>		
-	Fair Value through profit and loss	-
-	Loans and receivables	-
-	Financial liabilities measured at amortised cost	-
<b>-24,955</b>	<b>Total</b>	<b>366,723</b>

The 31 March 2016 figures have been restated to reflect the restatement to the Reconciliation of Movements in Investments 2015/16 table. The total remains unchanged.

### **Valuation of Financial Instruments Carried at Fair Value**

The valuation of financial instruments has been classified into three levels according to quality and reliability of information used to determine fair values.

#### **LEVEL 1**

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities, exchange traded derivatives and unit trusts. Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

#### **LEVEL 2**

Financial instruments at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

#### **LEVEL 3**

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include unquoted property funds, unquoted equity investments and hedge fund of funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions. The values of the investment in private equity are based upon valuations provided by the general partners to the private equity in which the Fund has invested. These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS and US GAAP. Valuations are usually undertaken annually.

The following tables provide analyses of the financial assets and liabilities of the Fund as at 31 March 2017 and 31 March 2016, grouped into Levels 1, 2 and 3, based on the level at which the fair value is observable.



	Quoted market price	Using observable inputs	With significant unobservable inputs	Total
Values at 31 March 2017	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
<b>Financial Assets</b>				
Financial Assets at fair value through profit and loss	2,478,392	2,893	165,450	2,646,735
Loans and receivables	57,157	-	-	57,157
<b>Total Financial Assets</b>	<b>2,535,549</b>	<b>2,893</b>	<b>165,450</b>	<b>2,703,892</b>
<b>Financial Liabilities</b>				
Financial Liabilities at fair value through profit and loss	-913	-2,076	-	-2,989
Financial Liabilities at amortised cost	-8,448	-	-	-8,448
<b>Total Financial Liabilities</b>	<b>-9,361</b>	<b>2,076</b>	<b>-</b>	<b>-11,437</b>
<b>Net Financial Assets</b>	<b>2,526,188</b>	<b>817</b>	<b>165,450</b>	<b>2,692,455</b>

	Quoted market price	Using observable inputs	With significant unobservable inputs	Total
Values at 31 March 2016 (Restated)	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
<b>Financial Assets</b>				
Financial Assets at fair value through profit and loss	2,068,983	8,446	154,110	2,231,539
Loans and receivables	123,312	-	-	123,312
<b>Total Financial Assets</b>	<b>2,192,295</b>	<b>8,446</b>	<b>154,110</b>	<b>2,354,851</b>
<b>Financial Liabilities</b>				
Financial Liabilities at fair value through profit and loss	-5,171	12,614	-	-17,785
Financial Liabilities at amortised cost	-15,849	-	-	-15,849
<b>Total Financial Liabilities</b>	<b>-21,020</b>	<b>12,614</b>	<b>-</b>	<b>-33,634</b>
<b>Net Financial Assets</b>	<b>2,171,275</b>	<b>-4,168</b>	<b>154,110</b>	<b>2,321,217</b>

The values at 31 March 2016 table has been restated to show :-

The reclassification of the AB Diversified Yield Fund valued at £341.87m from Level 2 to Level 1.

The reclassification of BlackRock Futures assets and Exchange Traded Options assets valued at £4.46m from Level 2 to Level 1.

The reclassification of Financial Assets valued at £15.17m from Financial Assets at fair value through profit and loss to Loans and Receivables.

The reclassification of BlackRock Futures liabilities and Exchange Traded Options liabilities valued at £5.90m from Level 2 to Level 1

The reclassification of Financial Liabilities valued at £9.73m from Financial Liabilities at fair value through profit and loss to Financial Liabilities at amortised cost.

The total remains unchanged.

## 16. Nature and Extent of Risk Arising From Financial Instruments

### Risk and Risk Management

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

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

The Fund's primary long-term risk is that its assets will fall short of its liabilities (i.e. promised benefits payable to members). The aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and maximise the opportunity for gains across the whole fund portfolio. This is achieved through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The administering body manages these investment risks as part of its overall Pension Fund risk management programme.

The Fund's assets are managed by a number of Investment Managers, as disclosed in Note 14. By dividing the management of the assets between a number of managers risk is further controlled. Asset allocation benchmarks have been set and performance is monitored relative to the benchmarks. This is to ensure the Investment Manager does not deviate from the Pension Fund Committee's investment strategy.

The Fund has appointed a Global Custodian that performs a range of services including collection of dividends and interest from the Investment Managers, administering corporate actions that the Pension Fund may join, dealing with taxation issues and proxy voting when requested. It also ensures that the settlement of purchases and sales of the Fund assets are completed. The Custodian has stringent risk management processes and controls. Client accounts are strictly segregated to ensure that the Fund assets are separately identifiable. Conservative investment practices are ensured by the Custodian where they invest cash collateral.

The Fund also employs a specialised service as an independent check to ensure that all dividends receivable are compared against those collected by the Custodian and that they were received on the due date; any discrepancies are investigated. In line with its Treasury Management Policy, Durham County Council as administering authority, invests the short term cash balances on behalf of the Pension Fund. Interest is paid over to the Fund on a quarterly basis.

Durham County Council's overall risk management procedures focus on the unpredictability of financial markets and are structured to implement suitable controls to minimise these risks. The procedures for risk management are set out through a legal framework based on the Local Government Act 2003 and associated regulations. These require the Council to comply with the CIPFA Prudential Code, the CIPFA Code of Practice on Treasury Management in the Public Services and investment guidance issued through the Act.

#### **i. MARKET RISK**

Market risk is the risk of loss from fluctuations in market prices, interest and foreign exchange rates. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix. The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Fund and its investment advisers undertake appropriate monitoring of market conditions. Risk exposure is limited by applying maximum exposure restrictions on individual investments to each Investment Manager's portfolio.

#### **Other Price Risk**

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The Fund is exposed to share and derivative price risk. This arises from investments held by the fund for which the future price is uncertain. All securities investments present a risk of loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.

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

### Other Price Risk – Sensitivity Analysis

In consultation with the Fund's investment advisers, an analysis of historical volatility and implied market volatility has been completed. From this, it has been determined that the potential market movements in market price risk, as shown in the following table, are reasonably possible for the 2016/17 reporting period. The analysis assumed that all other variables remain the same.

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

Manager	Asset type	Asset value at 31 March 2017 £000	Potential market movements %	Value on increase £000	Value on decrease £000
Aberdeen	Global equity	440,069	18.7%	522,362	357,776
AB	Broad Bonds	357,972	8.0%	386,610	329,334
BNYM	Global equity	444,824	18.7%	528,006	361,642
BlackRock	DAA	480,622	9.4%	525,800	435,444
CBRE	Unlisted property	165,450	14.5%	189,440	141,460
CBRE	Listed property	34,375	21.7%	41,834	26,916
Mondrian	Emerging market equity	195,330	29.0%	251,976	138,684
RLAM	UK Index Linked Gilts	523,569	8.8%	569,643	477,495
	Loans	327	0.0%	327	327
	Cash	39,922	0.0%	39,922	39,922
	Net derivative assets	1,535	0.0%	1,535	1,535
	Net investment balances	3,495	0.0%	3,495	3,495
<b>Total change in net investment assets available</b>		<b>2,687,490</b>		<b>3,060,950</b>	<b>2,314,030</b>

Manager	Asset type	Asset value at 31 March 2016 £000	Potential market movements %	Value on increase £000	Value on decrease £000
Aberdeen	Global equity	339,124	18.8%	402,879	275,369
AB	Broad Bonds	341,874	8.0%	369,224	314,524
BNYM	Global equity	364,837	18.8%	433,426	296,248
BlackRock	DAA	371,476	8.6%	403,423	339,529
CBRE	Unlisted property	154,110	14.1%	175,840	132,380
CBRE	Listed property	31,619	20.0%	37,943	25,295
Mondrian	Emerging market equity	147,296	29.9%	191,338	103,254
RLAM	UK Index Linked Gilts	468,295	8.8%	509,505	427,085
Other	UK Equity	28	17.1%	33	23
	Loans	349	0.0%	349	349
	Cash	96,701	0.0%	96,701	96,701
	Net derivative assets	-4,905	0.0%	-4,905	-4,905
	Net investment balances	5,947	0.0%	5,947	5,947
<b>Total change in net investment assets available</b>		<b>2,316,751</b>		<b>2,621,703</b>	<b>2,011,799</b>

### Interest Rate Risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's interest rate risk is routinely monitored by the administering authority (as part of its Treasury Management Service for investment of surplus cash), its managers, custodian and investment advisers in accordance with the Fund's risk management strategy. This includes monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks. During periods of falling interest rates and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns.

### Interest Rate Risk - Sensitivity Analysis

The Fund recognises that interest rates can vary and can affect income to the fund and the value of the net assets available to pay benefits. The following table shows the fund's asset values having direct exposure to interest rate movements as at 31 March 2017 and the effect of a +/- 25 BPS change in interest rates on the net assets available to pay benefits (assuming that all other variables, in particular exchange rates, remain constant). The prior year comparator is also provided:

Asset type	Asset Values at 31 March 2017	Change in year in the net assets available to pay benefits	
		+25 BPS	-25 BPS
	£000	£000	£000
Cash and cash equivalents	39,922	100	-100
Fixed interest securities	57,283	143	-143
<b>Total change in net investment assets available</b>	<b>97,205</b>	<b>243</b>	<b>-243</b>

Asset type	Asset Values at 31 March 2016	Change in year in the net assets available to pay benefits	
		+25 BPS	-25 BPS
	£000	£000	£000
Cash and cash equivalents	96,701	242	-242
Fixed interest securities	50,997	127	-127
<b>Total change in net investment assets available</b>	<b>147,698</b>	<b>369</b>	<b>-369</b>

## Currency Risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than GBP (the functional currency of the Fund). The Fund's currency rate risk is routinely monitored by the Fund and its investment advisers in accordance with the fund's risk management strategy, including monitoring the range of exposure to currency fluctuations.

## Currency Risk - Sensitivity Analysis

Having consulted with the Fund's independent investment advisers, the likely fluctuation associated with foreign exchange rate movements is expected to be 10% for developed market currencies and 15% in emerging market currencies. This is based upon the adviser's analysis of long-term historical movements in the month end exchange rates of a broad basket of currencies against the pound. This analysis assumes that all other variables, in particular interest rates, remain constant.

The following table exemplifies, by Investment Manager, to what extent a 10% (or 15% for emerging markets) strengthening/ weakening of the pound, against the various currencies in which the fund holds investments, would increase/ decrease the net assets available to pay benefits (the prior year comparator is also provided):

Manager	Currency exposure by asset type	Level of unhedged exposure	Total Volatility	Asset value at	Value on	Value on
				31 March 17	increase	decrease
				£000	£000	£000
Aberdeen	Global Equity	86%	15%	440,069	496,838	383,300
AB	Broad Bonds	0%	0%	357,972	357,972	357,972
BlackRock	DAA	5%	10%	480,622	483,025	478,219
BNYM	Global Equity	95%	15%	444,824	508,211	381,437
CBRE	Global Property	16%	10%	199,825	203,022	196,628
Mondrian	Emerging market equity	99%	15%	195,330	224,337	166,323
RLAM	UK Index Linked Gilts	0%	0%	523,569	523,569	523,569
	Loans	0%	0%	327	327	327
	Cash	12%	10%	39,922	40,401	39,443
	Net derivative assets	0%	0%	1,535	1,535	1,535
	Net investment balances	0%	0%	3,495	3,495	3,495
<b>Total change in net investment assets available</b>				<b>2,687,490</b>	<b>2,842,732</b>	<b>2,532,248</b>

Manager	Currency exposure by asset type	Level of unhedged exposure	Total Volatility	Asset value at	Value on	Value on
				31 March 16	increase (restated)	decrease (restated)
				£000	£000	£000
Aberdeen	Global Equity	87%	15%	339,124	383,380	294,868
AB	Broad Bonds	0%	0%	341,874	341,874	341,874
BlackRock	DAA	5%	10%	364,837	366,661	363,013
BNYM	Global Equity	96%	15%	371,476	424,969	317,983
CBRE	Global Property	16%	10%	185,729	188,701	182,757
Mondrian	Emerging market equity	96%	15%	147,296	168,507	126,085
RLAM	UK Index Linked Gilts	0%	0%	468,295	468,295	468,295
Other	UK Equity	0%	0%	28	28	28
	Loans	0%	0%	349	349	349
	Cash	20%	10%	96,701	98,635	94,767
	Net derivative assets	0%	0%	-4,905	-4,905	-4,905
	Net investment balances	0%	0%	5,947	5,947	5,947
<b>Total change in net investment assets available</b>				<b>2,316,751</b>	<b>2,442,441</b>	<b>2,191,061</b>

The 31 March 2016 Table has been restated to show the actual level of unhedged exposure to currency fluctuations.

## ii. CREDIT RISK

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities. The Fund's entire investment portfolio is exposed to some form of credit risk with the exception of the derivatives positions, where the risk equates to the net market value of a positive derivative position. The Fund minimises

credit risk by undertaking transactions with a large number of high quality counterparties, brokers and institutions.

Investment Managers adopt procedures to reduce credit risk related to its dealings with counterparties on behalf of its clients. Before transacting with any counterparty, the Investment Manager evaluates both credit worthiness and reputation by conducting a credit analysis of the party, their business and reputation. The credit risk of approved counterparties is then monitored on an ongoing basis, including periodic reviews of financial statements and interim financial reports as required.

The Fund has sole responsibility for the initial and ongoing appointment of custodians. Uninvested cash held with the Custodian is a direct exposure to the balance sheet of the Custodian. Arrangements for investments held by the Custodian vary from market to market but the assets of the Fund are held in a segregated client account. As at 31 March 2017, this level of exposure to the Custodian is only 1.2% of the total value of the portfolio (3.5% as at 31 March 2016).

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

The Fund believes it has managed its exposure to credit risk. No credit limits were exceeded during the reporting period and the Fund does not expect any losses from non-performance by any of its counterparties in relation to deposits.

The cash holding under its treasury management arrangements was £8.431m as at 31 March 2017 (£17.217m at 31 March 2016). This was held with the following institutions:



	Rating as at 31 March 2017	Balances £000 as at 31 March 2017	Rating as at 31 March 2016	Balances £000 as at 31 March 2016
<b>Bank Deposit Accounts</b>				
Handelsbanken	F1+	259	F1+	62
Barclays		-	F1	1,209
Santander UK Plc	F1	458	F1	94
<b>Fixed Term Deposits</b>				
Leeds Building Society	F1	687		-
Royal Bank of Scotland		-	F1	1,612
Barclays		-	F1	1,612
Bank of Scotland	F1	1,603	F1	4,836
Nationwide Building Society	F1	458	F1	2,014
Goldman Sachs	F1	1,145	F1	2,820
UK Local Authorities	N/A	2,861	N/A	898
<b>Income Bond</b>				
National Savings & Investments	N/A	46	N/A	81
Other				
Money Market Funds	N/A	914	N/A	1,979
<b>Total</b>		<b>8,431</b>		<b>17,217</b>

### iii. LIQUIDITY RISK

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

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

Durham County Council invests the cash balances of the Fund in line with its Treasury Management Policy and as agreed by the Pension Fund Committee. The Council manages its liquidity position to ensure that cash is available when needed, through the risk management procedures set out in the prudential indicators and treasury and investment strategy reports, and through a comprehensive cash flow management system. Regulation 5 of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, gives Durham County Council a limited power to borrow on behalf of the Pension Fund for up to 90 days. The Council has ready access to borrowings from the money markets to cover any day to day cash flow need. This facility is only used to meet timing differences on pension payments and as they are of a short-term nature, exposure to credit risk is considered negligible.

## 17. Analysis of Debtors

2015-16 £000		2016-17 £000
1,292	Central government bodies	1,073
6,930	Other local authorities	8,347
18,040	Other entities and individuals	7,488
<u>26,262</u>	<b>Total debtors</b>	<u>16,908</u>
<b>Included in the Net Assets Statement as:</b>		
833	Long Term Assets	625
15,681	Other Investment Assets	5,476
9,748	Current Assets	10,807
<u>26,262</u>		<u>16,908</u>

The long term assets relate to the portion of the transfer value in from the Ministry of Justice for Magistrates' Courts staff which are repayable more than 12 months after the year end.

## 18. Analysis of Creditors

2015-16 £000		2016-17 £000
-815	Central government bodies	-828
-1,388	Other local authorities	-1,417
-13,646	Other entities and individuals	-6,203
<u>-15,849</u>	<b>Total creditors</b>	<u>-8,448</u>
<b>Included in the Net Assets Statement as:</b>		
-9,734	Investment Liabilities - Other balances	-1,981
-6,115	Current Liabilities	-6,467
<u>-15,849</u>		<u>-8,448</u>

All of the £8.448m is expected to be paid by the Pension Fund within 12 months after the year end.

## 19. Additional Voluntary Contributions (AVCs)

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

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

- Money purchase scheme, managed separately by Equitable Life, Standard Life and Prudential. AVCs may be invested in a range of different funds.

The following table refers only to the money purchase AVCs:

	Value at 31 March 2016	* Purchases	Sales	Change in Market Value	Value at 31 March 2017
	£000	£000	£000	£000	£000
Equitable Life	2,103	76	263	173	2,089
Prudential	4,609	1,165	1,015	350	5,109
Standard Life	1,766	298	512	224	1,776
<b>Total</b>	<b>8,478</b>	<b>1,539</b>	<b>1,790</b>	<b>747</b>	<b>8,974</b>

\* Purchases represent the amounts paid to AVC providers in 2016/17

The financial information relating to money purchase AVCs, as set out above, is not included in the Fund's Net Asset Statement or Fund Account in accordance with Regulation 4 (1) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

## 20. Related Party Transactions

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

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

Related parties of the Pension Fund fall into three categories:

- Employer related
- Member related
- Key management personnel

### a) EMPLOYER RELATED

There is a close relationship between an employer and the Pension Fund set up for its employees and therefore each participating employer is considered a related party. The following table details the nature of related party relationships.

Transaction	Description of the Financial Effect	Amount	
		2015/16	2016/17
Contributions receivable	Amounts receivable from employers in respect of contributions to the Pension Fund	£112.035m	£106.715m
Debtors	Amounts due in respect of employers and employee contributions	£8.146m	£8.674m
Creditors	Amounts due to the Administering Authority in respect of administration and investment management expenses	£1.388m	£1.417m
Administration & Investment Management Expenses	The administration, and a small proportion of the investment management, of the Pension Fund is undertaken by officers of the County Council. The Council incurred the following costs, including staff time, which have been subsequently reimbursed by the Fund	£1.388m	£1.417m
Long term loans	The Pension Fund made loans to Durham County Council prior to January 1974 which earn interest of between 5.75% and 9.875% pa of the outstanding balance, in addition to capital repayments	Loans outstanding £0.239m	Loans outstanding £0.233m
Investment Income	Part of the Pension Fund's cash holding is invested in money markets by Durham County Council. The average surplus cash balance during the year and interest earned were:	Balance = £51.289m Interest = £0.233m	Balance = £21.368m Interest = £0.069m

## b) MEMBER RELATED

Member related parties include:

- Members and their close families or households;
- companies and businesses controlled by the Members and their close families which have a financial contractual relationship with any of the organisations that contract with the Pension Fund.

Durham County Council and Darlington Borough Council have a number of Members who are on the Pension Fund Committee. These Members are subjected to a declaration of interest circulation on an annual basis. Each Member of the Pension Fund Committee is also required to declare their interests at the start of each meeting. There were no material related party transactions between any Members or their families and the Pension Fund.

As at 31 March 2017 there were four Members of the Pension Fund Committee in receipt of pension benefits from Durham County Council Pension Fund; a further three Members were active members of the Pension Fund.

Under the LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014, elected Members are no longer allowed to be active members of the Pension Fund with effect from the fourth day after the end of their term in office, in this case 8 May 2017.

**c) KEY MANAGEMENT PERSONNEL**

Related parties in this category include:

- key management i.e. senior officers and their close families;
- companies and businesses controlled by the key management of the Pension Fund or their close families.

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

The key management personnel of the Fund are the Members of the Pension Fund Committee and the Corporate Director Resources.

Disclosure requirements for officer remuneration and members allowances can be found in the main accounts of Durham County Council.

## **21. Contingent Assets**

**a) PENSION CONTRIBUTIONS ON EQUAL PAY PAYMENTS**

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

There is no certainty that an individual will pay pension contributions on their Equal Pay settlement. The agreements signed by individuals are 'open-ended' in that an individual's ability to determine their settlement as 'pensionable' is not time limited, so the timing of any liability to pay contributions are not certain. The level of contributions likely to be received by the Pension Fund, are unlikely to have a material effect on the Pension Fund Accounts.

**b) FOREIGN INCOME DIVIDENDS (FIDs)**

The Pension Fund is involved in claims for tax reclaims due to EC Legislation. The outcome of the Court cases will determine the reclaim of taxes, neither the amount of income nor the timing of the income is certain.

Up until 1 July 1997 UK Pension Funds were entitled, under UK tax law, to reclaim tax credits attaching to dividends received from UK resident companies. However, Pension Funds which received dividends designated by UK companies as FIDs, or dividends received from overseas companies, were not entitled to a refundable tax credit. Since UK sourced dividends came with a 20 percent tax credit, the net investment income return from UK companies paying such dividends was significantly higher than UK companies

paying FIDs or dividends from overseas companies, for which no credit was available. As a result there was a disincentive for Pension Funds to invest in such companies.

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

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

### **c) WITHHOLDING TAX (WHT) CLAIMS**

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

A test case in the Netherlands on behalf of a number of UK pension funds was successful and in January 2009 notification from the Dutch Tax Authorities was received that the claims brought by the test claimant for the recovery of withholding taxes going back to 2003 had been accepted and would be repaid in the near future. Following the ruling in the Netherlands which essentially states that the Dutch tax authorities should not have levied a “withholding tax” (WHT) on dividend payments to tax exempt bodies (such as UK pension funds) located within the European Union but outside the Netherlands, a similar process for reclaiming WHT in other EU Member States is now on-going.

As a result of a precedent for the change in WHT has been set by the Netherlands, other Member States have now reduced the level of WHT of non-residents; recovery is therefore probable, but the timing and amount of income is uncertain.

## **22. Funding Arrangements**

In line with Regulation 62 of the Local Government Pension Scheme Regulations 2013 the Fund’s independent qualified actuary undertakes a funding valuation every 3 years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last full valuation took place as at 31 March 2016.

The key elements of the funding policy are to:

- ensure the long term solvency of the fund, i.e. that sufficient funds are available to meet all pension liabilities as they fall due for payment;

- ensure that employer contribution rates are as stable as possible;
- minimise the long term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return;
- reflect the different characteristics of employing bodies in determining contribution rates where the administering authority considers it reasonable to do so;
- use reasonable measures to reduce the risk to other employers and ultimately the taxpayer from an employer defaulting on its pension obligations.

At the 31 March 2016 actuarial valuation the Fund was assessed as being 81% funded (84% at 31 March 2013). This corresponded to a deficit of £529.3m (£379.2m at 31 March 2013).

The aim is to achieve 100% solvency over a period of 21 years and to provide stability in employer contribution rates by spreading any increases in rates over a period of time.

The aggregate employer future service contribution rate (the primary contribution rate, a weighted average of all employers' primary rates) as 16.7% of pensionable pay.

The aggregate employer total contribution rate (primary plus secondary) required to restore the funding ratio to 100%, using a recovery period of 21 years from 1 April 2017, is 24.6% of pensionable pay (assuming the membership remains broadly stable and pay increases are in line with assumptions).

Across the Fund as a whole, the contributions required to remove the shortfall using a recovery period of 21 years from 1 April 2017 would be £28.6m per annum, increasing at 3.5% per annum. This is equivalent to approximately 7.9% per annum of pensionable pay (assuming the membership remains broadly stable and pay increases are in line with assumptions).

The key assumptions used by the actuary to calculate the past service liabilities and the cost of future benefit accrual are set out in the following table:

	Valuation as at 31 March 2016	Valuation as at 31 March 2013
<b>Financial Assumptions</b>		
Discount rate for periods in service	4.5% pa	5.4% pa
Discount rate for periods after leaving service	4.5% pa	5.4% pa
Rate of revaluation of pension accounts	2.0% pa	2.4% pa
Rate of pension increases on:		
- non Guaranteed Minimum Pensions	2.0% pa	2.4% pa
- post 1988 Guaranteed Minimum Pensions	1.8% pa	2.0% pa
Pensionable pay increase	3.5% pa	3.9% pa
<b>Demographic Assumptions</b>		
Post-retirement mortality assumption (normal health) - base table	Standard SAPS S2P tables with scaling factors of 95% for men and 100% for women	SAPS normal tables with scaling factors of 105% for men and women
Post-retirement mortality assumption - future improvements	CMI 2014 core projections with long annual improvement rate of 1.5%	CMI 2012 core projections with long annual improvement rate of 1.5%
Retirement cash sum	Each member is assumed to surrender pension on retirement, so total cash received is 80% of the maximum amount permitted	Each member is assumed to surrender pension on retirement, so total cash received is 80% of the maximum amount permitted

## 23. Actuarial Present Value of Promised Retirement Benefits

The CIPFA Code of Practice indicates that Pension Fund accounts should disclose the actuarial present value of promised retirement benefits as set out in the accounting standard IAS 26 and that the actuarial present value should be calculated on assumptions set in accordance with IAS 19 rather than on funding assumptions (set out in Note 22 to these accounts).

The Pension Fund Accounts do not take account of the liabilities to pay pensions and other benefits in the future. Instead, as permitted under IAS 26, the Pension Fund has opted to disclose the actuarial present value of promised retirement benefits by way of this note to the accounts. This requires the actuarial valuation of the liabilities on an IAS 19 basis to be prepared at triennial valuations only, the most recent being as at 31 March 2016.

The actuarial present value of promised retirement benefits has been calculated based on projected salaries and is included in the table below. The corresponding fair value of Fund Assets is also shown to indicate the level of deficit within the Fund when the liabilities are valued using IAS 19 assumptions. The figures for 2013 are provided for comparison purposes.

	Value as at 31 March 2016 £m	Value as at 31 March 2013 £m
Fair value of net assets	2,321	2,085
Actuarial present value of the promised retirement benefits	3,365	2,905
Surplus / -deficit in the Fund as measured for IAS26 purposes	-1,044	-820



As the liabilities above are calculated on an IAS 19 basis, they differ from those calculated for the triennial valuation because different assumptions are applied. The main IAS19 assumptions used are as follows:

	31 March 2016 (% p.a.)	31 March 2013 (% p.a.)
Discount rate	3.4	4.4
RPI Inflation	2.9	3.4
CPI Inflation	1.8	2.4
Rate of increase to pensions in payment *	1.8	2.4
Rate of increase to deferred pensions *	1.8	2.4
Rate of general increase in salaries **	3.3	3.9

\* In excess of Guaranteed Minimum Pension increases in payment where appropriate

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

## 24. Funding Strategy Statement

The Local Government Pension Scheme Regulations 2013 require administering authorities to prepare a Funding Strategy Statement. This statement has been adopted by the Pension Fund Committee and has been published on the County Council's website at [durham.gov.uk](http://durham.gov.uk). The Funding Strategy Statement has been reviewed and updated by the Pension Fund Committee during 2016/17.

The purpose of the Funding Strategy Statement is to:

- establish a clear and transparent fund specific strategy which will identify how employers' pension liabilities are best met going forward;
- support the regulatory requirement to maintain as nearly constant employer contribution rates as possible;
- take a prudent longer term view of funding the Pension Fund's liabilities.

## 25. Statement of Investment Principles

In accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, the Pension Fund has prepared and reviewed a written statement of its investment policy. The Investment Strategy Statement sets out the principles for investing Fund monies. The document was reviewed by the Pension Fund Committee during 2016/17 and can be found on the Council's website at [durham.gov.uk](http://durham.gov.uk).

## Annual Governance Statement 2016/17

### INTRODUCTION

1. This statement meets the requirements of Regulation 6 (1) of the Accounts and Audit (England) Regulations 2015 in relation to the publication of an Annual Governance Statement (AGS). It explains how the Council's arrangements for the governance of its affairs complied with its Local Code of Corporate Governance for the year ended 31 March 2017.

### CONTEXT

2. To provide context for this statement, summarised information relating to the constitution, structure, budget and services provided by Durham County Council, along with key statistical information about County Durham can be found on the [About Us](#) page on the Council's website.

### SCOPE OF RESPONSIBILITY

3. 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.
4. The Accounts and Audit (England) Regulations 2015 require the Council to prepare an AGS, which must accompany the Statement of Accounts. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
5. In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk and performance.
6. In January 2017, the Council approved, adopted and published on its website, a revised Local Code of Corporate Governance, which is consistent with the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA)/ Society of Local Authority Chief Executives (SOLACE) Framework – "Delivering Good Governance in Local Government".

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## THE PURPOSE OF THE GOVERNANCE FRAMEWORK

7. The governance framework comprises the systems, processes, culture and values by which the Council is directed and controlled, and its activities through which it accounts to, engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of sustainable economic, social and environmental benefits for the people of County Durham.
8. The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks occurring and the impact should they occur, and to manage them efficiently, effectively and economically.
9. The governance framework has been in place across the Council for the year ended 31 March 2017 and up to the date of approval of the Statement of Accounts.

## THE GOVERNANCE FRAMEWORK

10. The key elements of the Council's governance arrangements are detailed in the Council's Local Code of Corporate Governance, which is documented in the Council's [Constitution](#). This sets out the key documents and processes that determine the way the Council is directed and controlled to meet the seven core principles of the CIPFA/ SOLACE Framework.
11. The Constitution Working Group, which consists of the lead members of each political party, and is chaired by the Leader of the Council, proposed amendments to the [Constitution](#) during the year which were approved by the Council. Changes following the annual review of the [Constitution](#) were approved by the Council in March 2017.
12. The arrangements and rules of procedure for the Overview and Scrutiny function, including the membership, functions and scope of the Overview and Scrutiny Board and each Committee is set out in detail in the [Constitution](#). Terms of Reference for the Board and Committees are set within the context of the [Council Plan](#) and the [Sustainable Community Strategy](#).

13. The following sections demonstrate assurance that the Council has complied with each of these principles in practice, and also highlights where we have further improved our corporate governance arrangements during 2016/17.

## REVIEW OF EFFECTIVENESS

14. The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the senior managers within the Council who have responsibility for the development and maintenance of the governance environment, the annual report of the Chief Internal Auditor and Corporate Fraud Manager, and also by comments made by the external auditors and other review agencies and inspectorates.
15. Maintaining the effectiveness of the corporate governance framework involves the key Member and Officer roles outlined below, namely:
- The Executive
  - Chief Financial Officer
  - Monitoring Officer
  - Overview and Scrutiny Committee
  - Standards Committee
  - Audit Committee
16. The Council's [Constitution](#) sets out the governance roles and responsibilities of these functions. In addition:
- The Corporate Director Resources co-ordinates and oversees the Council's corporate assurance arrangements by:
    - Preparing and maintaining the Council's Code of Corporate Governance as a formal framework for the Council's governance arrangements;
    - Reviewing the systems, processes and documentation to determine whether they meet the requirements of this Code, reporting any breaches and recommending improvements;
    - Preparing an AGS to demonstrate how far the Council complies with the principles of good governance and recommending improvements.
  - Internal Audit provides independent assurance on the effectiveness of the corporate governance framework;
  - External Audit provides an independent opinion on whether the AGS is materially accurate.
17. The review was also informed by a statement provided by each Corporate Director commenting on the effectiveness of the Council's governance arrangements

generally and how they impacted on their service areas. These included consideration of the effectiveness of internal controls.

18. The Chief Internal Auditor and Corporate Fraud Manager provides an independent opinion on the adequacy and effectiveness of the system of internal control, risk management and governance arrangements which was incorporated in the Annual Internal Audit Report to the Audit Committee in June 2017. This opinion is based on audit reviews undertaken during the year which found all systems reviewed to give substantial or moderate assurance, except in 22 cases where limited assurance was reported. In the main, these issues related to specific areas and did not reflect weaknesses in the underlying governance arrangements. However, the procedure for approving payments to agency workers across the Council is disclosed as an area requiring improvement. Whilst it is understood that the necessary changes were implemented in the last quarter of 2016/17, it is essential that these are closely monitored across the coming year to ensure they are effective.
  
19. Aligned to the seven principles of good governance, a detailed account of how the Council's governance arrangements have operated during 2016/17 is included in **appendix A**. An update on improvements identified in the 2015/16 is included in **appendix B**.

## **CONCLUSION**

20. We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit Committee. In conclusion, we are satisfied that the Council's corporate governance arrangements in place during 2016/17 were fit for purpose in accordance with the governance framework. As a result of the review of governance arrangements, and the work of both internal and external audit, we have identified five actions as part of ongoing improvements to further strengthen governance arrangements in 2017/18. These are shown in **appendix C**.

## **APPROVAL OF ANNUAL GOVERNANCE STATEMENT**

Signed:

Simon Henig  
Leader of Durham County Council

Terry Collins  
Chief Executive

John Hewitt  
Corporate Director Resources

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## **APPENDIX A: Governance Arrangements during 2016/17**

Aligned to the seven principles of good governance, the following paragraphs provide a detailed account of how the Council's governance arrangements have operated during 2016/17.

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

#### **Behaving with integrity**

1. The expected standards of behaviour for members and employees are detailed in codes of conduct in the Council [Constitution](#), which also sets out a protocol for the Chairman and Vice-Chairman of the Council that includes an expectation of political neutrality and acting as the conscience of the Council. They are communicated at induction and re-iterated regularly during appraisals and in news bulletins.
2. A Corporate Complaints policy is in place for non-statutory complaints, and details of complaints, and of investigations by the Commissioner for Local Administration, have been reported to Corporate Issues Overview and Scrutiny Committee. The Council's Monitoring Officer oversees the arrangements for conflicts of interest, gifts and hospitality. Members are required to review their declarations of gifts and hospitality annually. Officers and members are required to declare annually any conflicts of interest. The register of gifts, interests and hospitality for members is available online. Staff declarations are maintained and monitored by their Head of Service.
3. The key mechanism provided for employees, contractors and suppliers providing services for the Council, to raise concerns about potential breaches of conduct in decision-making is the [Confidential Reporting Code \(Whistleblowing policy\)](#), which is part of the Council's [Constitution](#), and is monitored by the Audit Committee. The policy is referenced in the Scheme of Financing of Schools, and the School Financial Value Standard requires schools to have appropriate whistleblowing procedures. An updated [Counter Fraud & Corruption Strategy and Fraud Response Plan](#) were approved by Audit Committee in February 2016. The Corporate Fraud Team maintains robust counter fraud arrangements and piloted a joint approach to fraud investigation with Durham Constabulary to improve the understanding of the risks of serious and organised crime.

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

4. The Standards Committee has the key governance role of promoting and monitoring high standards of conduct by elected members, independent members and co-opted members. The Localism Act 2011 introduced a new duty to promote and maintain

high standards of conduct and an ethical framework was adopted accordingly. The annual report of the Standards Committee was presented to Council in September 2016.

5. The Council's Codes of Conduct included in the [Constitution](#) also apply to its partnership working, and all contracts contain clauses requiring providers to have appropriate procedures in place to prevent unlawful discrimination in employment.

### **Respecting the rule of law**

6. In February 2017, the Council approved with immediate effect that the Chief Executive Officer (the head of paid service) and the Corporate Director Resources undertake the roles of Returning Officer and Deputy Returning Officer respectively. The Council also approved that that the recruitment of the Head of Legal and Democratic Services, on both an interim and subsequent permanent basis, be delegated to the CEO and the Corporate Director Resources, in consultation with the Leader of the Council.
7. To strengthen the arrangements for meeting its duty of care to service users and the public, the Council has instructed officers to devise a policy framework on Disclosure and Barring Service checks for members and present this to the Constitution Working Group.
8. As required by law, the Council has established and maintains an independent remuneration panel to provide advice on allowance schemes and the amounts to be paid to members.

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

### **Openness**

9. A climate of openness has been encouraged by the Council Leader who holds regular Cabinet meetings at various locations throughout County Durham. A notice of key decisions covering a rolling period of four months is published on the Council's website, and decisions made by the Executive are published within two days of the respective meeting.

### **Engaging comprehensively with institutional stakeholders**

10. The [Constitution](#) allows joint arrangements to be established for specific purposes such as the provision and maintenance of crematoria, and sets out details of existing joint arrangements, including purpose, parties and effective dates. Through its



partnership governance framework, the Council seeks assurance that members are clear about their roles and responsibilities both individually and collectively in relation to the partnership and to the authority, and that there is clarity about the legal status of the partnership. Efforts are made to ensure that representatives and organisations both understand and make clear to all other partners the extent of their authority to bind their organisation to partner decisions.

11. The Leader of the Council is the chair of the County Durham Partnership, which is the strategic partnership covering most partnerships in the County. Through the Transformation Programme, the Council continues to engage in the North East Local Enterprise Partnership and Combined Authority, taking a regional perspective and seeking to work across broader partnerships to secure investment. Under the same programme, a review of partnerships has commenced, with the aim of moving this aspect of working from good to great through efficiencies, sharing resources and seeking to ensure that the county has a louder, stronger voice.
12. In support of the Voluntary and Community Sector (VCS), the Better Together Forum, which is chaired by the VCS representative on the County Durham Partnership Board, brings together senior representatives of larger or specialist VCS organisations with a countywide remit to share best practice and look for new opportunities to collaborate.
13. A Chief Officer Group continues to provide support and oversight to chief officers across all statutory agencies of the safeguarding arrangements for children and adults services. The Group has an independent Chair and includes officers from the Council, NHS and the Police. The Durham Humanitarian Support Partnership, now in its second year, has given support and positive experiences to families welcomed under the Syrian Vulnerable Persons Resettlement Scheme.
14. Visit County Durham, which receives funding from the Council, launched the Durham Place of Light campaign. This place brand and marketing strategy aims to change perceptions of the county around economic success under four main themes: Lighting up days and nights; Lighting up the past; Illuminating the future and Shining spirits. Further information is online at [www.durhamplaceoflight.com](http://www.durhamplaceoflight.com).
15. Efforts are being made through collaboration on the two NHS Sustainability and Transformation Plans (STP), which were presented to Adults, Wellbeing and Health Overview and Scrutiny Committee in March 2017, to ensure that the benefits of health and social care integration are maximised for County Durham residents. The STPs, which form part of the five year plan for the health service, aim to bring organisations together to develop a shared plan for better health and social care.
16. The Council has helped further develop the North East Highways Collaborative Alliance, a forum for all 12 north east councils, to facilitate shared services, joint procurement, supply chain optimisation and training.

## **Engaging with individual citizens and service users effectively**

17. The Council's approach to engaging stakeholders is outlined in the [Consultation and Engagement Strategy](#). This is complemented by the County Durham Partnership Community Engagement and Empowerment framework, which has shaped and supported a common vision and approach for community engagement by partners in County Durham. Attendance by the public at Council meetings and the protocols for asking questions are contained in the [Constitution](#).
18. The new Transformation Programme was informed by consultation with members, employees, trade unions and focus groups. The consultation process for refreshing the Joint Health and Wellbeing Strategy involved a range of stakeholders and included a 'Big Tent' engagement event, which was attended by over 200 people, including service users, patients, carers, representatives from the voluntary and community sector, NHS and local authority partners. The event gave people an opportunity to provide their views on how services should be developed. The Council also consulted with the public and stakeholders as part of the Medium Term Financial Plan (MTFP) development, with presentations and roadshows at various venues, including supermarkets, to engage with as broad a range of people as possible.
19. The Council uses various channels of communication and feedback mechanisms to reach out to and meet the needs of its communities. Fourteen [Area Action Partnerships \(AAPs\)](#) are fully engaged with the community in identifying and addressing local priorities, and utilising locality budgets to drive improvements to the local area. Cabinet-approved masterplan updates for twelve localities were presented to the respective AAP to enable discussion and feedback on proposals. Faith groups also play an important role in health and wellbeing and contribute to flourishing and resilient communities, while inter faith engagement continues through the County Durham Faiths Network.

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

### **Defining outcomes**

20. The [Sustainable Community Strategy \(SCS\) 2014 - 2030](#) which has been produced by the Council in conjunction with its partners on the County Durham Partnership, demonstrates its shared long-term vision for the future of County Durham. This vision for County Durham, namely 'Altogether Better Durham' outlines two areas of focus – **Altogether Better Place** and **Altogether Better for People** and five priority themes, which represent the major issues identified by residents:
  - Altogether wealthier – focusing on creating a vibrant economy and putting regeneration and economic development at the heart of all our plans. This theme is supported by the [Regeneration Statement 2012 – 2022](#) and the [County Durham Plan](#);

- Altogether better for children and young people – ensuring children and young people are kept safe from harm and that they can ‘believe, achieve and succeed’. This theme is supported by the [Children, Young People and Families Plan 2016 - 2019](#);
- Altogether healthier – improving health and wellbeing, supported by the [Joint Health and Wellbeing Strategy 2016 - 2019](#);
- Altogether greener – ensuring an attractive and ‘liveable’ local environment and contributing to tackling global environmental challenges. This theme is supported by the [County Durham Plan](#);
- Altogether safer – creating a safer and cohesive county, supported by the [Safe Durham Partnership Plan 2016 - 2019](#) and the [Police, Crime and Victims' Plan 2016-21](#).

Apart from the Regeneration Statement, each of the above documents was refreshed during 2016/17.

21. The Council has responsibility for public health, which is overseen by the Health and Wellbeing Board, a Committee of the Council.
22. As part of the Transformation Programme, a review of the corporate planning process is underway to ensure that plans drive activity in the most cost-effective way. As agreed by members in July 2016, this will include a review of the Council Plan, led by the Director of Transformation and Partnerships. In the meantime the existing three year Council Plan will roll forward until a new corporate planning framework is agreed.

### **Sustainable economic, social and environmental benefits**

23. The Overview and Scrutiny Management Board, supported by its six committees, makes decision-making processes transparent, accountable and inclusive and to improve services for people by being responsive to their needs. Where appropriate, Members have scrutinised the decisions of the Council, demonstrated by a number of key reviews which are outlined in the [Overview and Scrutiny Annual Report](#). They also contributed to a number of consultations and policy development areas, such as the County Durham Plan, Local Transport Plan and preventative mental health services review and commissioning.
24. Despite sustained, large-scale Government spending cuts and rising demand for services, the MTFP seeks to deliver some very positive outcomes for the people of County Durham, including:-
  - Significant investment in line with the Council’s highest priority of regeneration in order to protect existing jobs and create new jobs;

- Investing in our town centres, industrial estates and infrastructure including new transport schemes and maintenance of our highways and pavements;
  - Continued support to protect working age households in receipt of low incomes through the continuation of the Council Tax Reduction Scheme;
  - Ongoing work with health partners to ensure health and social care funds are maximised for the benefit of vulnerable people; and
  - Continued work with community groups through the 'Durham Ask' initiative to transfer council assets so that they can be sustainable into the future.
25. The values of the Council are further promoted in the [Equality Policy](#), which includes 'protected characteristics' covered by the Equality Act. Supporting this scheme is an impact assessment process, which ensures that the impact on equality is considered in the Council's decision making. A mobile-friendly website, [Locate](#), provides an improved directory of vital care and support services, replacing the Durham Information Guide. There is a text messaging facility, enabled by the new customer relationship management system, for customer services enquiries from customers unable to use our other contact channels.

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

### **Determining and planning interventions**

26. The Council ensures that decision makers receive objective and rigorous analysis of a variety of options, indicating how intended outcomes would be achieved and highlighting associated risks, in order to secure best value regardless of the service delivery method. In this respect, improvements have been made to financial modelling and financial advice supporting decisions relating to asset optimisation, particularly in respect of major projects including the strategic employment site and office accommodation programme. Decision-making is also supported by feedback from citizens and service users, for example:-
- The MTFP Plan strategy has been shaped by residents' and stakeholders' views with a high level analysis of the equalities impact.
  - The revised Strategy for Youth Support in County Durham was informed by a 12 week public consultation involving all stakeholders, including the views of young people expressed through the 2015 County Durham Children and Young People's Student Voice Survey for Secondary Schools.
27. The Council operates robust decision-making mechanisms that include an assessment of associated risks and these have enabled outcomes to be achieved in various, innovative ways. For example, by investing in the digital banking company Atom Bank, in response to the growing number of people who use their mobile phone for banking, the region's financial jobs market was boosted, creating around 160 jobs at Aykley Heads. Chapter Homes was created in 2015 to improve the county's

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housing offer by providing well-designed, quality homes that meet the needs of people wanting to buy or rent in County Durham. Additional benefits include creating local jobs, using local contractors and boosting the local economy.

28. The [Council Plan 2016 - 2019](#) was approved in April 2016 and contains the Council's corporate priorities and the key actions to take in support of delivering the longer term goals in the SCS and the Council's own improvement agenda. The [Council Plan](#) is supported by a series of Service Plans at a Service Grouping level which detail the planned actions to deliver the Council's vision. Council business is still led by the [Sustainable Community Strategy \(SCS\) 2014 - 2030](#) but the [Council Plan 2016-2019 and Service Plans](#) will be reviewed after the local elections in May 2017 as a new vision for the County.
29. The [Medium Term Financial Plan 2017 - 2020 \(MTFP\)](#) was approved by the Council in February 2017. This provides a financial framework associated with the [Council Plan](#) that enables members and officers to ensure policy initiatives can be planned for delivery within available resources and can be aligned to priority outcomes. It also enables the continued provision of value for money (VFM). The key risk facing the Council continues to be the challenge of managing unprecedented budget reductions in the current period of economic austerity. To meet this challenge, a comprehensive schedule of savings targets has been programmed to achieve the necessary savings to enable us to deliver a balanced budget and [MTFP](#). Assurance over the delivery of this programme is gained by detailed and frequent monitoring undertaken by Corporate Management Team (CMT) and, during the seven years up to the end of March 2017, a sum of £186m of savings has been delivered. The Council's strategy for the last five years has been to protect front line services as far as possible and the 2017/18 proposals are in line with this strategy. To ensure that front line services can be protected wherever possible, the Transformation Programme seeks to ensure that all options are explored. The Council has maintained prudent levels of reserves enabling us to meet unanticipated expenditure as necessary whilst still achieving planned savings targets and meeting service level expectations.
30. Members and Officers work together on the work programme of the Cabinet which is managed through a system of Cabinet pre-agenda meetings. To support this, Corporate Directors have held regular briefing sessions with Cabinet Portfolio Members and their support Members.

### **Optimising achievement of intended outcomes**

31. The new Transformation Programme will evolve over the next three to five years and includes a number of projects that make up a comprehensive change programme for the Council with the following core objectives:-

- Redesign our services to better meet customers' needs at reduced cost to the Council;
- Help communities become more self-reliant and resilient;
- Move our partnership working from good to great;
- Become renowned for our skilled and flexible workforce and our employee engagement.

The programme reports to a new Transformation Board, consisting of Cabinet members and the Corporate Management Team, and chaired by the Leader of the Council. It is co-ordinated through a Steering group made up of senior officers leading on aspects of the programme and chaired by the Director of Transformation.

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

### **Developing the Council's capacity**

32. The Council's Customer First Strategy, which aims to put people at the heart of everything the Council does, continues to transform the way in which our residents, visitors, businesses and partners access our services. A new Customer Relationship Management System was implemented to support the delivery of the strategy and its implementation and benefits will be monitored by Cabinet. The new system continues to build on progress made to provide further automated transactions and enhanced service information, giving customers choices in the way they contact the Council.
33. Inspire, which is part of our Transformation Programme, seeks to use modern ways of working to improve the services we provide our customers, making the most of our buildings, and providing the best environment and technology for employees. As well as plans to replace County Hall, four strategic sites will be refurbished to help employees share desks, work smarter and more flexibly.
34. The Council's Corporate Asset Management Plan (CAMP) sets out the Council's approach to ensuring that it makes best use of its assets in terms of service benefit, financial benefit and value for money. The Property Strategy sets out the main principles to ensure that opportunities to share the use of property are identified, and to make sure that assets are fit for purpose, cost effective and used to support regeneration and economic development. A key element of the programme is to work with local communities and our partners to consider alternative ways of continuing to provide front line services. The Council is now experienced in asset transfer, having successfully assigned a number of leisure centres, a golf course and children's centres to community organisations.
35. The Chief Executive implemented a revised chief officer structure to reflect the challenges faced by the Council whilst building on existing organisational strengths

and delivering savings through more efficient ways of working. The service grouping for Adult and Health Services and Children and Young People's Services were split, and new structures developed under respective, newly-appointed corporate directors. The service groupings for Neighbourhood Services and Regeneration and Economic Development were merged to form Regeneration and Local Services. A new Transformation and Partnership Service will oversee delivery of the Transformation Programme to support the Council in becoming a leaner organisation, characterised by modern business practices, sustainable service delivery, excellence in customer service and a skilled and motivated workforce.

36. The Council maintains an effective workforce plan, through the Organisational Development Strategy, to enhance the strategic allocation of resources. Further work in this area will be undertaken as part of the Transformation Programme.
37. The Council continues to seek value for money (VFM) through its high level objective 'effective use of resources' under the Altogether Better Council theme. In this way, pursuit of VFM is built into all of the Council's plans and activities, and numerous reviews have been undertaken across the Council to provide assurance that VFM services are being provided. Senior Management Teams have used benchmarking data from statutory returns and commercial benchmarking clubs to inform programmes of VFM reviews and savings options in various service areas. External Audit will review VFM as part of the audit of the 2016/17 Statement of Accounts.

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

38. The [Constitution](#) sets out how the Executive is made up and how appointments to this committee are made. The roles and responsibilities allocated by the Leader under the terms of the [Constitution](#), to individual members and the committee as a whole, are set out in detail in the [Constitution](#) as well as the Scheme of Delegation for Senior Officers. The Council elected a Leader and made appointments to a number of committees with various regulatory and scrutiny responsibilities. The Leader has nominated nine other councillors, including a Deputy Leader, with specific responsibilities to form the Cabinet.
39. The [Constitution](#) also sets out how the Council operates, how decisions are made and the procedures followed to ensure that these are effective, transparent and accountable to local people. All major decisions as identified in the officer delegations scheme are documented, with the reports and decisions made for those that are in the public domain being available on the website. All Cabinet reports must state that legal advice on proposals has been sought, as well as the source of the advice.

40. The Council delegated authority for the discharge of County Council functions in the period between the County Council elections and the reconstitution of Council bodies.
41. The Council is committed to continually reviewing the development needs of members and officers and continues to be a member of the North East Public Service Academy, which promotes excellence in learning across the public sector.
42. Our approach to member development is outlined in the Member Learning and Development Strategy, and the Member Learning and Development Policy. A new elected member induction programme covering the constitution, decision making, scrutiny and key services is being developed for the new intake following the 2017 elections. A review of corporate management development was undertaken and sought to meet organisational priorities and the changing needs of the organisation linked to corporate values and the office accommodation programme.
43. The Council continues to encourage public participation through various actions. Support to the Advice in County Durham Partnership was enhanced with regular training and newsletters in addition to established network meetings. Area action partnerships continue to carry out initiatives that support all parts of their communities, for example:-
  - East Durham Rural Corridor AAP's 'Out of the Comfort Zone' project is focussed on targeting isolated vulnerable people who do not participate in community activity;
  - Volunteers are given training and support to assist in their roles, help them to move into employment and bring about significant changes, which benefit themselves and their communities;
  - Through Durham Community Action, funded through the Transformation Challenge Award funding, a volunteer passport has been developed that records the individual's journey and training received.
44. The leadership's effectiveness is monitored and subject to challenge through various mechanisms enshrined in the Constitution, such as the overview and scrutiny arrangements, and questioning by members and the public.
45. Employees' needs, in terms of training, development, health and wellbeing, are delivered through the Organisational Development Strategy and the Health, Safety and Wellbeing Strategy. The Council continues to support employees through the change process with, for example, Jobcentre Plus information sessions and confidential counselling services through the Employee Assistance Programme.



46. Employee engagement continues through employee roadshows and focus groups, which will be used to generate ideas and support decision making across the Council. New developments in 2017/18 include the chief executive's video blog and focus groups for employees who share protected characteristics.
47. The annual employee survey was expanded, with the endorsement of the trade unions, to include things that may affect staff health and how well they feel at work. The results will be used to improve the support offered to employees as well as management, policies and working practices. These issues are particularly important during changes to the way the Council works.

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

### **Managing risk and performance**

48. As required by the Risk Management Policy and Strategy, which defines key roles and responsibilities and is reviewed annually, risk management continues to be embedded in decision making and key business processes. The Audit Committee seeks assurance, through quarterly update reports, that the Council's strategic risks are being effectively managed.
49. The County Durham Partnership, which is the strategic partnership for the County, is made up of key public, private and voluntary sector partners, driven forward by thematic partnerships set around the five priority themes. Its role includes monitoring performance towards implementing the SCS, and considering strategically how plans align and where efficiencies and value can be maximised through integration, shared services and joint commissioning.
50. The Council's Cabinet is responsible for monitoring performance and ensures that effective arrangements are put in place to deal with any failures in service delivery. Assurance is gained through quarterly performance reporting and through performance clinics between the Chief Executive, individual Corporate Directors and the the Director of Transformation and Partnerships during the year. A number of key in-depth evidence based reviews have also been carried out by Overview and Scrutiny Committees including attendance management and the development and implementation of the customer relationship management system.
51. To manage and measure service improvement, the Council has a locally led planning and performance management framework that links to the SCS and the [Council Plan](#). To ensure that attention remains focused on Council priorities, a review of these arrangements was initiated under the Transformation Programme. This seeks to reduce the number and size of plans and strategies and develop an approach to

performance management that answers key performance questions rather than rely on performance indicators. Quarterly reports will be more concise, using a dashboard style with shorter narrative, and attention will move towards analysing and developing insights from the performance data.

52. The Quality Improvement Board is chaired by the Corporate Director of Children and Young People's Services and meets monthly to provide strategic oversight and lead improvements in quality. The Board oversees the implementation of the Ofsted improvement plan and receives reports on compliance with the tasks in the improvement action plan.
53. The Police and Crime Panel, which includes councillors from Durham County Council and from Darlington Borough Council, scrutinises the annual report, decisions and actions of the Police and Crime Commissioner (PCC). An update on activity from the Panel is presented to each meeting of the Council's Safer and Stronger Communities Overview and Scrutiny Committee.
54. The Council endeavours to make the right decisions for the benefit of its stakeholders. The County Durham Partnership Forum meeting in October focused on how children and young people are actively engaged in the work of all partners and AAPs, particularly in decision making and having their thoughts and ideas heard and, more importantly, put into action. This was inspired by the annual Children's Commissioner's Takeover Challenge, an England-wide event where organisations are encouraged to involve children and young people in decision making. The feedback will be used by the Children and Families Partnership to ensure that the initiative is countywide and all year round and adopted by other partners.
55. The Council's decision-making processes are also supported by a Risk Management Strategy and Policy and an Audit Committee with responsibility for monitoring and reviewing the risk, control and governance processes and associated assurance processes. The Council also ensures that it complies with legal requirements in its decision making by ensuring that all reports requiring a decision include the legal implications, report authors confirming that they have obtained legal advice on proposals contained in reports, and the source of that legal advice.

### **Robust internal control**

56. Risk management and internal control are acknowledged as integral parts of the Council's performance management framework and crucial to the achievement of objectives. To reflect this, internal audit continuously reviews risks with reference to strategic objectives, and a register of strategic risks is compiled linking each item to the relevant strategic objective.

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## Managing data

57. The Council's arrangements for maintaining good-quality information include:-
- regular meetings between the Senior Information Risk Officer, the Head of Planning and Performance, Head of ICT Services and the Council's designated Caldicott Guardian;
  - an online information security module, including a section on the Data Protection Act, which has been rolled out to all staff; and
  - data protection arrangements regarding data sharing through standardised subject access requests, privacy impact assessments and a rolling programme of audits.

## Strong public financial management

58. The Council has appointed the Corporate Director Resources as Chief Financial Officer and Section 151 Officer to fulfil the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2016). The Chief Financial Officer, who is a member of the CMT and reports directly to the Chief Executive, has been involved in all CMT discussions, and has reviewed all reports to Cabinet which have financial implications. The Chief Financial Officer has also provided an opinion under section 25 of the Local Government Act 2003 on the reserves for the Council, which Members considered when setting the budget.

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

### Implementing good practice in transparency

59. The Council has an open data policy and has been publishing open datasets through the [Data Mill North](#) website. In response to the Local Government Transparency Code, a transparency and accountability web page was set up and the Council's Asset Register is now publicly available under the on the Council's website. As required by law, the sum paid to each county councillor is also published.
60. A Freedom of Information (FOI) Policy and Publication Scheme are in place, and details of how to make a FOI request for information can be found on the Council's website.

### Implementing good practices in reporting

61. The Local Code of Corporate Governance was substantially amended to bring it in line with the CIPFA/SOLACE Delivering Good Governance in Local Government

Framework 2016. After consultation with the Improvement and Planning Group, it was approved by Audit Committee and Full Council.

62. The Statement of Accounts 2015/16 was approved by the Audit Committee in September 2016, taking account of the views of the External Auditor, in line with the Accounts and Audit Regulations 2015. External Audit also provides an independent opinion on whether the Annual Governance Statement is materially accurate. Governance reviews are also led by services, such as the quality assurance team in Children and Adults Services, who carried out a number of audits during the year.

### **Assurance and effective accountability**

63. The Council strives to produce financial statements on a consistent and timely basis, in accordance with Financial Reporting Standards, in a way that enables comparison with other, similar organisations. As part of continuous improvements in the financial accounting process, the Council has commenced an early closure trial for the 2016/17 accounts.
64. The Chief Internal Auditor and Corporate Fraud Manager reports to the Council's Corporate Director, Resources, but in order to ensure independence, has direct access to the Chief Executive, and the Chair of the Audit Committee. A review of the effectiveness of Internal Audit, incorporating the Internal Audit Service and the Audit Committee, has been undertaken and was reported to the Audit Committee in July 2016. This review concluded that the Council's system of internal audit is considered to be effective, which in turn allows the opinion of the Chief Internal Auditor and Corporate Fraud Manager to be relied upon.
65. An Audit Charter, which was approved in line with Public Sector Internal Audit Standards (PSIAS), is in place. The PSIAS were revised to take effect in April 2017, with more emphasis being placed on consultancy activity. Whilst assurance remains critical, it is important that the service can deliver a balanced approach and continually add value to the organisation.
66. The Council approved proposals of the Corporate Director of Resources regarding appointing the external auditor to the Council for the 2018/19 accounts and beyond.
67. The Council won the Excellence in Governance and Scrutiny category of the 2016 Municipal Journal Achievement Awards for its approach to scrutiny, community engagement and consultation on governance and council planning.

68. In February 2016, an inspection of children's services and a review of the Local Safeguarding Children's Board were undertaken by Ofsted under their single inspection framework. The outcome was the Children's Service received a judgement of 'requires improvement'. A Quality Improvement Board (QIB), which had already been established to oversee quality assurance developments in Children's Services, agreed an improvement plan and this was submitted to Ofsted in September 2016. The Senior Inspector and Lead Inspector were assured by the content of the plan and fed back that it was a comprehensive and focused document with clear actions and timescales. Regular reports have been submitted during the year to Corporate Management Team, Cabinet, Children and Young People's Overview and Scrutiny Committee, as well as the Health and Wellbeing Board, Children and Families Partnership and Local Safeguarding Children's Board, providing progress updates on the work of the QIB and the status of the tasks in the improvement plan.
69. Assurance can also be taken from the following external independent sources that, through good governance, the Council continues to maintain and improve the quality of services:-
- The Care Quality Commission, who reviewed the following service areas: County Durham Care and Support (Extra Care, Short Break/Shared Lives and Supported Housing); Special Education Needs Disabilities.
  - Her Majesty's Inspectorate who reviewed the following service areas: Probation - County Durham Youth Offending Service.
  - Ofsted, who reviewed the following service areas: Children's Centres; Children's Homes; Schools; Special Education Needs Disabilities; Targeted Local Area Inspections.
  - UK Border Agency Inspection, who reviewed recruitment and selection function.
  - A peer review of planning policy systems.
70. Health and safety reporting arrangements were improved with more accurate incident reporting in relation to external contractors.

## APPENDIX B: Update on improvements identified in the 2015/16 Annual Governance Statement

Following the production of the Annual Governance Statement for 2015/16, two improvement actions were identified for 2016/17.

No.	Actions to be taken	Lead Officer
1	Implement an action plan to enable approval of the County Durham Plan within statutory requirements	Head Of Planning and Assets, Regeneration and Economic Development
<p><u>Update:-</u> Following consultation on the Issues and Options stage County Durham Plan in Summer 2016, the intention was to develop a preferred options plan for consultation. This process was 'paused' as the government signalled the imminent release of the Housing White Paper and what was considered to be fundamental changes to the plan making process. The Housing White Paper was published on the 7 February 2017 and also signals an intention for further consultations, including on the methodology for developing a housing requirement associated with a local plan. It is expected that this will lead to a revised National Planning Policy Framework towards the end of the year. Comments to the Housing White Paper were required by the 2 May 2017.</p>		
2	Implement a new chief officer structure to reflect the challenges faced by the Council whilst building on existing organisational strengths	Chief Executive Officer
<p><u>Update:-</u> This action is complete. The revised chief officer structure reflects the challenges faced by the Council whilst building on existing organisational strengths and delivering savings through more efficient ways of working. The service grouping for Adult and Health Services and Children and Young People's Services were split, and new structures developed under respective, newly-appointed corporate directors. The service groupings for Neighbourhood Services and Regeneration and Economic Development were merged to form Regeneration and Local Services. The new Transformation and Partnership Service will oversee delivery of the Transformation Programme, which will support the Council in becoming a leaner organisation, characterised by modern business practices, sustainable service delivery, excellence in customer service and a skilled and motivated workforce.</p>		

**APPENDIX C: Proposed Governance Improvements required during 2017/18**

As a result of the review of governance arrangements, and the work of both internal and external audit, five improvement actions have been identified to further strengthen governance arrangements in 2017/18. These are shown in the table below.

<b>No.</b>	<b>Actions to be taken (cross-reference)</b>	<b>Lead Officer</b>
1	Assurance on the delivery of the Children's Services improvement plan will be provided through regular progress updates on the work of the Quality Improvement Board and the status of the tasks. Reports will be submitted to Corporate Management Team, Cabinet, the Local Safeguarding Children's Board, and relevant Council Committees and partners. (Appendix A, paragraphs 52 and 68)	Corporate Director, Children and Young People Services
2	Implement an action plan to enable approval of the County Durham Plan within the statutory requirements and the anticipated National Planning Policy Framework. (Appendix B, action 1)	Corporate Director, Regeneration and Local Services
3	Implement revised governance monitoring arrangements for companies in which the Council has a legal interest to ensure that they are fit for purpose. (Appendix A, paragraph 27)	Corporate Director, Resources
4	Implement arrangements to ensure that the Council complies with the General Data Protection Regulations 2018. (Appendix A, paragraph 57)	Director, Transformation and Partnerships
5	Monitor the arrangements for payments to agency workers across the Council to ensure that they are effective. (Paragraph 18)	Corporate Director, Resources

### **Academy School**

Academy Schools are directly funded by Government and are independent of the Council's control.

### **Accounting Period**

The period of time covered by the Statement of Accounts, normally a period of 12 months starting on 1 April. The end of the period is the balance sheet date.

### **Accounting Policies**

The principles, conventions, rules and practices applied that specify how transactions and other events should be reflected in the financial statements.

### **Accounting Standards**

Accounting standards are authoritative statements of how particular types of transactions and other events should be reflected in financial statements and accordingly compliance with accounting standards will normally be necessary for financial statements to give a true and fair view.

### **Accruals**

The concept that income, and expenditure are recognised as they are earned or incurred, not as money is received or paid.

### **Actuary**

An actuary is an expert on pension scheme assets and liabilities. Every three years, the Actuary for the Local Government Pension Scheme determines the rate of employer contributions due to be paid to the Pension Fund.

### **Actuarial Basis**

The technique applied when estimating the liabilities to be recognised for defined benefit pension schemes in the financial statements.

### **Actuarial Gains or Losses**

These may arise on a defined benefit pension scheme's liabilities and assets. A gain represents a positive difference between the actuarial assumptions and actual experience (e.g. liabilities during the period were lower than estimated). A loss represents a negative difference between the actuarial assumptions and actual experience (e.g. liabilities during the period were higher than estimated).

### **Added Years**

Additional years of service awarded discretionally to increase the benefits to employees taking early retirement.

### **Admitted Bodies**

Organisations that take part in the Local Government Pension Scheme with the agreement of the Pension Fund. Examples of such bodies are housing associations and companies providing services that were once provided by local authorities in the Pension Fund.

### **Agency Services**

These are services that are performed by or for another Authority or public body, where the principal (the Authority responsible for the service) reimburses the agent (the Authority carrying out the work) for the costs of the work. Also known as 'Third Party Payments'.



**Annual Governance Statement**

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

**Amortisation**

Amortisation is the equivalent of depreciation, for intangible assets.

**Apportionment**

A way of sharing costs using an appropriate method, e.g. floor area for an accommodation-related service.

**Appropriation**

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

**Assets**

An item having a monetary value to the Council, e.g. property, investments or cash.

**Assets Held for Sale**

Long term assets that are surplus to the Council's operational needs that are being actively marketed for sale with the expectation that disposal will occur within a 12 month period.

**Assets under Construction**

Capital expenditure on assets, where the work is incomplete.

**Associate**

An associate is an organisation over which the Council has significant influence, but not control. An associate cannot be a subsidiary or an interest in a joint venture.

**Audit of Accounts**

An independent examination of the Council's financial affairs.

**Authorised Limit**

This is the maximum limit of external borrowings or other long term liabilities.

**Available for Sale Financial Instruments Reserve**

The reserve carries the valuation surplus on those investments with a quoted market price or otherwise do not have fixed or determinable payments, which under the Code, are classified as available for sale. The surplus is the amount by which fair value exceeds historical cost.

**Balance Sheet**

This is a financial statement that shows the financial position of the Council at a point in time, the balance sheet date, which for the Council is 31 March. It shows the value of the fixed and net current assets and long term liabilities, as well as the reserves and balances.

**Bid Price**

In the context of stock trading on a stock exchange, the bid price is the highest price a buyer of a stock is willing to pay for a share of that given stock.

**Billing Authority**

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

## **Bonds**

A type of investment in certificates of debt issued by the government of a company. These certificates represent loans which are repayable at a future specified date with interest.

## **Borrowing**

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

## **Budget**

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

## **Building Schools for the Future (BSF)**

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

## **Business Improvement District (BID)**

BIDs are provided for under Part 4 of the Local Government Act 2003 whereby a levy is collected from Business ratepayers to provide agreed additional services.

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

This account accumulates the write down of the historical cost of non-current assets as they are consumed by depreciation and impairments or written off on disposal. It also accumulates the resources that have been set aside to finance capital expenditure. The balance on the account represents timing differences between the amount of the historical cost of non-current assets that has been consumed and the amount that has been financed in accordance with statutory requirements.

## **Capital Charge**

Charges made to local authority services to reflect the 'cost' of using non-current assets in the provision of services. The charge comprises the annual provision for depreciation. To ensure that these notional charges do not impact on local taxation they are reversed out in the Movement in Reserves Statement.

## **Capital Expenditure**

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

## **Capital Financing Costs**

These are the revenue costs of financing the capital programme and include the repayment of loan principal, loan interest charges, loan fees and revenue funding for capital.

## **Capital Financing Requirement (CFR)**

This sum represents the Council's underlying need to borrow for capital purposes. It is calculated by summing all items on the Balance Sheet that relate to capital expenditure, e.g. non-current assets, financing leases, government grants deferred etc. The CFR will be different to the actual borrowing of the Council. This figure is then used in the calculation of the Council's Minimum Revenue Provision.

**Capital Grants Unapplied**

Grants that have been recognised as income in the Comprehensive Income and Expenditure Statement (CIES) but where expenditure has not yet been incurred

**Capital Receipts**

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

**Carbon Reduction Commitment (CRC)**

The Council has to account for its obligations in relation to the purchase and surrender of CRC allowances and for the eventual settlement of the liability.

**Carrying Amount**

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

**CYPS**

Children and Young People's Services

**Cash Flow Statement**

This Statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.

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

The principal accountancy body dealing with local government finance.

**CLG**

Department for Communities and Local Government

**Code**

The Code of Practice on Local Authority Accounting. A publication produced by CIPFA constituting proper accounting practice for Local Authorities.

**Collection Fund**

An account kept by the Council into which Council Tax is paid and through which national non-domestic rates pass, and which pays out money to fund expenditure from the General Fund and the precept made by the Durham Police and Crime Commissioner and County Durham and Darlington Fire and Rescue Service.

**Community Assets**

Assets held that are planned to be held forever, that have no set useful life and may have restrictions on how they can be sold or otherwise disposed of e.g. parks, historic buildings.

**Componentisation**

The process by which assets are analysed into various components that have significantly different estimated lives. The Council's accounting policy is detailed in paragraph 20 of the Accounting Policies.

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

This statement reports the net cost of services for which the Council is responsible and demonstrates how that cost has been financed.

### **Constitution**

The document that sets out how the County Council operates, how decisions are made and the procedures that are followed.

### **Contingency**

This is money set aside in the budget to meet the cost of unforeseen items of expenditure, or shortfalls in income.

### **Contingent Asset**

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

### **Contingent Liabilities**

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

### **Corporate and Democratic Core**

The corporate and democratic management costs are the costs of activities that local authorities undertake specifically because they are elected multi-purpose authorities. They cover corporate policy making, representing local interests, services to elected members as local representatives and duties arising from public accountability.

### **Corporate Governance**

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

### **Council Tax**

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

### **Council Tax Requirement**

This is the estimated revenue expenditure on General Fund services that needed to be financed from the Council Tax after deducting income from fees and charges, certain specific grants and any funding from reserves.

### **Creditors**

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

### **CSR**

Comprehensive Spending Review.

### **Current Service Cost**

Current Service Cost is the increase in the present value of a defined benefit pension scheme's liabilities expected to arise from employee service in the current period, i.e. the ultimate pension benefits "earned" by employees in the current year's employment.

### **Current Value**

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

**Curtailment**

Curtailments will show the cost of the early payment of pension benefits if any employee has been made redundant in the previous financial year.

**Debtors**

Persons or bodies who owe sums to the Council.

**Dedicated Schools Grant (DSG)**

A specific grant paid to Local Authorities to fund the cost of running their schools.

**Deferred Capital Receipts**

These represent capital income still to be received after disposals have taken place.

**Deficit**

A deficit arises when expenditure exceeds income or when expenditure exceeds available budget.

**Defined Benefit Scheme**

Also known as a final salary scheme. Defined benefit pension schemes prescribe the amounts members will receive as a pension regardless of contributions and investment performance. Employers are obliged to fund any shortfalls.

**Defined Contribution Scheme**

A pension or other retirement benefit scheme into which an employer pays regular contributions fixed as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employees benefits relating to employee service in the current year and prior periods.

**Delegated Budgets**

Budgets for which schools or other services have complete autonomy in spending decisions.

**DfE**

Department for Education

**Depreciation**

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

**Derecognition**

Financial assets and liabilities will need to be removed from the Balance Sheet once performance under the contract is complete or the contract is terminated.

**Derivatives**

Derivatives are financial instruments that derive their value from the price or rate of some underlying item.

**Direct Revenue Financing (DRF)**

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

### **Direct Service Organisations (DSOs)**

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

### **Earmarked Reserves**

The Council holds a number of reserves earmarked to be used to meet specific, known or predicted future expenditure.

### **Equities**

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

### **Exceptional Items**

Material items deriving from events or transactions that fall within the ordinary activities of the Council, but which need to be separately disclosed by virtue of their size and/or incidence to give a fair presentation of the accounts.

### **External Audit**

The independent examination of the activities and accounts of Local Authorities to ensure the accounts have been prepared in accordance with legislative requirements and proper practices and to ensure the Authority has made proper arrangements to secure value for money in its use of resources.

### **Fair Value**

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

### **FIDs and Manninen**

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

### **Finance Lease**

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

### **Financial Instrument**

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

### **Financial Instruments Adjustment Account (FIAA)**

This account is an unusable reserve which absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. Transfers are made to ensure that the General Fund records the amount required by the applicable regulations or statutory guidance, the FIAA carries the excluded surplus or deficit.

**Financial Regulations**

These are the written code of procedures approved by the Council, intended to provide a framework for proper financial management. Financial regulations usually set out rules on accounting, audit, administrative and budgeting procedures.

**Fitch**

Fitch Ratings is a rating agency providing credit ratings research and risk analysis of financial institutions across the world. Credit ratings are used by investors as indications of the likelihood of receiving the money owed to them in accordance with the terms on which they invested.

**Fixed Interest Securities**

Investments in mainly government, but also company stocks, which guarantee a fixed rate of interest. The securities represent loans that are repayable at a future date but which can be traded on a recognised stock exchange before the repayment date.

**Formula Grant**

The general government grant paid to support the revenue expenditure of local authorities. It comprises Revenue Support Grant and redistributed National Non-Domestic Rates. It is distributed by formula through the Local Government Finance Settlement.

**Foundation Schools**

Foundation Schools are run by their governing body and they employ the staff. Land and buildings are usually owned by the governing body or a charitable foundation.

**Funding Strategy Statement**

The Funding Strategy Statement is a clear and transparent fund-specific strategy which identifies how employers' pension liabilities are best met going forward; supports the regulatory requirement to maintain as nearly constant employer contribution rates as possible; and takes a prudent longer-term view of funding the Fund's liabilities. The single strategy for all employers in the Fund is implemented and maintained by Administering Authority.

**Futures**

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

**GAAP**

Generally Accepted Accounting Practice.

**General Fund**

This is the main revenue fund of the Council and includes the net cost of all services financed by local taxpayers and Government grants.

**Going Concern**

The assumption that an organisation is financially viable, and will continue to operate for the foreseeable future.

**Government Grants**

Assistance by Government and inter-government agencies etc., whether local, national or international, in the form of cash or transfer of assets towards the activities of the Council.

### **Group Accounts**

Many local authorities now provide services through partner organisations. Where an authority has material financial interests or a significant level of control over one or more entities it should prepare Group Accounts.

### **Heritage Assets**

This is a separate class of asset (land, building, or artefact/exhibit) that is held principally for its contribution to knowledge or culture and meets the definition of a heritage asset.

### **Historical Cost**

The original purchase cost of an asset.

### **Housing Benefit**

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

### **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 Council. The HRA is ring-fenced: no cross subsidy is allowed between the HRA and General Fund.

### **IAS**

International Accounting Standard – regulations outlining the method of accounting for activities, currently being replaced by International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

### **ICT**

Information and Communications Technology

### **IFRIC**

Interpretations originating from the International Financial Reporting Interpretations Committee.

### **IFRS**

International Financial Reporting Standards – issued and set by the International Accounting Standards Board (IASB). These are standards that companies and organisations follow when compiling their financial statements. They have been adapted to apply to local authorities and are consolidated in the Code of Practice on Local Authority Accounting (the Code).

### **Impairment**

Impairment of an asset is caused either by a consumption of economic benefits e.g. physical damage (e.g. fire at a building) or deterioration in the quality of the service provided by the asset (e.g. a school closing and becoming a storage facility). A general fall in prices of a particular asset or type of asset is treated as a revaluation.

### **Index Linked Securities**

Investments in government stock that guarantee a rate of interest linked to the rate of inflation. These securities represent loans to government which can be traded on recognised stock exchanges.



**Infrastructure Assets**

A non-current asset that cannot be taken away or transferred, and which can only continue to benefit from it being used. Infrastructure includes roads and bridges.

**Intangible Assets**

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

**Intangible Heritage Asset**

An intangible asset with cultural, environmental, or historical significance. Examples of intangible heritage assets include recordings of significant historical events.

**Inventory**

Items of raw materials, work in progress or finished goods held at the financial year end, valued at the lower of cost or net realisable value.

**Investment**

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

**Investment Properties**

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

**IPSAS**

International Public Sector Accounting Standards Board.

**Joint Venture**

An entity in which the reporting authority has an interest on a long term basis and is jointly controlled by the reporting authority and one or more entities under a contractual or other binding arrangement.

**LAAP Bulletin**

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

**Large Scale Voluntary Transfer (LSVT)**

A Large Scale Voluntary Transfer (LSVT) involves the Council transferring ownership of its homes with the agreement of its tenants to a new or existing Registered Provider.

**Leasing**

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

**Levy**

A levy is a charge made by one statutory body to another in order to meet the net cost of its services, e.g. payments to the Environment Agency for flood defence and land drainage purposes.

**Liabilities**

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

**LGR**

Local Government Re-organisation.

**Long-Term Investments**

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

**Managed Funds**

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

**Materiality**

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

**Market Value**

The monetary value of an asset as determined by current market conditions.

**Mid-Market Price**

The mid-point between the bid price and the offer price for a security based on quotations for transactions of normal market size by recognised market-makers or recognised trading exchanges.

**Minimum Revenue Provision (MRP)**

The minimum amount that the Council must charge to the income and expenditure account to provide for the repayment of debt. In addition, authorities can choose to make additional provision, known as a voluntary set-aside.

**Minority Interest**

The interest in a subsidiary entity that is attributable to the share held by, or on behalf of persons other than the reporting authority.

**Moody's**

Moody's Investor Service is a rating agency, providing credit ratings, research, and risk analysis of financial institutions across the world. Credit ratings are used by investors as indications of the likelihood of receiving the money owed to them in accordance with the terms on which they invested.

**Movement in Reserves Statement**

This statement is a summary of the changes that have taken place in the bottom half of the balance sheet over the financial year. It shows the movement in reserves held by the Council analysed into 'usable' reserves and 'unusable' reserves.

**MTFP**

Medium Term Financial Plan.

**Myners' Principles**

A set of ten principles issued by Government which Pension Schemes are required to consider and to which they must publish their degree of compliance.

**National Non-Domestic Rates (NNDR)**

The means by which local businesses contribute to the cost of providing local authority services. The rates are paid into a central pool which is divided between all authorities as part of Formula Grant.

**Net Book Value**

The amount at which non-current assets are included in the Balance Sheet. It represents historical cost or current value less the cumulative amounts provided for depreciation or impairment.

**Net Cost of Service**

The actual cost of a service to the Council after taking account of all income charged for services provided. The net cost of service reflects capital charges and credits for government grants deferred made to services to reflect the cost of employing non-current assets.

**Net Debt**

Net debt is the Council's borrowings less cash and liquid resources.

**Net Expenditure**

The actual cost of a service to the Council after taking account of all income charged for services provided.

**Net Realisable Value**

The expected sale price of stock, in the condition in which it is expected to be sold. This may be less than cost due to deterioration, obsolescence or changes in demand.

**Non-Current Assets**

Tangible or intangible assets that yield benefits to the Council and the services it provides for a period of more than one year. Tangible assets have physical substance, for example land, buildings and vehicles. Intangible assets do not have physical substance but are identifiable and controlled by the Council through custody or legal rights, for example software licences.

**Non Distributed Costs**

These are overheads from which no service user benefits. They include the costs associated with unused assets and certain pension costs.

**Non-Operational Assets**

Non-operational assets are those held by the Council but not directly occupied, used or consumed in the delivery of services, or for the service or strategic objectives of the Council. Examples include; assets under construction, land awaiting development, commercial property, investment property, and surplus assets held for disposal.

### **Operating Lease**

A lease where the asset concerned is returned to the lessor at the end of the period of the lease.

### **Operational Assets**

Property, plant and equipment held and occupied, used or consumed by the Council in the direct delivery of those services for which it has either a statutory or discretionary responsibility.

### **Operational Boundary**

This is the expected level of debt and other long term liabilities during the year.

### **Outturn**

Actual expenditure within a particular year.

### **Past Service Cost**

The increase in the present value of Pension Fund liabilities related to employees' service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits or other long-term employee benefits. Past service costs may be either positive, where benefits are introduced or improved) or negative (where existing benefits are reduced).

### **Portfolio**

A number of different assets considered and managed as a whole by an investment manager, to an agreed performance specification.

### **Precept**

An amount charged by another Authority to the Council's Collection Fund. There are two major preceptors in Durham County Council's Collection Fund: Durham Police and Crime Commissioner and County Durham and Darlington Fire and Rescue Service.

### **Prior Period Adjustment (PPA)**

Those material adjustments relating to prior years accounts, that are reported in subsequent years arising from changes in accounting policies or from the correction of fundamental errors. They do not include minor corrections or adjustments of accounting estimates made in prior years.

### **Private Finance Initiative (PFI)**

A government initiative that enables local authorities to carry out capital projects, in partnership with the private sector, through the provision of financial support.

### **Property, Plant and Equipment (PPE)**

Property, Plant and Equipment covers all assets with physical substance (tangible assets) that are held for use in the production or supply of goods and services, for rental to others, or for administrative purposes, and expected to be used during more than one period.

### **Provisions**

Provisions represent sums set aside to meet any specific future liabilities or losses arising from contractual obligations or as a result of past events. These events are likely or certain to be incurred and a reliable estimate can be made of the amount of the obligation.

**Prudential Code**

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

**Public Works Loans Board (PWLB)**

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

**REAL**

Regeneration and Local Services.

**Related Party**

A related party transaction is the transfer of assets or liabilities or the performance of services by, to or for a related party irrespective of whether a charge is made.

**Remuneration**

Includes taxable salary payments to employees less employees' pension contributions, together with non-taxable payments when employment ends (including redundancy, pension enhancement payments, and pay in lieu of notice), taxable expense allowances and any other taxable benefits.

**Reporting Standards**

The Code of Practice prescribes the accounting treatment and disclosures for all normal transactions of a Local Authority. It is based on International Financial Reporting Standards (IFRS), International Standards (IAS) and International Financial Reporting Interpretations Committee (IFRIC) plus UK Generally Accepted Accounting Practice (GAAP) and Financial Reporting Standards (FRS).

**Reserves**

Sums set aside to fund specific future purposes rather than to fund past events. There are two types of reserve, 'usable' reserves and 'unusable' reserves.

**Revaluation Reserve**

The Revaluation Reserve records the accumulated gains on the non-current assets held by the Council arising from increases in value, as a result of inflation or other factors (to the extent that these gains have not been consumed by subsequent downward movements in value). The overall balance on the Reserve represents the amount by which the current value of non-current assets carried in the Balance Sheet is greater because they are carried at revalued amounts rather than depreciated historical cost.

**Revenue Contributions**

See 'Direct Revenue Financing'

**Revenue Expenditure and Income**

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

### **Revenue Expenditure Funded from Capital under Statute (REFCUS)**

Expenditure that legislation allows to be classified as capital for funding purposes. However, it does not result in the expenditure being shown in the Balance Sheet as a non-current asset. This expenditure is charged to the relevant Service revenue account in the year. Examples of this are grants and financial assistance to others, expenditure on assets not owned by the Council and amounts directed by the Government.

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

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

### **RICS**

Royal Institution of Chartered Surveyors.

### **Section 151 Officer**

The officer designated under Section 151 of the Local Government Act 1972 to have overall responsibility for the administration of the financial affairs of the Council and the preparation of the Council's Statement of Accounts.

### **Service Reporting Code of Practice (SeRCOP)**

The Code of Practice provides guidance to Local Authorities on financial reporting. It details standard definitions of services and total cost, which allows direct comparisons of financial information to be made with other local authorities.

### **Specific Grant**

A revenue government grant distributed outside of the main Local Government Finance Settlement. Some specific grants are ring-fenced to control local authority spending. Others are unfenced and there are no restrictions as to how they are spent.

### **Statement of Investment Principles (SIP)**

The Statement of Investment Principles details the policy which controls how a pension fund invests.

### **Subsidiary**

An entity is a subsidiary of a reporting entity if the Council is able to exercise control over the operating and financial policies of the entity and is able to gain benefits or be exposed to risk of potential losses from this control.

### **Supported Capital Expenditure (SCE)**

SCEs represent the amount of capital expenditure that the Government will support through the provision of revenue grant to cover the cost of borrowing, i.e. repayments of principal and interest.

### **Surplus**

Arises when income exceeds expenditure or when expenditure is less than available budget.

### **Surplus Properties**

Those properties that are not used in service delivery, but do not meet the classification of investment properties or assets held for sale.

### **T&P**

Transformation and Partnerships.

**Tangible Heritage Asset**

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

**Tenanted Market Value**

The transfer price a Registered Provider will pay for the housing stock it acquires through a Large Scale Voluntary Transfer.

**Third Party Payments**

See 'Agency Services'.

**Transfer Agreement – Housing Stock Transfer**

The Transfer Agreement is the contract which sets out the rights, responsibilities, covenants and requirements of Durham County Council, and County Durham Housing Group (CDHG). It also contains all the necessary arrangements to enable CDHG to receive and manage the properties and the Council to enforce all the promises made to tenants during the consultation period. The Transfer Agreement takes the form of a contract for sale with numerous schedules and annexes containing supporting information.

**Transfer Payments**

The cost of payments to individuals for which no goods or services are received in return by the Council, for example Adult Social Care direct payments or Housing Benefit payments.

**Transfer Values**

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

**Treasury Management Policy and Strategy**

A plan outlining the Council's approach to treasury management activities. This includes setting borrowing and investment limits to be followed for the following year and is published annually in the Medium Term Financial Plan document.

**Trust Funds**

Funds established from donations or bequests usually for the purpose of providing educational prizes and scholarships.

**Unit Trusts**

A pooled fund in which small investors can buy and sell units. The pooled Fund then purchases investments, the returns on which are passed on to the unit holders. It enables a broader spread of investments than investors could achieve individually.

**Unsupported (Prudential) Borrowing**

This is borrowing for which no financial support is provided by Central Government. The borrowing costs are to be met from current revenue budgets.

**Unusable Reserves**

Unusable reserves are reserves that the Council are not able to use to provide services, such as the revaluation reserve that arise from accounting requirements.

**Usable Capital Receipts Reserve**

Represents the resources held by the Council from the sale of non-current assets that are yet to be spent on other capital projects.

**Usable Reserves**

Usable reserves are reserves that the Council may use to provide services subject to the need to retain prudent levels of reserves and any statutory limitations to their use. Usable reserves include Earmarked Reserves and the General Reserve.

**Useful Life**

The period in which an asset is expected to be useful to the Council.

**Variance**

The difference between budgeted expenditure and actual outturn also referred to as an over or under spend.

**Work-in-Progress**

The value of rechargeable work that had not been recharged at the end of the financial year.